

China | Robust growth in Q1 2018

Jinyue Dong

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March economic indicators, together with the Q1 GDP, were reported today. Among which, Q1 GDP growth reached 6.8% y/y, in line with the previous reading and the market expectation, indicating that Q1 economic growth is robust. However, growth headwinds remain in place, mainly from domestic tightening policy initiatives and trade skirmishes with the US, which, in our baseline scenario, is unlikely to evolve into a full-blown trade war between the largest country economies in the world. That being said, the growth is most likely to moderate through the rest of the year. Thus, we maintain our 2018 growth projection at 6.3% y/y, compared with the official target rate at 6.5% and the Bloomberg consensus at 6.5%.

March indicators are mixing: Fixed Asset Investment decreased to 7.5% ytd y/y from 7.9% ytd y/y (consensus: 7.7% ytd y/y), indicating investment keeps its momentum; industrial production slowed down to 6% y/y from 6.2% y/y previously (consensus: 6.3% y/y). By contrast, retail sales accelerated to 10.1% y/y from 9.4% y/y in the previous month (consensus: 9.7% y/y). The authorities also reported the survey unemployment rate of March today, which marginally increased to 5.1% from 5% in the previous month, lower than the target rate of 5.5%. (Table 1; Figure 3-8)

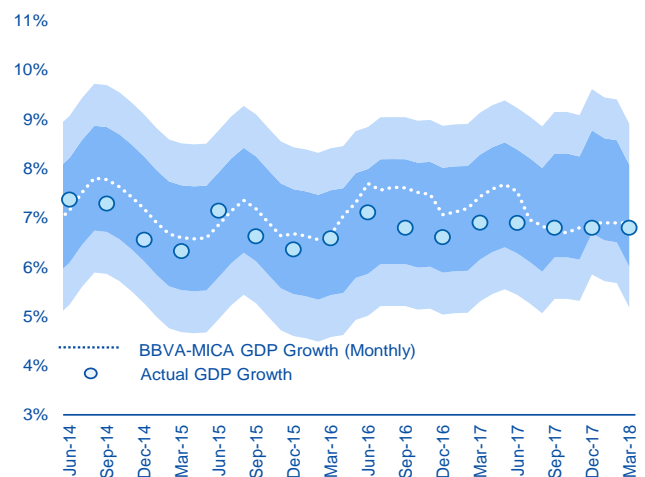
March credit has been eased to some degree: M2 growth decreased to 8.2% y/y from 8.8% y/y in February. By contrast, total social financing and new yuan loans both increased to RMB 1330 billion and RMB 1120 billion, significantly up from previous readings. Altogether, our MICA model yields a monthly GDP prediction of 6.9% for Q1 2018, which is in line with the actual growth reading. (Figure 2)

Table 1 Activity Indicators* (3MA, YoY, SA)

	Mean	2017					2018				
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Industrial Production	9.4	6.8	6.6	6.1	6.1	6.2	5.8	6.5	6.9	6.8	
CPI	2.7	15	15	15	17	16	17	17	19	2.0	
Retail sales	14.4	10.6	10.0	10.3	10.0	9.8	9.0	8.4	7.0	5.4	
Auto Sales	10.0	4.2	5.6	5.8	4.1	2.4	0.6	-1.2	0.9	1.8	
Exports	8.9	9.0	7.7	6.5	6.7	9.2	10.1	9.8	17.7	15.3	
Imports	8.9	14.2	13.6	14.4	16.4	17.9	13.5	13.3	14.6	17.9	
Manufactory PMI	-0.4	2.9	3.0	3.2	2.4	1.6	0.5	0.2	-0.7	-1.0	
Non-manufactory	-0.5	2.0	1.1	1.4	1.2	1.3	0.6	0.8	0.9	0.2	
Caixin PMI	-0.2	1.8	2.6	2.0	1.5	0.4	-0.5	0.0	0.0	0.1	
P/E ratio	-0.1	16.9	17.4	17.9	17.4	14.8	13.2	13.6	13.4	16.5	
Real estate sales	23.7	19.5	19.2	18.7	15.3	14.2	14.0	13.9	14.7	13.6	
Credit	17.0	12.9	13.1	13.0	13.1	13.0	12.9	13.1	12.9	12.9	
MICA Forecast				6.70%			6.90%			6.90%	
GDP YoY				6.80%			6.80%			6.80%	
		Contraction		Slow-down		Growth		Boom			

