more give, less take

China’s economy at a glance

by NAB Group Economics

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National Australia Bank

Chinese growth slowdown continuing

- China’s latest national accounts data showed a slowing trend for China’s economy in the December quarter – with gross domestic product rising by 6.8% yoy – down from 6.9% in the September quarter. The services sector - the main engine for growth over 2015 – also slowed in the December quarter.
- China’s industrial production growth weakened in December – down to 5.9% yoy (from 6.2% in November) and below market expectations (6.0%). Nevertheless, the December result was equal to the average growth rate between July and November, suggesting industrial production growth may have stabilised.
- After improving over the previous two months, fixed asset investment softened in December. Growth in manufacturing has shown some improvement recently but investment in real estate is contracting.
- China’s retail sales growth was slightly lower in December, rising by 11.1% yoy (from 11.2% in November). The slowdown in real retail sales was slightly greater (10.9% to 10.7% yoy) but remains around its trend level over the past few years.
- China’s trade surplus improved in December, with both imports and exports strengthening in month-on-month terms. There are tentative signs that exports may be stabilising but given the volatility of, and other issues with, the data it is still too early to be sure.
- New credit expanded rapidly in December – totalling RMB 1.8 trillion (compared with RMB 1.0 trillion in November) – an increase of 7.1% yoy. However, for the year as whole, new credit was down, but with a shift towards traditional bank financing and away from the shadow banking sector.

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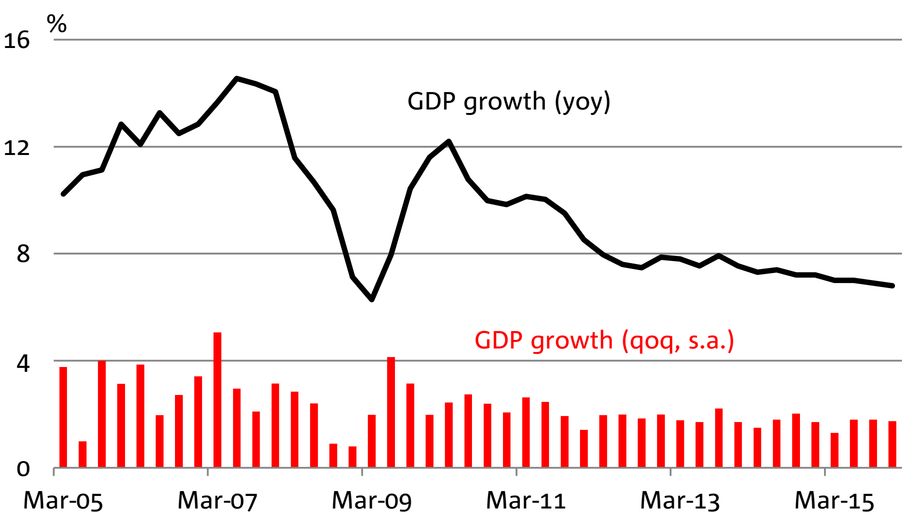
Contact

