China Flash

A mixed batch of activity indicators points to a modest growth trajectory in 2013

The first significant batch of economic indicators in 2013 was released over the weekend for the January/February period, presenting a mixed picture of current growth momentum (Charts 1-4). In line with previous practice, the statistics agency combined some indicators for January and February – industrial production, retail sales, and investment – to reduce distortions caused by the shift in the timing of the Chinese New Year (CNY), which resulted in fewer working days in February this year compared to last year. The key highlights were much stronger-than-expected exports (21.8% y/y vs. consensus 8.1%), weaker-than-expected industrial production (9.9% y/y vs. consensus: 10.6%), and retail sales (12.3% y/y vs. consensus: 15.0%), and slightly higher-than-expected inflation (3.2% vs. consensus: 3.0%) (Chart 5). Additionally, credit indicators grew by somewhat less than expected (Chart 6), although investment held up reasonably well on robust infrastructure spending and a further pickup in the housing market. All told, the data are consistent with our cautious growth outlook for 2013 of 8.0% (8.2% in H1, 7.8% in H2), underpinned by supportive fiscal policy, with the monetary stance likely to stay on hold given the ambitious 3.5% average inflation target (for details, see China Flash and China Outlook).

- **Activity indicators for January/February present a mixed picture of growth momentum.** The relatively weak outturn of industrial production is in line with the recent moderation in PMI outturns (Chart 1), which we had partly discounted due to the CNY distortions and difficulties with seasonal adjustment. Meanwhile, the notable deceleration of retail sales (Chart 2) could be attributed to government efforts to combat corruption and waste. In contrast, investment (Chart 3) helped up on continued infrastructure spending and the ongoing pickup in the housing market. With respect to the latter, while the government has renewed its efforts to prevent housing price bubbles and to maintain affordability, we expect the overall market to be supported by strong underlying demand.
- **Inflation drifts higher on base effects and the Chinese New Year.** Inflation picked up in line with our projections due to the CNY-related rise in food prices, which we expected to reverse in the coming months (Chart 5). That said, we continue to expect a gradual rise in inflation during 2013 to above 3.5% y/y by Q3 due to stronger demand, firming commodity prices, and base effects. While many market-watchers are expecting interest rate hikes in H2, under our baseline we expect no changes in interest rates during the course of 2013 in view of the modest growth trajectory.
- **Credit aggregates fall short of expectations, as the authorities seek to curtail excessive loan growth (Chart 6).** After surging in January, new loan growth (RMB 620 billion vs. consensus: 700 billion) fell short of expectations as the PBoC reportedly restricted the bank lending through “window guidance”. Nevertheless, average new RMB loans for January and February were broadly in line with the expected (informal) RMB 9 trillion target for 2013. Meanwhile, the flow of total social financing (TSF), a broader gauge for domestic credit that includes both bank and non-bank forms of lending declined to RMB 1,070 billion in February from RMB 2,540 billion in January.

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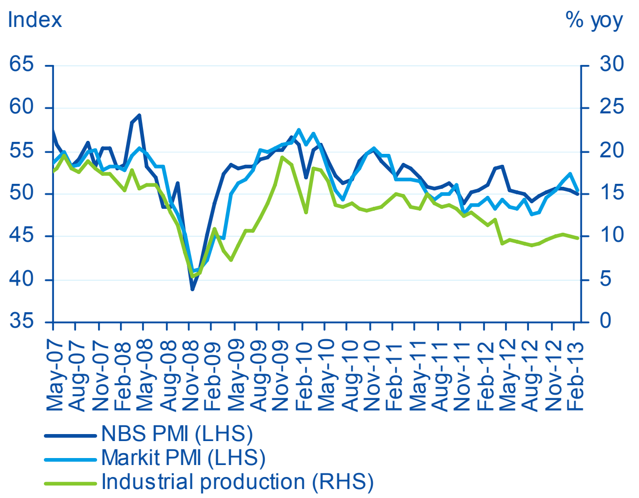
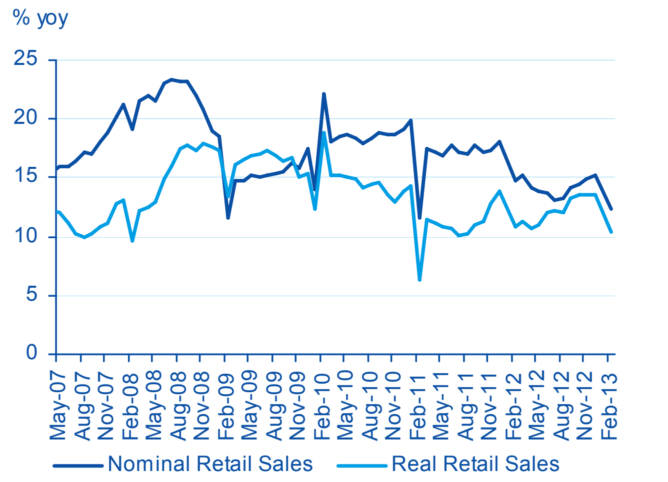
Chart 1
Industrial production decelerated in Jan/Feb



