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China: April indicators in line with healthy moderating trend, while inflation stays high

The latest batch of monthly economic indicators, released today, point to welcome signs of moderation, as the authorities seek to restrain growth and achieve a soft-landing. The indicators should help alleviate concerns of overheating following the first quarter's rapid GDP growth (9.7% y/y). However, inflation remains a source of concern, at 5.3% y/y in April, slightly down from March, but still above expectations (consensus: 5.2% y/y) and much above the authorities' 4% comfort range. On the external front, trade data released showed a larger-than-expected surplus following a small deficit in Q1, which should keep pressure on China to appreciate the currency. We expect the authorities to sustain their gradual monetary tightening to tame inflation, with another two 25bp interest rate hikes in Q2/Q3 and an additional 150bp of hikes in the required reserve ratio (RRR).

- Headline inflation declined to 5.3% y/y in April from 5.4% in March (Chart 1). The outturn was slightly above expectations (both BBVA and consensus: 5.2%). On a m/m basis, the CPI rose by 0.1% (non-seasonally adjusted), with food prices declining (-0.4%) as expected on favorable harvest conditions. In year-on-year terms, the main drivers of inflation continue to be food and housing costs, which rose by 11.5% y/y and 6.1% y/y respectively. Non-food components continue to show inflationary trends, indicating the presence of demand pressures. An encouraging sign is a decline in producer price inflation (PPI) for April, following four consecutive monthly increases, to 6.8% y/y from 7.3% y/y in March, due to a decline in raw materials prices.
- Activity indicators for the most part showed a moderating trend. On the demand side, April retail sales declined to 17.1% y/y (consensus: 17.6%), from 17.4% in March (Chart 2), mainly due to softer auto sales (perhaps in line with recent measures to alleviate congestion problems). In contrast, urban fixed asset investment in April rose to 25.4% y/y from 25.0% in March (Chart 3), slightly ahead of expectations (consensus: 24.9%). On the supply side, industrial production eased by more than expected to 13.4% y/y (consensus 14.6%) from 14.8% in March (Chart 3).
- Credit growth continues to moderate in line with government targets (Chart 4). New loans were slightly higher than expected, at RMB 739.6 billion (BBVA: RMB 720 billion; consensus: RMB 700 billion), up from RMB 679.4 billion in March, implying year-on-year credit growth of 17.5%. New loans in April are still broadly in line with what we believe to be the authorities' (unannounced) full-year target of RMB 7.0-7.5 trillion.
- On the external front, the trade balance shifted to a large surplus in April of USD 11.4 billion from a deficit of USD -0.1 billion in Q1 (Chart 5), mainly due to weaker imports. Exports increased by 29.9% y/y (consensus: 29.5% y/y) while imports grew by 21.8% y/y (consensus: 28.9% y/y), due to a combination of a slowdown in restocking activities and softening domestic demand.

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Chart 1: Inflation remains high