Tony Kelly antony.kelly@nab.com.au

Gross Domestic Product

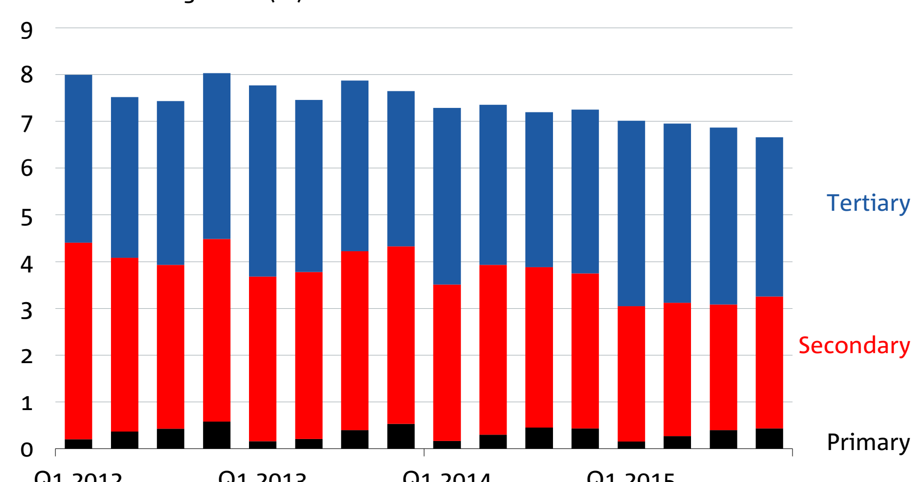
- China's latest national accounts data showed a slowing trend for China's economy in the December quarter – with gross domestic product rising by 6.8% yoy – down from 6.9% in the September quarter.
- The result was below market expectations (Bloomberg's analyst survey), which had expected the annual growth rate to be unchanged, and confirms the ongoing slowdown in the Chinese economy.
- The quarter-on-quarter growth rate also softened, from 1.8% in September to 1.6% in December.
- China's services sector was the main engine for growth over 2015. However, service sector output rose by 8.1% yoy in Q4, a notable deceleration from the previous quarter (8.6% yoy). This may reflect some unwinding of finance sector growth which was a major contributor to growth earlier in the year. Real growth in the industrial sector is slower, at 6.0%, but has arrested its slowdown in recent quarters.
- With the very weak March quarter (1.3% qoq) to drop out of the annual growth rate next quarter, the annual growth rate could well rise in early 2016. However, the trend is for a slowing economy and we expect this to continue.

Headline real GDP softened in Q4 to 6.8% yoy continuing trend slowdown



Sources: CEIC, NAB. NAB estimates of quarterly growth rates

Services have been the key contributor to China's growth in recent times but weakened in the December quarter



Source: CEIC, NAB Economics

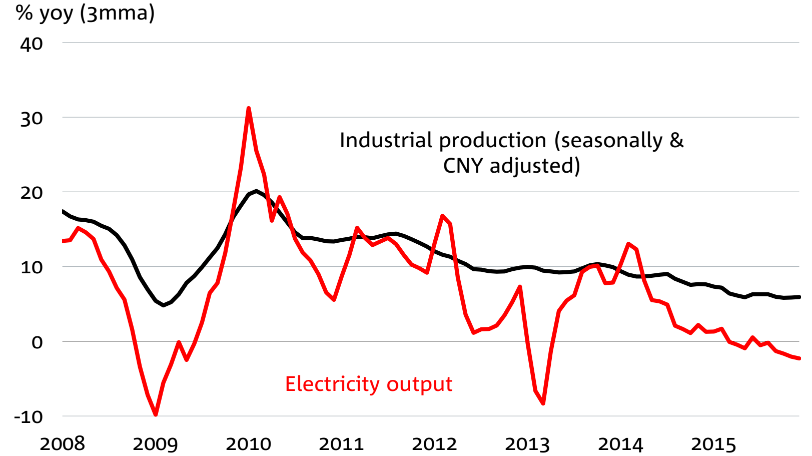
Industrial production

- China's industrial production growth weakened in December – down to 5.9% yoy (from 6.2% in November) and below market expectations (6.0%). This represents a partial unwinding of the improvement seen in November. Nevertheless, the December result was equal to the average growth rate between July and November, suggesting industrial production growth may have stabilised.

- Key heavy industrial sectors saw weaker production in December. Crude steel fell by 11.3% yoy, cement by 5.2% yoy and motor vehicles by 6.5% yoy, while electricity production was down by 3.7% yoy.

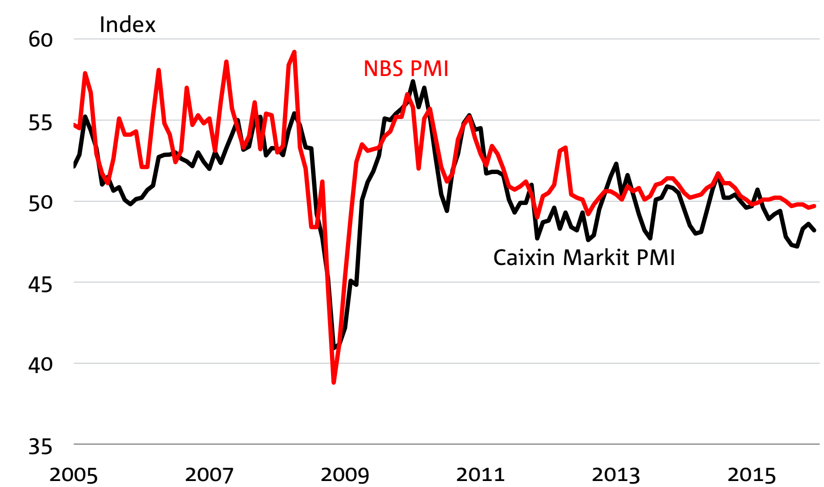
- China's two major industrial surveys remained in negative territory in December. The official NBS PMI edged higher – to 49.7 – while the Caixin Markit PMI moved down to 48.2 points giving up some of its recent gains.

