CHINA'S ECONOMY AT A GLANCE

DECEMBER 2019

National Australia Bank

CONTENTS

CONTACT

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KEY POINTS

China's industrial sector appears to have stabilised ahead of new trade deal

- The "Phase One" trade deal between the US and China has now been concluded – with an official signing to occur in January. The deal will see US tariffs that had been scheduled for implementation on 15 December suspended, and the rate on those imposed in September halved (from 15% to 7.5%). China has reportedly agreed to purchase agricultural goods worth around US$40 billion from the US (a figure many observers have doubted is actually possible). The limited rollback of tariffs suggests that this is more of a ceasefire than a resolution to the trade dispute, and risks of further escalation persist.

- Although the "Phase One" trade deal between the US and China should provide some greater clarity around the relationship between the two countries, the improvement is modest. Despite the halving in the tariffs imposed in September, China's manufacturers still face a more negative trade environment than they did in August this year. Our outlook for China's economic growth is unchanged – with growth at 5.9% in 2020 and 5.8% in 2021.

- China's industrial production grew more rapidly in November 2019, increasing by 6.2% yoy (up from a particularly weak 4.7% yoy in October). This series has been highly volatile in recent months, with the seasonally adjusted month-on-month series produced by the National Bureau of Statistics suggesting that growth may be stabilising (with a much more modest acceleration in growth in November).

- Fixed asset investment growth accelerated in November – up to 5.2% yoy in nominal terms (compared with 3.7% in October). It is worth noting that this rate of growth is still quite modest when compared with long term trends up to mid-2019. That said, falling prices for investment goods – driven by falling factory gate prices – mean that investment has grown more rapidly in real terms. Real investment grew by 7.3% yoy, up from 6.0% in October.

- China's trade surplus was slightly narrower in November – down to US$38.7 billion (from US$42.5 billion previously) – as the month-on-month increase in imports exceeded the increase in exports. The increase in trade activity was largely seasonal (rather than reflecting a strengthening in China's economy) – with October generally a weaker month due to the Golden Week holidays at the start of the month.

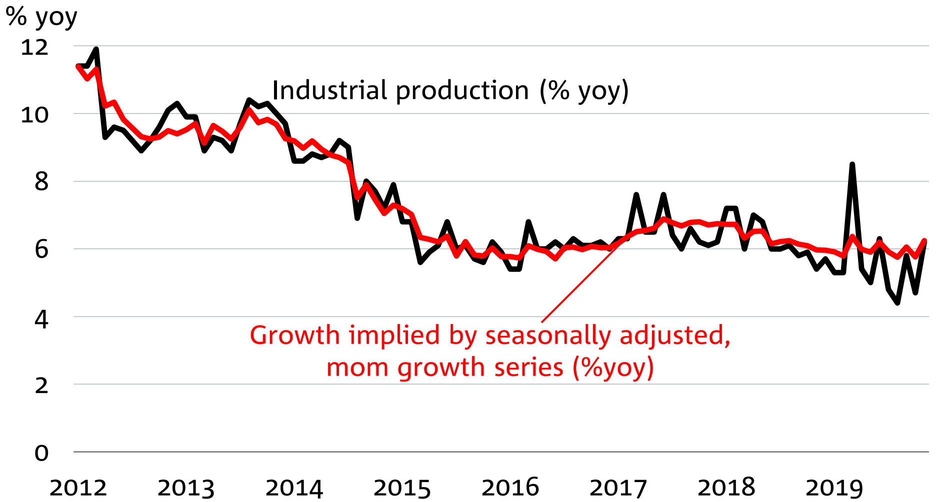
- China's producer prices continued to fall in November – albeit slightly less rapidly than in October. The Producer Price Index declined by 1.4% yoy in November (compared with 1.6% previously). In RMB terms, commodity prices have fallen in recent months, suggesting some of the margin pressure for industrial firms evident across much of 2019 will have eased.

- China's recently adopted monetary policy benchmark – the Loan Prime Rate (LPR) – edged lower in mid-November, down 5 basis points to 4.15%. The LPR is based on quotes from major banks, which are expressed as a premium above the PBoC's Medium Term Lending Facility (MLF) rate – which was cut by 5 basis points early in November. Compared with monetary policy easing in other countries, China's rate cuts have been extremely modest, however the PBoC has scope for deeper cuts if required in the future.

INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

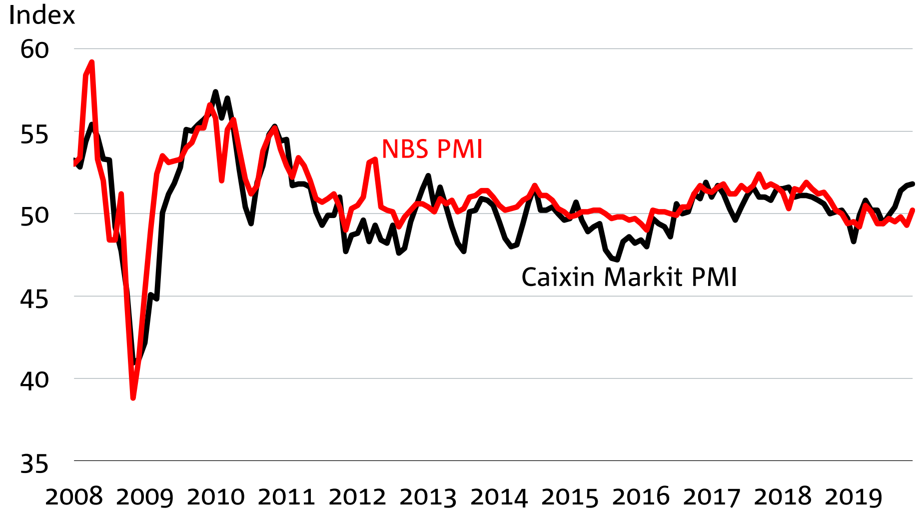
Seasonally adjusted data suggests output growth stabilising



Source: CEIC, NAB Economics

GAP BETWEEN CHINA'S MANUFACTURING SURVEYS PERSISTS

Official survey recovers to marginally positive territory



Source: CEIC, NAB Economics

- As expected, China's industrial production grew more rapidly in November 2019, increasing by 6.2% yoy, up from a particularly weak 4.7% yoy in October (due to the combination of the Golden Week holidays and the 70th anniversary of the People's Republic of China). Industrial production growth has been highly volatile in recent months, with the seasonally adjusted month-on-month series produced by the National Bureau of Statistics suggesting that growth may be stabilising (with a much more modest acceleration in growth in November).

- Although the "Phase One" trade deal between the US and China should provide some greater clarity around the relationship between the two countries, the improvement is modest. Despite the halving in the tariffs imposed in September, China's manufacturers still face a more negative trade environment than they did in August this year.

- Output rose across a range of key industrial sectors – with larger increases in consumer electronic products (up 9.7% yoy) and cement (up 8.0% yoy). In contrast, growth was more modest in crude steel and electricity output – both up 4.0%. Motor vehicle production rose by 3.7% yoy, however this was the first year-on-year increase in motor vehicle production since mid-2018.

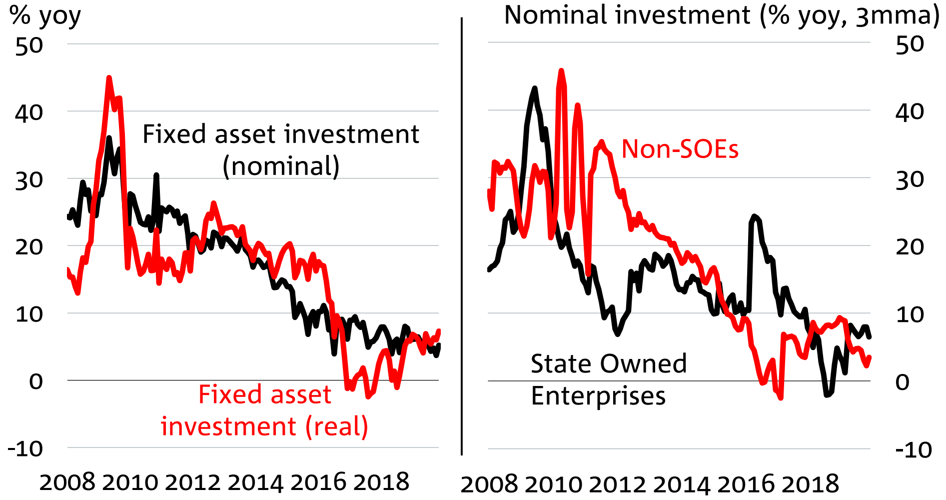
- Recent months have seen a gap develop between China's two major manufacturing surveys. The gap narrowed a little in November – as there was a sizeable pickup in the official NBS PMI survey – but it remains wide. The NBS PMI was at 50.2 points in November (from 49.3 points previously), barely above the breakeven level. The private sector Caixin Markit PMI edged higher – to 51.8 points – compared with 51.7 points in October.

