China Economic Briefing
by NAB Group Economics

15 September 2014

National Australia Bank

Weak industrial data highlights impact of previous stimulus and challenges to 2014 growth

Weaker than expected industrial production data is likely to generate headlines this month. However these results are not as negative as they may seem – reflecting in part the impact of stimulus in Q3 2013. As we have previously noted, this stimulus meant that maintaining China's growth momentum was likely to be difficult this quarter, and allied with weaker trends in the property market, makes meeting this year's growth target of 7.5% increasingly difficult.

Industrial Production and Investment

Growth in China's industrial production slowed significantly in August – with output rising by 6.9% yoy (compared with 9.0% in July). This level was the weakest rate since February 2009 and was well below market expectations – which tipped a modest decline in the growth rate. In part, this weak rate of growth reflects the impact of stimulus that occurred at this time last year.

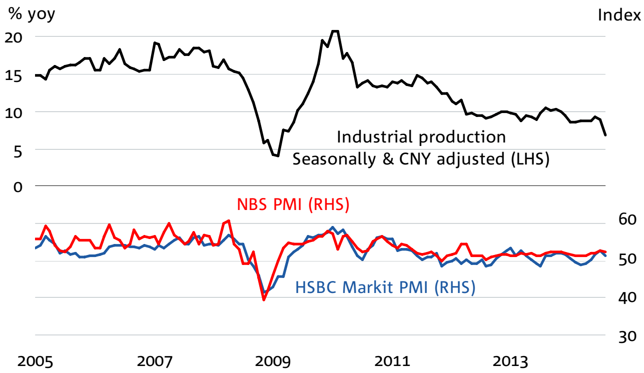
China's major manufacturing PMI surveys signalled slightly weaker industrial conditions. The official PMI (produced by the National Bureau of Statistics) edged down – to 51.1 points (from 51.7 previously). The HSBC Markit PMI fell more sharply – down to 50.2 points (from 51.7 points in July) – with this survey more indicative of SME firms.

At a subsector level, trends were quite mixed. Electricity output was noticeably lower – down -2.2% yoy (from 3.3% in July), while motor vehicle production was also slower – at 3.1% yoy (compared with 10.5% last month). Cement and steel (two sectors closely connected to the construction industry) saw slowing rates of growth in August.

Fixed asset investment continued to slow in August – growing by 13.8% yoy (in real terms) – compared with 15.7% last month. Real estate investment continues to weaken – reflecting challenging market conditions. Investment slowed to 11.4% yoy (from 11.2%) and is at its weakest level since the Global Financial Crisis. Similarly, manufacturing investment has continued to soften – down to 13.8% yoy (from 14.1% in July).

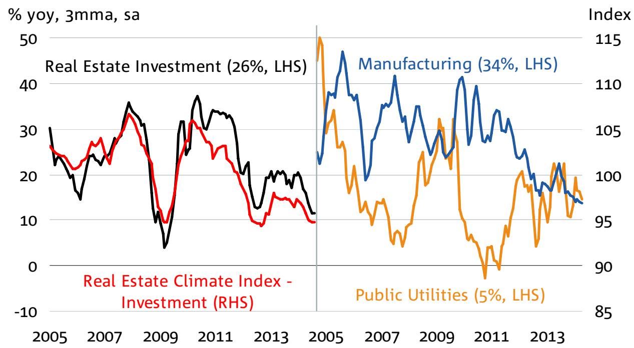
Investment in real estate continues to decline, in line with weaker house sales. Residential property sales fell by around -13% yoy in August (compared with -18% yoy in July). That said, indicative prices (based on total values and volumes of sales) have remained relatively stable, at -0.4% yoy in August. This may reflect the impact of unreported incentives – with anecdotal reports suggesting property developers are offering add-ons and cash-back deals to avoid cuts to reported prices.

Industrial production growth slowed noticeably in August – the weakest rate since February 2009



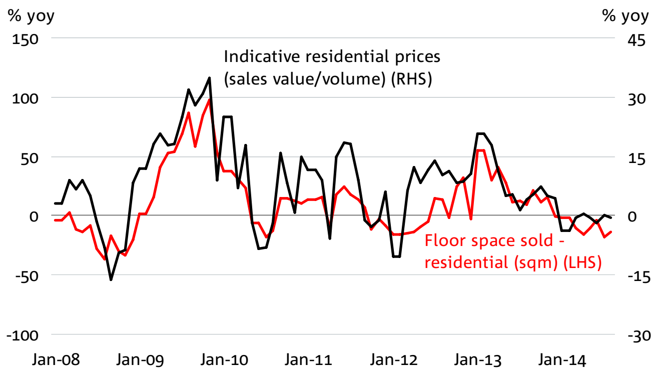
Source: CEIC, NAB Economics

Investment in real estate and manufacturing continues to slow



Number in brackets represents share of total FAI in 2013
Source: CEIC, NAB Economics

Indicative residential property prices remain stable, but sales continue to fall



Sources: CEIC, Datastream, NAB Economics

International trade

For the second straight month, China's trade surplus was at a record level – rising to US$49.8 billion (compared with US$47.3 billion in July).

