

Theme

# China | Growth deceleration appears manageable

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The Q2 GDP growth came at 6.2% y/y (versus 6.4% y/y in Q1), in line with market consensus. On sequential terms, the economy grew by 1.6% q/q, slightly higher than that of Q1 at 1.5% q/q. Growth slowdown in Q2 is widely expected amid the unsettled trade war with the US and the domestic structural obstacles such as debt overhang and financial risks. For the positive side, the outturn proved the resilience of China's economy even in the face of escalating trade tensions with the US. Looking ahead, the growth outlook in 2H 2019 depends on the authorities' policy stance. We anticipate more monetary and fiscal easing measures to be deployed to sustain growth momentum and offset intensifying headwinds from unsettled trade tensions. Altogether, the Q2 GDP outturn has added certain upside risk to our full-year growth projection of 6.0% y/y although the risk of growth deceleration in 2H 2019 remains high.

The drag of Q2 GDP is mainly from April and May while June economic indicators widely better than market expectations: industrial production accelerated from 5% y/y of May to 6.3% y/y; fixed asset investment also increased to 5.8% ytd y/y from 5.6% ytd y/y in May, indicating the authorities' stimulus started to take effect; retail sales also improved to 9.8% y/y from 8.6% y/y in May. (Table 1; Figure 3-8)

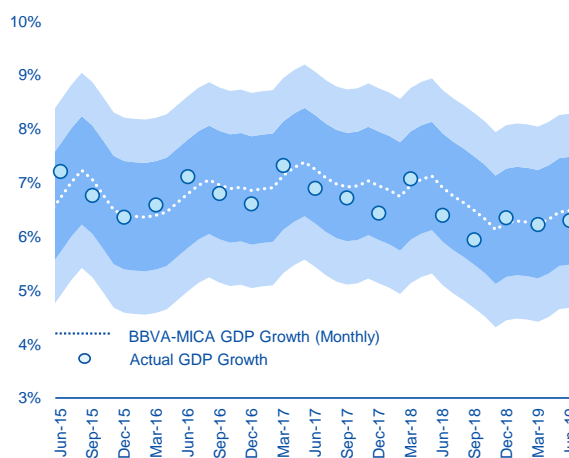
June credit data accelerated from the previous month readings, thanks to the authorities' stimulus efforts. Both total social financing and the new yuan loans increased from the last month readings. M2 growth remains stable at 8.5% y/y as of the previous month. Altogether, our BBVA MICA model yields a GDP prediction based on monthly data at 6.3% for Q2, in line with the growth slowdown. (Figure 2)

Figure 1. Activity Indicators\* (3MA, YoY, SA)

	Mean	2018					2019			
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Industrial Production	9.0	6.0	5.7	5.7	5.4	5.2	4.9	6.3	6.2	5.5
CPI	2.6	2.3	2.2	2.1	1.8	1.7	1.8	2.1	2.5	2.7
Retail sales	13.1	3.6	4.4	4.5	5.5	7.1	8.8	8.8	8.8	9.0
Auto Sales	8.2	-9.5	-2.5	-2.7	-2.8	-2.1	-9.2	-11.0	-2.9	-3.8
Exports	8.9	13.4	11.9	4.4	1.8	-3.4	0.5	-4.0	1.0	-1.2
Imports	9.5	18.7	12.9	4.8	-2.1	-4.6	-4.8	-3.1	-4.3	-3.9
Manufactory PMI	-0.6	-2.2	-3.1	-3.5	-3.7	-3.3	-2.5	-2.2	-3.1	-3.8
Non-manufactory	-0.4	-0.1	-1.4	-1.8	-1.9	-1.2	-0.3	-0.2	-0.5	-1.2
Caixin PMI	-0.3	-1.9	-1.6	-2.2	-3.6	-4.3	-3.3	-1.8	-1.3	-2.2
P/E ratio	-1.7	-25.3	-26.6	-29.6	-30.8	-27.7	-21.7	-14.3	-11.7	-8.3
Real estate sales	18.6	14.5	13.8	13.9	9.0	5.9	4.2	5.5	6.6	7.1
Credit	15.0	13.2	13.1	13.2	13.3	13.4	13.5	13.5	13.5	13.3
MICA Forecast				6.50%			6.30%			6.30%
GDP YoY				6.40%			6.40%			6.20%
		Contraction		Slow-down		Growth		Boom		

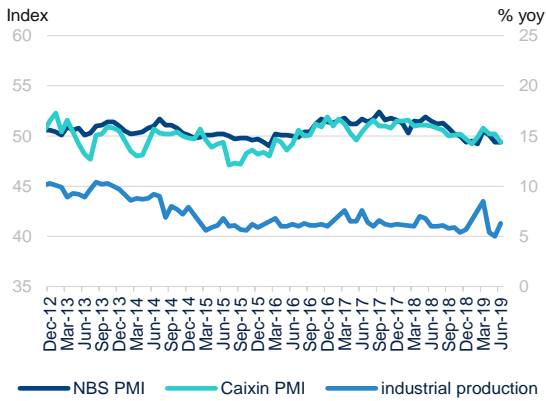
\* Series are non-calendar adjusted\*\*BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