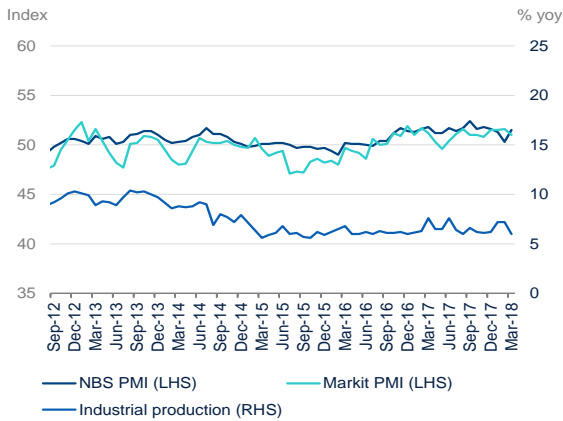
* Series are non-calendar adjusted **BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

Figure 2 China: BBVA Research Monthly GDP** (%YoY)



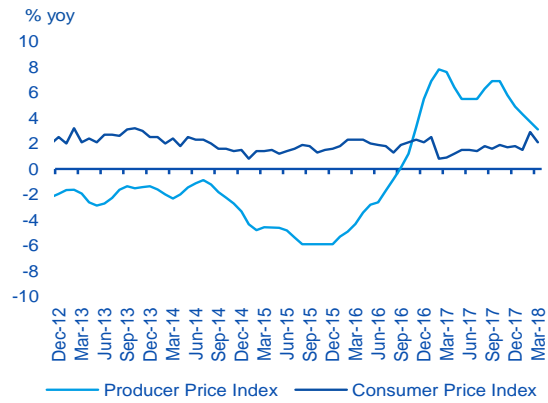
Source: Nowcasting DF Model, BBVA Research

Figure 3 Industrial production and NBS PMI diverged



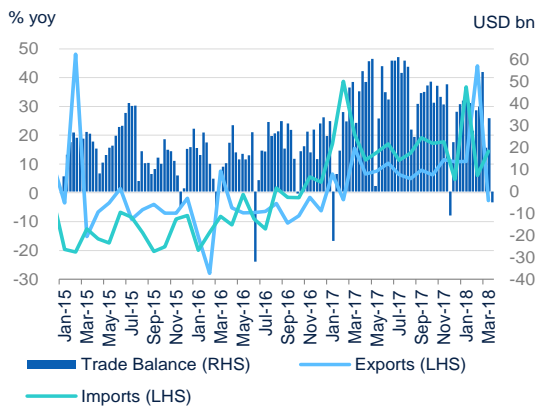
Source: CEIC and BBVA Research

Figure 4 PPI and CPI started to converge



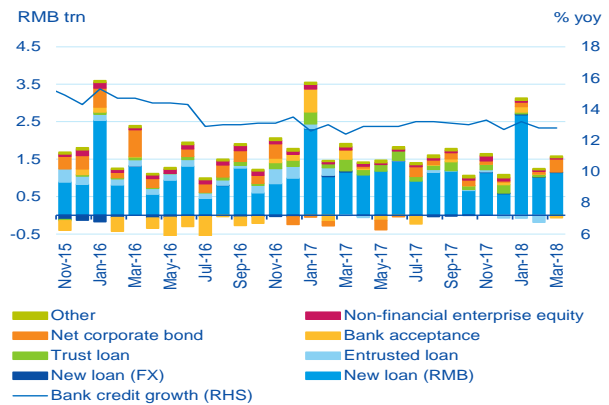
Source: CEIC and BBVA Research

Figure 5 Exports dipped significantly due to the rising trade war risk



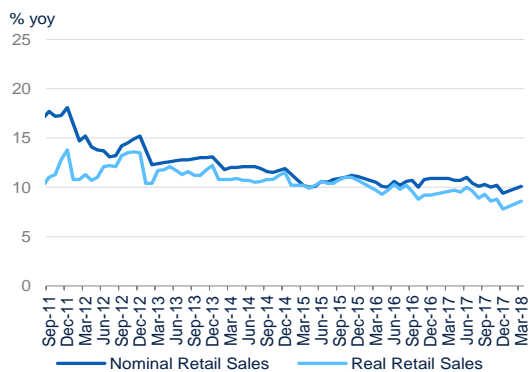
Source: CEIC and BBVA Research

Figure 6 Credit indicators picked up



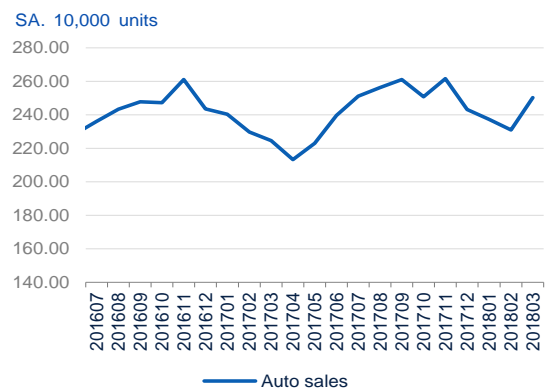
Source: CEIC and BBVA Research

Figure 7 Retail sales also accelerated



Source: CEIC and BBVA Research

Figure 8 Auto sales marginally picked up



Source: CEIC and BBVA Research

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