

China | Recent easing measures helped to stabilize growth

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A batch of August economic indicators is announced today, together with the previously released credit data, suggesting that the recent monetary and fiscal easing measures helped to stabilize economic growth. However, headwinds from domestic deleveraging and the escalating trade war with the US will continue to weigh on growth. As such, we expect monetary and fiscal policy to become more pro-growth in the rest of the year although the authorities remain vigilant on financial vulnerabilities including indebtedness in the corporate and shadow banking activities. We maintain our 2018 growth projection at 6.5% y/y, in line with the official target rate while subject to some upside risk.

August economic indicators are mixed: Fixed asset investment decreased to 5.3% ytd y/y from 5.5% ytd y/y previously (consensus: 5.6% ytd y/y), indicating investment slowed down due to the domestic deleveraging and lacklustre market sentiments. On the other hand, retail sales improved to 9% y/y from 8.8% y/y in the previous month (consensus: 8.8% y/y); industrial production also increased marginally from 6% y/y to 6.1% y/y (consensus: 6.1% y/y). In addition, jobless rate also improved marginally to 5% from 5.1% previously. (Table 1; Figure 3-8)

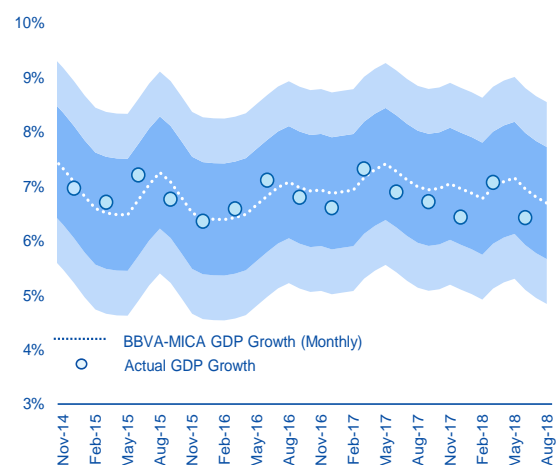
August credit data moderated as well: M2 growth decreased to 8.2% y/y from 8.5% previously, so did new yuan loans. However, total social financing increased, indicating an expansion of shadow banking finance due to the regulatory forbearance amid growth slowdown and escalating trade war. Altogether, our MICA model yields a monthly GDP prediction at 6.7%, flat with the prior forecast last month. (Figure 2)

Table 1 Activity Indicators* (3MA, YoY, SA)

Mean	2017					2018					
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	
Industrial Production	9.4	6.2	5.8	6.5	6.9	6.8	6.7	6.6	6.6	6.2	5.9
CPI	2.7	1.6	1.7	1.7	1.9	2.0	1.9	1.7	1.6	1.6	1.8
Retail sales	11.4	9.8	9.0	8.4	7.0	5.4	5.1	4.7	4.2	4.1	3.7
Auto Sales	10.0	2.4	0.6	-1.2	0.9	1.8	7.0	10.1	9.1	3.4	-1.5
Exports	8.9	9.2	10.1	9.8	17.7	15.3	17.5	10.2	11.7	11.7	10.9
Imports	8.9	17.9	13.5	13.3	14.6	17.9	19.2	20.9	20.7	22.5	20.4
Manufactory PMI	-0.4	1.6	0.5	0.2	-0.7	-1.0	-0.9	0.4	0.5	0.2	-0.5
Non-manufactory	-0.5	1.3	0.6	0.8	0.9	0.2	0.3	0.4	0.8	0.0	0.2
Caixin PMI	-0.2	0.4	-0.5	0.0	0.0	0.1	0.3	1.4	1.9	1.2	-0.5
P/E ratio	-0.1	4.8	13.2	13.6	13.4	13.5	13.9	13.3	-7.3	-14.6	-20.1
Real estate sales	23.7	14.2	14.0	13.9	14.7	13.6	11.6	11.4	12.6	12.9	14.0
Credit	17.0	13.0	12.9	13.1	12.9	12.9	12.8	12.7	12.7	12.9	13.0
MICA Forecast			6.90%		6.90%		6.70%		6.70%		6.70%
GDP YoY			6.80%		6.80%		6.70%		6.70%		
			Contraction		Slow-down		Growth		Boom		

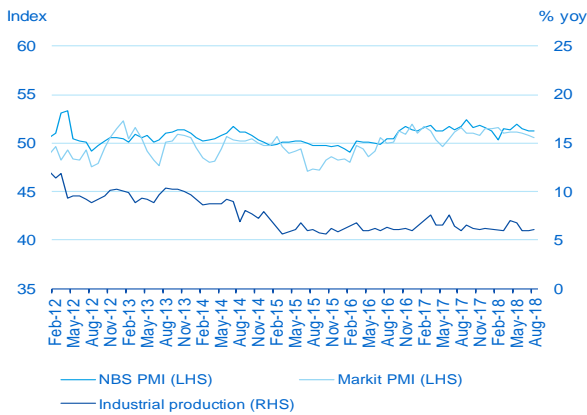
* Series are non-calendar adjusted **BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

