

ECONOMIC ACTIVITY PULSE

China | Growth stabilizing in Q2

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China's 2016 Q2 GDP came out today at 6.7% y/y, slightly better than expectations (BBVA MICA model forecasting: 6.6% y/y; Bloomberg consensus: 6.6%) and flat with the Q1 reading. Although both industrial production and retail sales improved from the previous month, fixed asset investment remained sluggish, in particular for investment by private firms. Meanwhile, credit supply surged significantly in June. The divergence between investment and credit supply could indicate that a large portion of new credit is used to roll over the existing debt and that firms have increased their cash-hoarding amidst persistent growth headwinds. All in all, we keep our 2016 full-year GDP projection at 6.4% unchanged.

Stabilized Q2 growth was boosted by solid consumption and loosening credit

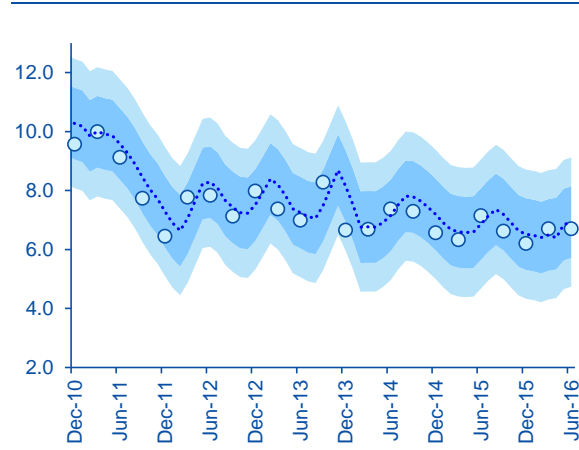
Industrial production accelerated to 6.2% y/y from 6.0% y/y in May (consensus: 5.9% y/y) while retail sales picked up to 10.6% y/y from 10% previously (consensus: 9.9% y/y). However, the main concern is still the lacklustre investment, in particular for investment by private firms (see our [China Economic Watch](#)). In June aggregate FAI contracted to 9.0% ytd y/y from its previous reading 9.6% ytd y/y while private investment decreased to 2.8% ytd y/y from 3.9% ytd y/y previously. In the meantime, credit growth improved significantly: total social financing soared to RMB 1630 bn (prior: RMB 659.9 bn) and new yuan loans also accelerated to RMB 1380 bn (prior: RMB 985.5 bn); in addition, M2 growth maintain at the same level of the previous month.

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

	Mean	2015					2016				
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
IP	10.3	10.5	10.8	10.5	10.7	10.9	10.5	10.9	10.5	10.9	10.3
CPI	2.9	1.7	1.6	1.9	1.5	1.9	1.9	2.2	2.5	2.4	2.2
Retail sales	15.5	14.7	15.0	15.4	15.8	13.3	11.3	10.7	7.4	6.7	7.4
Auto sales	10.0	-1.8	4.1	11.1	15.0	13.6	7.7	5.3	5.1	7.9	10.6
Exports	11.3	8.0	8.0	8.1	8.6	7.1	10.6	8.9	8.8	1.0	3.8
Imports	9.3	14.5	17.2	16.5	12.4	11.9	13.7	13.1	10.1	8.5	8.3
Manufactury PMI	-1.1	-2.9	-2.4	-2.0	-1.4	-1.0	-1.1	-0.8	-0.5	0.0	-0.2
Non-manufactury PMI	-0.9	-1.2	-1.4	-1.0	-0.4	-0.1	-0.7	-0.8	-0.6	0.1	-0.1
Caixin PMI	-1.1	-6.0	-5.3	-4.3	-3.4	-2.9	-3.7	-2.6	-1.4	0.4	-0.2
P/E ratio	-0.6	49.4	40.1	34.1	25.5	7.5	17.4	17.7	26.2	30.3	33.3
Real estate sales	16.3	15.2	14.9	15.6	14.4	43.6	43.6	54.1	55.9	50.7	49.6
Credit	15.8	15.4	15.4	14.9	14.3	15.3	14.7	14.7	14.4	14.3	14.3
MICA Forecast (YoY)		7.10%			6.40%			6.30%			6.60%
Actual GDP YoY		6.90%			6.80%			6.70%			6.70%

* Series are non-calendar adjusted. **BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP.
Source: Nowcasting DF Model, BBVA Research and HAVER

Figure 1
China: BBVA Research Monthly GDP** (%YoY)