- The two surveys paint a differing picture of export demand – with positive readings for new export orders in the Caixin Markit survey for the past two months, while the NBS survey has recorded negative conditions since June 2018. In part, this divergence may reflect the differing composition of firms in both surveys.

INVESTMENT

FIXED ASSET INVESTMENT

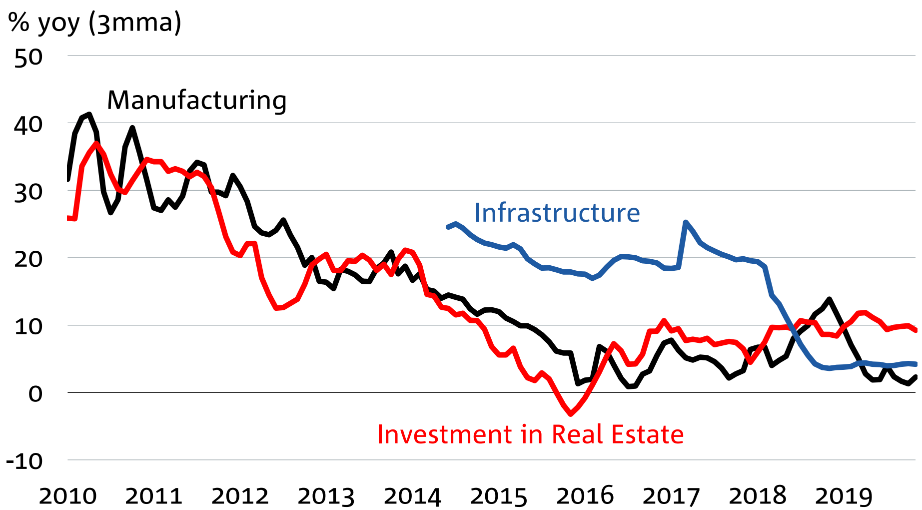
Real investment trending higher, driven by SOE investment



