

China | Sluggish growth at the beginning of the year

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March 15th, 2019

A batch of January-February economic indicators is announced, together with previously released trade and credit data, suggesting growth slowdown continues despite the recent easing measures and good progress of China-US negotiation. A couple of factors weigh on growth, including the faded effect of previous front-loading exports and dampened investors' confidence. In the recent NPC and CPPCC meetings, the authorities are sending out more signals of easing monetary and fiscal measures to support economic growth. In addition, the authorities lowered the 2019 growth target from 6.5% in the previous year to 6%-6.5% for 2019. We believe growth deceleration is the prime risk throughout 2019. Altogether, we maintain 2019 growth projection at 6% and 2020 at 5.8%.

Jan-Feb economic indicators suggest growth slowdown continues: industrial production decelerated from 5.7% y/y of last December to 5.3% ytd y/y; retail sales remains at 8.2% ytd, y/y as of December, still in a comparatively low territory; the only silver lining is that fixed asset investment picked up to 6.1% ytd y/y from 5.9% y/y of December, indicating investment was supported by the recent easing monetary and fiscal measures. (Table 1; Figure 3-8)

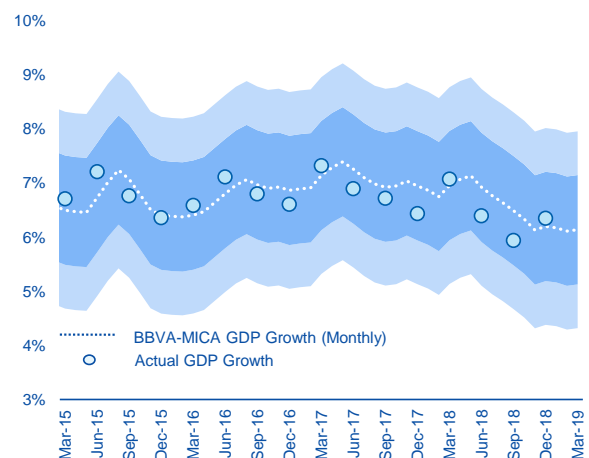
Feb credit data is unsatisfactory despite of the authorities' monetary easing measures, as the monetary transmission mechanism is still weak. M2 growth slowed down to 8% y/y from 8.4% previously. Both total social financing and new yuan loans dipped significantly. Altogether, our BBVA MICA model yields a GDP prediction based on monthly data at 6.3% for Q1 2019, in line with the growth slowdown. (Figure 2)

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

	Mean	2018					2019			
		Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Industrial Production	9.4	6.6	6.2	5.9	6.0	6.0	5.7	5.7	5.4	5.2
CPI	2.7	1.6	1.6	1.8	2.1	2.3	2.2	2.1	1.8	1.7
Retail sales	14.4	4.2	4.1	3.7	3.9	3.6	4.4	4.5	5.5	7.1
Auto Sales	10.0	9.1	3.4	-1.5	-7.1	-9.5	-2.5	-2.7	-2.8	-2.1
Exports	8.9	11.7	11.7	10.9	12.0	13.4	11.9	4.4	1.8	-3.4
Imports	8.9	20.7	22.5	20.4	21.1	18.7	12.9	4.8	-2.1	-4.6
Manufactory PMI	-0.4	0.5	0.2	-0.5	-1.4	-2.2	-3.1	-3.5	-3.7	-3.3
Non-manufactory	-0.5	0.8	0.0	0.2	-0.1	-0.1	-1.4	-1.8	-1.9	-1.2
Caixin PMI	-0.2	1.9	1.2	-0.5	-1.5	-1.9	-1.6	-2.2	-3.6	-4.3
P/E ratio	-0.1	-7.3	-14.6	-20.1	-21.6	-25.3	-26.6	-29.6	-30.8	-27.7
Real estate sales	23.7	12.6	12.9	14.0	14.5	14.5	13.8	13.9	13.9	13.9
Credit	17.0	12.7	12.9	13.0	13.2	13.2	13.1	13.2	13.3	13.4
MICA Forecast		6.70%			6.60%		6.50%		6.30%	
GDP YoY		6.70%			6.50%		6.40%			
		Contraction		Slow-down		Growth		Boom		

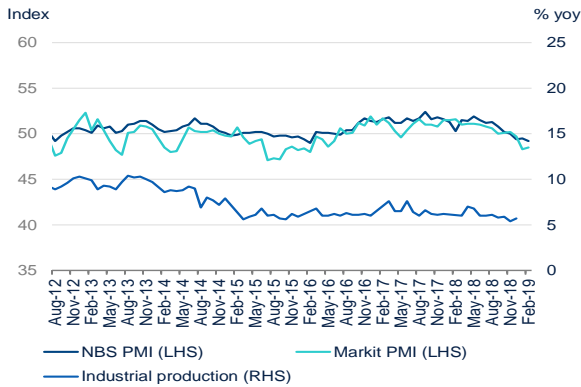
* Series are non-calendar adjusted **BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

