

Theme

China | Growth dipped in July

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A batch of July economic indicators are announced today, together with the previously released trade and credit data, suggesting that the growth further decelerated amid the escalation of US-China trade war and the domestic structural obstacles such as debt overhang and financial risks. Although the US president Trump postponed the tariff hike of some Chinese exports to December, which we believe accounts for around 60% of the remaining USD 300 billion shipment from China, trade war uncertainties are likely to persist for a long period of time. 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, we maintain our 2019 GDP forecasting at 6% (the authorities' target: 6-6.5%). The risk of growth deceleration in 2H 2019 remains high.

The growth slowdown in July is broad-based as all indicators are below the previous readings and the market consensus: industrial production decelerated from 6.3% y/y of June to 4.8% y/y; fixed asset investment also decreased to 5.7% ytd y/y from 5.8% ytd y/y in July; retail sales also dipped significantly to 7.6% y/y from 9.8% y/y in June. (Table 1; Figure 3-8)

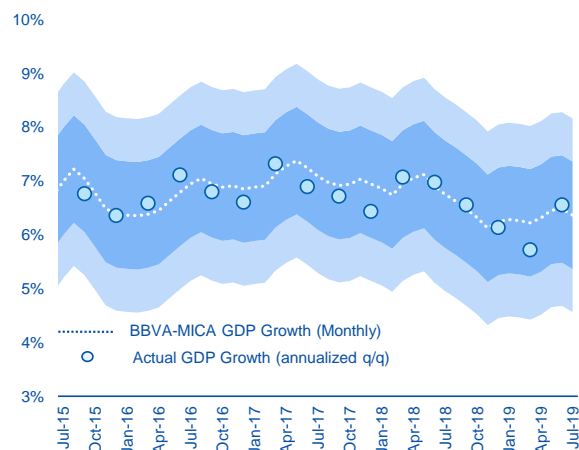
July credit data decelerated from the previous month readings. Both total social financing and the new yuan loans decreased significantly from those of the last month. M2 growth declined to 8.1% y/y from the previous reading at 8.5%. Altogether, our BBVA MICA model yields a GDP prediction based on monthly data at 6.2% y/y for Q3 (Q2 prediction: 6.3% y/y), in line with the growth slowdown. (Figure 2)

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

	Mean	2018					2019				
		Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
Industrial Production	9.0	5.7	5.7	5.4	5.2	4.9	6.3	6.2	5.5	5.3	
CPI	2.6	2.2	2.1	1.8	1.7	1.8	2.1	2.5	2.7	2.8	
Retail sales	13.1	4.4	4.5	5.5	7.1	8.8	8.8	8.8	9.0	8.9	
Auto Sales	8.2	-12.5	-12.7	-12.8	-12.1	-9.2	-11.0	-12.9	-13.8	-10.4	
Exports	8.9	11.9	4.4	1.8	-3.4	0.5	-4.0	1.0	-1.2	0.9	
Imports	9.5	12.9	4.8	-2.1	-4.6	-4.8	-3.1	-4.3	-3.9	-7.1	
Manufactory PMI	-0.6	-3.1	-3.5	-3.7	-3.3	-2.5	-2.2	-3.1	-3.8	-3.9	
Non-manufactory	-0.4	-1.4	-1.8	-1.9	-1.2	-0.3	-0.2	-0.5	-1.2	-1.0	
Caixin PMI	-0.3	-1.6	-2.2	-3.6	-4.3	-3.3	-1.8	-1.3	-2.2	-2.2	
P/E ratio	-1.7	-26.6	-29.6	-30.8	-27.7	-21.7	-14.3	-11.7	-8.3	-5.5	
Real estate sales	18.6	13.8	13.9	9.0	5.9	4.2	5.5	6.6	7.1	6.5	
Credit	15.0	13.1	13.2	13.3	13.4	13.5	13.5	13.5	13.3	13.1	
MICA Forecast		6.50%		6.30%			6.30%		6.20%		
GDP YoY		6.40%		6.40%			6.20%		6.20%		
		Contraction		Slow-down		Growth		Boom			

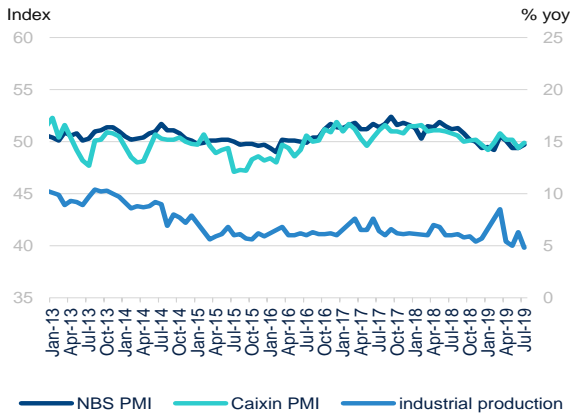
* Series are non-calendar adjusted**BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

