China Flash

The weakening trend of growth continued in April

Monthly activity indicators released today suggest that the weakening trend of growth continued in April (Charts 1-3). Growth rate of industrial production edged down to 8.7% y/y (consensus: 8.9%; March 8.8%), urban fixed asset investment (year-to-date) came in at 17.3% y/y (consensus: 17.7%; March: 17.6%), and retail sales fell to 11.9% y/y (consensus: 12.2%; March: 12.2%). Meanwhile, credit growth also moderated in April, mainly due to recent government efforts to curtail domestic financial fragilities. (Chart 4) That said, the growth momentum has not picked up after Q1 registered a 7.4% y/y growth of GDP, the lowest outturn in the past six quarters and also below the authorities' 2014 target of 7.5%. Nevertheless, the authorities reiterated (for example, through President Xi's speech during the last weekend) that they have no intention to implement a large-scale stimulus package in the face of growth headwinds. The authorities now have a greater tolerance of economic slowdown, in a bid to push forward key structural reforms and contain financial risks. At the same time, more pro-growth policies are expected to be rolled out to sustain near-term growth within a "reasonable" range (which we believe to be between 7.0%-7.5% y/y). (see our recently released *China Economic Outlook*) Looking ahead, we anticipate that the economy will further stabilize in Q2 and bottom out mildly in the second half of the year as the external sector improves and some structural reforms start to bear fruit. We therefore revise our 2014 full-year growth projection down to 7.2% y/y from 7.6% previously, to reflect recent growth headwinds and the authorities' policy stance.

- **Industrial production in April came out weaker than expected.** According to the NBS, in seasonally adjusted terms, industrial production growth was essentially flat from March at 0.8% m/m. By category, the situation of the mining sector has improved modestly while the production in manufacturing and infrastructure sectors were still subdued.
- **Investment demand remained sluggish while domestic consumption was reasonably resilient.** Weak domestic investment demand was led by the real estate sector, in which the year-to-date growth rate of investment declined to 16.4% in April from 16.8% in March. Apparently, recently stagnant housing prices in many second-tier cities have negatively affected investment sentiment of property developers. On the other hand, domestic consumption still held up well in April. After being adjusted by weaker inflation (1.8% y/y in April), retail sales in real terms maintained a double-digit growth in April.
- **Credit growth slowed on the authorities' tightening efforts.** New loans fell to RMB 775 billion in April from RMB 1050 billion in the previous month. The Social Financing Aggregate, a broader gauge of total credit including shadow bank lending, declined to RMB 1550 billion compared to 2070 billion in March as the authorities stepped up efforts to clamp down on shadow banking activities, in particular trust loans and entrust loans.

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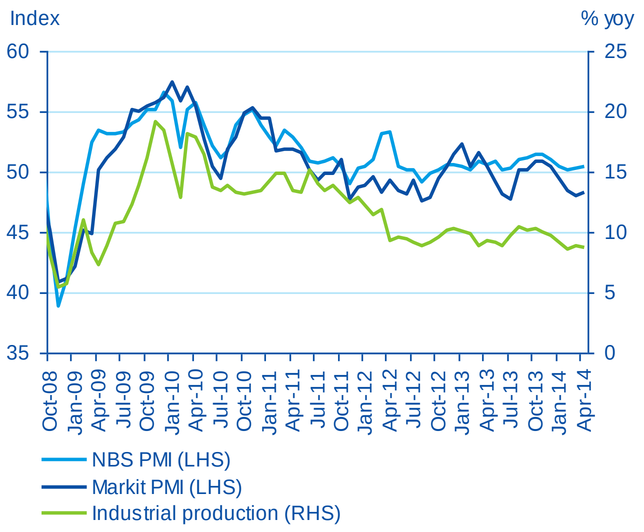
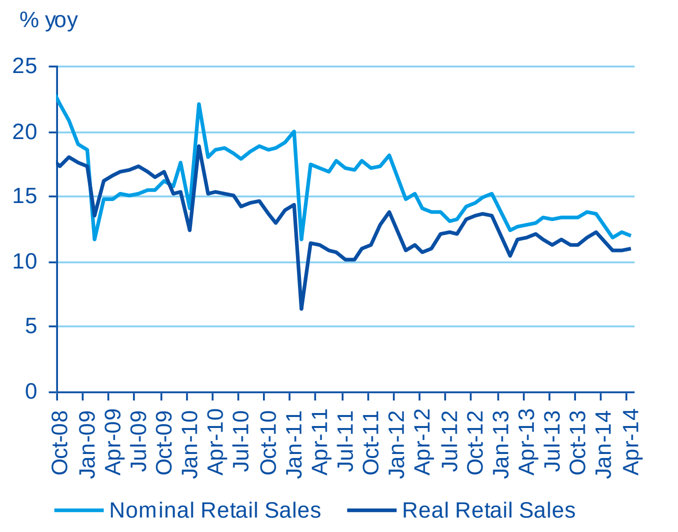
Chart 1
Industrial production softened in line with PMI outturns



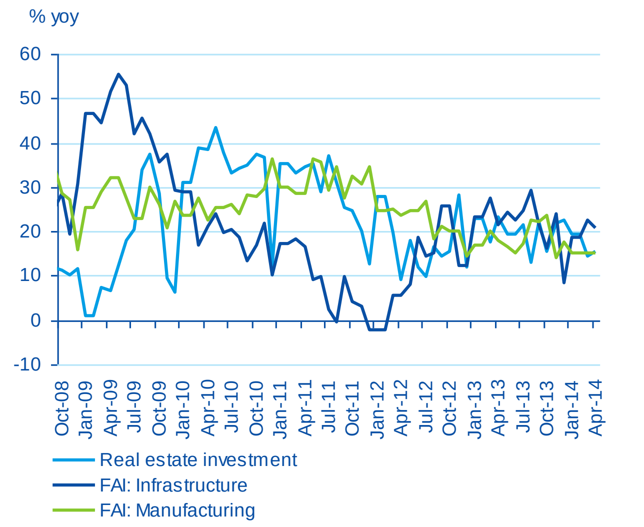
Source: CEIC and BBVA Research

Chart 2
Retail sales still held up relatively well



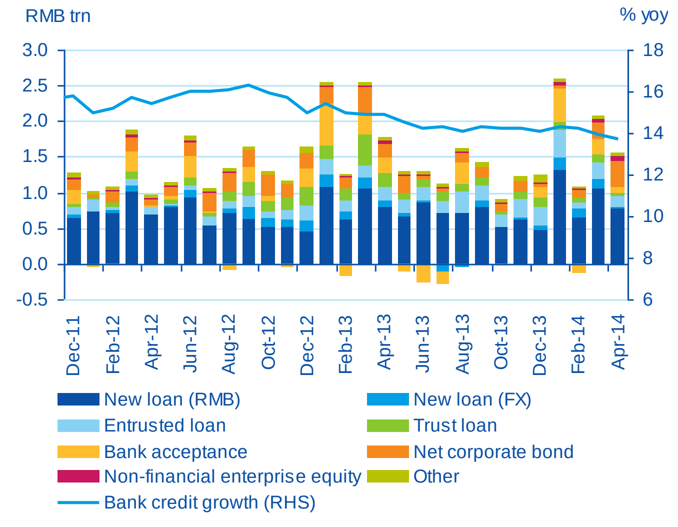
Source: Wind and BBVA Research

Chart 3
Investment growth continued to moderate



Source: Wind and BBVA Research

Chart 4
Credit growth slowed due to tightening efforts



Source: CEIC and BBVA Research

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