China Flash

Q1 GDP growth slowed on weaker-than-expected investment

Q1 GDP of China registered lower than expected 8.1% y/y growth (BBVA: 8.7%; consensus: 8.3%), down from 8.9% y/y from the previous quarter, mainly on sluggish investment (Chart 1). Despite the sharper slowdown, we believe that the growth momentum has bottomed and should rebound through the rest of the year on supportive policies, including easing monetary policy and consumption subsidies. This is consistent with the better than expected PMI outturn for March. Moreover, aggregate credit also shows larger-than-expected new loans. The weaker-than-expected GDP strengthens the case for RRR cuts (100-150bps cuts in the coming months), and up to two interest rate cuts if external environment deteriorates and inflation remains contained. We maintain our full-year GDP growth projection of 8.3% and will continue to monitor high-frequency activity indictors for revisions.

- **Q1 GDP growth eased to 8.1% y/y from 8.9% y/y in the fourth quarter of 2011 (Chart 1).** On a sequential basis, official quarterly growth moderated to 1.8% seasonally adjusted (7.4% annualized rate) from 1.9% in Q4 (7.8% annualized).
- **Activity indicators moderate in Q1**. On the demand side, retail sales growth slowed to 14.8% y/y in Q1 from 15.8% y/y in the previous quarter, mainly on the below-expectation performance in January and February (Chart 2). In March, nominal retail sales grew by 15.2% y/y, slightly above expectation (consensus: 15.0%). Urban fixed asset investment growth (YTD) eased to 20.9%, in line with expectation, from 23.8% for 2011 and 21.5% in February 2012 (Chart 3). Importantly, the slowdown in FAI was mainly due to infrastructure investment, which fell by -2.1% y/y. On the supply side, industrial output grew by 11.9% y/y in March, above expectation (consensus: 11.5%), up from 11.4% y/y during January-February, but down from the average of 12.8% in Q4 2011 (Chart 4). Taken together, the data show that real activities moderated in Q1 in general. This said, growth momentum in March appeared to improve from January-February.
- **Credit growth suggests encouraging signs.** Released yesterday, credit and monetary indicators of China provide some encouraging signs on the outlook for monetary easing. The outstanding loans rose by RMB 1.0 trillion (15.7% y/y) in March, well above the market consensus (RMB 798 billion). As such, the total new loans in Q1 amounted to RMB 2.46 trillion, broadly in line with our projected full-year target of RMB 8 trillion. Accordingly, the M2 growth in March accelerated to 13.4% y/y (consensus: 13.0% y/y) from 13.0% y/y in February.
- **Foreign reserve increases as export strengthens**. China's foreign reserve increased to USD 3.31 trillion as of end-March from USD 3.18 trillion at end-December, which reversed the small decline (USD -20 billion) registered in Q4 2011. This should be interpreted as good news because it helps to provide more liquidity in the banking sector. In addition, trade data also show better-than-expected exports, increasing by 8.9% y/y (consensus: 6.8%).

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Chart 1
GDP growth further moderated

