

Theme

China | Growth slowdown confirmed in August

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A batch of August indicators announced today pointed to a significant slowdown in economic activities this summer. Together with the previously released trade and credit data, it suggests that the escalating uncertainties from the US-China trade war dampened people's confidence and hamper economic expansion. Looking ahead, the growth outlook in the rest 2019 depends on the evolution of the persistent US-China trade war as well as the authorities' policy responses to the current growth deceleration. We therefore anticipate more monetary and fiscal easing measures to be deployed to sustain growth momentum. Altogether, we maintain our 2019 GDP forecasting at 6% (the authorities' target: 6-6.5%). The risk of growth deceleration in 2H 2019 remains high.

The growth slowdown in August is broad-based as all indicators are below the previous readings and the market consensus: industrial production decelerated from 4.8% y/y of July to 4.4% y/y; fixed asset investment also decreased to 5.5% ytd y/y from 5.7% ytd y/y previously; retail sales also edged down to 7.5% y/y from 7.6% y/y in August. (Table 1; Figure 3-8)

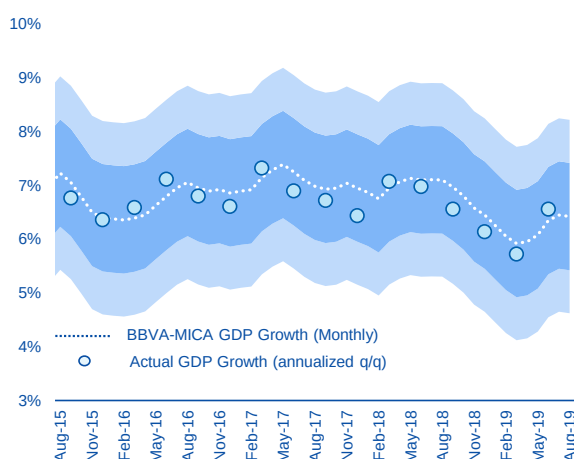
August credit data accelerated from the previous month readings as the PBoC beefed up their efforts to stimulate the economy after setting a new policy interest rate (LPR) and allowing more depreciation of the RMB. Both total social financing and the new yuan loans increased from those of the last month. Moreover, M2 growth edged up marginally to 8.2% y/y from the previous reading at 8.1%. Our BBVA MICA model yields a GDP prediction based on monthly data at 6.2% y/y for Q3 (Q2 prediction: 6.3% y/y), in line with the growth slowdown. (Figure 2)

Figure 1. Activity Indicators* (3MA, YoY, SA)

	Mean	2018					2019				
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	
Industrial Production	9.0	5.7	5.4	5.2	4.9	6.3	6.2	5.5	5.3	5.2	
CPI	2.6	2.1	1.8	1.7	1.8	2.1	2.5	2.7	2.8	2.8	
Retail sales	13.1	4.5	5.5	7.1	8.8	8.8	8.8	9.0	8.9	8.3	
Auto Sales	8.2	-12.7	-12.8	-12.1	-9.2	-11.0	-12.9	-13.8	-10.4	-7.4	
Exports	8.9	4.4	1.8	-3.4	0.5	-4.0	1.0	-1.2	0.9	0.3	
Imports	9.5	4.8	-2.1	-4.6	-4.8	-3.1	-4.3	-3.9	-7.1	-6.1	
Manufacture PMI	-0.6	-3.5	-3.7	-3.3	-2.5	-2.2	-3.1	-3.8	-3.9	-3.5	
Non-manufacture	-0.4	-1.8	-1.9	-1.2	-0.3	-0.2	-0.5	-1.2	-1.0	-0.9	
Caixin PMI	-0.3	-2.2	-3.6	-4.3	-3.3	-1.8	-1.3	-2.2	-2.2	-1.8	
P/E ratio	-1.7	-29.6	-30.8	-27.7	-21.7	-14.3	-11.7	-8.3	-5.5	-1.3	
Real estate sales	13.6	13.9	9.0	5.9	4.2	5.5	6.6	7.1	6.5	5.9	
Credit	15.0	13.2	13.3	13.4	13.5	13.5	13.5	13.3	13.1	12.7	
MICA Forecast		6.50%		6.30%		6.30%		6.20%			
GDP YoY		6.40%		6.40%		6.20%		6.20%			
		Contraction		Slow-down		Growth		Boom			