Despite a weaker December report, industrial production growth has stabilised in recent months



Source: CEIC, NAB Economics

Purchasing Manager indices remain in negative territory



Source: CEIC, NAB Economics

Investment

- After improving over the previous two months, fixed asset investment softened in December. Investment grew by 8.2% yoy in December, down from 10.2% yoy in November. It remains above its September low, but this is still a low rate of growth by China's standards. For the year as a whole, growth in 2015 was 10%, well down from 15.7% in 2014.

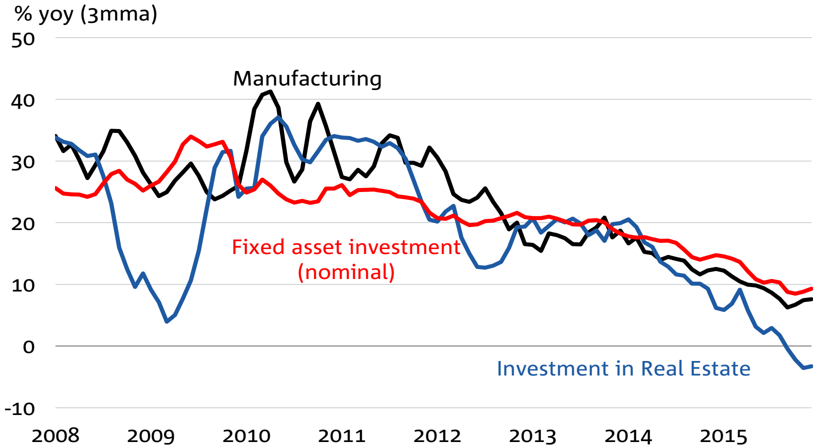
- Growth in manufacturing has shown some improvement recently with growth of 7.6% yoy (on a three month moving average basis) up from 6.3% in September.

- However, investment in real estate is contracting. Growth in December (3mma) was -3.3% (from -3.6% previously). Combined, manufacturing and real estate accounted for around 56% of total fixed asset investment in 2015.

- Residential property prices continue to show some improvement. China Index Academy data showed a 4.2% yoy increase in the national average in December. The gains remain concentrated in China's tier 1 cities where prices rose by 15% yoy, although tier 2 prices were unchanged from a year ago, for the first time since August 2014. Tier 3 city prices continue to fall on a year-on-year basis, albeit more slowly, and were down by 0.9% yoy in December.

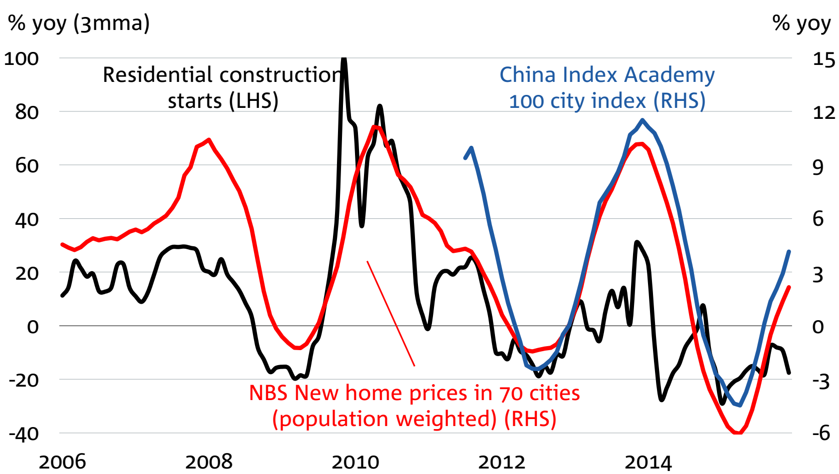
- Despite improving prices, residential construction activity remains weak. New construction starts contracted in year-on-year terms over 2015. In December, (on a three month moving average basis) starts were 17.6% yoy lower.