Figure 2. China: BBVA Research Monthly GDP forecast MICA model (%YoY)



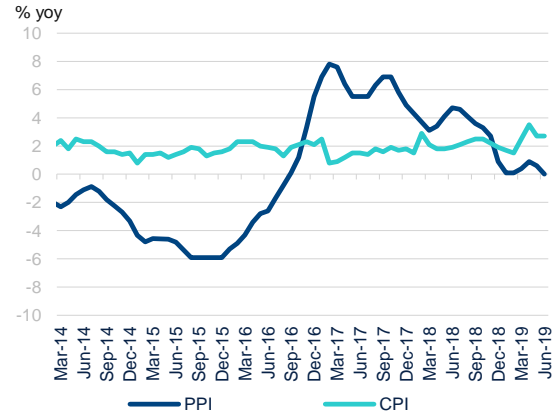
Source: Nowcasting DF Model, BBVA Research

**Figure 3 NBS PMI maintained while industrial production accelerated**



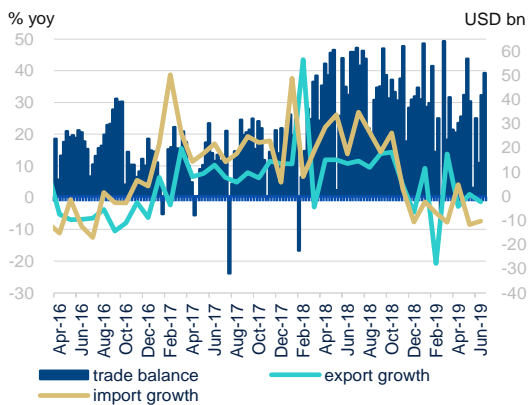
Source: CEIC and BBVA Research

**Figure 4 CPI remained same growth rate as of the last month while PPI further moderated**



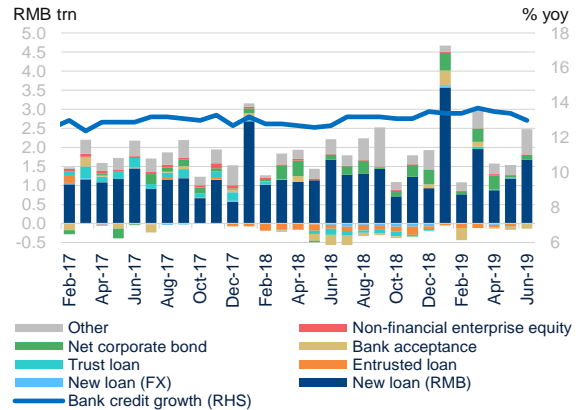
Source: CEIC and BBVA Research

**Figure 5 Exports further decelerated due to the unsettled trade war**



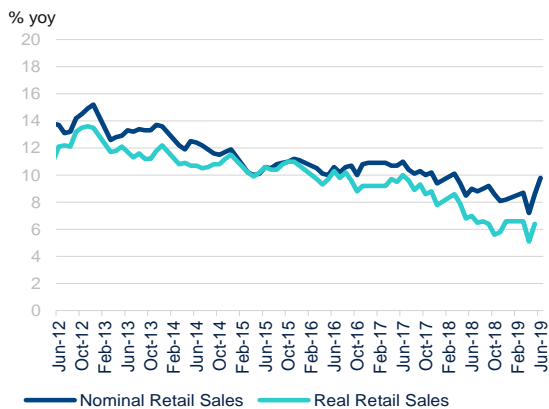
Source: CEIC and BBVA Research

**Figure 6 Both total social financing and new yuan loans increased**



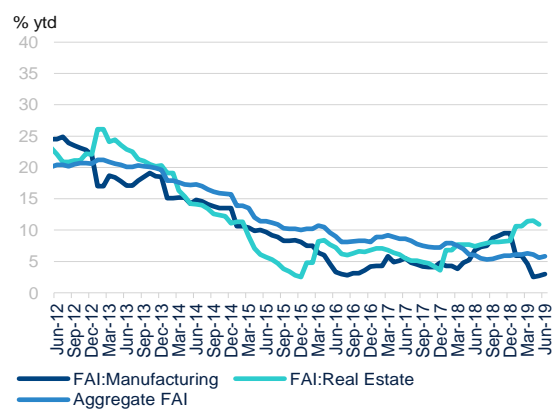
Source: CEIC and BBVA Research

**Figure 7 Retail sales increased too...**



Source: CEIC and BBVA Research

**Figure 8 ...so did the aggregate FAI**



Source: CEIC and BBVA Research

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