

China Flash

Weak April indicators reinforce expectations of policy easing

April's monthly batch of activity indicators was generally weaker than expected, dashing hopes of an imminent growth rebound, and raising expectations of further policy easing. Taken together, export and import outturns (released yesterday) and industrial production for April (9.3% y/y vs. consensus: 12.2% and BBVA: 10.0%) indicate that the slowdown of Q1 is continuing (Charts 1 and 2). A further easing of inflation (Chart 4), to 3.4% y/y in April (consensus: 3.4%; BBVA: 3.7%) provides room for further monetary policy easing in the months ahead, in line with our previous expectations of 100-150bps cuts in the RRR, and up to two 25bp interest rate cuts. As described in our forthcoming *China Economic Outlook*, we maintain our full-year growth projection of 8.3% on expectations of a gradual rebound during the course of 2012 from supportive policies and as global conditions improve. However, risks are tilted to the downside given slowing momentum and the uncertain external environment.

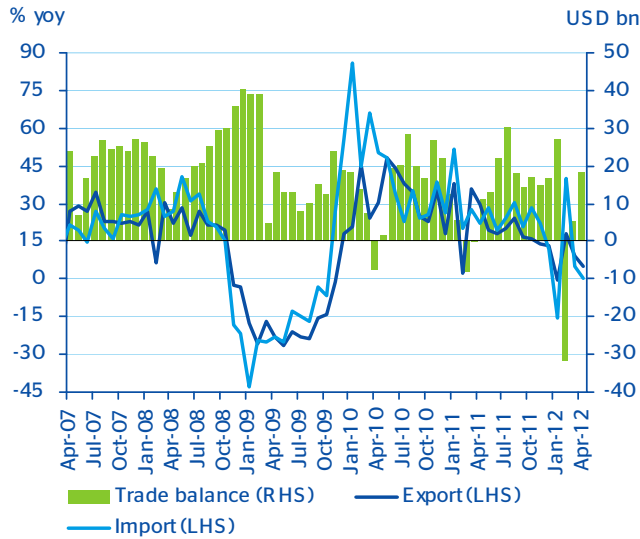
- **April export and import outturns were weaker than expected** (Chart 1), reviving market concerns about global growth and the strength of China's domestic demand. Data released yesterday show that exports and imports grew by 4.9% and 0.3% y/y, respectively (consensus: 8.5% y/y and 10.9% y/y). Export growth to Europe continued to be the main source of weakening external demand, offset by continued demand in other emerging markets and, to a lesser extent, the US. Meanwhile, imports of both processing inputs (for reassembly in export goods) and final products declined, reflecting weakness in both external and domestic demand.
- **Broader activity indicators for April suggest some further weakening of growth momentum.** Industrial output eased to 9.3% y/y (BBVA: 10.0%; consensus 12.2%) from 11.9% y/y in March (Chart 2). Electricity usage—a key barometer of industrial activity—moderated even more sharply, to 0.7% y/y growth, from 7.2% in the previous month. On the demand side, retail sales growth moderated to 14.1% y/y from 15.2% y/y in March (consensus: 15.1%) (Chart 3). Urban fixed asset investment (YTD) was relatively steady, at 20.2% y/y (consensus: 20.5%), down from 20.9% y/y in March.
- **CPI inflation in April eases as expected, on falling food prices** (Chart 4). Food prices declined by -0.9% m/m (+0.1% m/m sa), and rose on a year-over-year basis by 7.0% y/y in April, down from 7.5% y/y in March. Meanwhile, non-food prices increased by 0.3% m/m (0.2% m/m sa), and 1.7% y/y, slightly down from 1.8% in March. So far, the effect of rising fuel prices appear to be minimal, all the more so after a recently announced decline in domestic retail fuel prices in May.
- **Producer price inflation (PPI) in April declined further by more than expected, by -0.7% y/y** (Chart 5) (Consensus: -0.5% y/y; BBVA: -0.6%), down from -0.3% y/y in March. Month on month, the PPI increased by 0.2% in April, but declined by -0.1% once seasonally adjusted. A recent decline in commodity prices is the main driver of the PPI decline.

