BBVA | Research

China | Easing measures stabilized growth while headwinds persist

Jinyue Dong

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

October economic indicators are mixed: fixed asset investment increased to 5.7% ytd y/y from 5.4% ytd y/y previously (consensus: 5.5% ytd y/y), indicating investment was supported by the recent easing measures; industrial production accelerated from 5.8% y/y to 5.9% y/y (consensus: 5.8% y/y). However, retail sales significantly dropped to 8.6% y/y from 9.2% previously, mainly driven by base effect and sharp dip of auto sale. (Table 1; Figure 3-8)

October credit data significantly declined despite the authorities' recent easing measures, as the transmission mechanism from monetary policy to credit is still weak: M2 growth dropped to 8% y/y from 8.3% previously, new yuan loans dipped to RMB 697 bn from 1,380 bn while total social financing declined to RMB 728 bn from 2,168 bn. Altogether, our MICA model yields a monthly GDP prediction at 6.5%, in line with the growth moderation. (Figure 2)

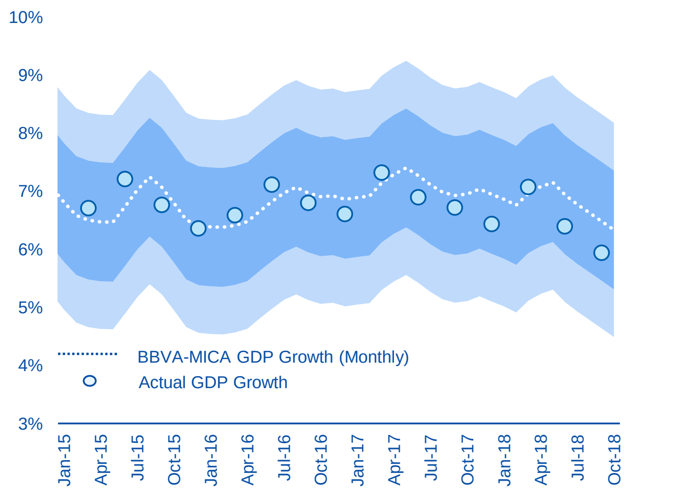
Table 1 Activity Indicators* (3MA, YoY, SA)

		2018									
	Mean	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Industrial Production	9.4	6.5	6.9	6.8	6.7	6.6	6.6	6.2	5.9	6.0	6.0
CPI	2.7	17	19	2.0	19	17	16	16	18	2.1	2.3
Retail sales	14.4	8.4	7.0	5.4	5.1	4.7	4.2	4.1	3.7	3.9	3.6
Auto Sales	10.0	-12	0.9	18	7.0	10.1	9.1	3.4	-15	-7.1	-9.5
Exports	8.9	9.8	17.7	15.3	17.5	10.2	11.7	11.7	10.9	12.0	13.4
Imports	8.9	13.3	14.6	17.9	19.2	20.9	20.7	22.5	20.4	21.1	18.7
Manufactory PMI	-0.4	0.2	-0.7	-10	-0.9	0.4	0.5	0.2	-0.5	-14	-2.2
Non-manufactory	-0.5	0.8	0.9	0.2	0.3	0.4	0.8	0.0	0.2	-0.1	-0.1
Caixin PMI	-0.2	0.0	0.0	0.1	0.3	14	19	12	-0.5	-15	-19
P/E ratio	-0.1	13.6	13.4	16.5	5.9	0.3	-7.3	-14.6	-20.1	-216	-25.3
Real estate sales	23.7	13.9	14.7	13.6	11.6	10.4	12.6	12.9	14.0	14.5	14.5
Credit	17.0	13.1	12.9	12.9	12.8	12.7	12.7	12.9	13.0	13.2	13.2
MICA Forecast				6.90%			6.70%			6.60%	6.50%
GDP YoY				6.80%			6.70%			6.50%	

Contraction | Slow-down | Growth | Boom

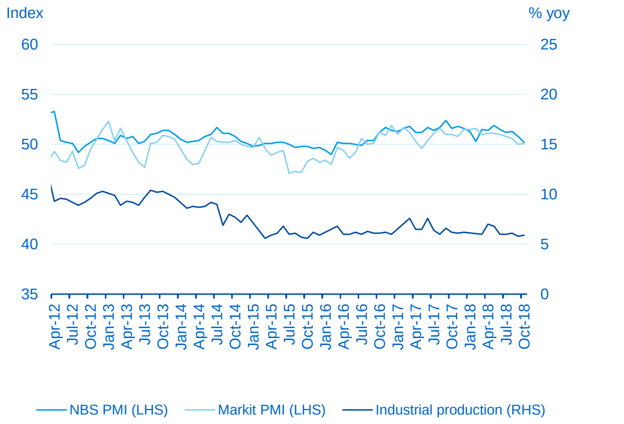
* Series are non-calendar adjusted **BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