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY SECTOR

Real estate investment remains comparatively strong



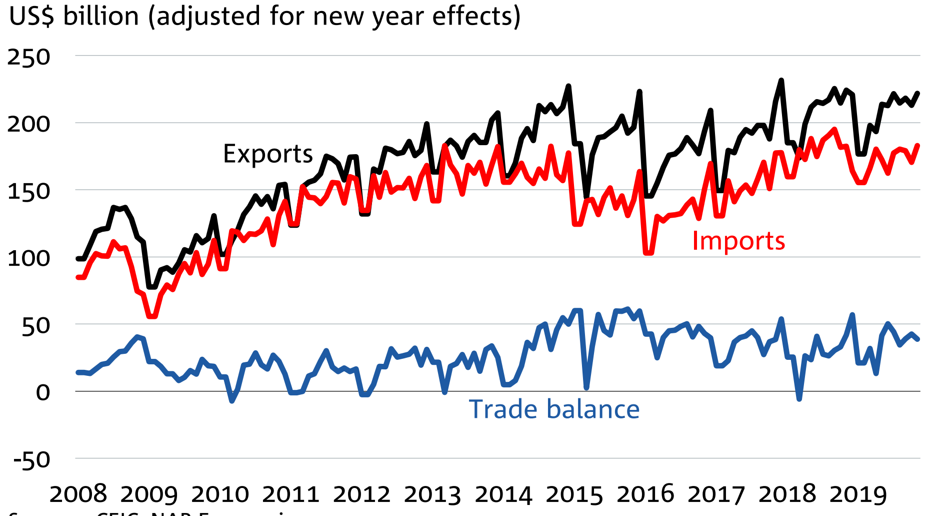
Source: CEIC, NAB Economics

- Fixed asset investment growth accelerated in November – up to 5.2% yoy in nominal terms (compared with 3.7% in October). It is worth noting that this rate of growth is still quite modest when compared with long term trends up to mid-2019.
- That said, falling prices for investment goods – driven by falling factory gate prices – mean that investment has grown more rapidly in real terms. Real investment grew by 7.3% yoy, up from 6.0% in October. This was the strongest increase since October 2016 (albeit still much weaker than the typical rates of growth prior to this time).
- There remains a marked difference in investment trends between state-owned enterprises (SOEs) and private sector firms. On a three month moving average basis, investment by SOEs rose by 6.5% yoy (down from 7.9% yoy (3mma) previously). In contrast, private investment rose by 3.5% yoy (3mma), up from 2.2% yoy in October. In the month on November, investment by private firms grew more strongly year-on-year than SOEs, however these data are highly volatile, meaning it is unclear if this result was a one-off or a shift in investment patterns.
- Investment by broad industry category remains highly mixed. Investment in real estate continues to record strong growth – up by 9.2% yoy (3mma) in November – underpinned by continued strength in construction and sales activity (although it remains to be seen if this trend can continue in 2020).
- In contrast, investment in manufacturing remains relatively weak – increasing by 2.3% yoy (3mma) in November, while infrastructure investment rose by 4.2% yoy. With quotas for local government bonds for 2020 brought forward in late November, there is some potential for an upturn in infrastructure investment in coming months.

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

TRADE SURPLUS SLIGHTLY NARROWER

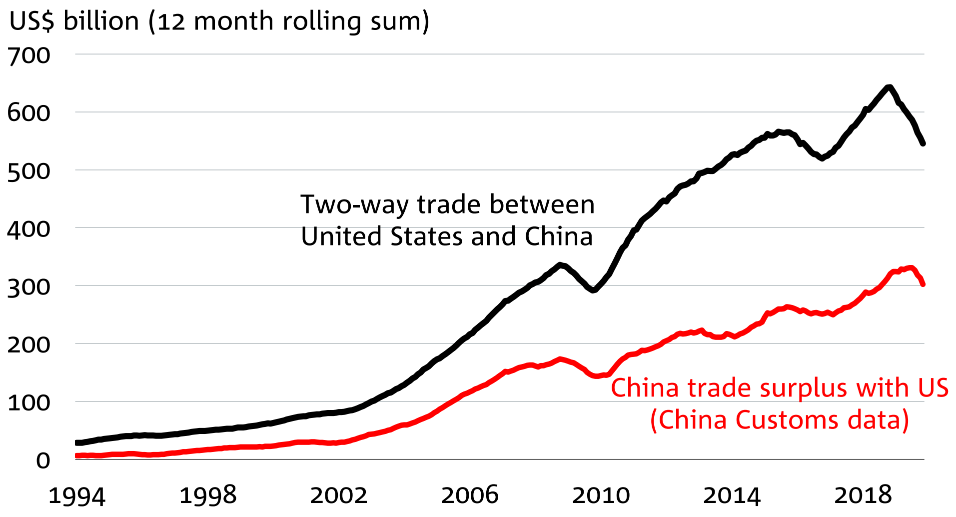
Exports & imports rise month-on-month after seasonal softness



Sources: CEIC, NAB Economics

TRADE WITH THE UNITED STATES

Tariffs have led to declining trade between the US and China



Sources: CEIC, NAB Economics

- China's trade surplus was slightly narrower in November – down to US$38.7 billion (from US$42.5 billion previously) – as the month-on-month increase in imports exceeded the increase in exports. The increase in trade activity was largely seasonal (rather than reflecting a strengthening in China's economy) – with October generally a weaker month due to the Golden Week holidays at the start of the month.

- The United States continues to account for the largest share of China's trade surplus, albeit this surplus has gradually eased due to the impact of the trade war. The twelve month rolling surplus with the US totalled US$302 billion in November, down from a peak of US$331 billion in June 2019 (a fall of 8.7%). That said, the surplus has declined more slowly than two-way trade between the countries – which has declined 15% since its 12 month rolling peak in November last year.

- China's imports rose to US$183.0 billion in November (from US$170.4 billion in October), however this was a much more modest increase in year-on-year terms – just 0.3%. China's retaliatory tariffs have impacted demand for US goods – with imports from the US falling by 9.6% yoy (on a three month moving average basis) in November, compared with a 4.8% yoy (3mma) fall in imports from all other markets.

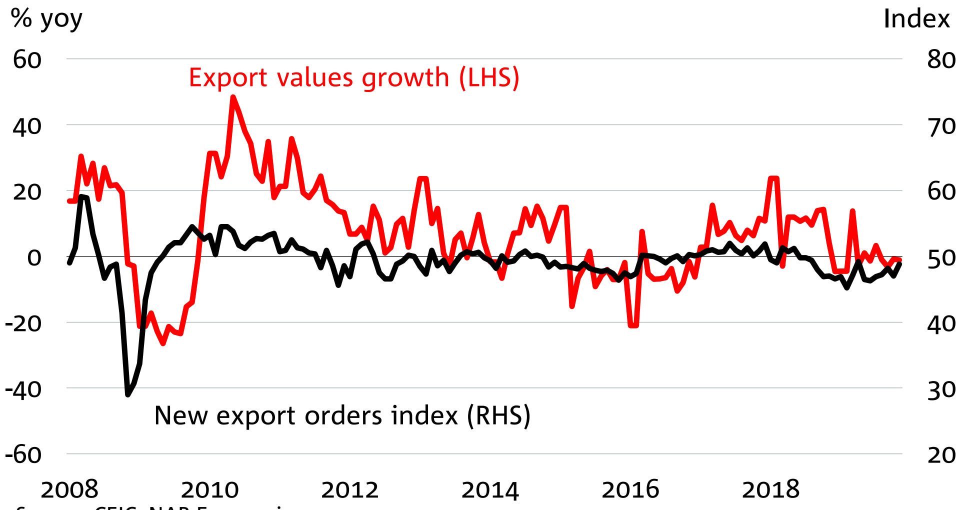
- Reflecting in part the weaker conditions in China's industrial sector and consumer demand, import volumes have fallen in year-on-year terms across 2019 – albeit the rate of decline has slowed more recently. Our estimate – which uses global commodity prices to estimate import prices – suggests import volumes fell by 3.6% yoy (3mma) in November, compared with a 6.2% fall in October, and a double-digit decline back in July.

- Despite declining import volumes overall, imports of a selection of key commodities increased in November. Imports of coal and crude oil rose by 13.9% yoy (3mma) and 11.4% yoy (3mma) respectively, while iron ore imports rose by 5.5% yoy (3mma). In contrast, copper imports fell by 2.9% yoy (3mma).

INTERNATIONAL TRADE – EXPORTS

CHINA'S EXPORTS VALUES CONTINUE TO DECLINE YOY

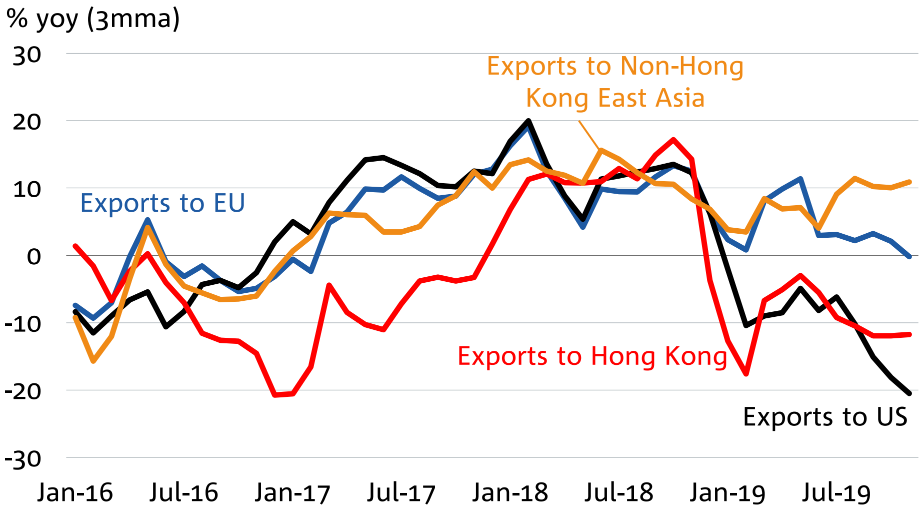
New export orders remained in negative territory