Exports (in US dollar terms) rose by 9.4% yoy in August (compared with 14.5% in July). Trends in export data have improved in recent months – however this largely reflects a reduction in the distortions connected to false invoice schemes prevalent during the first half of 2013.

The slowing growth rate for exports (compared with stronger conditions in July) was evident across major export markets. The sharpest slowdown was in East Asia – with exports rising by 3.5% yoy (compared with 17% in July), led by a year-on-year decline in exports to Hong Kong. Exports to the European Union rose by 12% yoy (compared with 17% last month) while exports to the United States were comparatively stable at 11% yoy (from 12% previously).

High Tech products led the slowdown in exports – contracting by -1.2% yoy in August (compared with growth of 10% in July).

Import trends were surprisingly weak in August, falling for the second straight month – at -2.1% yoy (compared with -1.5% last month). Trends were weak across most commodities. Iron ore volumes slowed to 8.5% yoy (from 13% in July), while coal imports were down -27% yoy (-20 previously) and copper fell -12% yoy (from -16% last month). These trends appear consistent with the relative softness in the industrial sector.

Retail Sales and Inflation

Retail sales were marginally softer in August – with nominal growth at 11.9% yoy (down from 12.2% in July). In real terms, the trend was marginally stronger – with growth at 10.6% yoy (from 10.4% in July). Consumer confidence has remained in positive territory in recent times.

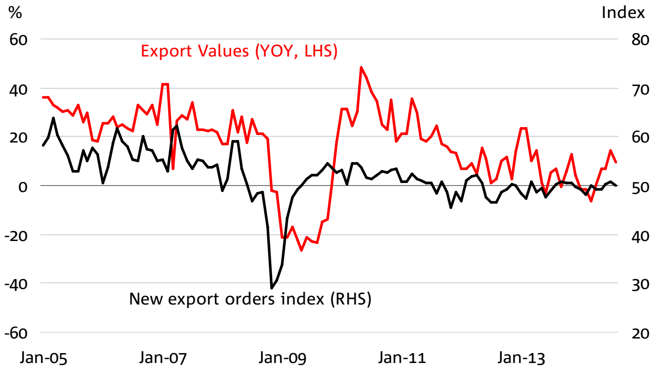
Sales growth was largely stable across most major items – including food and drink, textiles, clothing & footwear, cosmetics and daily use items, while sales of cars and household goods were slower.

Inflation trends were relatively stable in August – with consumer prices rising by 2.2% (compared with 2.3% in July). The main influence on inflation trends remains food prices – with non-food prices having recorded stable trends since January 2012.

The slight pullback in inflation was most evident in food prices – which rose by 3.0% yoy (down from 3.6% yoy previously). Most food price trends remained stable – with the exception of fresh vegetables – which contracted by -6.9% yoy (compared with -1.6% in July).

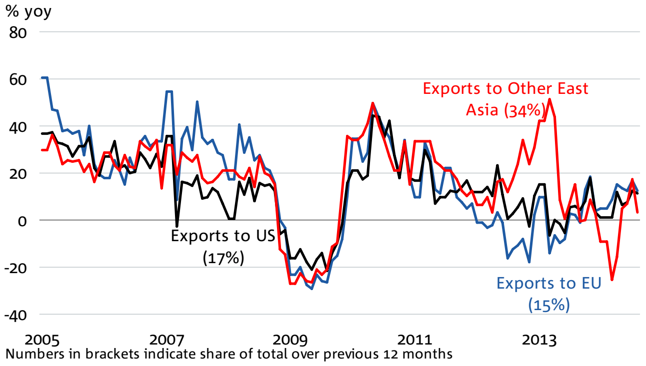
Producer prices have fallen for thirty months in a row – down by -1.2% yoy in August (compared with -0.9% last month). Falls in producer prices are evident in heavy industry – prices have risen for light industry since June – and remain closely correlated to weaker commodity prices.

