

# China | Economy continued the downward adjustment in August

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After registering a stronger-than-expected performance in the first half of this year, Chinese economy continued its downward adjustment in August following its slowdown in July, which is in line with our expectation. In particular, the authorities' prudent monetary stance and stepped-up regulatory efforts to tackle shadow banking, property market and debt overhang, have started to transmit to the real economy for the recent two months. Altogether, we raised our 2017 growth forecast from 6.5% to 6.7%, reflecting the strong 1H growth while suggesting the 2H growth will slow to around 6.5% (official target: 6.5%; Bloomberg consensus: 6.7%); however, growth headwinds which are mainly due to the financial tightening are existed.

Growth moderation in August are broad-based, as all the real economy indicators are below both market expectations and the prior readings: FAI significantly declined to 7.8% ytd y/y (consensus: 8.2% ytd y/y) from the previous month reading of 8.3% ytd y/y, indicating investment was influenced by the financial tightening and credit shrinking; industrial production decelerated to 6% y/y in August from 6.4% y/y previously (consensus: 6.6% y/y) and retail sales also slowed down to 10.1% y/y from 10.4% y/y in July (consensus: 10.5% y/y). (Table 1; Figure 3-8)

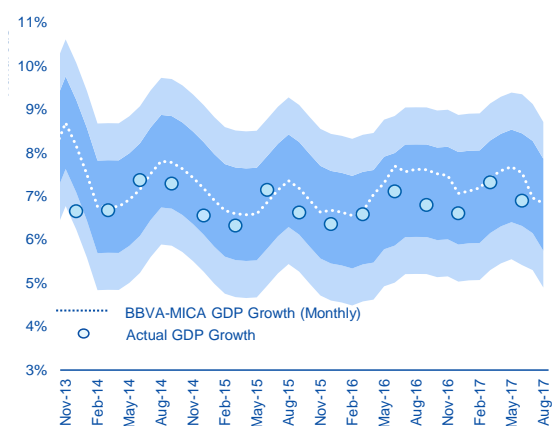
As the financial deleveraging continues, M2 growth in August dipped to the historical low at 8.9% y/y, indicating a further shrinking of credit, although total social financing and new yuan loans maintained. Our MICA model provides a monthly GDP prediction of August at 6.8% y/y (July: 6.9% y/y), in line with the continuing growth slowdown. (Table 2)

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

	Mean	2016				2017							
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	
IP	10.0	5.2	5.3	5.1	5.1	5.2	5.3	5.3	5.3	5.5	5.3	5.3	
CPI	2.9	2.0	2.3	2.3	2.2	1.9	1.4	1.2	1.2	1.4	1.5	1.5	
Retail sales	15.2	15.4	15.5	15.2	15.0	15.5	15.9	15.7	15.7	15.9	15.5	15	
Auto sales	10.2	23.1	20.6	14.7	12.7	10.7	9.4	4.1	1.2	1.3	4.2	1.3	
Exports	10.0	-1.1	5.1	4.3	3.5	3.5	3.0	3.3	11.6	9.5	9.0	7.7	
Imports	8.2	-3.6	1.5	2.4	12.6	18.3	25.3	18.5	16.1	14.7	14.2	13.6	
Manufactury PMI	-1.1	1.8	2.7	3.5	3.8	4.2	4.1	3.5	2.5	2.6	2.9	3.0	
Non-manufactury PMI	-0.8	0.8	1.4	1.3	1.4	1.7	2.4	2.1	2.0	1.9	2.0	1.1	
Caixin PMI	-1.0	6.0	5.6	6.1	5.9	6.9	5.3	4.1	1.9	2.1	1.8	2.6	
PIE ratio	-2.0	-2.7	-2.9	-3.1	0.9	3.4	18.1	16.2	13.2	15.2	16.9	17.4	
Real estate sales	17.1	40.4	40.2	37.8	30.0	25.0	25.1	20.1	21.0	19.6	19.5	19.2	
Credit	15.7	13.1	13.0	13.2	12.6	13.0	12.4	12.9	13.0	12.9	12.9	13.1	
MICA Forecast (YoY)				7.00%		7.00%			7.10%		6.80%		
Actual GDP YoY				6.80%		6.90%			6.90%				

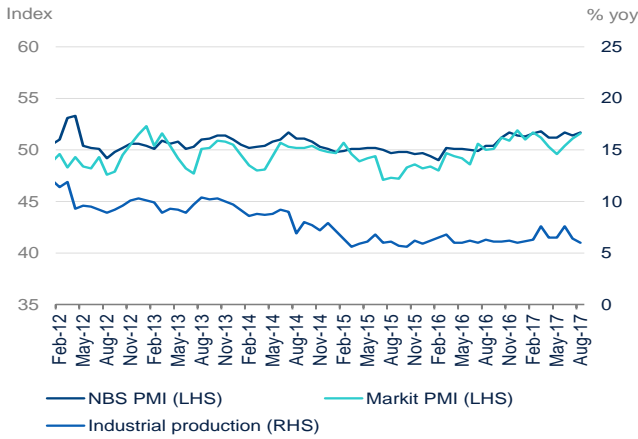
\* Series are non-calendar adjusted. \*\*BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP

**Figure 2** China: BBVA Research Monthly GDP\*\* (%YoY)



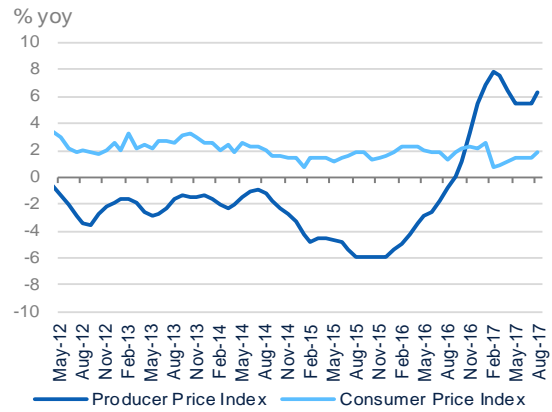
Source: Nowcasting DF Model, BBVA Research

**Figure 3** Industrial production slowed down significantly



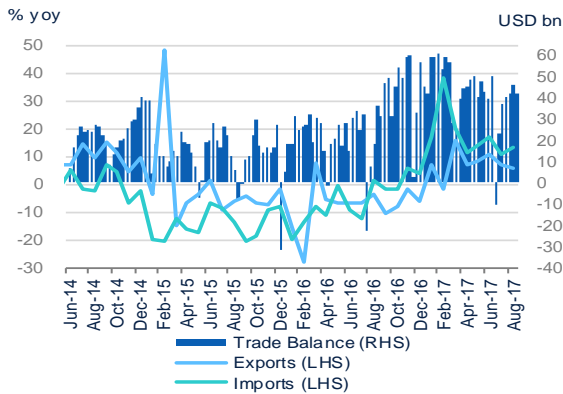
Source: CEIC and BBVA Research

**Figure 4** PPI and CPI displayed some converging pattern



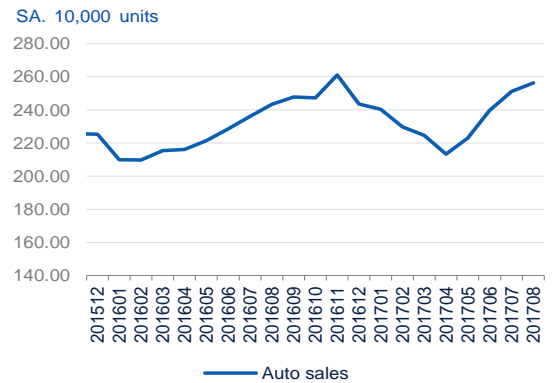
Source: CEIC and BBVA Research

**Figure 5** Exports and imports diverged in August



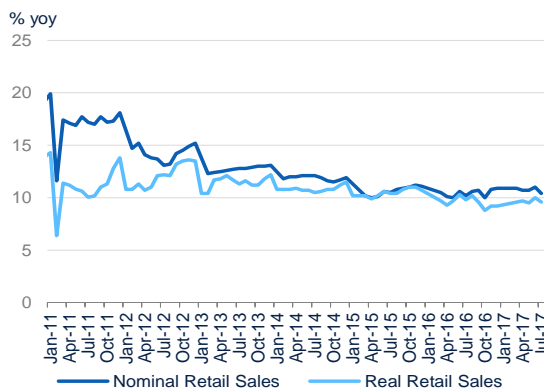
Source: CEIC and BBVA Research

**Figure 6** Auto sales gradually picked up



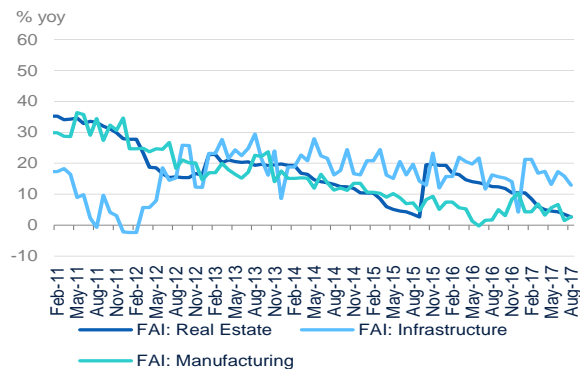
Source: CEIC and BBVA Research

**Figure 7** Retail sales slowed down as well



Source: CEIC and BBVA Research

**Figure 8** FAI significantly declined in August



Source: CEIC and BBVA Research

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