

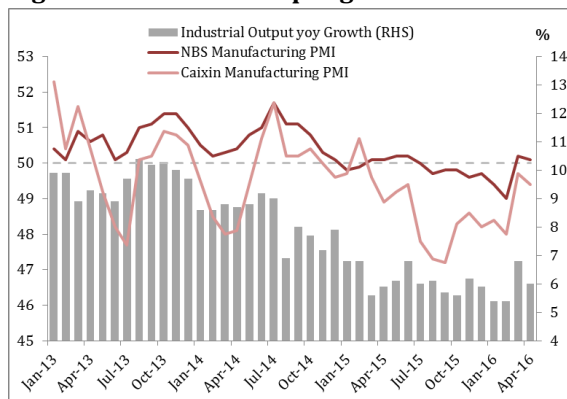
Private Sector Needs Attention

- Comment on Apr China Economic Data

Not unexpectedly, industrial output growth slowed after a remarkable hike in Mar. Value-added industrial output increased 6.0% yoy in Apr, retreating from its 6.8% growth rate in Mar. However, there are some improvements compared to the Jan-Feb period, when industrial output grew only 5.4% yoy. So far this year, the ups and downs of the manufacturing sector have mostly been driven by fluctuations in oil and commodity prices. Fundamentals remained largely unchanged. Industrial restructuring and de-capacity plans still loom coal, steel, and certain over-supplied industries. For the entire year of 2016, we forecast value-added industrial output to grow by 6.0%.

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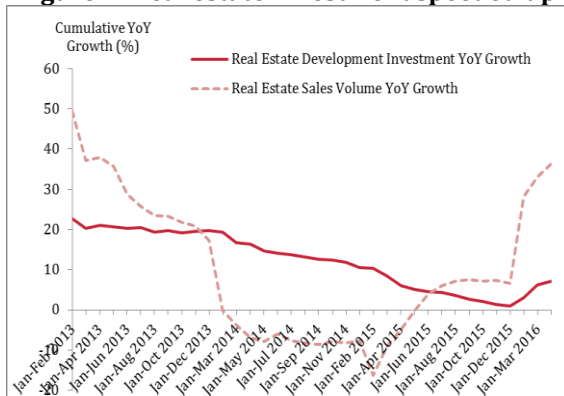
Figure 1: Industrial output growth slowed to 6.0% yoy in Apr



Source: NBS, Markit, CMBIS.

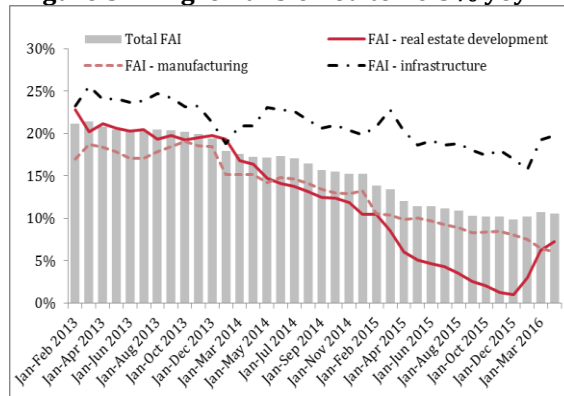
Real estate investment continued expansion, while total fixed asset investment growth slowed a bit. Bolstered by strong housing sales, real estate investment has picked up gradually since this year and expanded 7.2% yoy in the Jan-Apr period. Total fixed asset investment (FAI) increased 10.5% yoy in the Jan-Apr period, compared to 10.7% in 1Q16. Manufacturing FAI slowed further to 6.0% yoy in the Jan-Apr period from 6.4% in 1Q16. Infrastructure investment maintained steady growth at 19.7% yoy in Apr, totaling Rmb3.15tn. We believe investment growth would keep strong this year and we forecast FAI to advance 11.0% yoy in 2016, which is supported by 1) strong government initiatives at the beginning of the 13th FYP and 2) creative methods of project financing, e.g. via Public Private Partnerships.

Figure 2: Real estate investment speeded up in Apr



Source: NBS, WIND, CMBIS.

