

Theme

China | Growth slowdown deepened as trade war risk intensified again

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June 14th, 2019

A batch of May economic indicators are announced today, together with previously released trade and credit data, suggesting that the risk of growth deceleration looms large as US-China trade war remain unsettled. We anticipate more monetary and fiscal easing measures to be deployed in the rest of the year in a bid to sustain growth momentum and offset intensifying headwinds from deteriorating trade tensions. In our base scenario, there is still a two-thirds possibility that China and the US could reach a deal to end the confrontations. We therefore maintain our full-year growth projection at 6% for 2019, in line with the authorities' range target of 6-6.5%.

May economic indicators suggest that growth slowdown is broad-based: industrial production decelerated from 5.4% y/y of April to 5% y/y; fixed asset investment also decreased to 5.6% ytd y/y from 6.1% ytd y/y in April, indicating the investors' sentiments still weak. The only silver lining is retail sales which improved to 8.6% y/y from 7.2%. (Table 1; Figure 3-8)

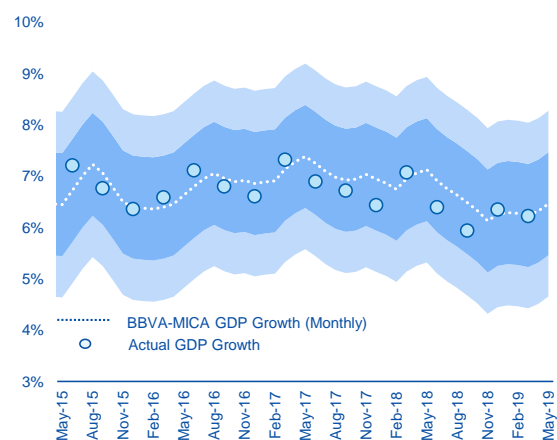
May credit data is broadly stable with the previous month readings. M2 growth maintains at 8.5% y/y as of the previous month. Both total social financing and new yuan loans marginally increased from the last month readings. Altogether, our BBVA MICA model yields a GDP prediction based on monthly data at 6.3% for Q2 2019, in line with the growth slowdown. (Figure 2)

Figure 1. Activity Indicators* (3MA, YoY, SA)

	Mean	2018				2019				
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Industrial Production	9.0	6.0	6.0	6.7	5.7	6.4	5.2	4.9	6.3	6.2
CPI	2.6	2.1	2.3	2.2	2.1	1.8	1.7	1.8	2.1	2.5
Retail sales	13.1	3.9	3.6	4.4	4.5	5.5	7.1	8.8	8.8	8.8
Auto Sales	8.2	-7.1	-9.5	-12.5	-12.7	-12.8	-12.1	-9.2	-11.0	-12.9
Exports	8.9	12.0	13.4	11.9	4.4	1.8	-3.4	0.5	-4.0	1.0
Imports	9.5	21.1	18.7	12.9	4.8	-2.1	-4.6	-4.8	-3.1	-4.3
Manufactory PMI	-0.6	-1.4	-2.2	-3.1	-3.5	-3.7	-3.3	-2.5	-2.2	-3.1
Non-manufactory	-0.4	-0.1	-0.1	-1.4	-1.8	-1.9	-1.2	-0.3	-0.2	-0.5
Caixin PMI	-0.3	-1.5	-1.9	-1.6	-2.2	-3.6	-4.3	-3.3	-1.8	-1.3
P/E ratio	-1.7	-2.16	-2.5.3	-2.6.6	-2.9.6	-3.0.8	-2.7.7	-2.1.7	-1.4.3	-1.1.7
Real estate sales	18.6	14.5	14.5	13.8	13.9	13.9	13.9	13.9	13.9	13.9
Credit	15.0	13.2	13.2	13.1	13.2	13.3	13.4	13.5	13.5	13.5
MICA Forecast		6.60%			6.50%			6.30%		6.30%
GDP YoY		6.50%			6.40%			6.40%		
		Contraction		Slow-down		Growth		Boom		

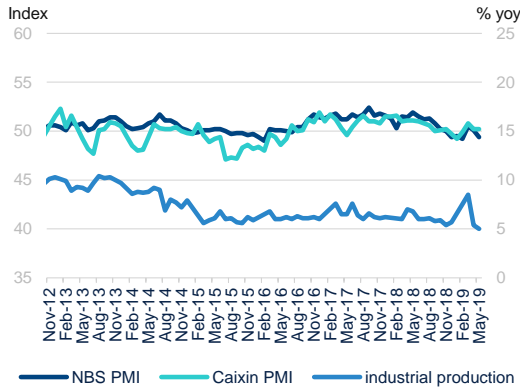
* Series are non-calendar adjusted**BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