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



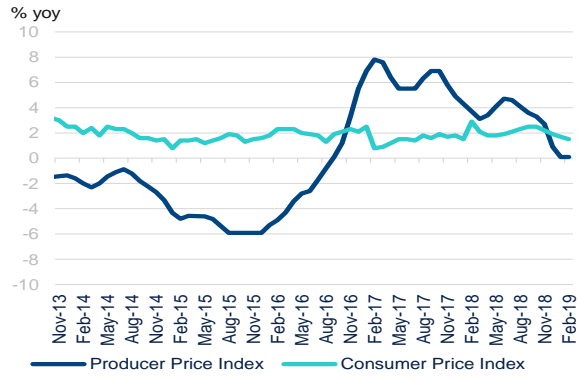
Source: Nowcasting DF Model, BBVA Research

Figure 3 Both NBS and Caixin PMI dipped below 50



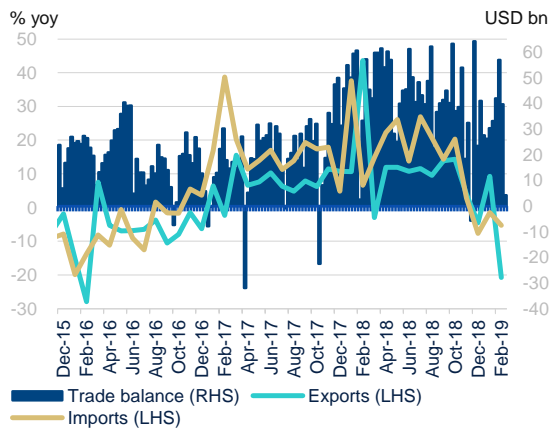
Source: CEIC and BBVA Research

Figure 4 CPI and PPI both moderated due to growth slowdown



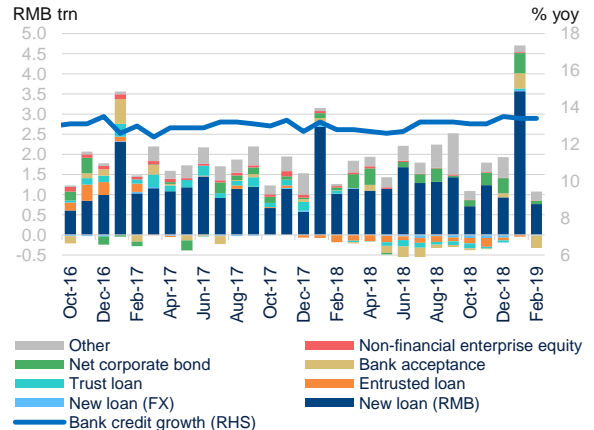
Source: CEIC and BBVA Research

Figure 5 As exporters' front-loading effect faded, both exports and imports dipped significantly to negative



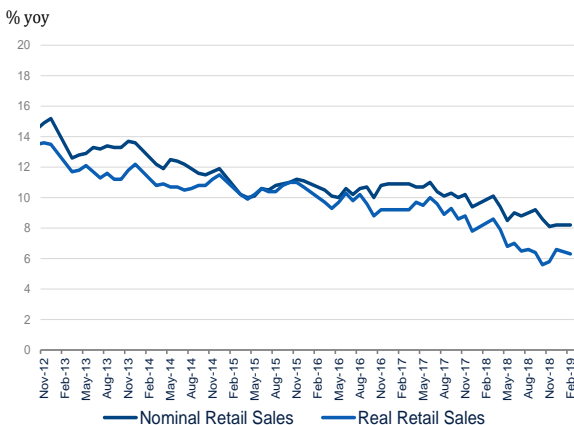
Source: CEIC and BBVA Research

Figure 6 Both total social financing and new yuan loans dipped significantly in February



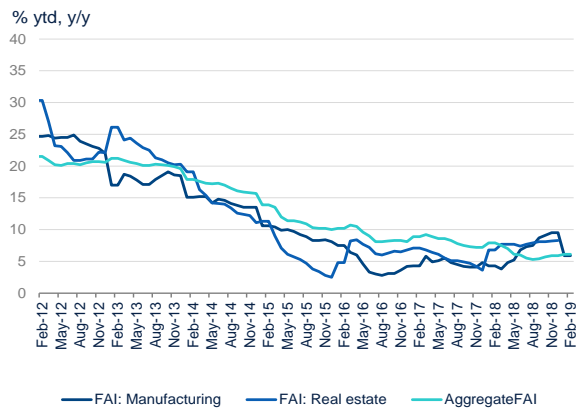
Source: CEIC and BBVA Research

Figure 7 Retail sales still in a low region



Source: CEIC and BBVA Research

Figure 8 FAI marginally picked up due to the easing measures



Source: CEIC and BBVA Research

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