

ECONOMIC ACTIVITY PULSE

China | Recovery appears resilient to headwinds

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November activity indicators came out today, indicating growth momentum continues in November. Among which, retail sales picked up significantly on strong auto sales while industrial production and fixed asset investment are in line with the market expectations. Altogether, economic activities continue to rebound from the previous downturn despite recent headwinds from the clampdown in the housing market and the acceleration of exchange rate depreciation. BBVA MICA model forecast for Q4 GDP is 6.9%, making our growth projections (2016: 6.6%; 2017:5.8%) subject to certain upside risks.

Growth was supported by stabilizing FAI and improving IP and retail sales

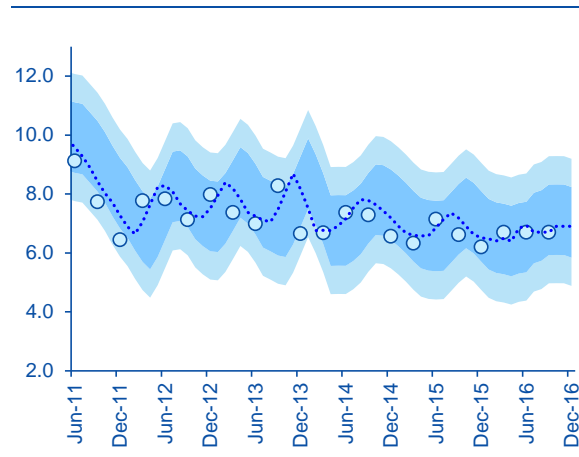
FAI maintained at 8.3% ytd y/y, which was the same rate of the previous month (consensus: 8.3% y/y); while industrial production improved to 6.2% y/y from the previous month reading of 6.1% y/y (consensus: 6.1% y/y). Private investment, which is our prime concern of growth sustainability, also slightly picked up from 2.9% ytd y/y previously to 3.1% ytd y/y. In addition, retail sales picked up significantly from 10% y/y of the previous month to 10.8% y/y (consensus: 10.2% y/y), underpinned by strong auto sales. The buoyant car market toward the end-year is mainly policy-induced given that the tax cut for car purchases is to expire next year.

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

	Mean	2016										
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
IP	10.0	5.5	5.5	5.5	5.2	5.2	5.1	5.5	5.1	5.1	5.2	5.1
CPI	2.9	1.7	1.9	2.2	2.5	2.4	2.2	2.0	1.8	1.8	2.0	2.3
Retail sales	15.1	13.3	11.3	10.7	7.4	8.7	7.1	10.2	10.4	10.5	10.4	10.5
Auto sales	10.1	13.6	7.7	5.3	5.1	7.9	10.6	16.3	21.0	24.8	23.1	20.6
Exports	10.3	-7.1	-10.0	-9.0	-6.6	-6.8	-3.8	-3.4	-5.0	-6.8	-7.1	-6.1
Imports	8.3	-11.9	-13.7	-13.1	-10.1	-5.2	-6.3	-7.4	-7.0	-6.7	-6.6	-1.1
Manufactory PMI	-1.1	-1.0	-1.1	-0.8	-0.5	0.0	-0.2	-0.3	0.3	0.8	1.8	2.7
Non-manufactory PMI	-0.8	-0.1	-0.7	-0.8	-0.6	0.1	-0.1	-0.1	0.0	0.2	0.8	1.4
Caixin PMI	-1.0	-2.9	-3.7	-2.6	-1.4	0.4	-0.2	1.9	3.8	6.4	6.0	5.6
P/E ratio	-2.0	7.5	-7.4	-17.7	-25.2	-28.3	-33.3	-28.4	-18.4	-7.8	-2.7	-2.9
Real estate sales	17.1	43.6	43.6	54.1	55.9	50.7	49.6	44.2	40.2	39.9	40.4	40.2
Credit	15.7	15.3	14.7	14.7	14.4	14.3	13.8	13.5	13.3	13.1	13.0	
MICA Forecast (YoY)				6.30%		6.60%			6.80%		6.90%	
Actual GDP YoY				6.70%		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.