Figure 2 China: BBVA Research Monthly GDP** (%YoY)



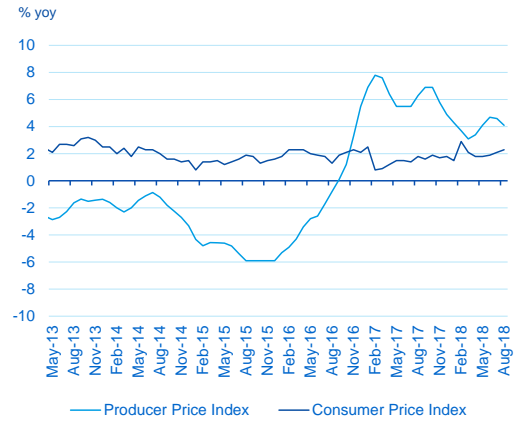
Source: Nowcasting DF Model, BBVA Research

Figure 3 Industrial production marginally goes up



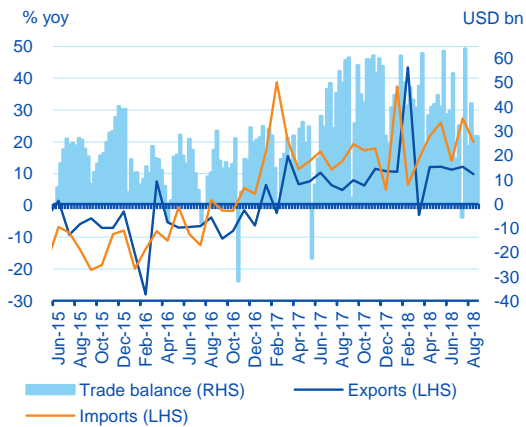
Source: CEIC and BBVA Research

Figure 4 CPI and PPI convergence continued



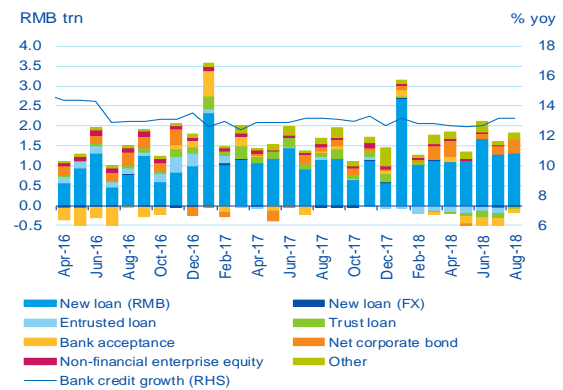
Source: CEIC and BBVA Research

Figure 5 Both exports and imports slowed down



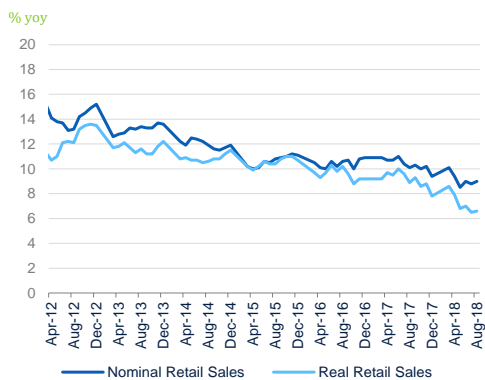
Source: CEIC and BBVA Research

Figure 6 shadow banking activities expanded amid growth slowdown



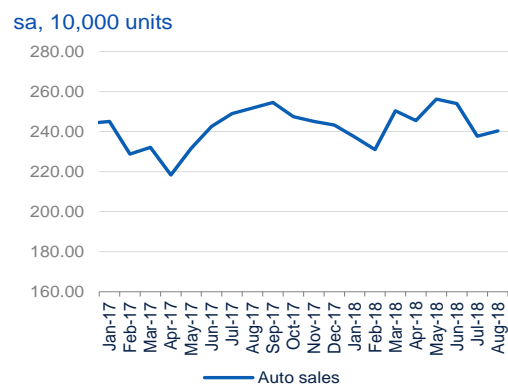
Source: CEIC and BBVA Research

Figure 7 Retail sales marginally picked up



Source: CEIC and BBVA Research

Figure 8 Auto sales marginally picked up



Source: CEIC and BBVA Research

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