

China | Growth moderation amid trade war risk

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April economic indicators announced today point to an expected moderation in growth. In particular, fixed asset investment and retail sales both dropped from the previous readings, although industrial production maintained its momentum. This suggests that growth headwinds remain in place, mainly from domestic tightening policy initiatives and trade skirmishes with the US, although the latter of which, in our baseline scenario, is unlikely to evolve into a full-blown trade war between the largest country economies in the world. That being said, the growth is most likely to moderate through the rest of the year. Thus, we maintain our 2018 growth projection at 6.3% y/y, compared with the official target rate at 6.5% and the Bloomberg consensus at 6.5%.

April indicators are mixing: FAI decreased to 7% ytd y/y from 7.5% ytd y/y previously (consensus: 7.4% ytd y/y), indicating investment slowed down due to financial tightening; retail sales also decelerated to 9.4% y/y from 10.1% y/y in the previous month (consensus: 10% y/y). By contrast, industrial production significantly picked up to 7% y/y from 6% y/y previously (consensus: 6.4% y/y). The authorities also reported the survey unemployment rate of April, which marginally decreased to 4.9% from 5.1% previously, lower than the target rate of 5.5%. (Table 1; Figure 3-8)

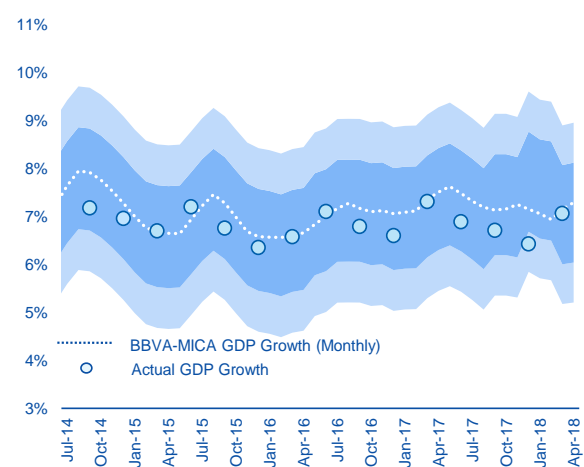
April credit has picked up: M2 growth marginally increased to 8.3% y/y from 8.2% y/y in March. In addition, total social financing and new yuan loans also increased to RMB 1,560 billion and RMB 1180 billion, respectively. Altogether, our MICA model yields a monthly GDP prediction at 6.9%, in line with the previous month's prediction. (Figure 2)

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

| | Mean | 2017 | | | | | 2018 | | | | |
|-----------------------|------|-------------|------|-----------|------|--------|-------|------|-------|------|-------|
| | | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | |
| Industrial Production | 9.4 | 6.6 | 6.1 | 6.1 | 6.2 | 5.8 | 6.5 | 6.9 | 6.8 | 6.7 | |
| CPI | 2.7 | 15 | 15 | 17 | 16 | 17 | 17 | 19 | 2.0 | 19 | |
| Retail sales | 14.4 | 10.0 | 10.3 | 10.0 | 9.8 | 9.0 | 8.4 | 7.0 | 5.4 | 5.1 | |
| Auto Sales | 10.0 | 5.6 | 5.8 | 4.1 | 2.4 | 0.6 | -12 | 0.9 | 18 | 7.0 | |
| Exports | 8.9 | 7.7 | 6.5 | 6.7 | 9.2 | 10.1 | 9.8 | 17.7 | 16.3 | 17.5 | |
| Imports | 8.9 | 13.6 | 14.4 | 14.4 | 17.9 | 13.5 | 13.3 | 14.6 | 17.9 | 19.2 | |
| Manufacture PMI | -0.4 | 3.0 | 3.2 | 2.4 | 16 | 0.5 | 0.2 | -0.7 | -10 | -0.9 | |
| Non-manufacture | -0.5 | 1.1 | 1.4 | 1.2 | 1.3 | 0.6 | 0.8 | 0.9 | 0.2 | 0.3 | |
| Caixin PMI | -0.2 | 2.6 | 2.0 | 1.5 | 0.4 | -0.5 | 0.0 | 0.0 | 0.1 | 0.3 | |
| P/E ratio | -0.1 | 17.4 | 17.9 | 17.4 | 14.8 | 13.2 | 13.6 | 13.4 | 13.5 | 5.9 | |
| Real estate sales | 23.7 | 19.2 | 18.7 | 15.3 | 14.2 | 14.0 | 13.9 | 14.7 | 13.6 | 11.6 | |
| Credit | 17.0 | 13.1 | 13.0 | 13.1 | 13.0 | 12.9 | 13.1 | 12.9 | 12.9 | 12.8 | |
| MICA Forecast | | 6.70% | | | | | 6.90% | | 6.90% | | 6.90% |
| GDP YoY | | 6.80% | | | | | 6.80% | | 6.80% | | 6.80% |
| | | Contraction | | Slow-down | | Growth | | Boom | | | |