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk
+852 2582 3218

Zhigang Li
Senior Economist
Zhigang.li@bbva.com.hk
+852 2582 3162

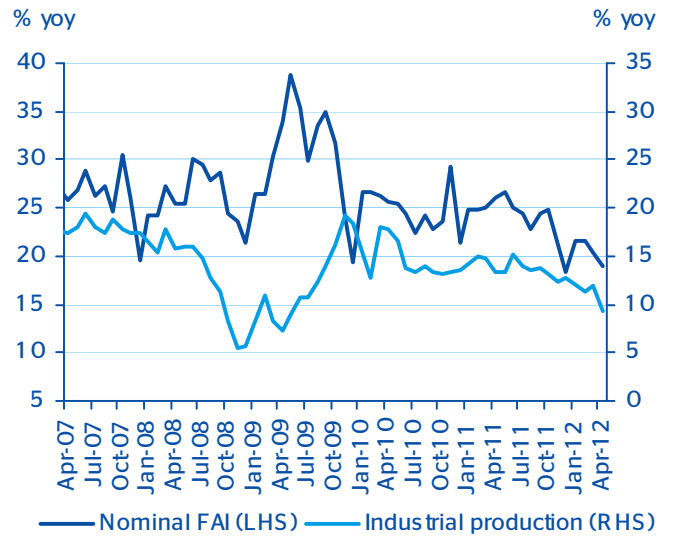
Fielding.Chen
Senior Economist
Fielding.chen@bbva.com.hk
+852 2582 3297

Chart 1
Export and Import further moderated



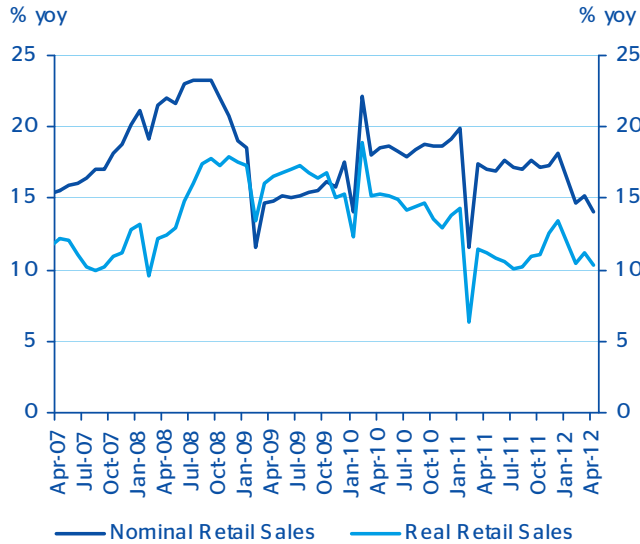
Source: CEIC and BBVA Research

Chart 2
Industrial production slipped to one-digit growth



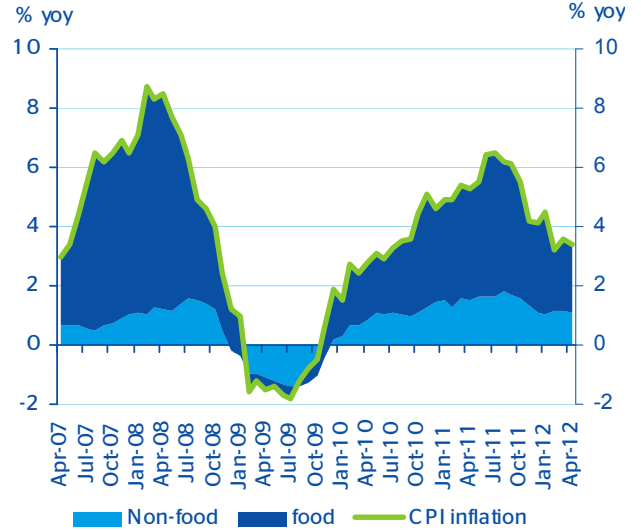
Source: CEIC and BBVA Research

Chart 3
Retail sales growth slowed



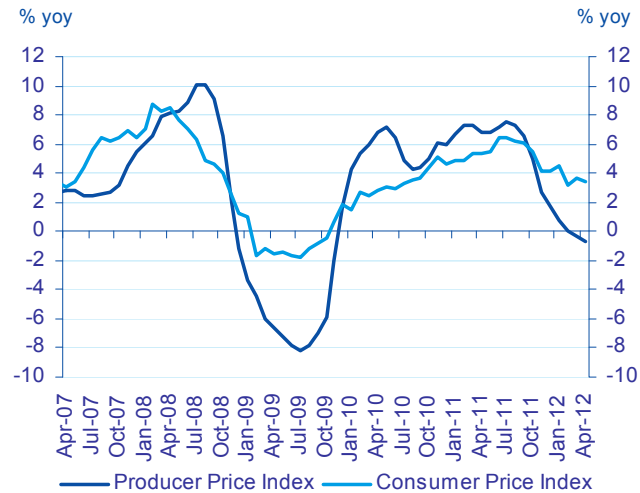
Source: CEIC and BBVA Research

Chart 4
Inflation remained contained



Source: CEIC and BBVA Research

Chart 5
PPI growth turned negative



Source: CEIC and BBVA Research