

China | Growth slowdown continues

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July economic indicators are announced today, together with the previously released credit data, suggesting that growth slowdown continued in July. In particular, fixed asset investment, industrial production and retail sales all dropped from the previous readings and below the market expectations. This indicates that headwinds mainly from domestic deleveraging and the unsettled trade war with the US, continued to weigh on growth. That being said, the growth is most likely to moderate through the rest of the year. We predict the monetary policy will become more easing while fiscal policy will be more supportive for growth. Altogether, we maintain our 2018 growth projection at 6.5% y/y, compared with the official target rate at 6.5% and the Bloomberg consensus at 6.6%.

July economic indicators are lacklustre: Fixed asset investment decreased to 5.5% ytd y/y from 6% ytd y/y previously (consensus: 6% ytd y/y), indicating investment slowed down due to the tightening regulation measures and domestic deleveraging; retail sales decelerated to 8.8% y/y from 9% y/y in the previous month (consensus: 9.1% y/y); industrial production remained at a low growth rate at 6% y/y as of the last month (consensus: 6.3% y/y). Growth slowdown also pushed up the jobless rate from 4.8% in the previous month to 5.1% in July. (Table 1; Figure 3-8)

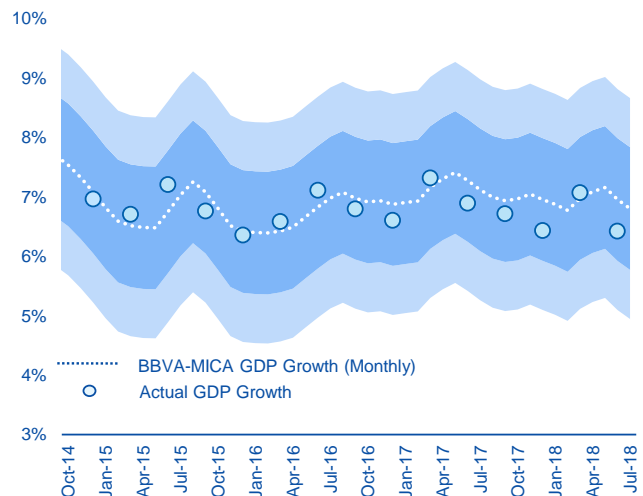
July credit data moderated as well: Although M2 growth increased to 8.5% y/y from 8%, total social financing and new yuan loans both decreased to RMB 1,040 billion and RMB 1,450 billion, respectively. Altogether, our MICA model yields a monthly GDP prediction at 6.7% (prior forecast: 6.7%), in line with the lacklustre economic performance. (Figure 2)

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

	Mean	2017					2018				
		Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
Industrial Production	9.4	6.2	5.8	6.5	6.9	6.8	6.7	6.6	6.6	6.2	
CPI	2.7	1.6	1.7	1.7	1.9	2.0	1.9	1.7	1.6	1.6	
Retail sales	14.4	9.8	9.0	8.4	7.0	5.4	5.1	4.7	4.2	4.1	
Auto Sales	10.0	2.4	0.6	-1.2	0.9	1.8	7.0	10.1	9.1	3.4	
Exports	8.9	9.2	10.1	9.8	17.7	6.3	17.5	10.2	11.7	11.7	
Imports	8.9	17.9	13.5	13.3	14.6	17.9	19.2	20.9	20.7	22.5	
Manufactory PMI	-0.4	1.6	0.5	0.2	-0.7	-1.0	-0.9	0.4	0.5	0.2	
Non-manufactory	-0.5	1.3	0.6	0.8	0.9	0.2	0.3	0.4	0.8	0.0	
Caixin PMI	-0.2	0.4	-0.5	0.0	0.0	0.1	0.3	1.4	1.9	1.2	
P/E ratio	-0.1	14.8	13.2	13.6	13.4	13.5	5.9	0.3	-7.3	-14.6	
Real estate sales	23.7	14.2	14.0	13.9	14.7	13.6	11.6	10.4	12.6	12.9	
Credit	17.0	13.0	12.9	13.1	12.9	12.9	12.8	12.7	12.7	12.9	
MICA Forecast		6.90%		6.90%			6.70%		6.70%		
GDP YoY		6.80%		6.80%			6.70%		6.70%		
		Contraction		Slow-down		Growth		Boom			