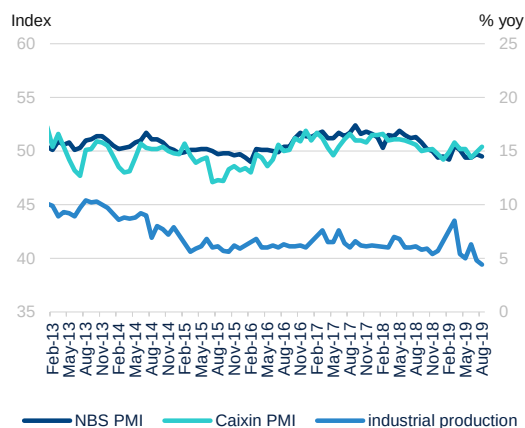
* Series are non-calendar adjusted**BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

Figure 2. China: BBVA Research Monthly GDP forecast MICA model (%YoY)



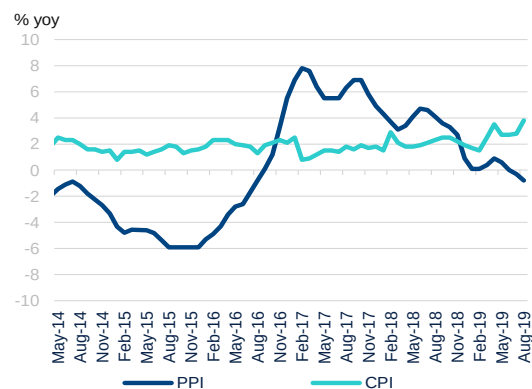
Source: Nowcasting DF Model, BBVA Research

Figure 3 NBS PMI still below 50 while industrial production decelerated



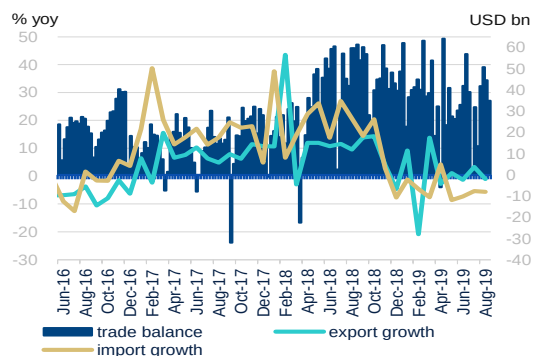
Source: CEIC and BBVA Research

Figure 4 CPI remained at a high level as of the last month while PPI further moderated



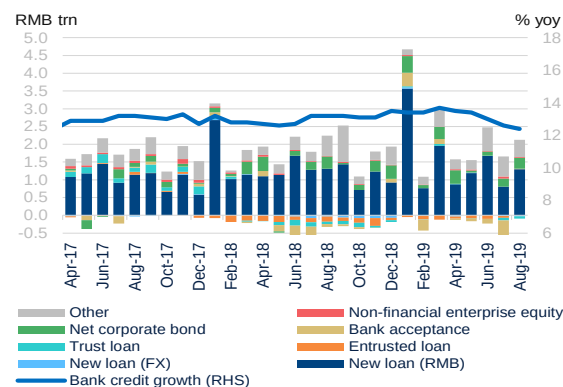
Source: CEIC and BBVA Research

Figure 5 Exports slowed down significantly amid the unsettled trade war



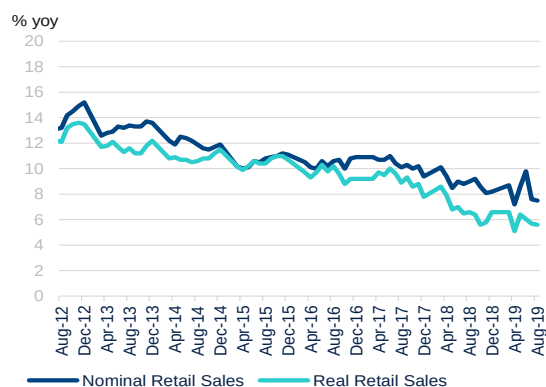
Source: CEIC and BBVA Research

Figure 6 Both total social financing and new yuan loans increased significantly



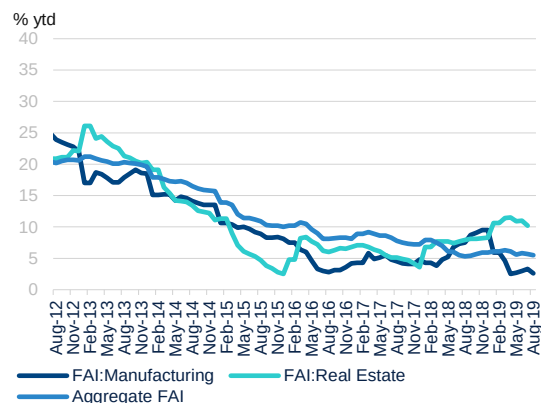
Source: CEIC and BBVA Research

Figure 7 Retail sales decreased too...



Source: CEIC and BBVA Research

Figure 8 ...so did the aggregate FAI



Source: CEIC and BBVA Research

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