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China's Q2 GDP data: So adorable

- China's economy grew 6.7% yoy in Q2, same as in Q1. The GDP deflator moderated to 1.5% yoy in Q2 from 1.8% in Q1.
- Despite solid retail sales, consumers are facing pressure from slower income growth and softening employment condition.
- The housing market has entered a down-cycle, posing a clear risk to China's GDP growth in H2.

It is so easy to love China's GDP data, you know, steady, dependable and it almost never disappoints. According to the National Bureau of Statistics (NBS), China's economy grew by 6.7% yoy in Q2, the same as Q1 and marginally above the market expectations of 6.6% yoy. On a quarter-on-quarter seasonally adjusted basis, GDP grew 1.8% in Q2, also the same as Q2 2015. Given the official numbers remain steady as a rock, China is firmly on track to meet its growth target of 6.5-7.0% in 2016.

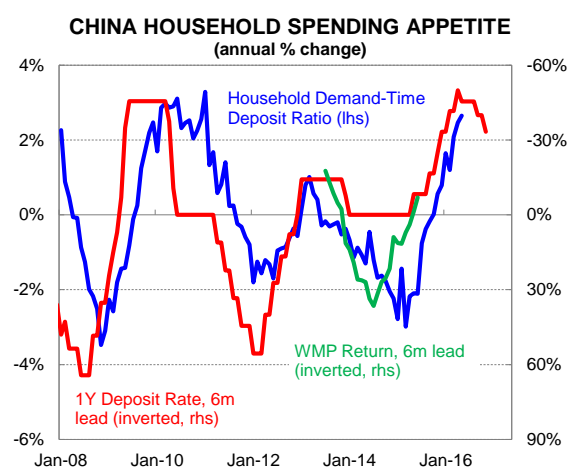
The NBS has recently revised China's GDP calculation methodology to include research and development (R&D) spending as part of GDP (rather than treat it as a business cost). The revision has increased China's annual GDP growth by 0.06ppts per year since 2011. The upshot is to hit achieve the official target of doubling China's GDP by 2020 compared with 2010, China now needs to maintain an average growth of 6.48% per year from 2016-2020, down from 6.55% before the revision. Further GDP revisions, such as better capturing online transactions, are also being discussed.

As we expected, monthly industrial production and retail sales growth outperformed market expectations in June. However, we think this reflects more of a quarter-end, one-off acceleration, rather than a sustainable economic recovery in H2. It is like what happened in March - the official data suddenly accelerated, but then reversed all the gains in April and May. Indeed, with China's housing market now firmly in a downturn, we see a clear risk of slower GDP growth in H2 if Beijing does not dispatch more easing measures.

Industrial sectors have somewhat stabilised for now. Industrial production growth recovered to 6.2% yoy in June from 6.0% in May. Steel production rose 3.2% yoy compared with 2.1% prior. Looking ahead, we expect industrial growth to remain tepid. New orders and confidence in the manufacturing industry remain low.

Retail sales growth accelerated to 10.3% yoy in June in real terms from 9.7% in May. Not all data on consumer sectors are as encouraging, however. Real income growth for migrant workers slowed to 4.5% yoy in Q2 from 6.8% in Q1, while urban household consumption expenditure slowed to 5% yoy from 5.6%. Both manufacturing and services employment PMI indices stayed in contractionary territory. We expect retail sales to face downward pressure in H2 as household cut back spending (chart 2).

China's housing market is now in a downturn buyers (see [CBA International Economics – China's housing market: About to enter a typical downturn](#)). Housing sales growth slowed further to 14% yoy in June from 22% yoy in May (chart 3). Real housing investment and construction decelerated to growth of 4.1% yoy and -7.7% yoy, respectively, from 7.1% yoy and -1.6% yoy prior. We see China's economy under renewed downward pressure in H2 from a housing downturn.



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