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

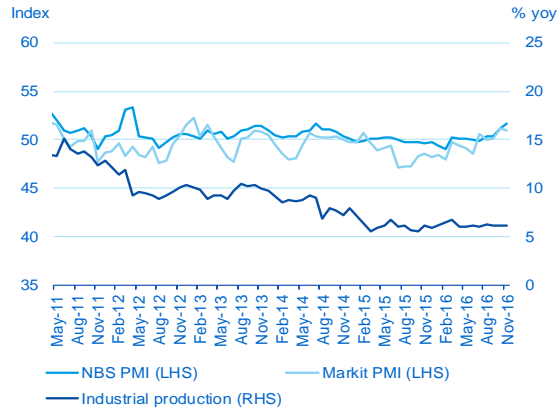


Source: Nowcasting DF Model, BBVA Research

Our forecasts are now subject to certain upside risks

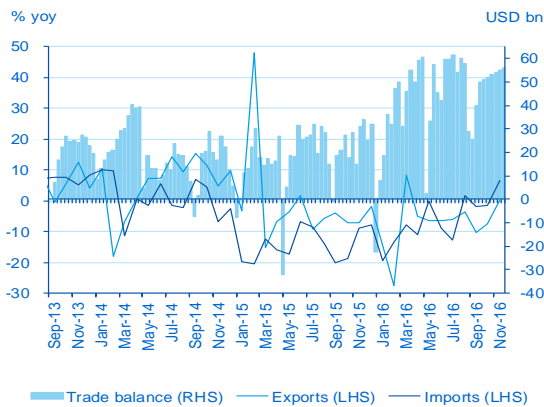
Notwithstanding a number of growth headwinds including tightening measures in the property market, accelerated capital outflows accompanied by faster-than-expected currency depreciation etc, the ongoing recovery appears more resilient than we anticipated.

Figure 3
NBS PMI and Industrial production improved



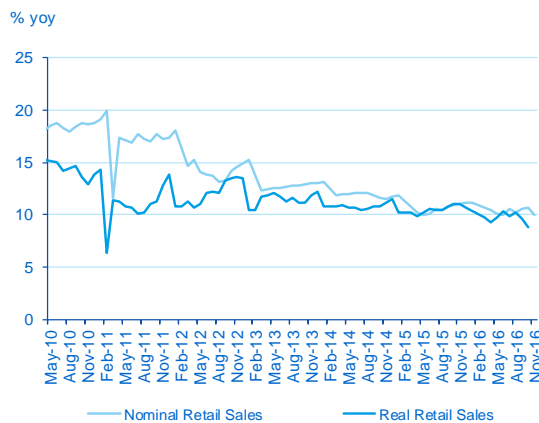
Source: BBVA Research and CEIC

Figure 5
Both imports and exports accelerated



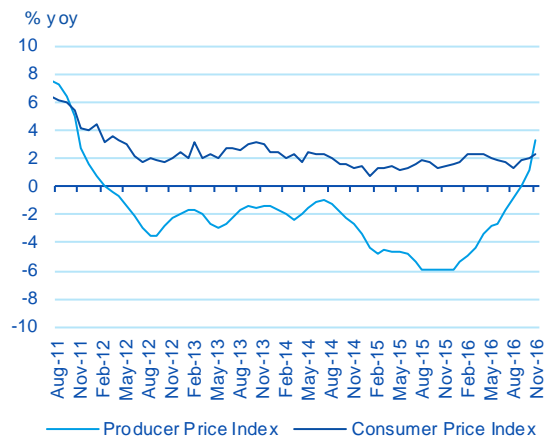
Source: BBVA Research and CEIC

Figure 7
Real retail sales improved significantly



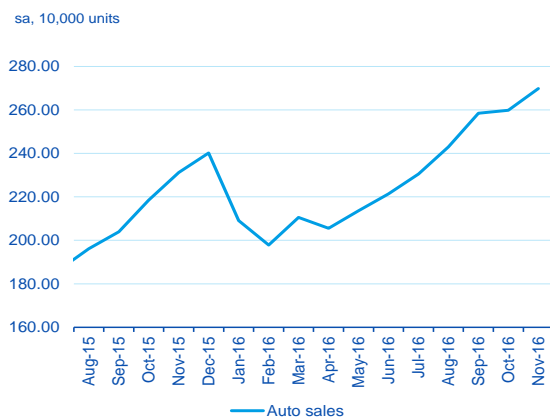
Source: BBVA Research and CEIC

Figure 4
PPI increased significantly while CPI improved



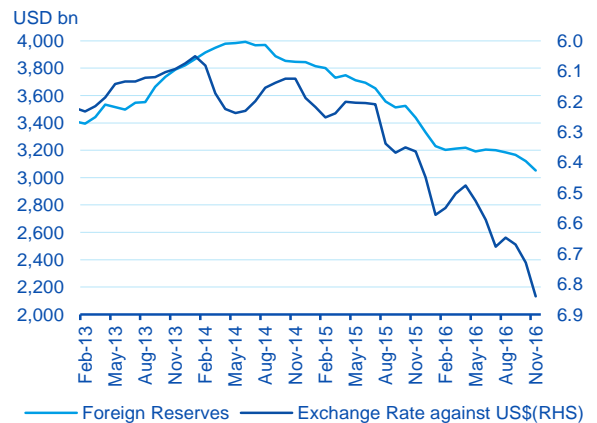
Source: BBVA Research and CEIC

Figure 6
Auto sales rose further in November



Source: BBVA Research and CEIC

Figure 8
RMB depreciation is still the main financial risk



Source: BBVA Research and CEIC

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