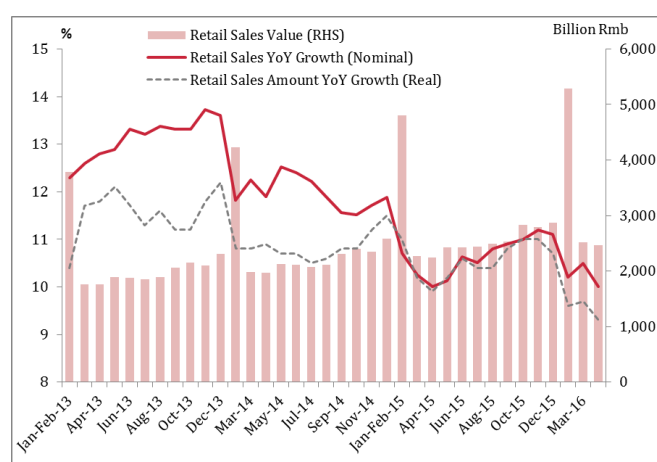
Figure 3: FAI growth slowed to 10.5% yoy in Apr



Source: NBS, WIND, CMBIS.

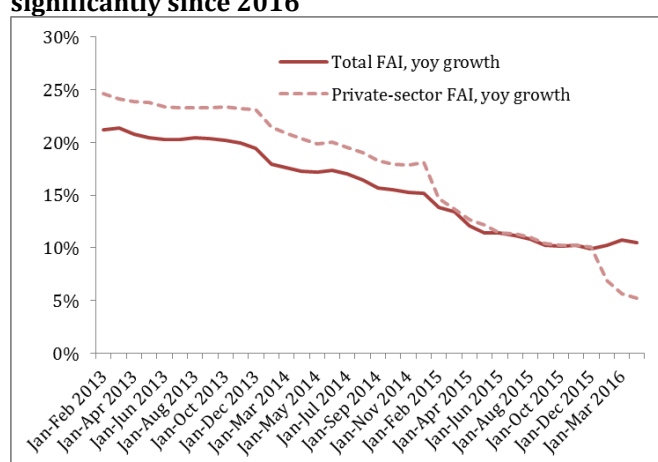
Private-sector consumption and investment has both been sliding since this year. Data up till Apr shows that consumption has not been holding up well in the backdrop of an economy-wide slowdown. Retail sales value grew 10.1% yoy in Apr, compared to 10.5% in Mar and 10.2% in the Jan-Feb period. Stripping out inflation, retail sales in real terms grew only 9.3% yoy in Apr. Private-sector investment decelerated even more abruptly than consumption – it expanded only 5.2% yoy in Jan-Apr, compared to 6.9% in Jan-Feb, 5.7% in Jan-Mar and 10.1% in 2015. Figure 5 also shows that private-sector FAI, which usually accounted for 60%-65% of total FAI in urban areas, started to drag the latter since this year. Given the importance of consumption and private-sector investment in the economy, to stabilize both is crucial to maintain an L-shaped growth trajectory in the future.

Figure 4: Retail sales growth slowed in Apr



Source: NBS, CMBIS.

Figure 5: Private-sector FAI growth dropped significantly since 2016



Source: NBS, WIND, CMBIS.

Table 1: Snapshot of Apr China economic indicators

(YoY growth, unless otherwise indicated)	Apr-16	Mar-16	Feb-16	Jan-16	Apr-15	2015A	2016E
CPI (%)	2.3	2.3	2.3	1.8	1.5	1.4	1.8
PPI (%)	-3.4	-4.3	-4.9	-5.3	-4.6	-5.2	-3.6
Manufacturing PMI Index	50.1	50.2	49	49.4	50.1	n.a.	n.a.
Industrial Value-Added (%)	6.0	6.8	5.4	n.a.	5.9	6.3	6.0
Fixed Asset Investment (%)*	10.5	10.7	10.2	n.a.	12.0	9.9	11.0
- Private-sector fixed asset investment (%)*	5.2	5.7	6.9	n.a.	12.7	10.1	5.8
Retail Sales (%)	10.1	10.5	10.2	n.a.	10.0	10.7	10.5
Export (% in USD terms)	-1.8	11.5	-25.3	-11.4	-6.4	-2.6	-2.0
Import (% in USD terms)	-10.9	-7.6	-13.8	-19	-16.2	-14.4	-8.0
M2 (%)	12.8	13.4	13.3	14	10.1	13.3	13.1
New Rmb Loans (in trillion Rmb)	0.56	1.37	0.73	2.51	0.71	11.7	13.9
Total Social Financing (increments, in trillion Rmb)	0.75	2.38	0.78	3.43	1.06	15.3	17.8

Source: NBS, China Customs, the PBoC, CMBIS forecast. * denotes cumulative amount since Jan of corresponding years.

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