Recent export trends stronger post false invoice distortions



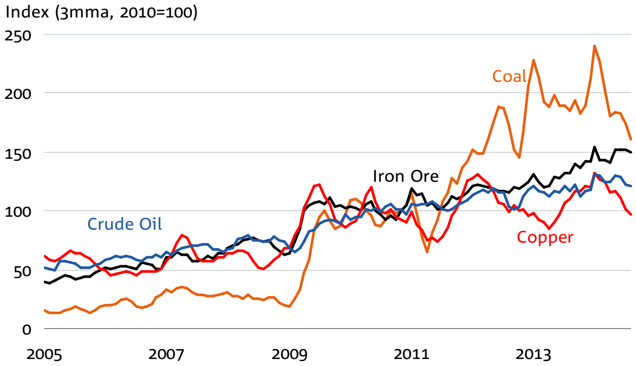
Source: CEIC, NAB Economics

Slower exports to East Asia in August



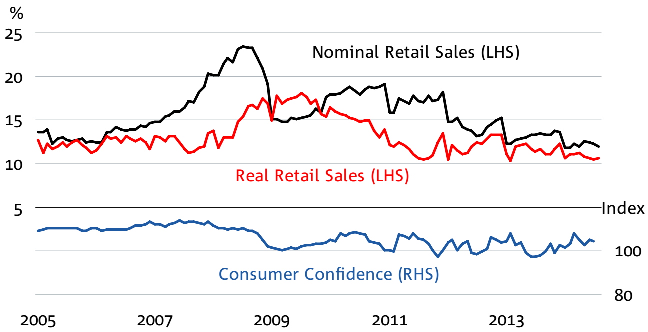
Numbers in brackets indicate share of total over previous 12 months
Sources: CEIC, NAB Economics

Weaker commodity imports – in line with industrial softness



Sources: CEIC, NAB Economics

Retail sales continue to record relatively stable growth



* No observation is shown for January due to the effect of Chinese New Year; Feburary shows the average of January and February compared to December.
Source: CEIC, NAB Economics

Credit conditions

After credit growth that was remarkably weak in July, growth was stronger in August – albeit still well below the levels recorded a year ago. New total social financing was around RMB 957 billion (compared with RMB 273 billion in July) – around 40% lower than August 2013.

The largest share of new credit in August was bank loans – at RMB 682 billion (both domestic and foreign currency), almost three-quarters of the total. Trends in non-bank lending were mixed – with growth in corporate bond financing and entrusted loans while banker's acceptance bills and trust loans contracted (on a net basis).

Over the first eight months of the year, new credit has been weaker – falling by -6.4% yoy. This is despite bank loans (the largest share of credit) rising over this period – up by 4.8% yoy. The main contributor to weaker trends in non-bank lending is the decline in trust and entrusted loans – down by -34% yoy. Concerted efforts to control the growth of shadow banking have impacted on this sector.

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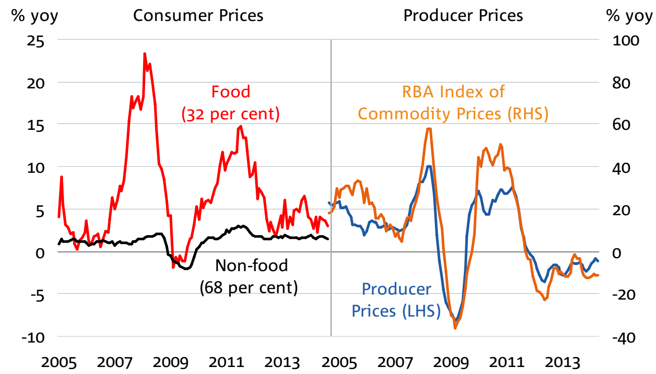
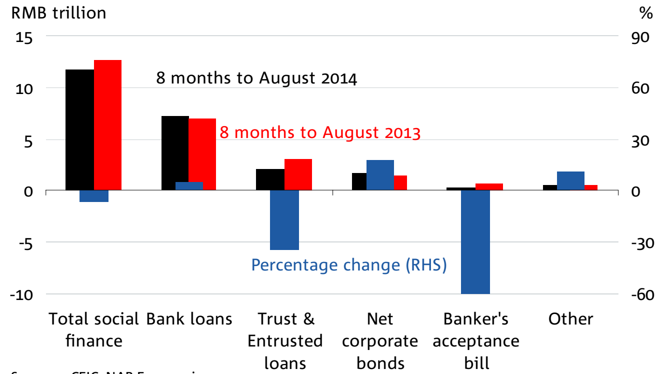
Chinese inflation remaining under control



Sources: CEIC, RBA, NAB Economics

Credit remains weaker year-on-year, with trust & entrusted loans pulling back



Sources: CEIC, NAB Economics

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