

China | Growth dip came at an inconvenient time

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A batch of April economic indicators are announced today, together with previously released trade and credit data, suggesting that the risk of growth deceleration looms large even before the escalation of US-China trade war in early May. We anticipate more monetary and fiscal easing measures to be deployed in the rest of the year in a bid to sustain growth momentum and offset intensifying headwinds from deteriorating trade relation. In our base scenario, China and the US will sort out the current quandary in this summer to avert the long-term confrontation. We therefore maintain our full-year growth projection at 6% for 2019, in line with the authorities' range target of 6-6.5%.

April economic indicators suggest that growth slowdown is broad-based: industrial production decelerated from 8.5% y/y of March to 5.4% y/y; retail sales declined to 7.2% y/y in April from 8.7% y/y previously; fixed asset investment also decreased to 6.1% ytd y/y from 6.3% ytd y/y in March, led by manufacturing investment. (Table 1; Figure 3-8)

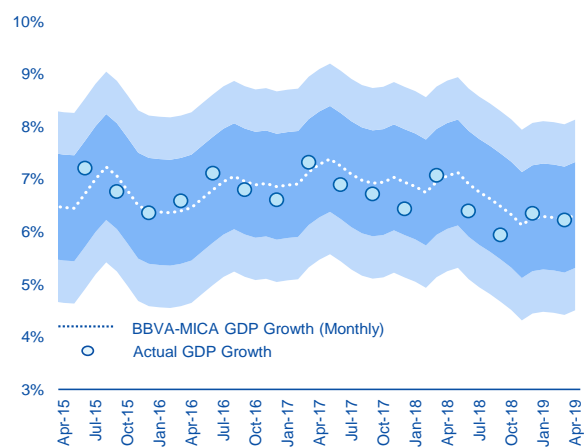
April credit data is unsatisfactory as the authorities might adopt a “wait-and-see” method given the better-than-expected Q1 outturns. M2 growth slowed down to 8.5% y/y from 8.6% previously. Both total social financing and new yuan loans dipped to RMB 1,360 billion and RMB 1,020 billion from RMB 2859 billion and RMB 1690 billion respectively. Altogether, our BBVA MICA model yields a GDP prediction based on monthly data at 6.3% for Q2 2019, in line with the growth slowdown. (Figure 2)

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

	Mean	2018					2019			
		Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Industrial Production	9.0	5.9	6.0	6.0	5.7	5.7	5.4	5.2	4.9	6.3
CPI	2.6	1.8	2.1	2.3	2.2	2.1	1.8	1.7	1.8	2.1
Retail sales	13.1	3.7	3.9	3.6	4.4	4.5	5.5	7.1	8.8	8.8
Auto Sales	8.2	-1.5	-7.1	-9.5	-12.5	-12.7	-12.8	-12.1	-9.2	-11.0
Exports	8.9	10.9	12.0	13.4	11.9	4.4	1.8	-3.4	0.5	-4.0
Imports	9.5	20.4	21.1	18.7	12.9	4.8	-2.1	-4.6	-4.8	-3.1
Manufactory PMI	-0.6	-0.5	-1.4	-2.2	-3.1	-3.5	-3.7	-3.3	-2.5	-2.2
Non-manufactory	-0.4	0.2	-0.1	-0.1	-1.4	-1.8	-1.9	-1.2	-0.3	-0.2
Caixin PMI	-0.3	-0.5	-1.5	-1.9	-1.6	-2.2	-3.6	-4.3	-3.3	-1.8
P/E ratio	-1.7	-20.1	-21.6	-25.3	-26.6	-29.6	-30.8	-27.7	-21.7	-14.3
Real estate sales	13.6	14.0	14.5	14.5	13.8	13.9	13.9	13.9	13.9	13.9
Credit	15.0	13.0	13.2	13.2	13.1	13.2	13.3	13.4	13.5	13.5
MICA Forecast		6.60%		6.50%			6.30%		6.30%	
GDP YoY		6.50%		6.40%			6.40%			
		Contraction		Slow-down		Growth		Boom		

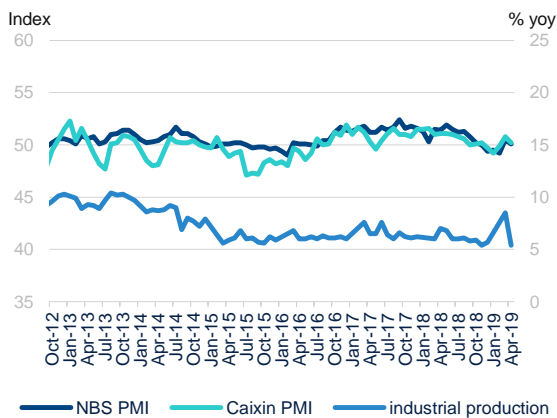
* Series are non-calendar adjusted**BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