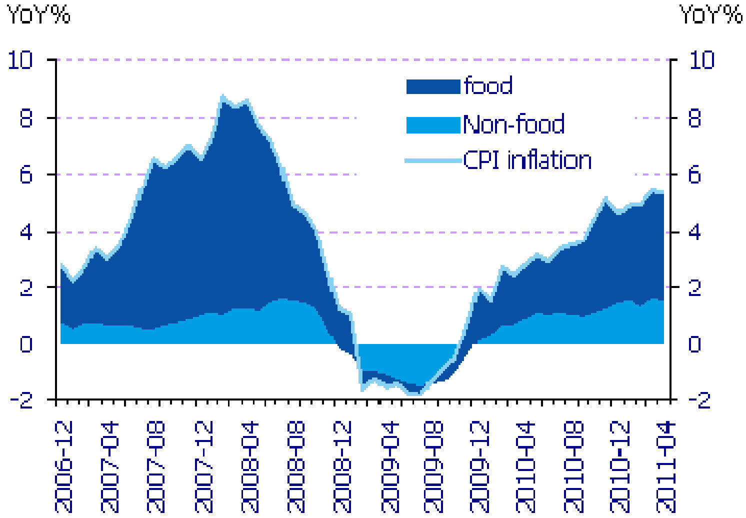


Chart 2: Retail sales weaken slightly

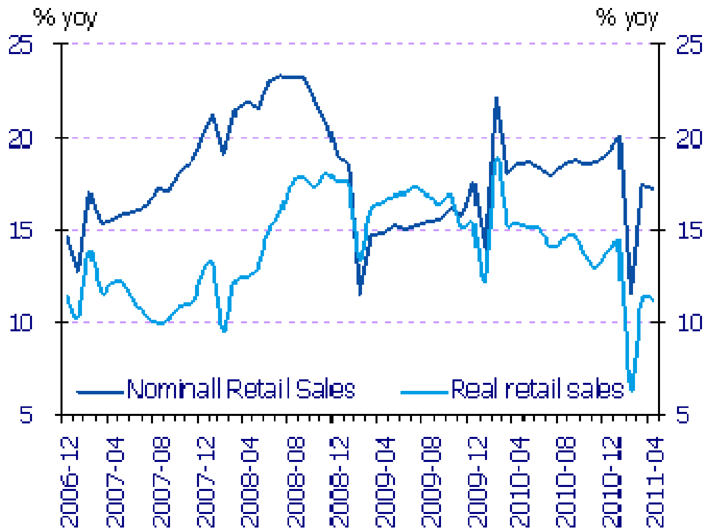


Chart 3: A moderating trend in IP with robust investment

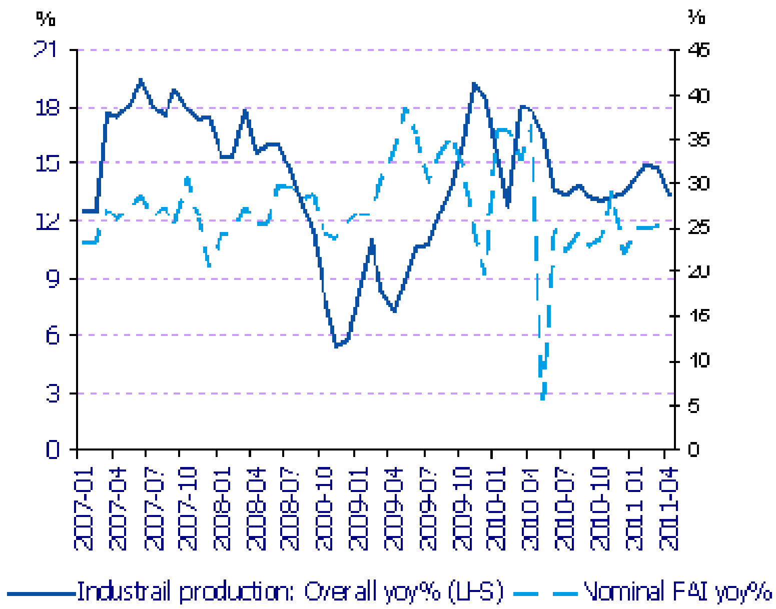


Chart 4: Credit growth eases in line with targets

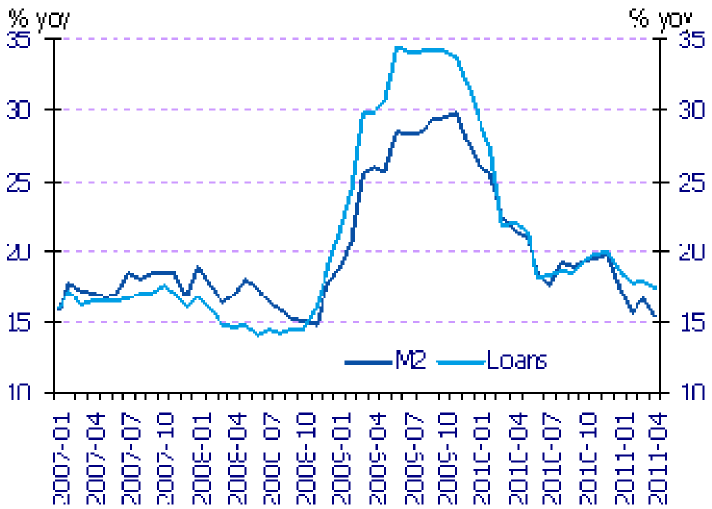
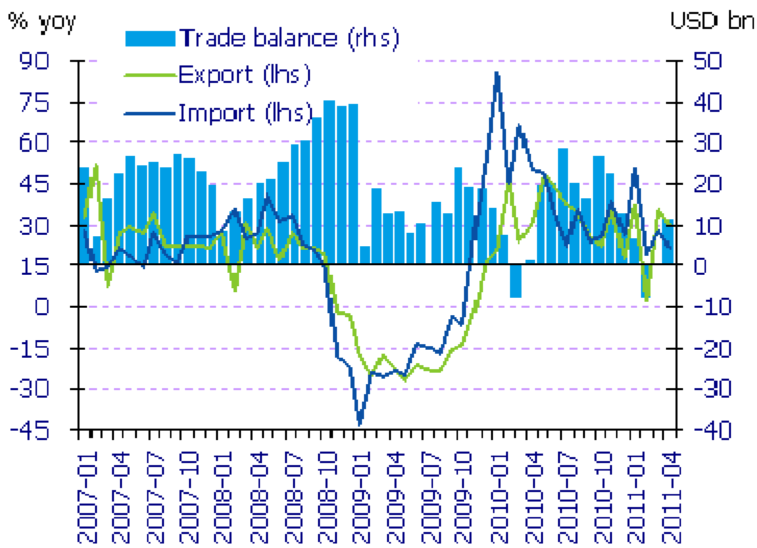


Chart 5: The trade balance shifts back to surplus



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