China Flash

Q1 GDP slowdown as expected

The first quarter GDP growth moderated to 7.4% y/y from 7.7% of in the previous quarter (Chart 1), which is in line with our expectation (BBVA: 7.4% y/y; Consensus: 7.3% y/y). In sequential terms, the slowdown was more pronounced, at 1.4% q/q sa from 1.7% q/q sa in Q4. The weak GDP outturn reflects subdued exports. The activity indicators released today for March were also relatively weak including industrial production and fixed asset investment. Notwithstanding some recently unveiled stimulus measures, the weakening trend in growth suggests that the authorities need to do more to maintain the full year growth within their comfortable zone (above the 7.0% bottom line). We expect more growth-supportive measures in the coming weeks, which could gradually bolster the growth momentum in the second half of the year and underpin the full year growth marginally above the floor target.

- **First quarter GDP growth moderated on weak investment.** The official data indicates that Q1 growth has expanded at the slowest pace in six quarters (Chart 1). Detailed analysis for the expenditure components is difficult because the NBS is still working on verifying the demand side data. Nevertheless, March activity indicators imply a weak contribution of investment in Q1, as credit growth slowed down and exports fell short of expectations. On the supply side, monthly indicators confirm the underlying weakness of the economy. Still, industrial production growth in March stabilized at 8.8% y/y (consensus: 9.0%) compared to 8.6% in the Jan-Feb period. On the demand side, urban fixed asset investment growth declined further to 17.4% y/y from 17.9% in the previous two months, mainly dragged by property investment albeit partially offset by rising infrastructure and stable manufacturing investment (Chart 2). Meanwhile, retail sales growth inched up to 12.2% y/y (consensus: 12.1%) from 11.8% in Jan-Feb period (Chart 3).
- **Credit growth moderated in March as the authorities beefed up efforts to curtail shadow bank activities.** The “total social financing”, a broadest gauge of credit, decreased further by -18.8% y/y in March from -12.3% y/y in February while new bank loans were flat on a year-on-year terms (Chart 4). Meanwhile, M2 growth declined to 12.1% (versus 13.3% in February), due to both sluggish loans growth and slowed capital inflows. On balance, the slowdown in credit growth has reflected weak demand from the real sector, which could weigh on growth, especially for investment, in near future.
- **On the policy front, the authorities are still refraining from implementing large-scale stimulus on concerns over financial fragilities but we expect more measures soon.** Their hesitation to do more on the fiscal and monetary side may reflect the authorities’ determination to press ahead with long-term structural reforms at expense of short-term headline growth. Nevertheless, we anticipate that the authorities will implement more growth-supportive measures in the coming weeks, so as to prevent the growth momentum from falling off the cliff. In this respect, the authorities could loosen monetary policy (most likely through the reduction in the Required Reserve Ratio) given that inflation remains low and shadow banking activities have moderated. Other options include front-loading public spending, raising tax rebate for exports, and selectively relaxing in-place tightening measures on the property market (such as the restriction of second home purchases).