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



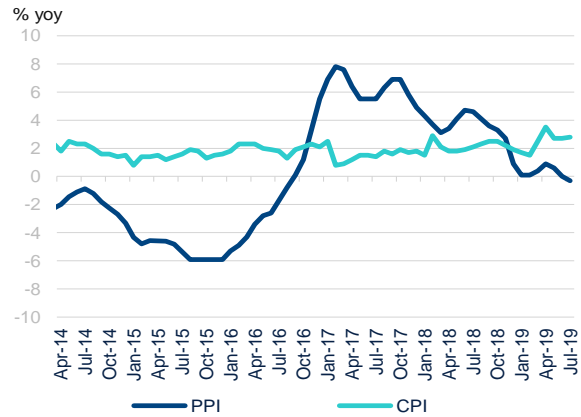
Source: Nowcasting DF Model, BBVA Research

Figure 3 NBS PMI still below 50 while industrial production decelerated



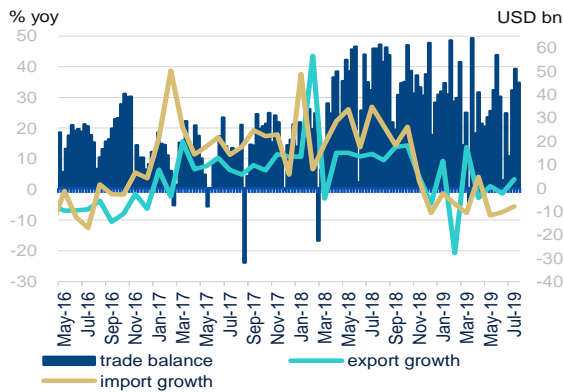
Source: CEIC and BBVA Research

Figure 4 CPI marginally picked up from the last month while PPI further moderated



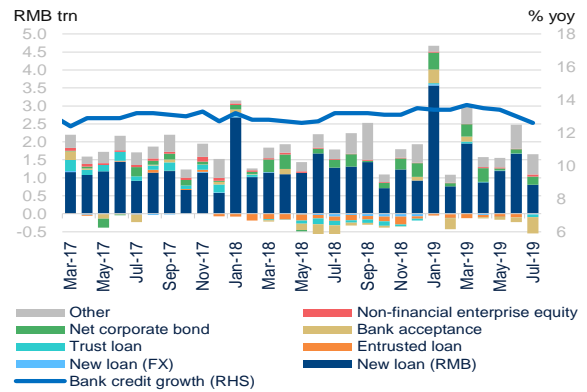
Source: CEIC and BBVA Research

Figure 5 Exports picked up surprisingly amid the unsettled trade war



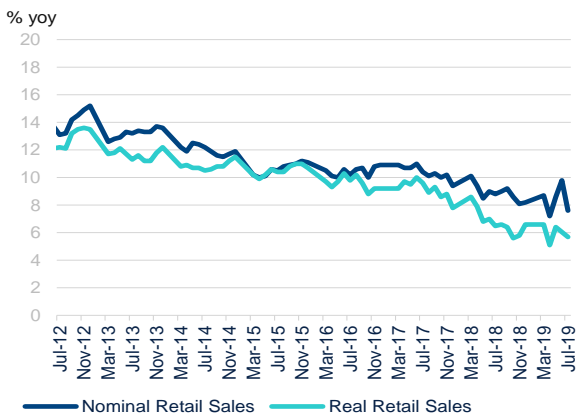
Source: CEIC and BBVA Research

Figure 6 Both total social financing and new yuan loans decreased significantly



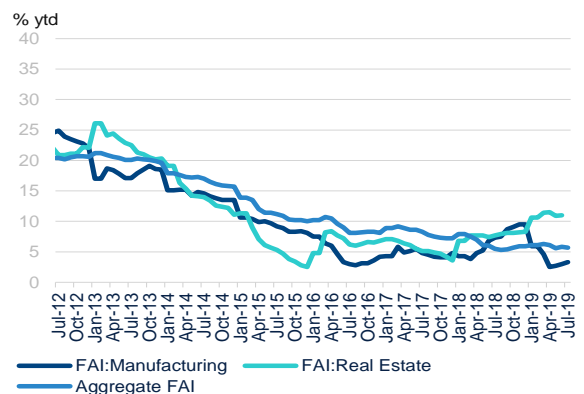
Source: CEIC and BBVA Research

Figure 7 Retail sales decreased too...



Source: CEIC and BBVA Research

Figure 8 ...so did the aggregate FAI



Source: CEIC and BBVA Research

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