Fixed asset investment growth still low, with real estate investment contracting



Source: CEIC, NAB Economics

Residential construction contracting, but house prices strengthening

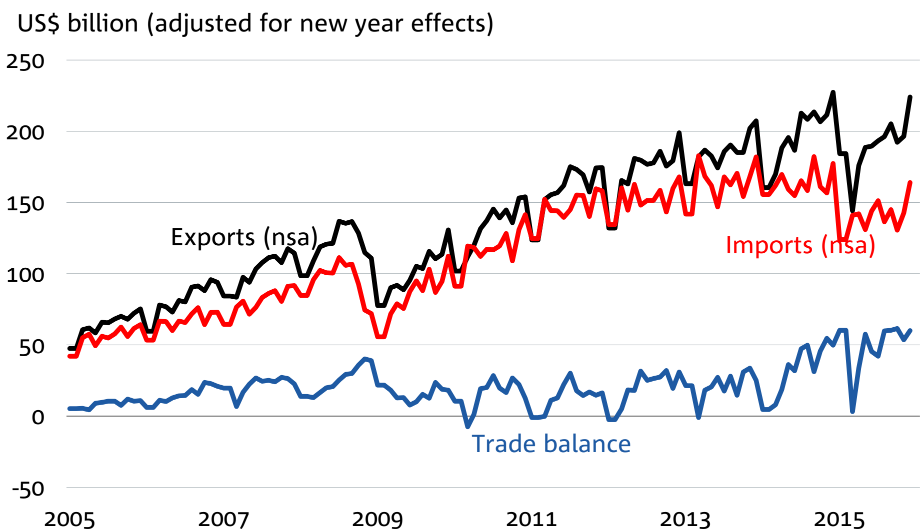


Source: CEIC, Datastream, NAB Economics

International trade – trade balance and imports

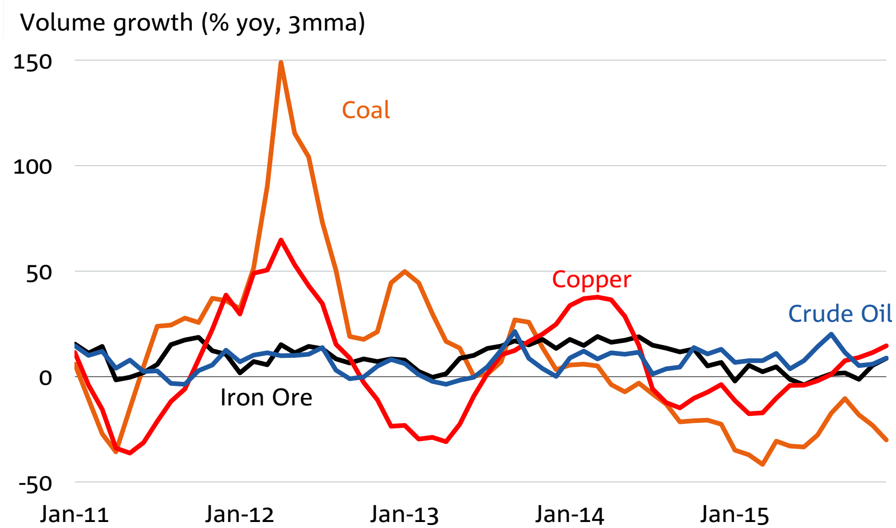
- China's trade surplus improved in December, with both imports and exports strengthening in month-on-month terms (although year-on-year growth remains negative for both exports and imports). The surplus was US$60.1 billion (up from US$53.7 billion last month), taking it back close to its all time high recorded in October.
- China's imports rose to US$164.1 billion in December (from US$142.7 billion in November) – a fall of -7.6% in year-on-year terms. The substantial falls in import values have raised concerns around the health of the Chinese economy, although the pace of decline has moderated in recent months.
- Account also needs to be taken of the impact of falling commodity prices on import values. In November 2015, import values fell by 5.6% yoy, while trade volumes increased 7.3% yoy (although in prior months it was lower). Looking at key commodities, in 2015 ,crude oil imports rose by 8.8% yoy, iron ore by 2.2%, and copper ore and concentrate by 12%, but coal imports plunged by 30% yoy.
- While the weakness in imports highlight the subdued conditions in China's industrial sector, they provide little guide to service sector conditions which were a key driver of growth in 2015. This is because services have a much lower import reliance.