Figure 2. China: BBVA Research Monthly GDP forecast MICA model (%YoY)



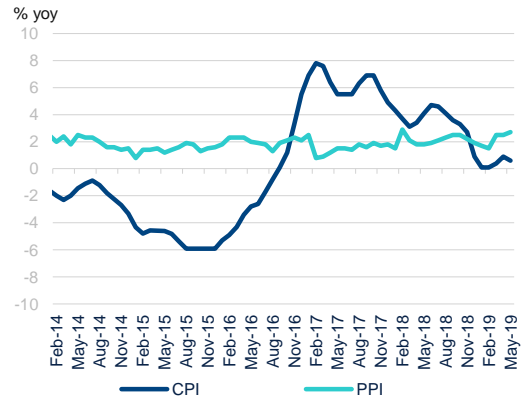
Source: Nowcasting DF Model, BBVA Research

Figure 3 Both NBS PMI and industrial production dipped



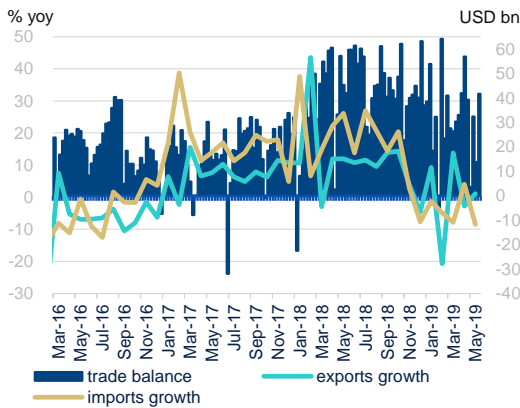
Source: CEIC and BBVA Research

Figure 4 CPI picked up and PPI moderated



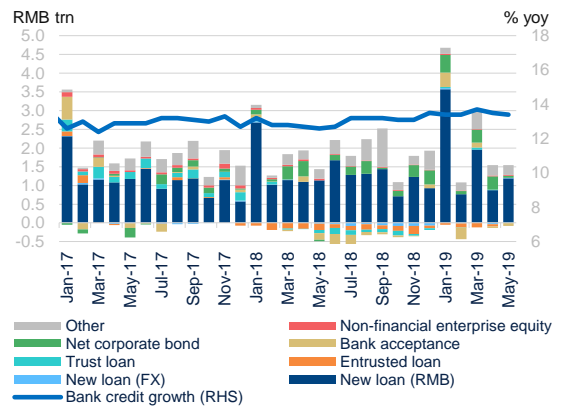
Source: CEIC and BBVA Research

Figure 5 Exports unexpectedly increased



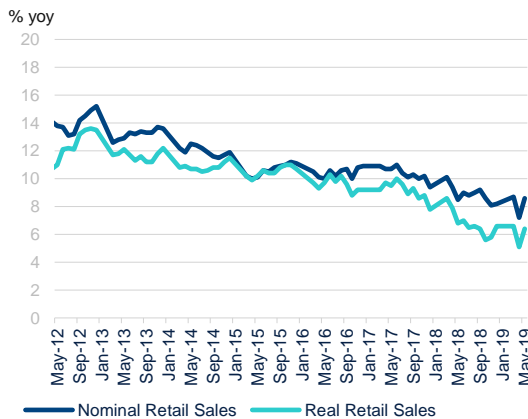
Source: CEIC and BBVA Research

Figure 6 Both total social financing and new yuan loans marginally increased



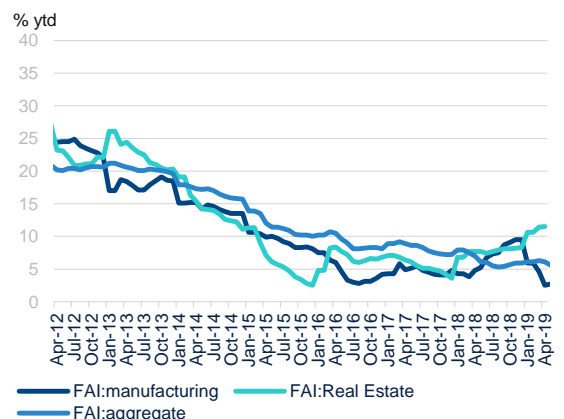
Source: CEIC and BBVA Research

Figure 7 Retail sales increased marginally



Source: CEIC and BBVA Research

Figure 8 FAI also decelerated despite of the easing measures



Source: CEIC and BBVA Research

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