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



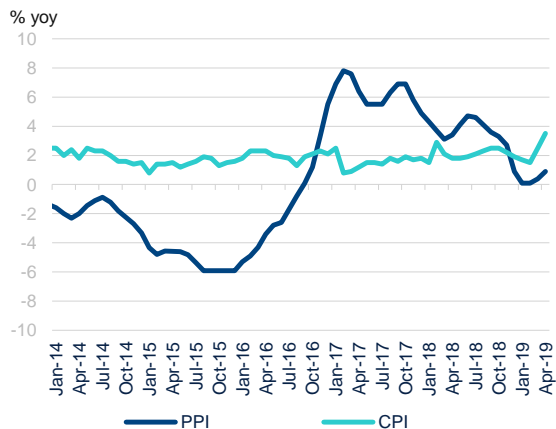
Source: Nowcasting DF Model, BBVA Research

Figure 3 Both NBS and Caixin PMI dipped



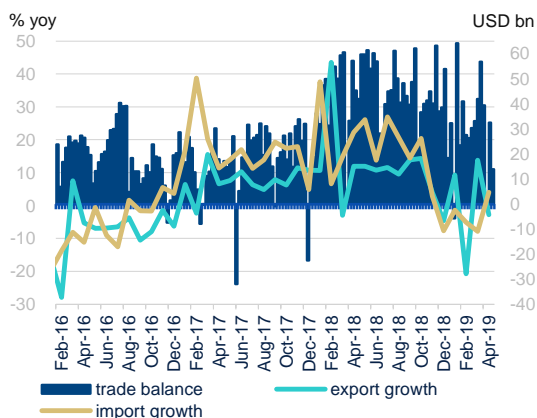
Source: CEIC and BBVA Research

Figure 4 CPI and PPI both picked up in April



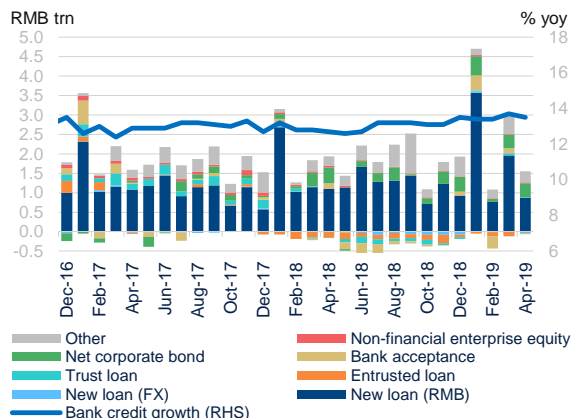
Source: CEIC and BBVA Research

Figure 5 Both exports and imports dipped significantly, shrinking the trade balance



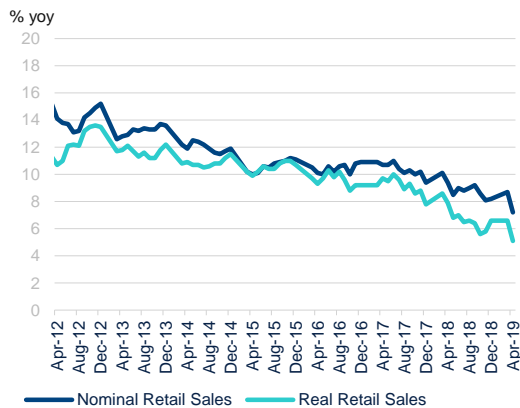
Source: CEIC and BBVA Research

Figure 6 Both total social financing and new yuan loans declined, together with M2 growth



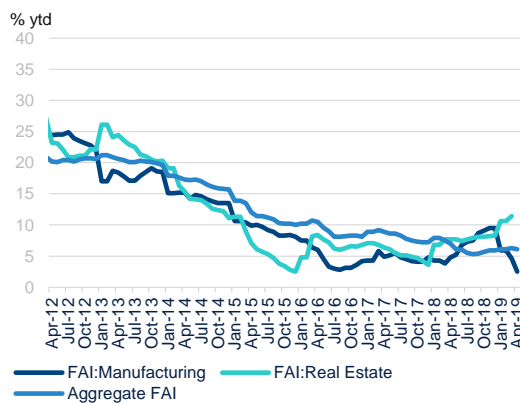
Source: CEIC and BBVA Research

Figure 7 Retail sales dropped significantly



Source: CEIC and BBVA Research

Figure 8 FAI also decelerated despite of the easing measures



Source: CEIC and BBVA Research

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