

# China Watch

Group Economics  
Emerging Markets Research

17 April 2019

Arjen van Dijkhuizen  
Senior Economist  
Tel: +31 20 628 8052  
[arjen.van.dijkhuizen@nl.abnamro.com](mailto:arjen.van.dijkhuizen@nl.abnamro.com)

## Spring time, so here are the green shoots

- Official GDP growth stable at 6.4% yoy in Q1, surprising to the upside
- March data point to strong uptick in momentum; still mind seasonal effects
- Latest foreign trade data also help to ease global slowdown concerns
- Piecemeal easing measures filtering through in lending
- March inflation data alleviate (global) deflation fears
- Beijing to wait for more confirmation, before changing its priority list too much

### Official GDP growth stable at 6.4% yoy in Q1, slightly better than expected

China's official GDP growth surprised to the upside in Q1, remaining at 6.4% yoy versus a consensus expectation of 6.3% yoy (including ours). That suggests that the worst of China's slowdown is behind us. The slowdown pace increased a bit in the second half of this year, as the headwind from Beijing's financial deleveraging campaign was aggravated by the escalation of the trade conflict with the US. Since mid-2018, the authorities have put macro-economic stabilisation at the top of their priority list and have shifted from financial deleveraging to piecemeal, targeted fiscal and monetary easing. Moreover, sentiment regarding the trade conflict has improved following the Trump-Xi truce agreed in December 2018 and the resumption of US-China negotiations at various government levels in the course of this year. We expect official growth to remain at 6.4% yoy in Q2, slowing gradually in the 2<sup>nd</sup> half of this year (assuming a mild reduction of stimulus measures). We see increasing 'upside risks' to our 2019 annual growth forecast of 6.3% yoy, which currently is slightly above consensus, but leave it unchanged for now. For 2020, we expect growth to slow gradually to 6.0%.

### Official growth stable, Bloomberg estimate surges



Source: Bloomberg

### Industrial production jumps to 5-yr high, some seasonal bias



Source: Thomson Reuters Datastream

### March data confirm turnaround in momentum, but still mind seasonal effects

Over the past months, we have pointed at several green shoots for the Chinese economy following the fading of headwinds mentioned above. The March activity data published over the past weeks clearly pointed to an improving momentum, compared to the weakness seen in late 2018. Industrial production growth surged to 8.5% yoy (Jan-Feb: 5.3%) – with manufacturing output particularly strong –, although this number is likely impacted somewhat by Lunar New Year effect (with a sharp drop in March 2018). Fixed asset investment also accelerated further, rising to 6.3% yoy ytd (from 6.1% in Jan-Feb). That was supported primarily by a further improvement of state-led investment, a result of fiscal stimulus measures. Retail sales growth surged to 8.7% yoy (Jan-Feb: 8.2%). The March PMIs published some weeks ago showed a clear uptick from February; the composite PMIs of both NBS and Caixin jumped by 1.5-2 points (for more background see our [Short Insight: China – Encouraging signs](#) published early April). These strong activity data (particularly industrial production) also caused a jump in Bloomberg's monthly GDP estimate, to 7.92% yoy in March (Feb: 6.63%), the highest number since December 2012.

### Piecemeal easing measures filtering through in lending

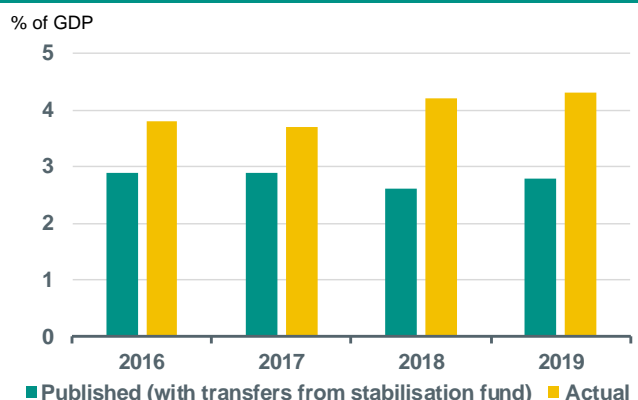
In our February China Watch, *Will the Pig arrive in time this year?*, we commented on what we call 'China's piecemeal approach' of monetary and fiscal easing. On the monetary front, the authorities have taken several measures since mid 2018 to safeguard liquidity in the banking system and stimulate lending, particularly to private firms and SMEs (for instance by further cuts of banks' reserve requirements and by using/expanding existing lending facilities and open market operations, or moral suasion). On the fiscal front, the government opted for a broad range of tax cuts and a doubling of bond issuance quota for local governments (hit by previous financial deleveraging). These easing measures are now filtering through in a moderate pick-up of lending activity. Annual growth of aggregate financing reached 13.7% yoy in March (highest pace since June 2016), while M2 growth rose to a one-year high of 8.6% yoy. That said, we do not expect the same kind of 'old-fashioned, credit bubble type of stimulus' that was unfolded in reaction to China's industrial downturn in 2015-16 and during the global financial crisis in 2008-09.