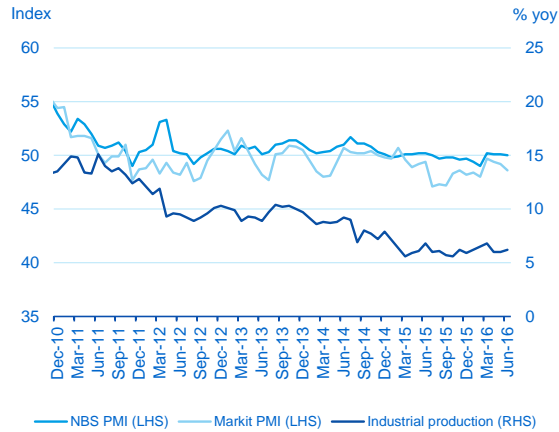


Source: Nowcasting DF Model, BBVA Research

...risks are balanced around our 6.4% full year forecast

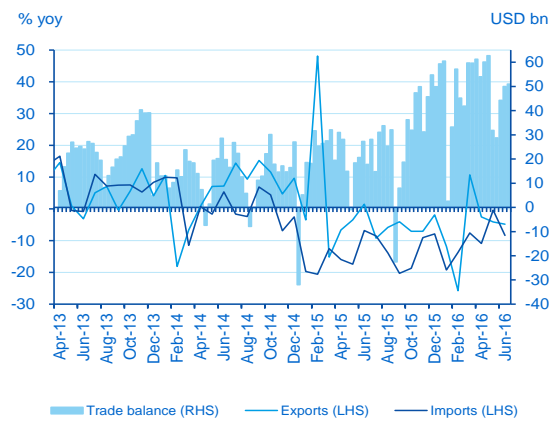
The headwinds to growth could deteriorate in 2H16, which could prompt the authorities to re-introduce more easing measures. We deem that the risks to our 6.4% full-year growth projection are balanced.

Figure 3
NBS PMI marginally dropped while IP improved



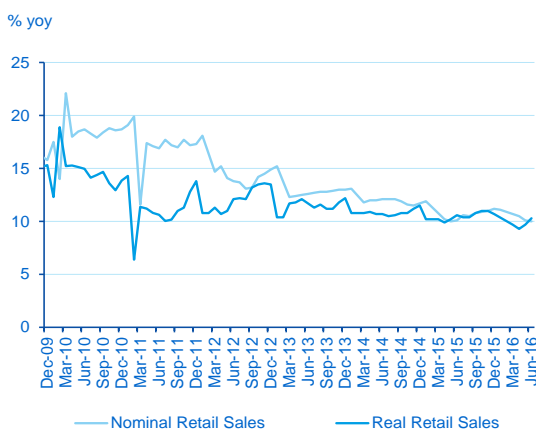
Source: BBVA Research and CEIC

Figure 5
Both imports and exports are lacklustre in June



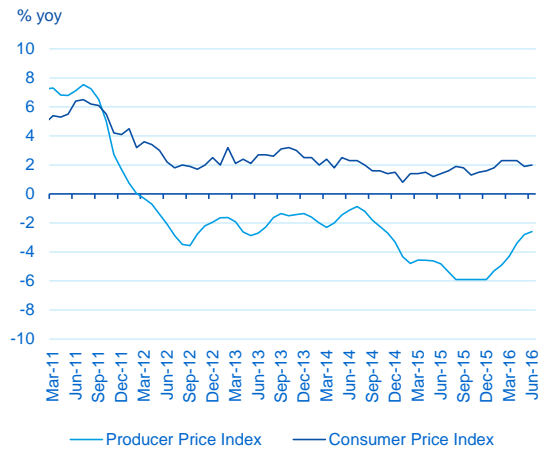
Source: BBVA Research and CEIC

Figure 7
Real retail sales improved significantly



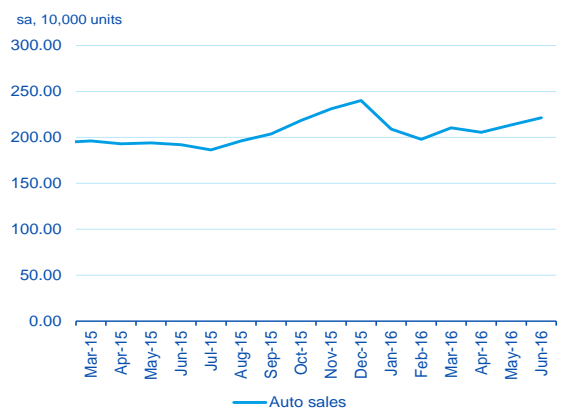
Source: BBVA Research and CEIC

Figure 4
PPI increased on sequential terms



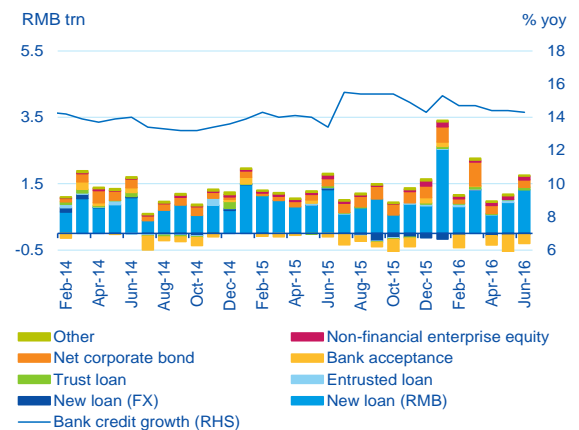
Source: BBVA Research and CEIC

Figure 6
Auto Sales marginally picked up in June



Source: BBVA Research and CEIC

Figure 8
Credit growth speeds up significantly (YoY)



Source: BBVA Research and CEIC

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