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



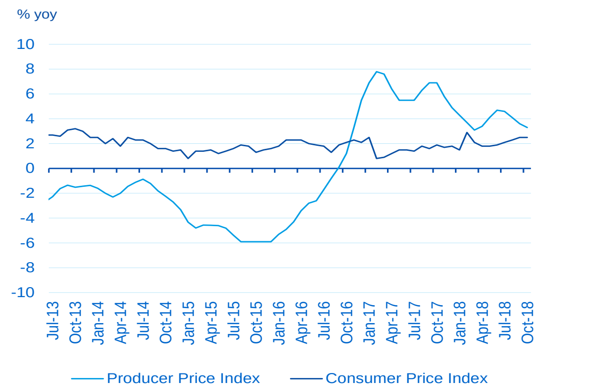
Source: Nowcasting DF Model, BBVA Research

Figure 3 Industrial production picked up due to easing measures while NBS PMI dipped



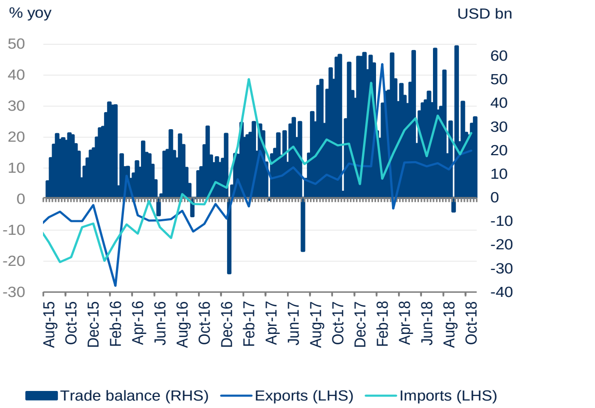
Source: CEIC and BBVA Research

Figure 4 CPI and PPI convergence continued



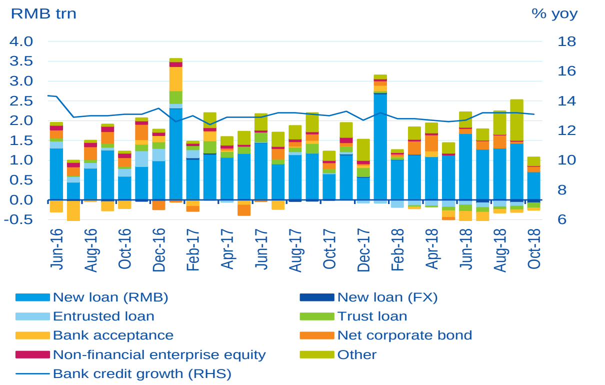
Source: CEIC and BBVA Research

Figure 5 Trade surplus continued to expand due to the exporters' front-loading behavior



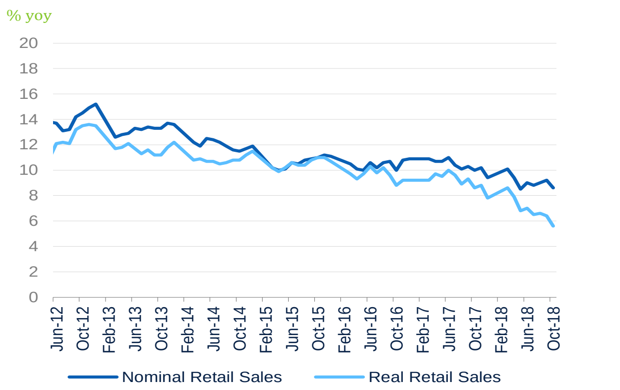
Source: CEIC and BBVA Research

Figure 6 Both total social financing and new yuan loans dipped significantly despite the easing measures



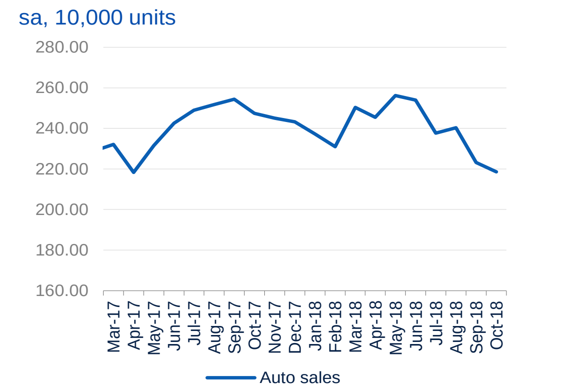
Source: CEIC and BBVA Research

Figure 7 Retail sales slowed down significantly due to base effect and dipping auto sales



Source: CEIC and BBVA Research

Figure 8 Auto sales continued declining in October



Source: CEIC and BBVA Research

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