CHINA'S ECONOMY AT A GLANCE

NOVEMBER 2018

CONTENTS

CONTACT

Gerard Burg, Senior Economist - International

KEY POINTS

Trade impacts are yet to emerge, but mixed signals persist in China

- Trends in China's data remain quite mixed, with investment strengthening and retail spending weakening. We are yet to see any clear impact from US tariffs imposed in recent months (aside from weakness in manufacturing surveys). Our forecasts for China's economic growth remain unchanged, at 6.6% in 2018, 6.25% in 2019 and 6.0% in 2020 .

- China's industrial production grew marginally more strongly in October – increasing by 5.9% yoy, compared with 5.8% in September (which was the weakest increase since the opening two months of 2016). China's major manufacturing surveys converged in October, as export conditions continue to worsen – a sign of impact from US-China trade tensions that is still to emerge in China's physical trade data.

- The growth in China's fixed asset investment picked up in October – with real investment rising by 5.6% yoy in October (from 3.3% in September). This increase may reflect the reduction of deleveraging evident during the third quarter.

- There remains no clear sign of negative impacts from US tariff measures, with China's trade surplus expanding in October to US$34.0 billion (compared with US$31.3 billion previously). The overall value of both exports and imports was weaker month-on-month, in part reflecting the impact of the Golden Week holidays at the start of the month.

- In real terms, retail sales growth slowed further – down to 5.6% yoy (from 6.4% in September) – the slowest rate of growth since May 2003. The recent weakness in retail sales data has been in stark contrast to the strength in consumer confidence which, while off the peaks of early 2018, remains well above the levels seen over the past decade.

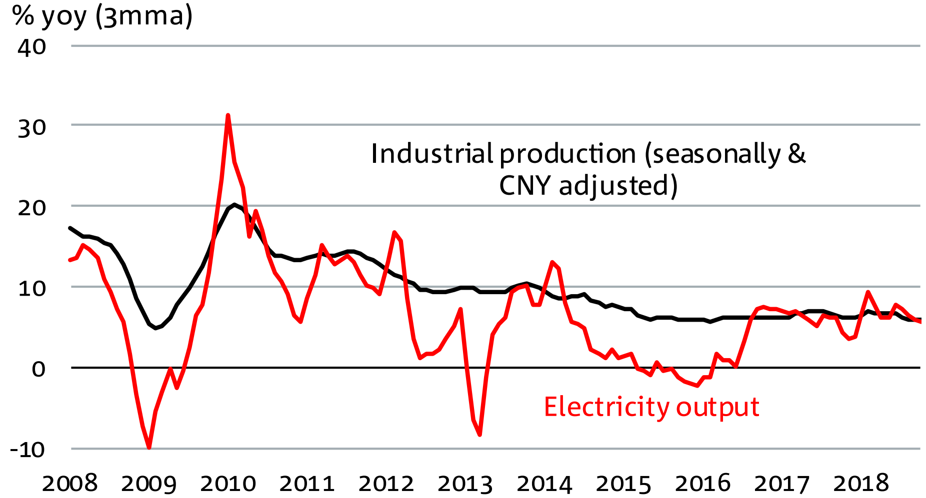
- New credit issuance was comparatively weak in October – with lending only around 60% of the total recorded in same period last year. While the deleveraging program appeared to slow over the third quarter, the weakness in October credit suggests that any broad financial stimulus has yet to start.

- Following a period of considerably volatility over the third quarter, the 7 day Shanghai Interbank Offered Rate (Shibor) was comparatively stable in October – fluctuating near the 2.6% mark. This represents an easing of around 20 to 25 basis points compared with the period between early 2017 and mid 2018.

INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

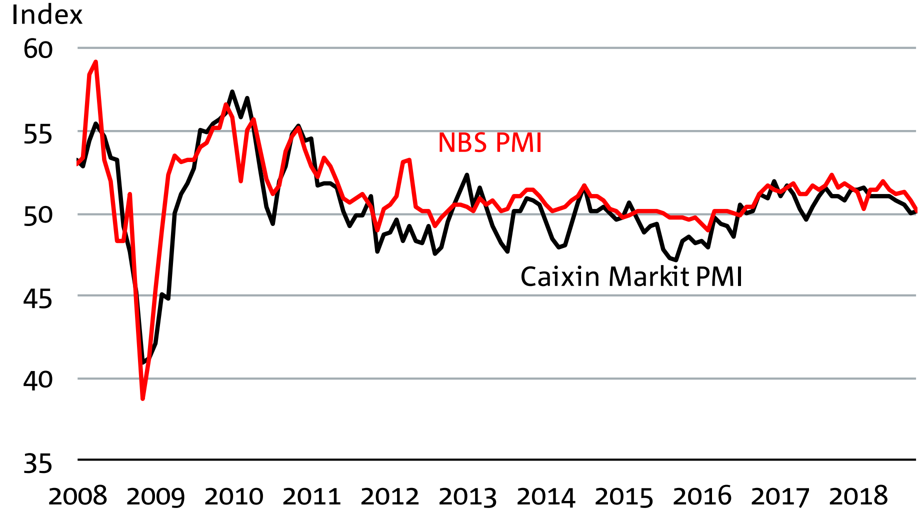
Growth remains relatively weak; mixed trends across sectors



Source: CEIC, NAB Economics

PMI SURVEYS HAVE CONVERGED IN OCTOBER

Manufacturing near neutral levels on export concerns



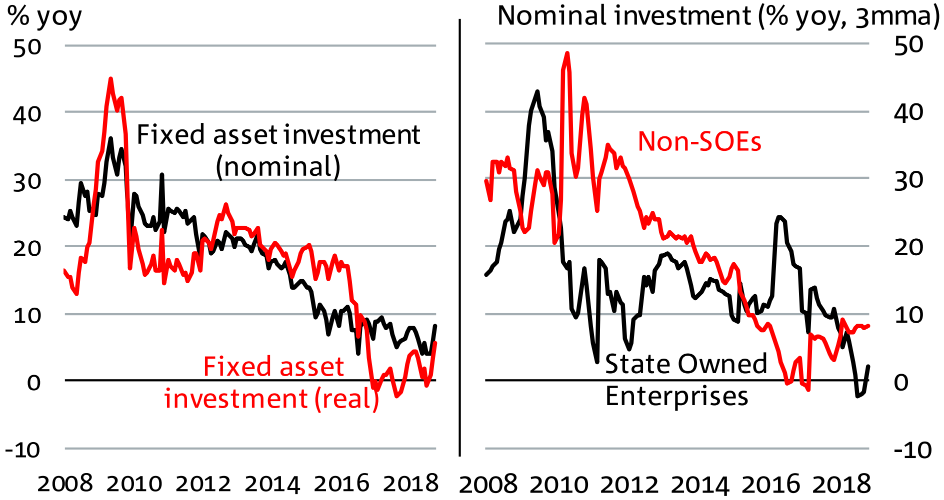
Source: CEIC, NAB Economics

- China's industrial production grew marginally more strongly in October – increasing by 5.9% yoy, compared with 5.8% in September (which was the weakest increase since the opening two months of 2016).
- Trends in the manufacturing sector were highly divergent in October. There was robust growth in construction-related heavy industry, with crude steel output rising by 9.1% yoy to 82.6 million tonnes – a new record level ahead of winter capacity closures – while cement output rose by 13.1% yoy.
- There was also strong growth in consumer electronic products – increasing by 14.6% yoy, while electricity output grew more moderately (up 4.8% yoy). In contrast, production of motor vehicles fell by 9.2% yoy.
- China's major manufacturing surveys converged in October, as export conditions continue to worsen. The official NBS PMI survey fell to a near neutral 50.2 points (from 50.8 points previously). The Caixin Markit PMI was marginally improved – up to 50.1 points (from 50.0 points in September).
- New export order measures have continued to worsen – a sign of impact from US-China trade tensions that is still to emerge in China's physical trade data. The measure in the NBS survey was at its weakest level since November 2015. The Caixin Markit export order measure was a little stronger in October, but remained in negative territory for the seventh straight month.

INVESTMENT

FIXED ASSET INVESTMENT

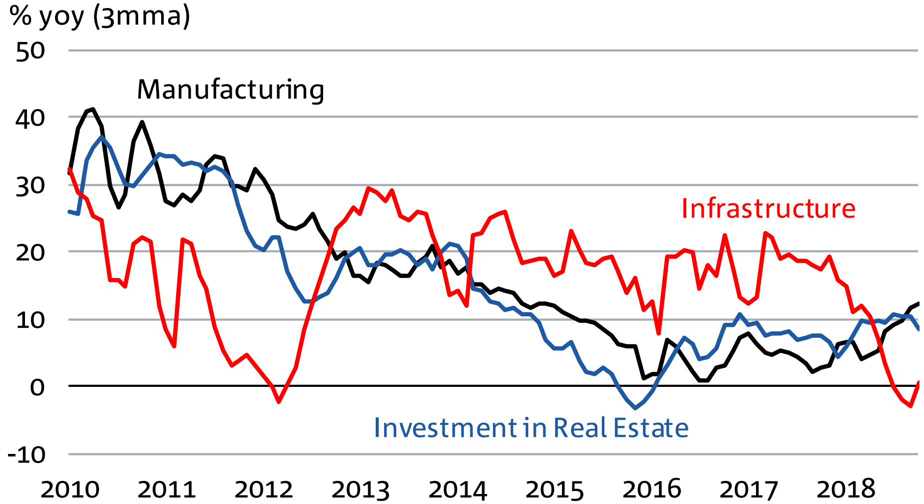
Real investment continues to recover from the trough in July.



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY SECTOR

Mixed trends in major investment categories



Source: CEIC, NAB Economics

- The growth in China's fixed asset investment picked up in October – increasing by 8.0% yoy (compared with 6.0% previously) – having trended higher since a trough in July. With producer prices trending lower – which flows through into investment goods – there was an even more rapid pickup in real investment – rising by 5.6% yoy in October (from 3.3% in September). This increase may reflect the reduction of deleveraging evident during the third quarter.

- Since the start of the year, the bulk of growth in nominal investment has been driven by private sector firms – with investment by state-owned enterprises (SOEs) falling in year-on-year terms during Q3. That said, there was a modest pick up in SOE investment in October – up by 2.4% yoy (on a three month moving average basis) – while private investment increased by 8.2% yoy (3mma), compared with 8.0% previously.

- Investment trends remain highly divergent across individual industry sectors. Infrastructure investment slowed sharply from late 2017 across most of 2018 – turning negative in August and September – however there was a modest pick up in October, increasing by 0.5% yoy (3mma). Weakness in infrastructure investment in part reflects the impact of deleveraging, however the sector may soon be boosted by stimulus measures.

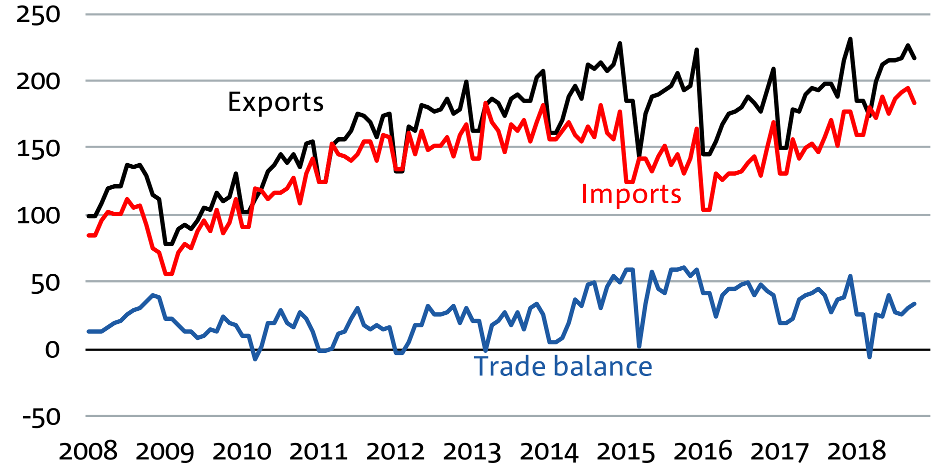
- In contrast, investment in manufacturing has accelerated – increasing by 12.4% yoy (3mma), from 11.6% previously. Investment in real estate was a little weaker this month – increasing by 8.6% yoy (3mma), compared with 10.4% in September. Growth in residential building starts has slowed in recent months – from a peak increase of 28% yoy (3mma) in August, to 21% yoy (3mma) in October.

National Australia Bank

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

TRADE SURPLUS EDGES UP IN OCTOBER

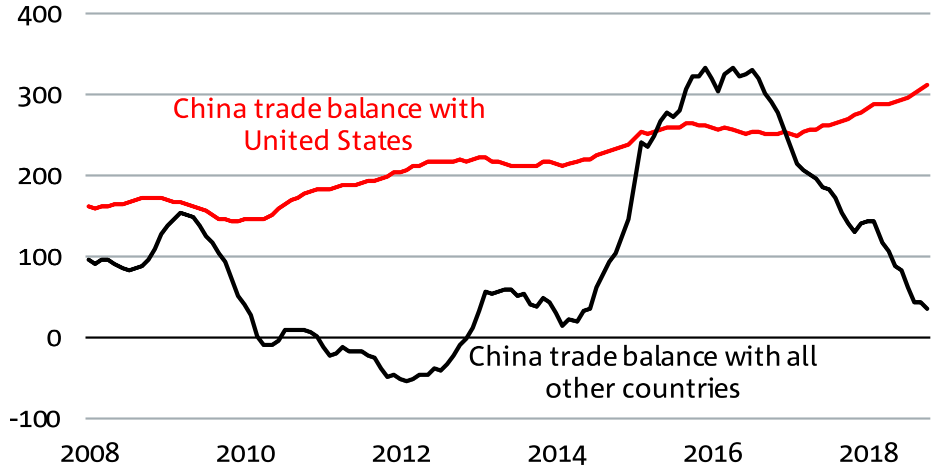
Monthly exports & imports lower on seasonal holiday closures



Sources: CEIC, NAB Economics

CHINA'S TRADE SURPLUS

US surplus continues to grow, all other countries have contracted



Sources: CEIC, NAB Economics

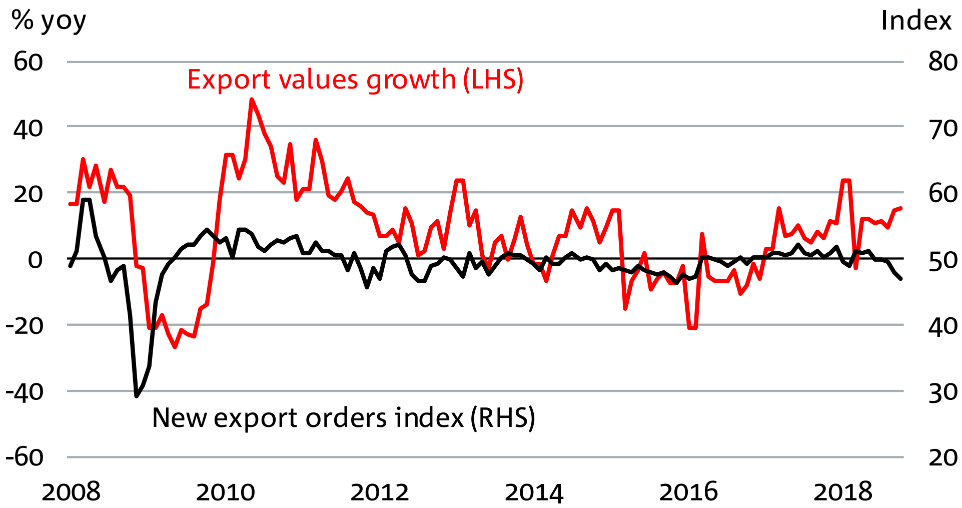
- There remains no clear sign of negative impacts from US tariff measures, with China's trade surplus expanding in October to US$34.0 billion (compared with US$31.3 billion previously). The overall value of both exports and imports was weaker month-on-month, in part reflecting the impact of the Golden Week holidays at the start of the month.
- The largest share of this trade surplus is with the United States. In the twelve months to October 2018, the surplus with the US totalled US$312 billion – an all time high – whereas the surplus with all other countries totalled just US$34 billion, having retreated sharply since late 2015. It is worth noting that historic distortions in trade data – where capital flows were disguised as trade activity – may have overstated the scale of the non-US trade surplus between 2013 and 2016.
- China's imports totalled US$183.3 billion in October (compared with an all-time high of US$195.2 billion in September) – an increase of over 21% yoy.
- Imports from the United States fell slightly year-on-year in October – down by 1.8% to US$10.9 billion. Some of this trend reflects the impact of currency movements – the recent weakness in the Yuan has increased the cost of US goods, with imports rising by 2.6% yoy in RMB terms.
- Import volumes increased strongly across a range of major commodities in October – albeit there remained some variation in growth rates. Crude oil imports surged – increasing by 31% yoy to 40.8 million tonnes (a record level), while copper imports rose by 28% yoy. Iron ore and coal volumes increased less dramatically – up by 11% and 8.5% yoy respectively.
- Our estimate of growth in China's overall import volumes has remained strong – increasing by around 15% yoy (on a three month moving average basis), largely unchanged from September. The strength of import volumes in 2018 has been in stark contrast to weakness evident between 2014 and 2016.

National Australia Bank

INTERNATIONAL TRADE – EXPORTS

CHINA'S EXPORT VALUES AND NEW ORDERS

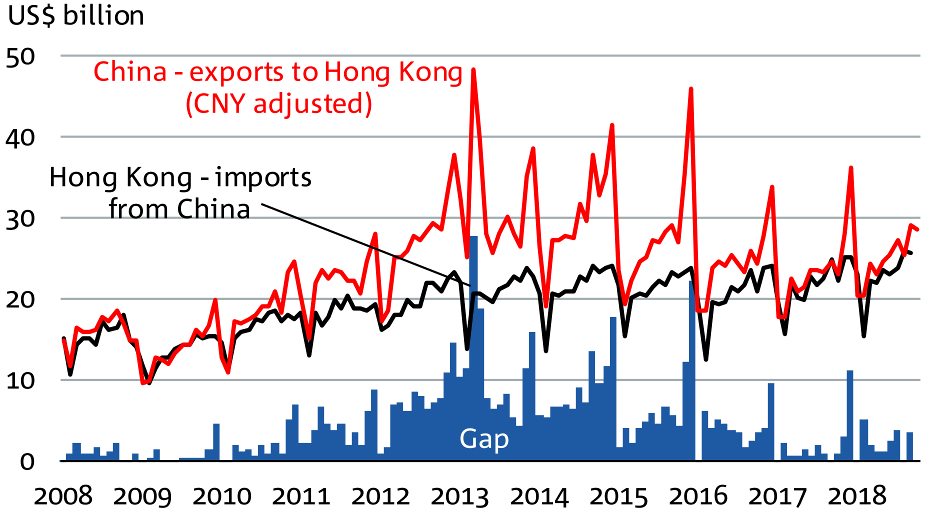
Growth in exports in stark contrast to surveyed orders



Source: CEIC, NAB Economics

EXPORTS TO HONG KONG

Discrepancy has started to widen in recent months



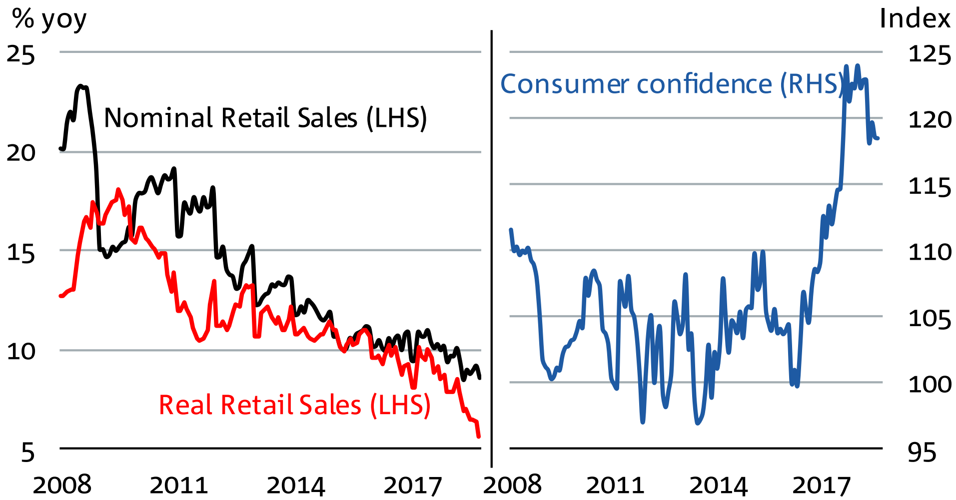
Source: CEIC, NAB Economics

- China's export values declined month on month – reflecting the impact of the Golden Week holidays – totalling US$217.3 billion (compared with US$226.5 billion in September). That said, exports rose strongly in year-on-year terms, up 15.6%.
- This strong increase came despite October being the first full month of the second phase of US tariffs. While the new export orders measure in the NBS PMI has continued to trend lower (to 46.9 points from 48.0 points in September), we are yet to see any clear impact in the trade data.
- Exports to the US increased relatively strongly – albeit slightly slower than to the European Union and East Asia – up by 13.2% yoy to US$42.7 billion. This level was weaker than the record level in September, however the month-on-month decline may have reflected both the holiday period in China (given the similar decline for aggregate exports) as well as US consumers bringing purchases forward ahead of the tariff imposition.
- Exports to the European Union rose by 14.6% yoy while deliveries to East Asian markets rose by 16.9% yoy. That said, the key driver of this increase was Hong Kong, with exports to other East Asian markets increasing by 12.5% yoy – led by Vietnam, Indonesia and Taiwan.
- According to China Customs data, exports to Hong Kong rose by almost 24% yoy in October – to US$28.4 billion. The discrepancy between Hong Kong and China Customs data has been relatively narrow in 2018 (compared with peaks between 2013 and 2016) but has widened in recent months – which may reflect a fresh wave of unauthorised capital flows masked as trade activity.

RETAIL SALES AND INFLATION

REAL SALES GROWTH SLOWED FURTHER IN OCTOBER

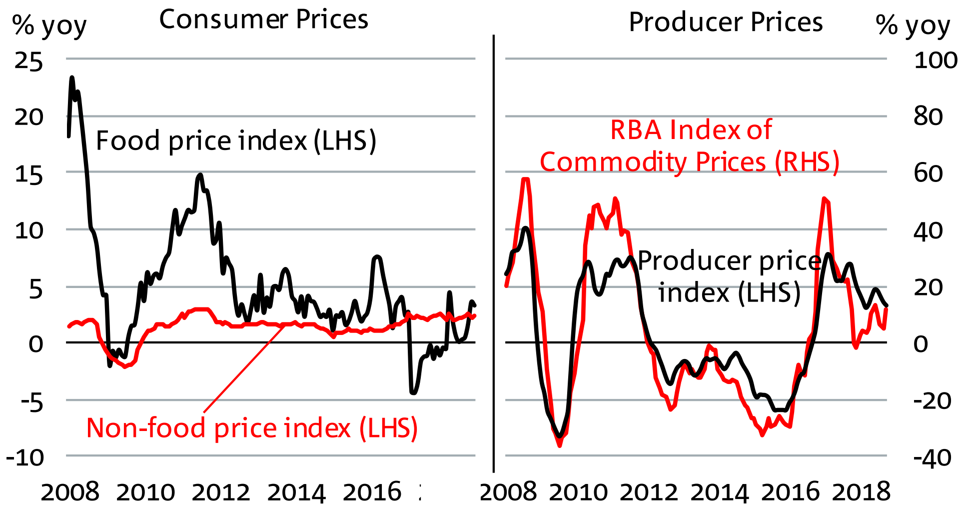
Disconnect between weak growth and strong confidence



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

CPI has held firm as producer prices continue to ease



Source: CEIC, RBA, NAB Economics

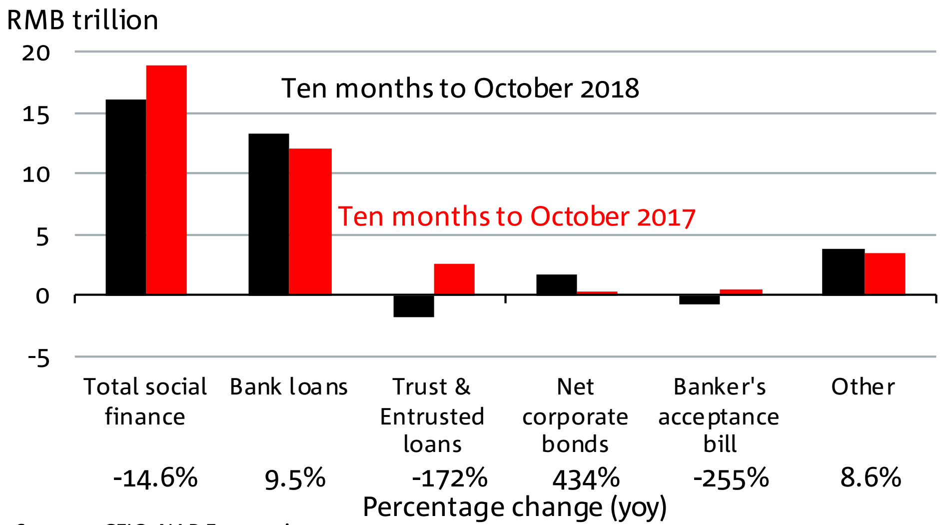
- China's nominal retail sales growth slowed in October – down to 8.6% yoy (compared with 9.2% previously). Retail price inflation has been trending higher since early 2017 – with the increase in October (2.8% yoy) the strongest since April 2012. As a result, real retail sales growth slowed further – down to 5.6% yoy (from 6.4% in September) – the slowest rate of growth since May 2003.
- The recent weakness in retail sales data has been in stark contrast to the strength in consumer confidence. This measure eased slightly in September – down to 118.5 points (from 118.6 points in August) – and while off the peaks of early 2018, confidence remains well above the levels seen over the past decade.
- China's headline inflation was unchanged in October, with the Consumer Price Index rising by 2.5% yoy. Excluding short term spikes around Chinese new year, this remains the strongest increase since October 2013.
- Growth in food prices was a touch softer in October – increasing by 3.3% yoy (from 3.6% in September). Prices for fresh vegetables grew by 10.1% yoy (compared with 14.6% previously), although this deceleration was partially offset by an uptick in both meat and fresh fruit price growth.
- There was a pickup in non-food prices in October – increasing by 2.4% yoy (compared with 2.2% in September). Vehicle fuel prices rose strongly – up 22% yoy – while residence expenses rose by 2.5% yoy.
- Producer prices increased by 3.3% yoy in October (down from 3.6% in September). The past twelve months have seen a breakdown in the previously close relationship between producer prices and commodity prices, however the trends converged somewhat in October (as the RBA Index of Commodity Prices accelerated in year-on-year terms).

National Australia Bank

CREDIT CONDITIONS

NEW CREDIT ISSUANCE

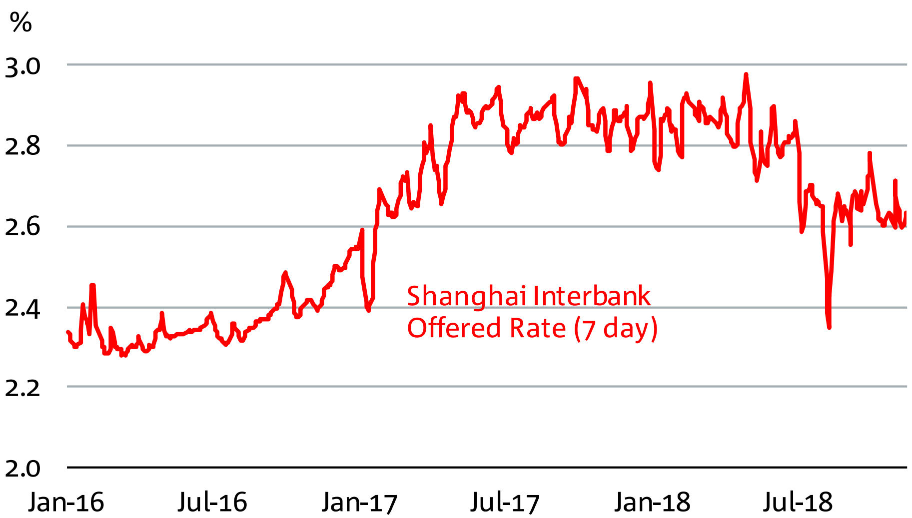
Lending was comparatively weak in October



Sources: CEIC, NAB Economics

SHIBOR MAY BE STABILISING

Lower volatility in October; 20-25 bps below mid-18 rates



Source: CEIC, NAB Economics

- New credit issuance was comparatively weak in October – with lending only around 60% of the total recorded in same period last year. While the deleveraging program appeared to slow over the third quarter, the weakness in October credit suggests that any broad financial stimulus has yet to start.

- In the first ten months of 2018, new credit issuance totalled RMB 16.1 trillion, a decline of almost 15% yoy. The key driver of this trend has been the crackdown on the shadow banking sector – with bank lending growing relatively strongly (up 9.5% yoy to RMB 13.2 trillion). In part this reflects tighter regulation that forced banks to direct credit through traditional channels, rather than off balance sheet products.

- Non-bank lending has been particularly weak over this period – falling by 58% yoy to RMB 2.9 trillion. Major shadow banking products (such as trust & entrusted loans and banker's acceptance bills) have contracted on a net basis, while this has been partially offset by corporate bond and local government special bond issuance. The latter may flow through into stronger infrastructure investment in coming months.

- Following a period of considerably volatility over the third quarter, the 7 day Shanghai Interbank Offered Rate (Shibor) was comparatively stable in October – fluctuating near the 2.6% mark. This represents an easing of around 20 to 25 basis points compared with the period between early 2017 and mid 2018.

- There are considerable risks related to China's monetary policy at present – particularly given the general tightening trend in advanced economy policy (led by the United States). Looser policy rates could encourage capital flight (creating financial stability risks) as well as boosting growth in short term debt – counter to the broader goals of the deleveraging program to bring corporate debt back under control.

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Dean Pearson
Head of Behavioural & Industry Economics
+(61 3) 8634 2331

Australian Economics and Commodities

Gareth Spence
Senior Economist – Australia
+(61 4) 36 606 175

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

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural & Industry Economics
+(613) 9208 2929

International Economics

Tony Kelly
Senior Economist
+(61 3) 9208 5049

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

John Sharma
Economist – International
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836