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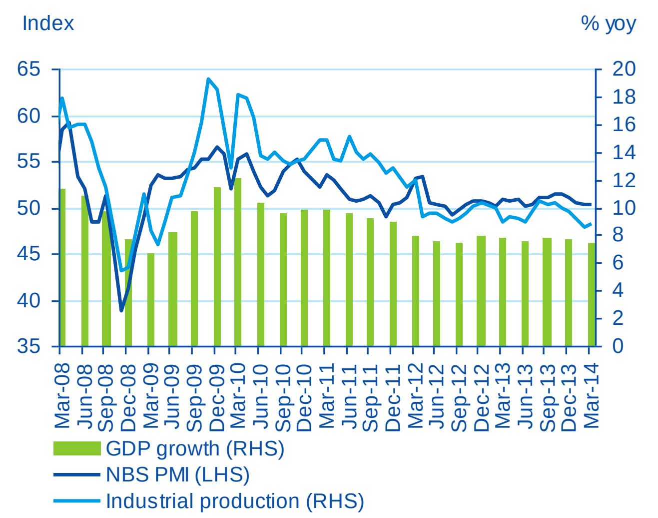
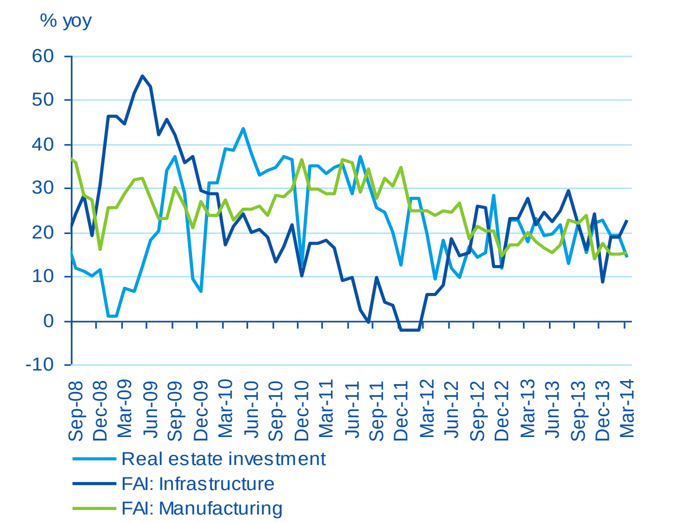
Chart 1
GDP growth moderated in Q1 on weak investment



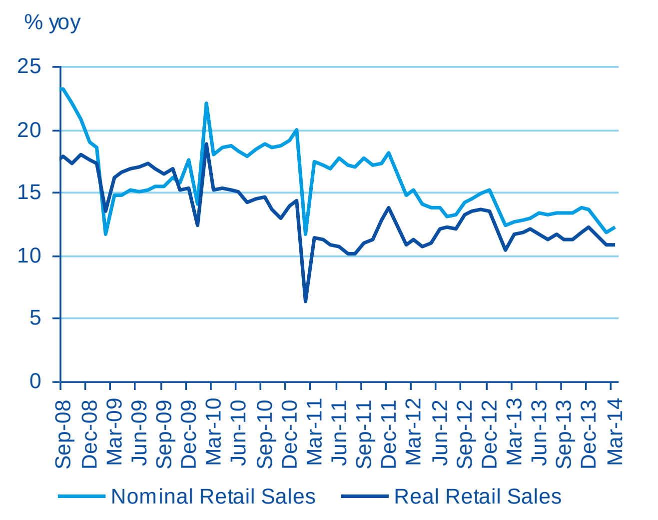
Source: CEIC and BBVA Research

Chart 2
Property investment weakened partially offset by a rebound in infrastructure spending



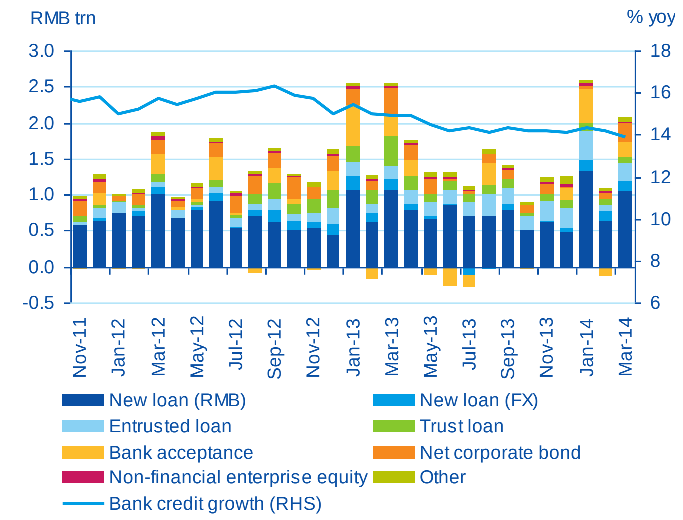
Source: CEIC and BBVA Research

Chart 3
Retail sales growth inched up



Source: Wind and BBVA Research

Chart 4
Broad credit growth and bank lending decelerated in March



Source: CEIC and BBVA Research

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