#### More green shoots: lending data



Source: Thomson Reuters Datastream, Bloomberg

#### China's general budget figures



Source: IIF

### March trade data helped to ease global slowdown concerns

China's trade data published last week were also interpreted positively by financial markets, even though annual import growth turned somewhat more negative, to -7.6% yoy (February: -5.2%). The big change, however, came from exports. Export growth turned very negative in February

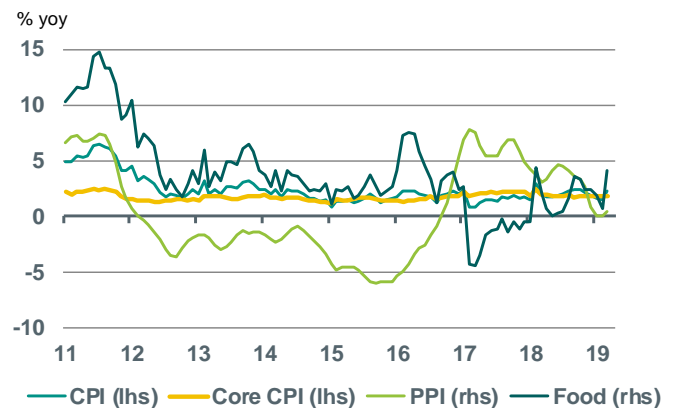
(-20.7%), although that number must have been impacted by seasonal effects (monthly trade growth figures typically show large fluctuations in the first months of each calendar year due to different timings of the long Chinese New Year holiday break). In March, export growth was strongly positive again (+14.2% yoy), much higher than expected, alleviating fears of a global growth slowdown. That said, we should be a bit careful still, given that March numbers can often also be somewhat biased by Lunar New Year effects (payback from the weak February number).

#### March trade data help to ease global slowdown fears



Source: Thomson Reuters Datastream

#### March inflation data alleviate "cyclical" deflation fears



Source: Thomson Reuters Datastream

#### Deflationary trend ends in March

Over the past months, we have seen headline inflation coming down and producer price inflation dropping sharply. This picture changed in March. Headline inflation jumped to 2.3% yoy, up from a 1.5 year low of 1.5% yoy in February. That was to a large extent driven by a surge of food prices, to 4.1% yoy in March (February: 0.7%), as well as rising oil prices. The spike in food prices was in part 'payback' from the LNY holiday period in February, but clearly also reflects the outbreak of a serious swine fever leading to a surge in pork prices. Meanwhile, the fact that producer price inflation showed its first uptick since June 2018, rising to 0.4% yoy (Jan/Feb: 0.1%), also helps to alleviate 'cyclical deflation fears' while putting industrial profitability under pressure. That said, the current downturn in PPI inflation is much smaller than the protracted period of producer price deflation back in 2012-2016 (the industrial downturn in 2015-16 was more severe than the one in 2H18).

#### Will the Chinese cook stop adding salt and pepper to the soup now?

I have often compared China's piecemeal easing approach to stabilise the macro economy (while keeping longer-term goals such as stabilising overall leverage in mind) with a professional cook, who is consistently tasting his soup and adding salt and pepper if he thinks the soup still misses flavour. Beijing has started to gradually add salt and pepper since mid 2018/ With strong signs of an improving momentum the question you often hear currently is: will Beijing stop with stimulating or even start to tighten again? We think that Beijing's ongoing balancing act between safeguarding growth and financial stability implies no big and sudden changes in the macro-economic policy stance for now. We have said before that if signs of stabilisation continue, Beijing will likely over time shift its priority list, moving financial deleveraging up again. That said, we have lowered our expectation of further RRR cuts in the remainder of 2019 to 100 bps (from 150 bps).

**Key forecasts for the economy of China**

	2016	2017	2018e	2019e	2020e
GDP (% yoy)	6.7	6.8	6.6	6.3	6.0
CPI inflation (% yoy)	2.1	1.5	1.9	2.5	2.5
Budget balance (% GDP)	-3.8	-3.8	-4.0	-4.5	-4.5
Government debt (% GDP)	16	17	19	22	25
Current account (% GDP)	1.8	1.4	0.3	0.0	0.0
Gross fixed investment (% GDP)	42.7	42.9	43.9	43.1	42.1
Gross national savings (% GDP)	45.9	46.0	44.6	43.5	42.4
USD/CNY (eop)	7.0	6.5	6.9	6.6	6.6
EUR/CNY (eop)	7.3	7.8	7.8	7.7	8.3

*Economic growth, budget balance, current account balance for 2019 and 2020 are rounded figures*

*Source: EIU, ABN AMRO Group Economics*

*This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.*

*No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof.*

*Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product –considering the risks involved– is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.*

© Copyright 2019 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO").