

# CHINA'S ECONOMY AT A GLANCE

MAY 2017



National  
Australia  
Bank

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# KEY POINTS

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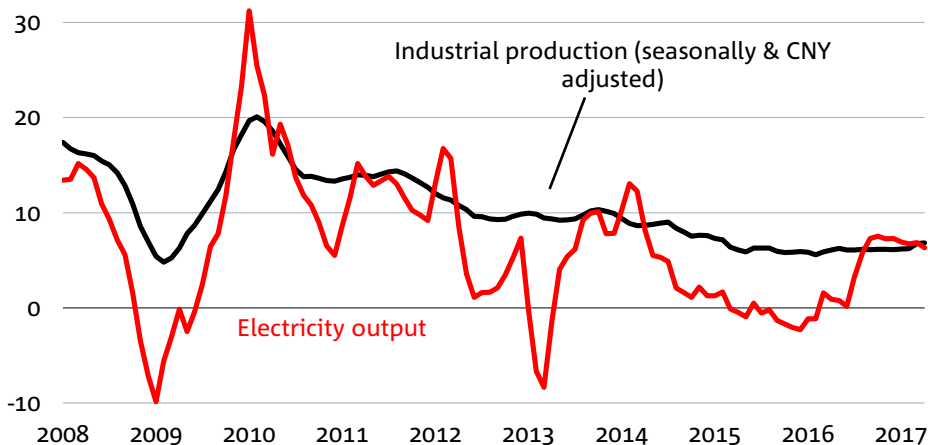
## Key indicators a little softer in April, pointing to easing economic growth in Q2

- While key 'old economy' indicators – such as industrial production and fixed asset investment – along with real retail spending were a little softer in April, they point to an easing, rather than sharp slowing, in China's economy. Given likely weaker fiscal spending in coming months, economic growth should be weaker than the strong rate recorded in March (6.9%). As a result, our forecasts remain unchanged – with China's economy to grow by 6.5% in 2017 (with risk weighted to the upside), before slowing to 6.25% next year and 6.0% in 2019.
- Growth in China's industrial production eased back to 6.5% yoy in April (from a particularly strong 7.6% in March), a level below market expectations but above the trend for the past two years.
- Growth in fixed asset investment was weaker in April – at around 8.3% yoy (down from 9.4% yoy in March). Despite efforts to cool the sector, investment in real estate has continued to grow, rising by 9.3% yoy (on a three month moving average basis) in April (from 9.1% previously). Although our view remains that construction activity should slow – due to tighter regulations and policy restrictions – activity has remained stronger than expected for some months.
- China's trade balance was wider again in April – at US\$38.0 billion (up from US\$23.9 billion in March). Compared with the previous month, exports remained stable, while import values fell – driving the surplus higher. Price effects appear to be the main driver of the trend in import values at the present. We have previously noted substantial distortions in the trade data reported by China and Hong Kong customs – due to capital outflows disguised as trade activity – however the difference between these sources has narrowed this year.
- Retail sales growth eased moderately in April – with nominal growth rising by 10.7% yoy (down from 10.9% in March). The retail price index edged slightly higher in April – meaning that real retail sales dipped to 9.7% yoy (from 10.1% last month) – albeit this rate is still around the trend levels recorded across 2015 and 2016.
- China's aggregate financing accelerated in April, on the back of strong bank lending. That said, much of the acceleration was driven by base effects – with relatively weak credit issuance in April 2016. Both banking and shadow banking loans recorded strong growth, while net corporate bond issuance remains weak.
- The slow tightening in monetary policy continued in April and early May – with the 7 day Shibor edging up to around 2.9% at the time of writing (the highest level since April 2015 – prior to adoption of the Shibor corridor). This represents around 40 basis points of tightening since the start of the year.

# INDUSTRIAL PRODUCTION

## INDUSTRIAL PRODUCTION

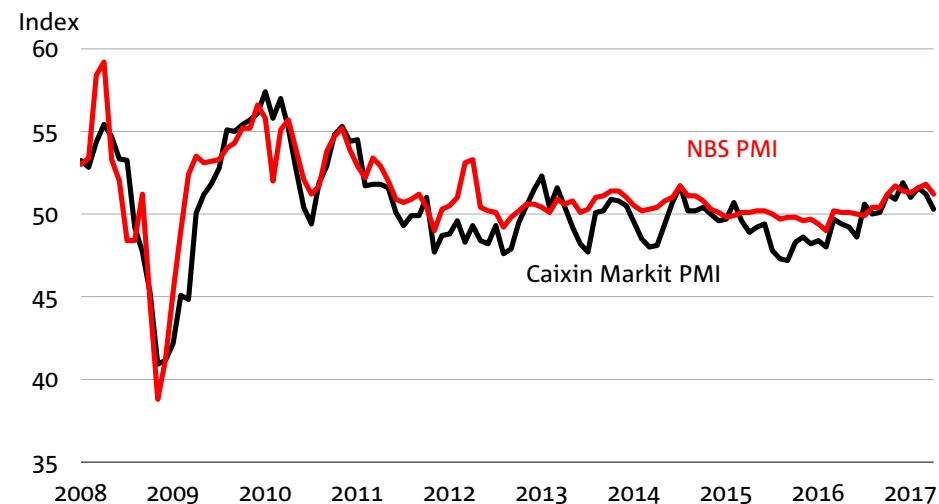
Output weaker, but still above trend, in April  
% yoy (3mma)



Source: CEIC, NAB Economics

## PMI SURVEYS PULL BACK IN APRIL

Caixin Markit measure back to neutral levels



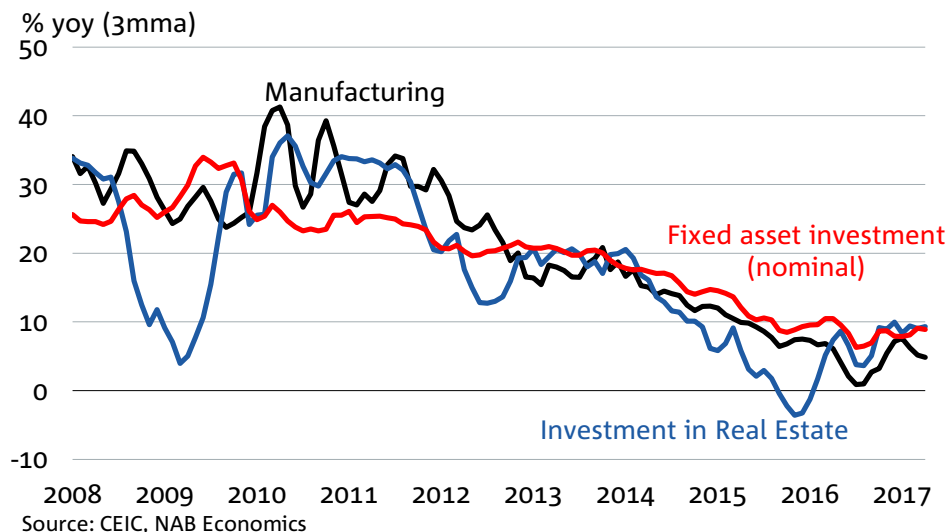
Source: CEIC, NAB Economics

- Growth in China's industrial production eased back to 6.5% yoy in April – from a particularly strong 7.6% in March – a level below market expectations (7.1% in the Thomson Reuters poll) but above the trend for the past two years.
- Trends in individual industrial sectors differed considerably. Crude steel output rose by 4.9% yoy to 72.8 million tonnes – the largest single month output on record – while electricity output was also relatively strong, increasing by 5.4% yoy (down from 7.2% in March).
- In contrast, cement manufacturing rose by just 2.4% yoy, and motor vehicle production increased by 0.3% yoy – compared with double digit growth across the second half of 2016.
- China's industrial surveys were weaker in April – particularly the Caixin Markit PMI (which has a greater representation of SME manufacturers). This measure dropped to 50.3 points (from 51.2 in March) – the weakest level since September 2016. In contrast, the official NBS PMI survey dipped to 51.2 points (from 51.8 points previously).

# INVESTMENT

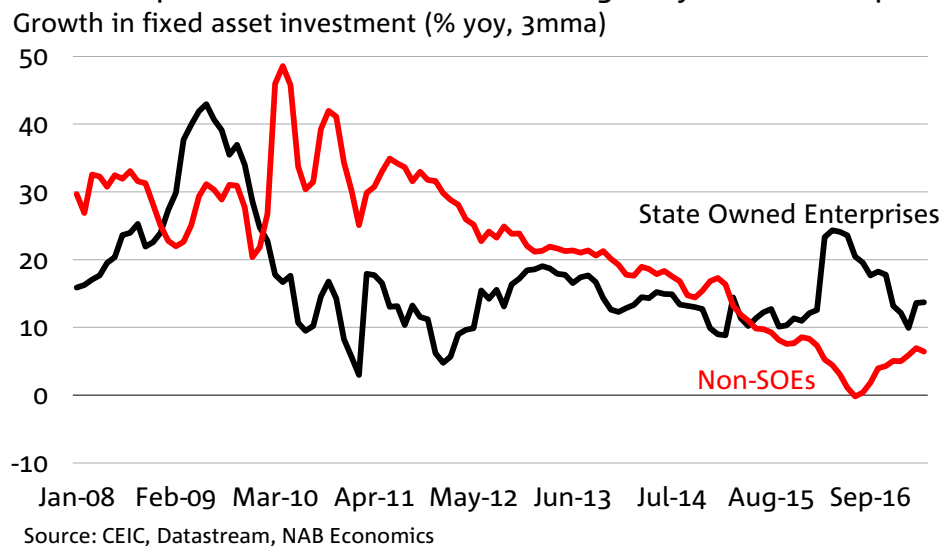
## INVESTMENT TRENDS BY INDUSTRY

Real estate investment remains strong but is expected to slow



## INVESTMENT TRENDS BY OWNERSHIP

Growth in private sector investment marginally weaker in April



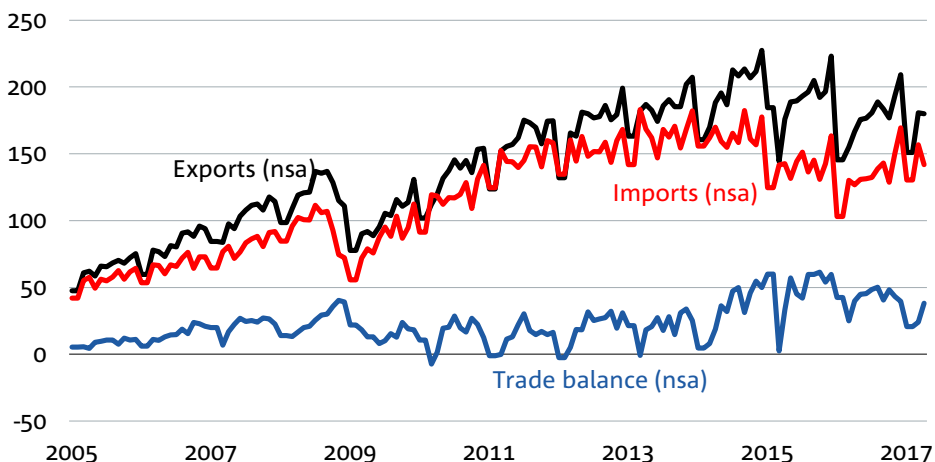
- Growth in fixed asset investment was weaker in April – at around 8.3% yoy (down from 9.4% yoy in March). Investment goods inflation has been stronger in recent months – in line with higher producer prices and commodity market trends – meaning that real investment growth has been comparatively weak. We estimate real investment growth was around 2.1% yoy in April, up from a revised 2.0% in March and 0.2% across January-February.
- Trends continue to diverge between individual sectors. Despite efforts to cool the sector, investment in real estate has continued to grow, rising by 9.3% yoy (on a three month moving average basis) in April (from 9.1% previously). In contrast, manufacturing investment slowed to 4.8% yoy (3mma) in April (from 5.2% in March). When combined, these two sectors accounted for 57% of total fixed asset investment in Q1 2017.
- While authorities at both a central and local level have attempted to control property prices, population averaged price growth edged higher in March to 0.4% month-on-month (on a three month moving average basis) for new properties (compared with 0.2% in February). That said, this is considerably slower than the rapid growth seen in late 2016.
- Slower growth in prices is yet to flow through into construction activity. New residential construction starts rose by 18.2% yoy (3mma) in April – a relatively stable rate of growth when compared with March. Although our view remains that construction activity should slow – due to tighter regulations and policy restrictions – activity has remained stronger than expected for some months.
- Private sector investment slowed marginally in April – at 6.4% yoy (3mma) (compared with 6.9% in March). Investment by state-owned enterprises ticked up this month, to 13.7% yoy (3mma) – having been the key driver of investment growth in 2016.

# INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

## TRADE SURPLUS WIDER IN MAY

Weaker imports opens the gap

US\$ billion (adjusted for new year effects)

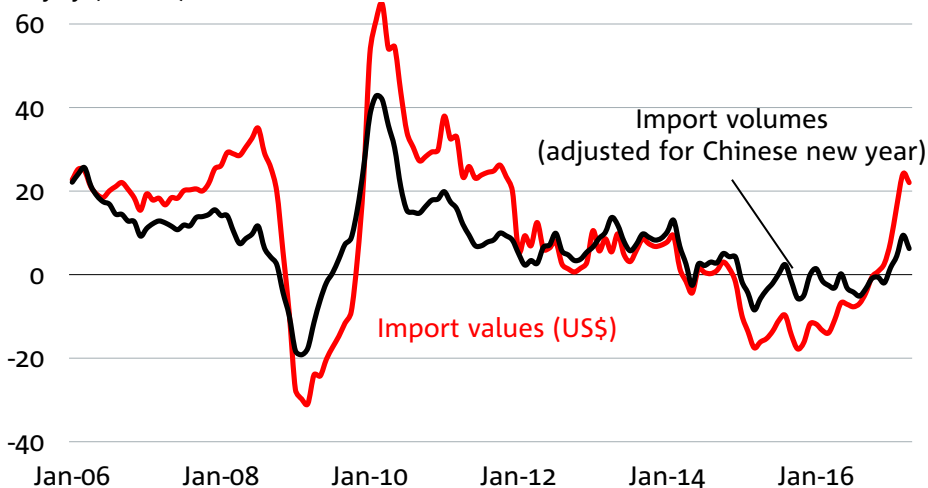


Sources: CEIC, NAB Economics

## IMPORT VALUES AND VOLUMES

Prices effects driving growth in import values

% yoy (3mma)



Source: CEIC, NAB Economics

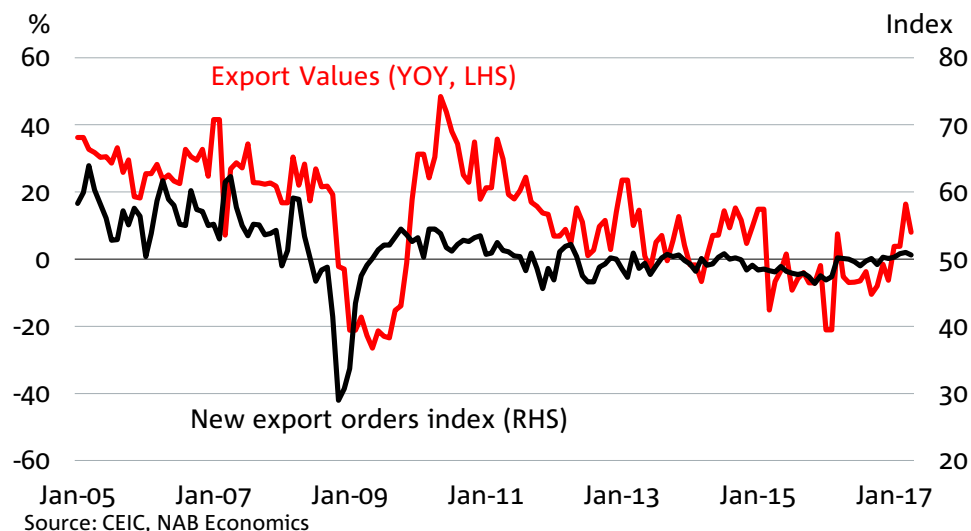
- China's trade balance was wider again in April – at US\$38.0 billion (up from US\$23.9 billion in March). Compared with the previous month, exports remained stable, while import values fell – driving the surplus higher.
- China's imports totalled US\$142.0 billion in April – an increase of 11.9% yoy but weaker than the levels recorded in March (US\$156.7 billion). Commodity price trends explain some of this movement – the RBA Index of Commodity Prices rose by 34% yoy, but fell by 0.7% month-on-month.
- In contrast, our estimates of import volumes suggest that they increased by around 1.8% yoy in April – compared with around 6.0% in March.
- There continues to be mixed trends in the import volumes of key commodities. Coal imports rose strongly again in April – after two months of relatively weak volumes – up around 32% yoy. There remains significant uncertainty around the longer term trend for domestic and imported coal supply – given efforts to reduce excess production capacity.
- Crude oil imports rose more modestly this month – up by 5.6% yoy, while both iron ore and copper imports fell – by 2.0% and 33% respectively.



# INTERNATIONAL TRADE – EXPORTS

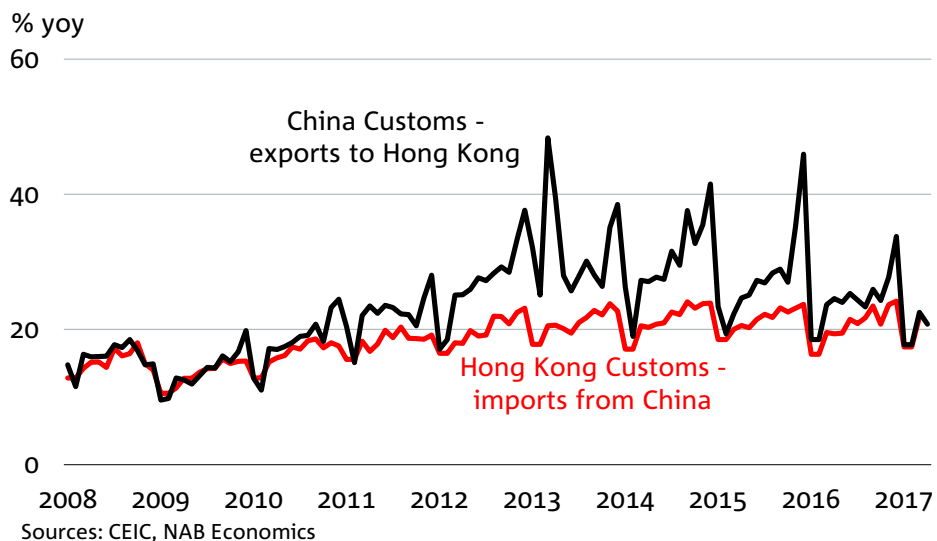
## CHINA'S EXPORT VALUES AND NEW ORDERS

Confidence slightly off five year highs



## EXPORTS TO HONG KONG

Distortion between HK & China data has narrowed

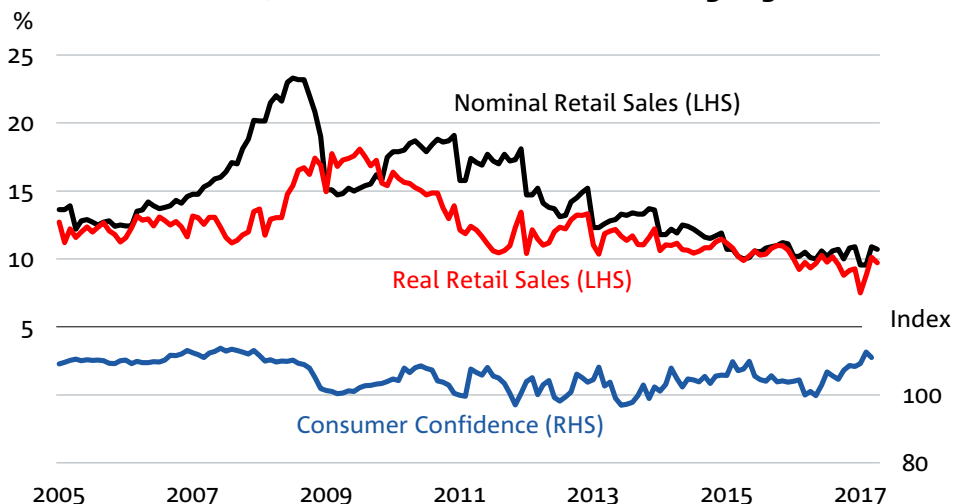


- China's exports were marginally softer month-on-month, totalling US\$180.0 billion (from US\$180.6 billion in March), although this was an increase of 8.0% yoy.
- The confidence of exporters was somewhat weaker (albeit still positive) in April – with the new export orders measure in the NBS PMI survey at 50.6 points (down from 51.0 points in March – which was the highest level in almost five years).
- Trends for exports to China's major trading partners remain mixed. Exports to other East Asian markets remain comparatively weak, falling by 4.4% yoy. In contrast, exports to the United States grew by 11.7% yoy and the European Union by 4.0% yoy.
- As has been the case in recent months, there has been a stark difference in the growth rates between Hong Kong and other East Asian markets. Exports to Hong Kong fell by 15% yoy in April (compared with -4.8% in March), while exports to non-Hong Kong East Asia rose by 3.7% yoy. The largest increases were in Vietnam and Malaysia.
- We have previously noted substantial distortions in the trade data reported by China and Hong Kong customs, however the difference between these sources has narrowed this year. It is likely that China's data was overstated previously – with capital outflows disguised as trade activity – however this may no longer be the case, distorting the true trade picture by understating China's export growth.
- While Chinese data suggested a fall of 4.8% yoy in March, Hong Kong Customs data recorded an increase in imports of around 12% yoy.

# RETAIL SALES AND INFLATION

## REAL RETAIL SALES DIP BACK BELOW 10% GROWTH

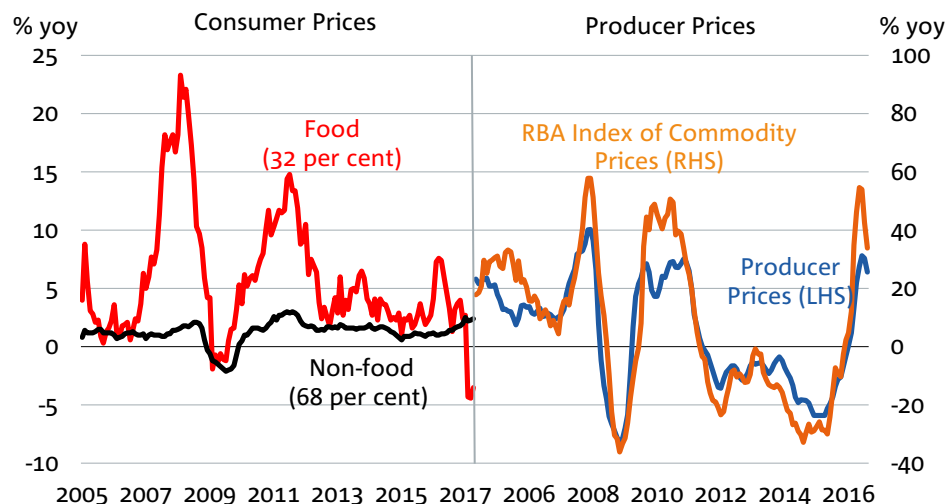
Confidence lower, but remains near decade long highs



Source: CEIC, NAB Economics

## CONSUMER AND PRODUCER PRICES

Food still strongly negative; PPI to slow in coming months



Sources: CEIC, RBA, NAB Economics

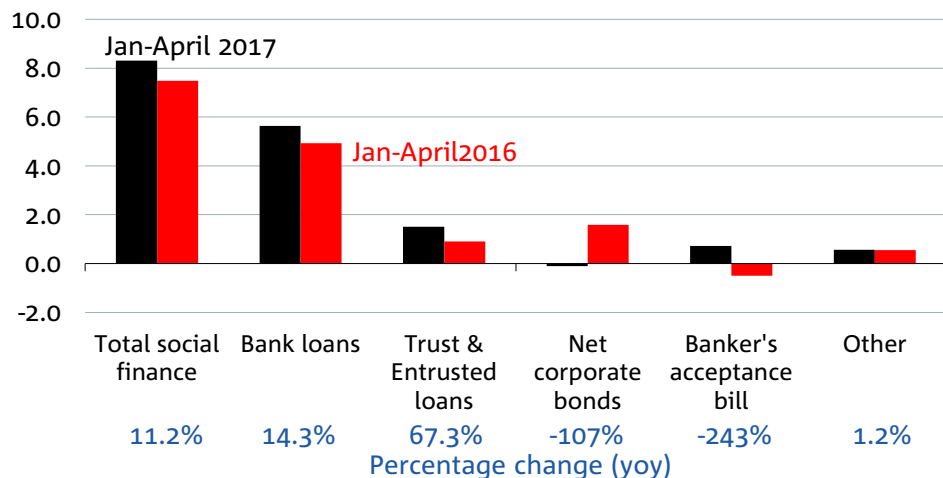
- Retail sales growth eased moderately in April – with nominal growth rising by 10.7% yoy (down from 10.9% in March). While consumer inflation has been modest in recent months, the retail price index edged slightly higher in April – meaning that real retail sales dipped slightly further than nominal price trends – to 9.7% yoy (from 10.1% last month) – albeit this rate is still around the trend levels recorded across 2015 and 2016.
- Consumer confidence was marginally softer in March – at 111.0 points, from 112.6 points in February, although this was the strongest level recorded since December 2007.
- China’s headline inflation remained constrained in April – with the Consumer Price Index rising by 1.2% yoy (up a little from 0.9% in March).
- Food price deflation has contributed to this softness. Aggregate food prices fell by 3.5% yoy in April (from -4.4% in March) – the third straight month of falling prices. The were notable declines for fresh vegetables (-22% yoy), eggs (-11% yoy) and pork (-8.1% yoy).
- In contrast, non-food prices have continued to trend higher – with the index rising by 2.4% yoy in April (from 2.3% in March). Fuel prices have recorded double digit growth for the past five months, contributing to this trend.
- Growth in producer prices was slightly softer in April – with the producer price index rising by 6.4% yoy (down from 7.6% in March). Global commodity price trends have had a major influence on this outcome – with the RBA Index of Commodity Prices increasing by 34% yoy in April, compared with 43% in March. Given that commodity prices climbed across the second half of 2016, producer price growth is likely to be relatively muted in coming months.

# CREDIT CONDITIONS

## NEW CREDIT GROWTH

Credit accelerated in April, but largely due to base effects

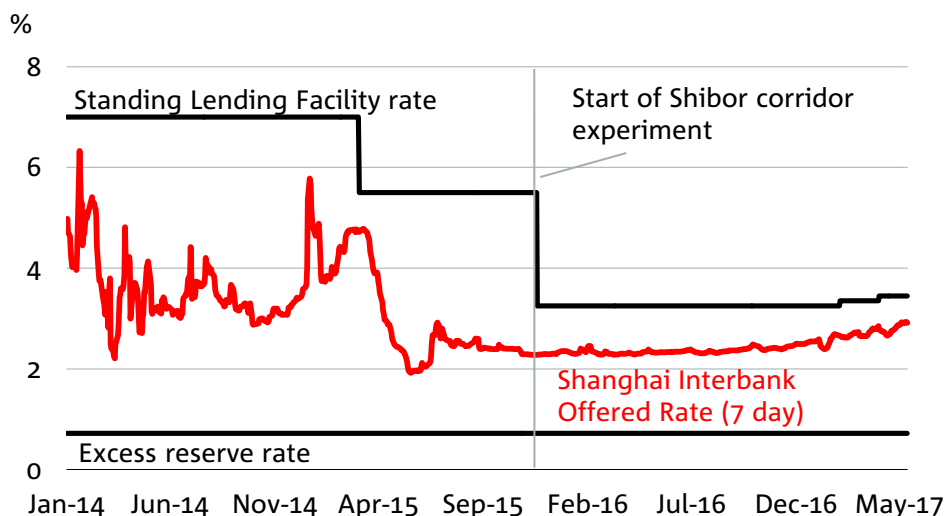
RMB trillion



Sources: CEIC, NAB Economics

## MONETARY POLICY

Gradual tightening continues – up 40 bps since start of 2017



Source: CEIC, NAB Economics

- Following on from relatively modest credit growth in Q1, China's aggregate financing accelerated in April, on the back of strong bank lending. That said, much of the acceleration was driven by base effects – with relatively weak credit issuance in April 2016.
- For the first four months of the year, new credit totalled RMB 8.3 trillion, an increase of 11.2% yoy. Bank loans accounted for the majority of this lending – at RMB 5.6 trillion (an increase of 14.3% yoy). This increase was split fairly evenly between Renminbi and foreign currency loans.
- Components of the shadow banking sector recorded strong growth in the four months to April – albeit off a low base – with trust loans, entrusted loans and banker's acceptance bills totalling RMB 2.2 trillion – an increase of 448% yoy.
- In contrast, corporate bond issuance has remained weak – with the total debt contracting by RMB 104 billion on a net basis, compared with an increase of RMB 1.6 trillion in the first four months of 2016.
- The slow tightening in monetary policy continued in April and early May – with the 7 day Shibor edging up to around 2.9% at the time of writing (the highest level since April 2015 – prior to adoption of the Shibor corridor). This represents around 40 basis points of tightening since the start of the year.
- The People's Bank of China (PBoC) has maintained the rates on the Standing Lending Facility, excess reserves and 7 day reverse repos since early April, while modestly increasing liquidity via open market operations (following two months of strong withdrawals). We maintain a view that the PBoC has a tightening bias, but will only allow rates to rise gradually, in an attempt to manage the risks associated with the high levels of corporate debt.



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