China's trade surplus close to record levels



Sources: CEIC, NAB Economics

Weakness in import data in part reflecting falling commodity prices

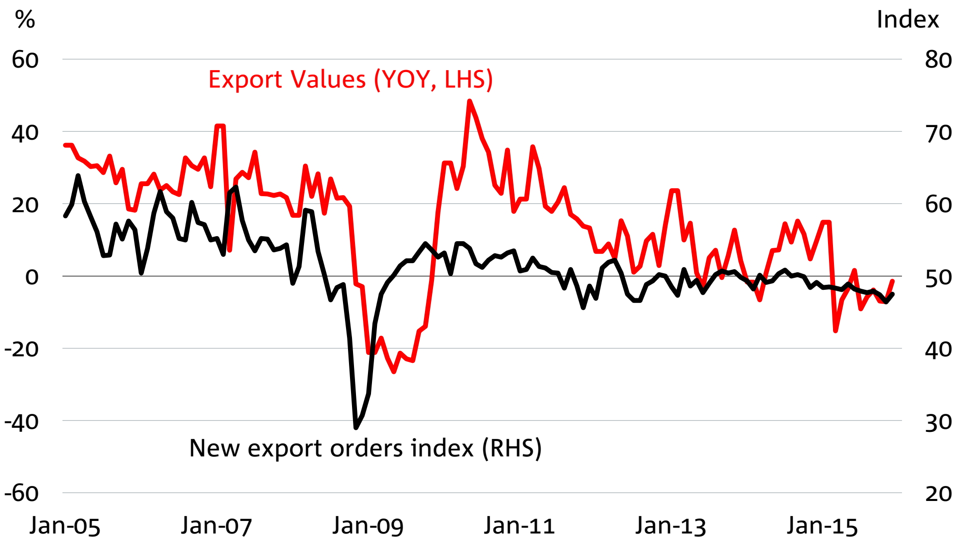


Sources: CEIC, NAB Economics

International trade – exports

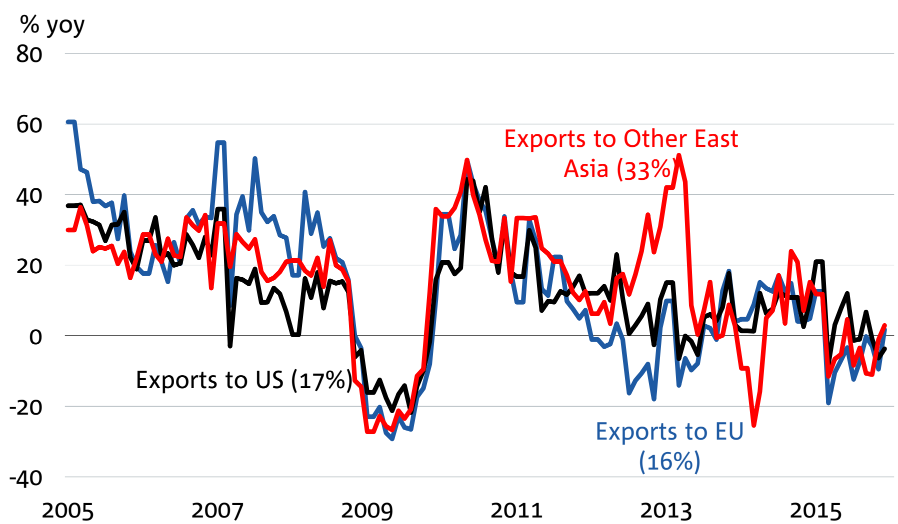
- China's exports increased strongly in December to US$224.2 billion, up from US$196.5 billion previously). They are still negative in year-on-year terms at -1.4%, although this represents an improvement on previous months.
- The new export orders index in the NBS PMI survey also rose to 47.5 points, its highest level in three months, but still indicating contraction.
- Overall, these data provide tentative signs that exports may be stabilising but given the volatility in the data it is still too early to be sure.
- Another reason for caution is the disparity between China and Hong Kong data. The rise in exports included a $11 billion increase in exports to Hong Kong to $46 billion. This followed a $8 billion increase in November. However, Hong Kong data showed a much smaller increase in November (less than $1 billion) and the largest monthly import value Hong Kong has ever reported from China is $24.1 billion.
- The subdued year-on-year export performance is reflected across China's key markets – over the year to December exports to the U.S. fell 3.7%, and while they rose to East Asian economies (2.9% yoy) they fell in excluding Hong Kong. Exports to the European Union only grew by 1.7% over the same period, but there was a clear trend improvement over 2015.

China's export values showing tentative signs of stabilising



Source: CEIC, NAB Economics

Exports to key markets subdued

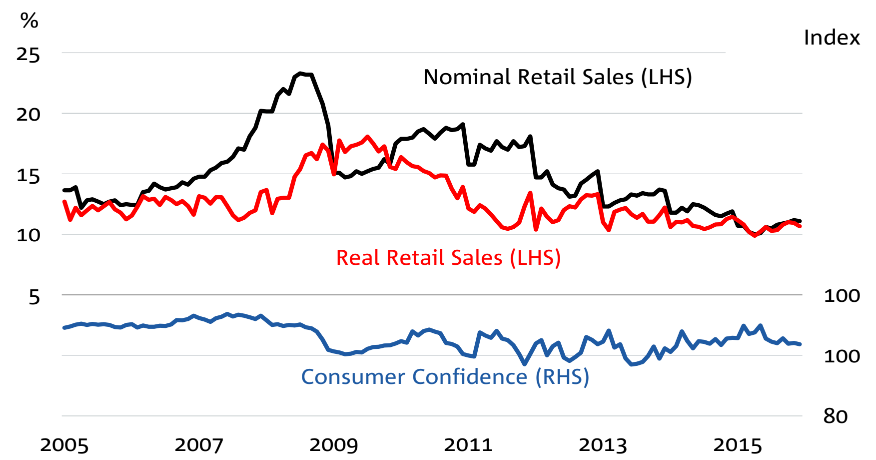


Numbers in brackets indicate share of total over previous 12 months
Sources: CEIC, NAB Economics

Retail sales and inflation

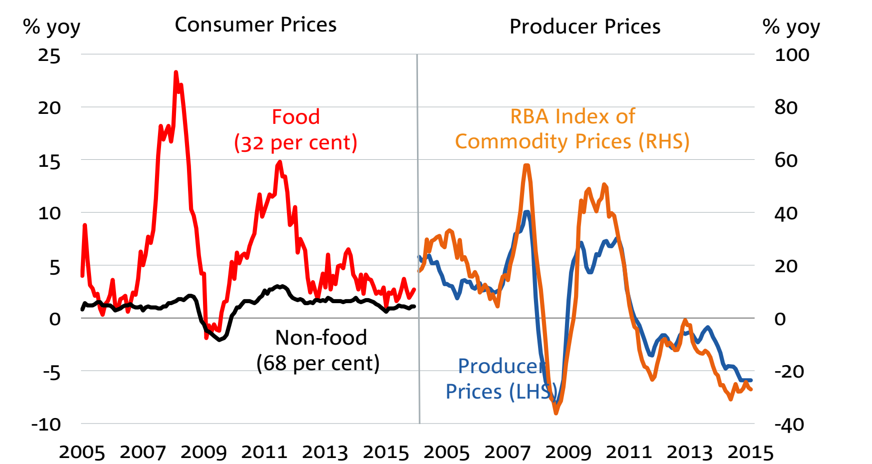
- China's retail sales growth was slightly lower in December, rising by 11.1% yoy (from 11.2% in November). The slowdown in real retail sales was slightly greater (10.9% to 10.7% yoy) but remains around its trend level over the past few years.
- Consumer confidence continues to edge down, with the indicator falling to 103.7 in December , more than unwinding November's gains (104.1). While this just further confirms the downwards shift in sentiment, from a relatively strong level in the first half of the year, sentiment is currently at a level around the middle of the post GFC range.
- Headline inflation edged up again in December, to 1.6% yoy (from 1.5% in November), but is still very modest by historical standards.
- Inflation has picked up over the last two months due to rising food price inflation. Food price inflation was 2.7% yoy in December, up from 1.9% in October. The pickup in food prices in December was attributed to the impact of heavy snow and rain in parts of China on fruit and vegetable prices.
- In contrast, non-food price inflation was unchanged at 1.1% yoy, around where it has been since mid-2015. Fuel prices are still a drag, although the impact again moderated in December (with fuel prices down 11.7% yoy from -12.4% in the previous month).
- Producer prices fell for the forty-sixth straight month, down by -5.9% yoy (unchanged since August). Falling commodity prices remain a key factor – the RBA Index of Commodity Prices was -27% yoy lower in December – flowing through into weaker producer prices in heavy industry than in light industry (-7.6% yoy and -1.3% yoy respectively).