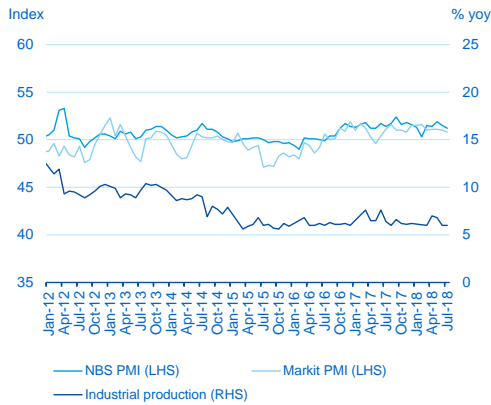
* Series are non-calendar adjusted **BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

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



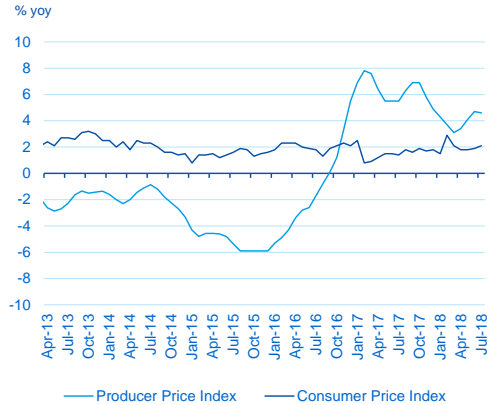
Source: Nowcasting DF Model, BBVA Research

Figure 3 Industrial production remained while PMI down



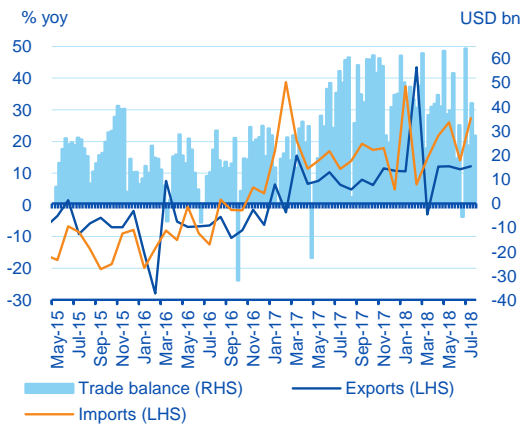
Source: CEIC and BBVA Research

Figure 4 CPI and PPI started to converge



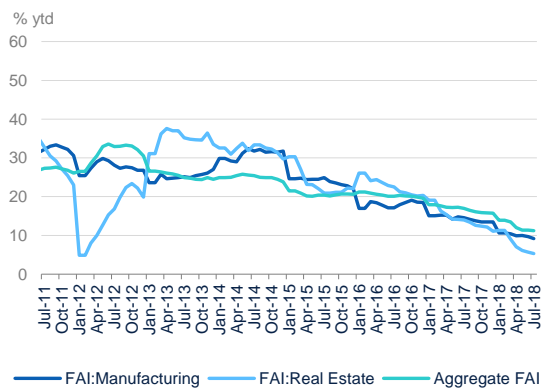
Source: CEIC and BBVA Research

Figure 5 Trade surplus shrank amid the trade war



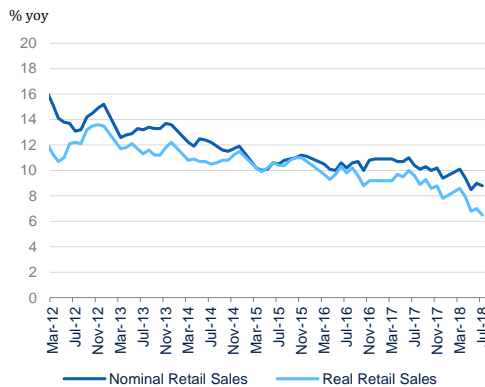
Source: CEIC and BBVA Research

Figure 6 FAI ytd y/y also moderated



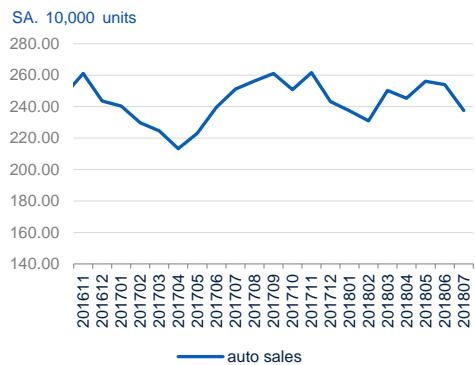
Source: CEIC and BBVA Research

Figure 7 Retail sales also decelerated



Source: CEIC and BBVA Research

Figure 8 Auto sales slowed down



Source: CEIC and BBVA Research

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