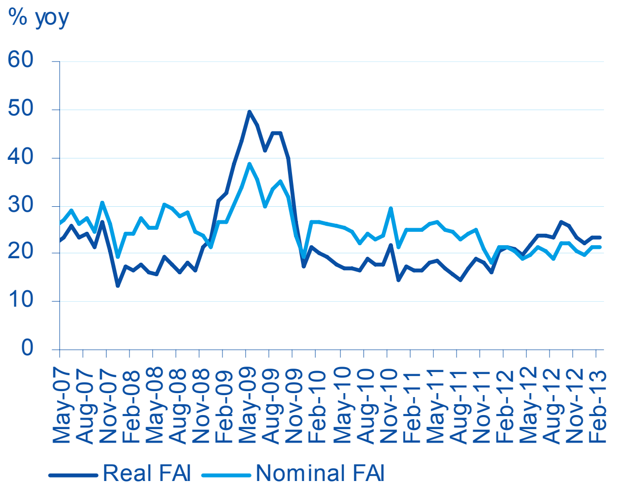
Source: CEIC and BBVA Research

Chart 2
Retail sales growth weakened noticeably



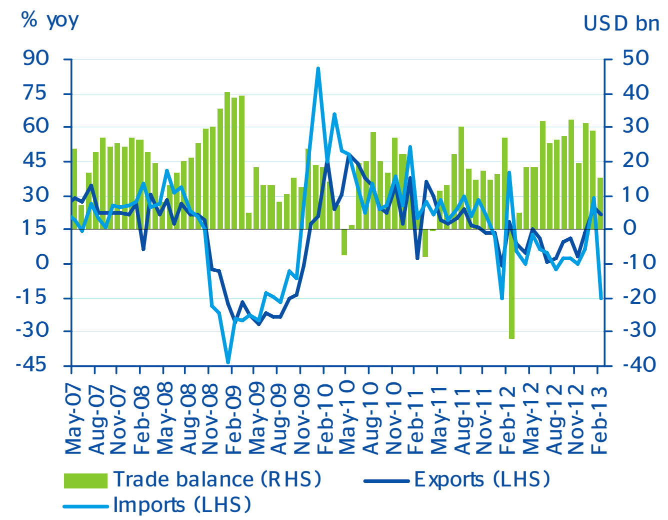
Source: Wind and BBVA Research

Chart 3
Fixed asset investment remains robust



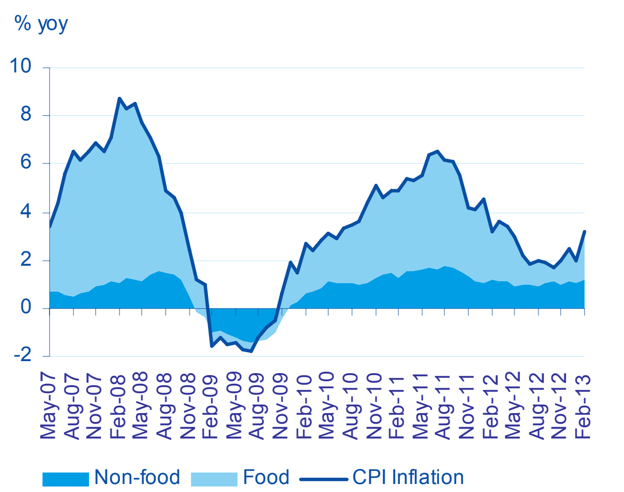
Source: Wind and BBVA Research

Chart 4
Exports have risen sharply in recent months



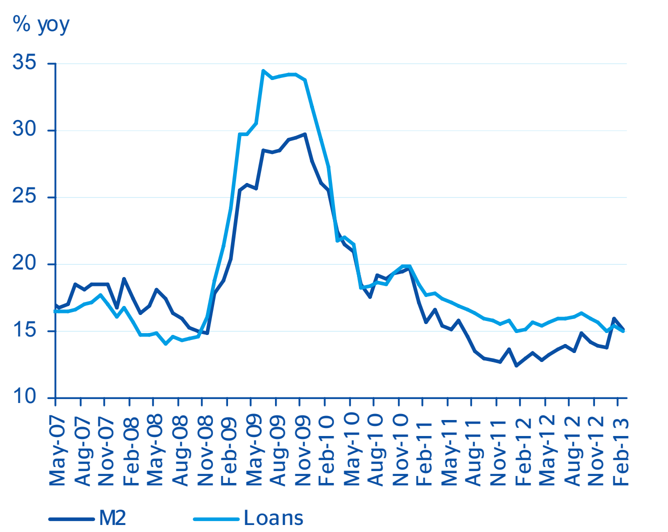
Source: CEIC and BBVA Research

Chart 5
CPI inflation trends up on CNY-related food price increases



Source: CEIC and BBVA Research

Chart 6
M2 and new loans growth moderates



Source: CEIC and BBVA Research