Real retail sales growth edged down but little change in underlying trend



Source: CEIC, NAB Economics

CPI inflation edged up again in December, due to rising food prices, but remains very modest



Sources: CEIC, RBA, NAB Economics

Credit conditions

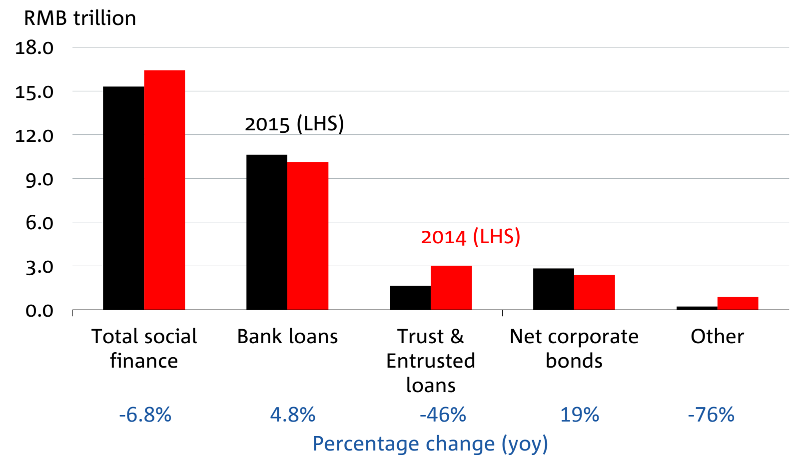
- New credit expanded rapidly in December – totalling RMB 1.8 trillion (compared with RMB 1.0 trillion in November) – an increase of 7.1% yoy. The large increase was mainly due to stronger non-bank loan financing, which accounted for RMB 1.1 trillion of the increase. New entrusted loans were their highest for a year (RMB 353 billion), while banker's acceptance bills were positive for the first time since May. New equity financing also increased substantially.

- For 2015 as a whole, total credit was RMB 15.3 trillion, down around -6.8% on 2014. Tighter regulation over the shadow banking sector has contributed to this decline, with traditional bank finance rising by 4.8% yoy over this period.

- Key components of the shadow banking sector contracted in 2015 – with entrusted loans declining by -37% and trust loans by -92% compared to 2014.

- We expect two cuts to interest rates in 2016 – bringing the benchmark one year lending rate to 3.85% by mid-year. Similarly further cuts to the Required Reserve Ratio are likely to maintain liquidity in the finance sector, with capital outflows likely to continue in the short term.

New credit was weaker in 2015, despite December's strength



Sources: CEIC, NAB Economics

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Riki Polygenis
Head of Australia Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 3) 9208 8129

Vyanne Lai
Economist – Australia
+(61 3) 8634 0198

Amy Li
Economist – Australia
+(61 3) 8634 1563

Phin Ziebell
Economist – Agribusiness
+(61 4) 75 940 662

Industry Analysis

Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De Iure
Senior Economist – Industry Analysis
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+(61 3) 8634 3837

Karla Bulauan
Economist – Industry Analysis
+(61 3) 86414028

International Economics

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia

Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril
Currency Strategist
+61 2 9293 7109

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 29237 1076

Andrew Jones
Credit Analyst
+61 3 8641 0978

Distributon

Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Markets Economist
+64 4 474 6923

Kymberly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia,
+ 852 2822 5350

Julian Wee
Senior Markets Strategist, Asia
+65 6632 8055

Distribution

Kevin Tsang
Marketing Manager, Asia
+852 2822 5388

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+ 44207710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Derek Allassani
Research Production Manager
+44 207 710 1532