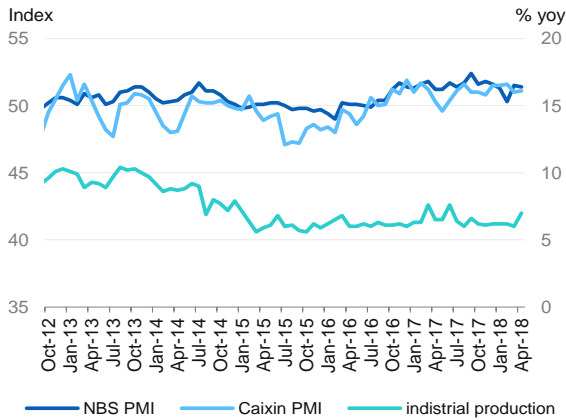
* Series are non-calendar adjusted **BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

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



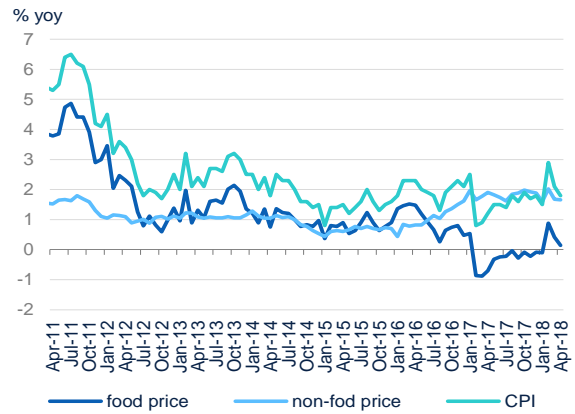
Source: Nowcasting DF Model, BBVA Research

Figure 3 Industrial production and Caixin PMI increased



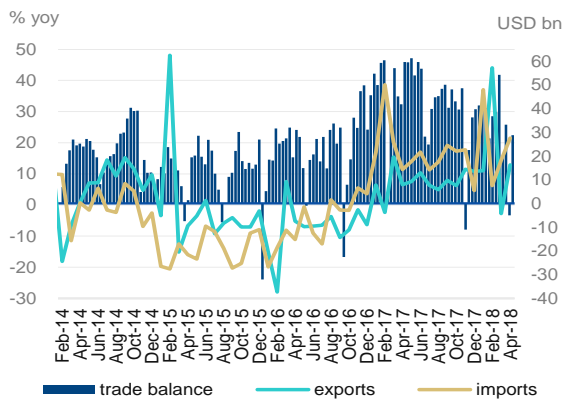
Source: CEIC and BBVA Research

Figure 4 CPI remains at a low level



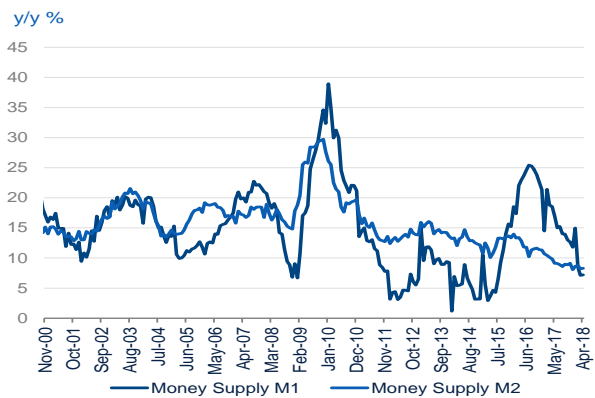
Source: CEIC and BBVA Research

Figure 5 Exports have been quite volatile due to the escalating trade war risk



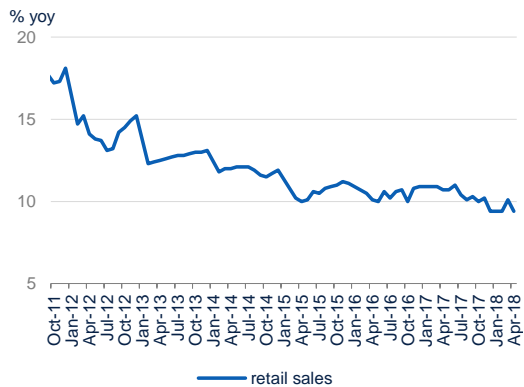
Source: CEIC and BBVA Research

Figure 6 M2 picked up marginally



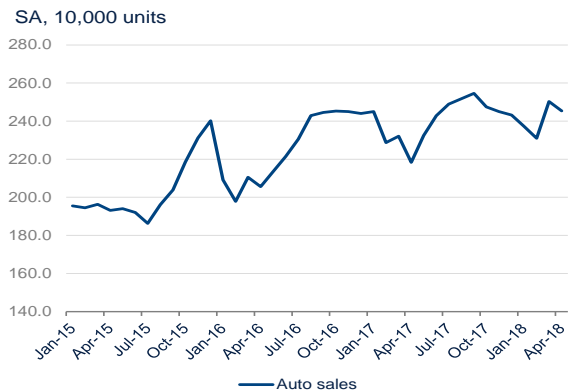
Source: CEIC and BBVA Research

Figure 7 Retail sales also decelerated



Source: CEIC and BBVA Research

Figure 8 Auto sales marginally picked up



Source: CEIC and BBVA Research

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