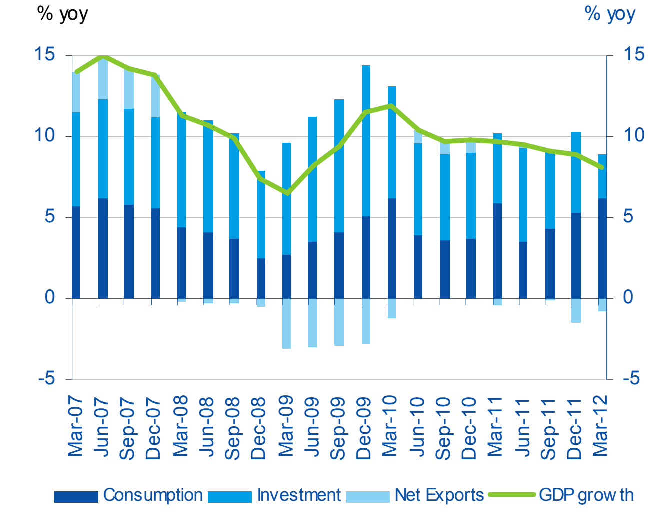
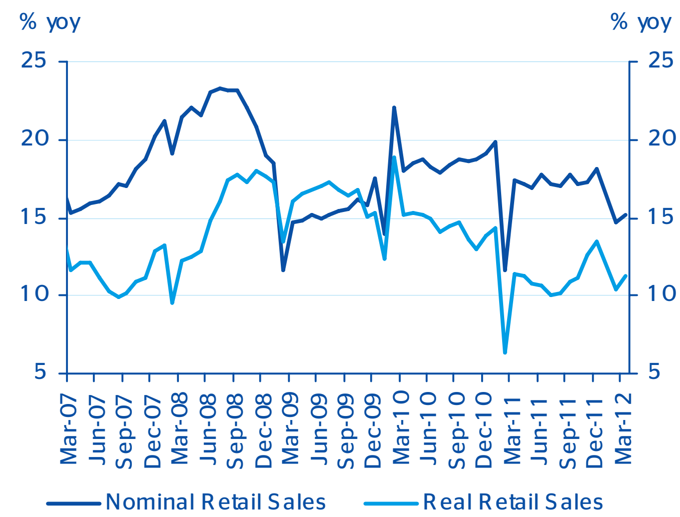


Chart 2
Retail sales growth slowed



*Aggregate yoy growth for Jan-Feb 2012

Chart 3
FAI weakened slightly

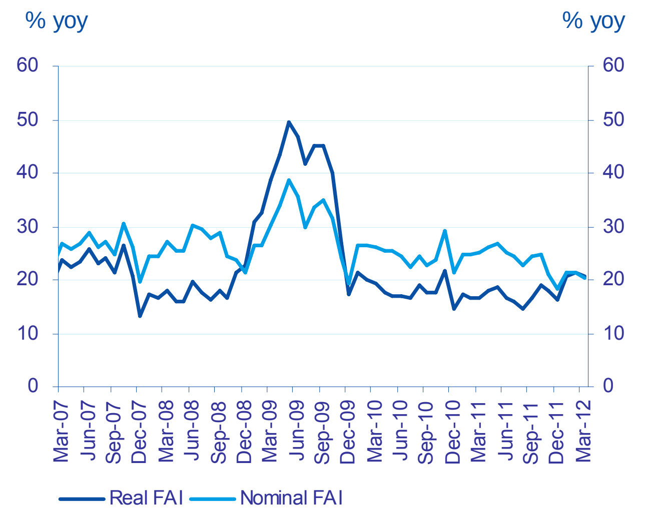
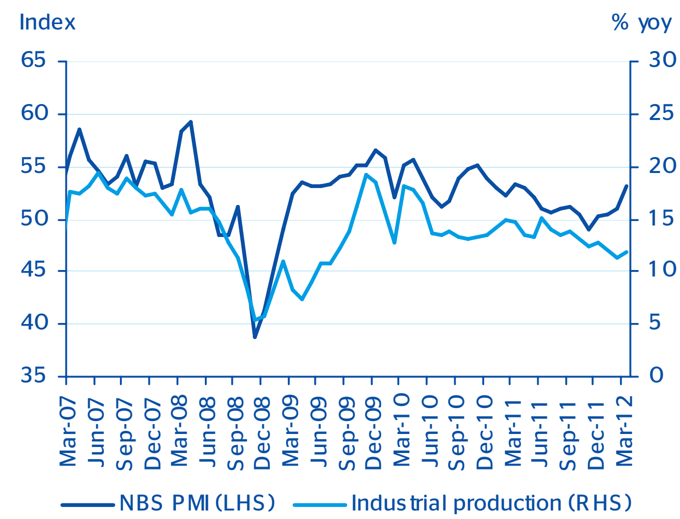


Chart 4
Industrial production slightly picked up



*IP: Aggregate yoy growth for Jan-Feb 2012

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