Source: CEIC, NAB Economics

EXPORTS TO MAJOR TRADING PARTNERS

Exports to much of Asia rising, as those to the US fell further



Sources: CEIC, NAB Economics

- The value of China's exports rose month-on-month (in part reflecting the seasonal weakness of October) – totalling US$221.7 billion (from US$213.0 billion previously). However in year-on-year terms, this represented a decline of 1.1%. Exporting firms in the NBS PMI survey continue to report negative conditions, albeit the result was slightly less negative in November – at 48.8 points (from 47.0 previously).
- The "Phase One" trade deal between the US and China has now been concluded – with an official signing to occur in January. The deal will see US tariffs that had been scheduled for implementation on 15 December suspended, and the rate on those imposed in September halved (from 15% to 7.5%). China has reportedly agreed to purchase agricultural goods worth around US$40 billion from the US (a figure many observers have doubted is actually possible). The limited rollback of tariffs suggests that this is more of a ceasefire than a resolution to the trade dispute, and risks of further escalation persist.
- There is a significant difference in export trends between key markets. At a high level, exports to the United States fell by 20.5% yoy (on a three month moving basis), while exports to all other markets rose by 3.1% yoy (3mma).
- That said, there remains some significant divergence in export trends to other markets. Exports to the European Union contracted for the first time since early 2017 – falling by 0.2% yoy (3mma).
- Exports to Hong Kong – according to Chinese data – fell by 11.8% yoy (3mma), however these data have long been subject to distortion (as a result of capital flows disguised as trade activity). In the first ten months of 2019, Hong Kong Customs reported a 5.8% yoy decline in imports from China, compared with China Customs data reporting a 9.1% yoy fall.
- Exports to non-Hong Kong East Asia grew strongly in November – up 10.9% yoy (3mma). This was driven by increasing exports to Vietnam, Singapore, the Philippines and Taiwan.

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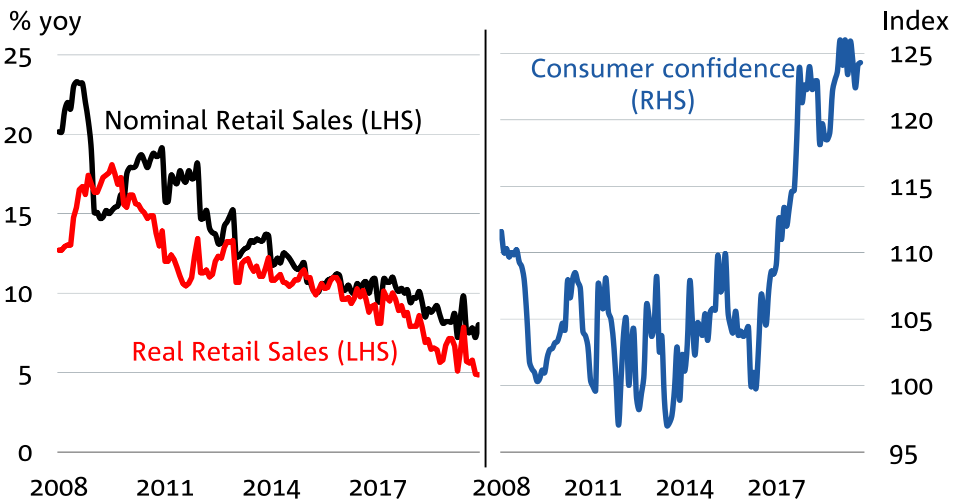
RETAIL SALES AND INFLATION

RETAIL SALES AND CONSUMER CONFIDENCE

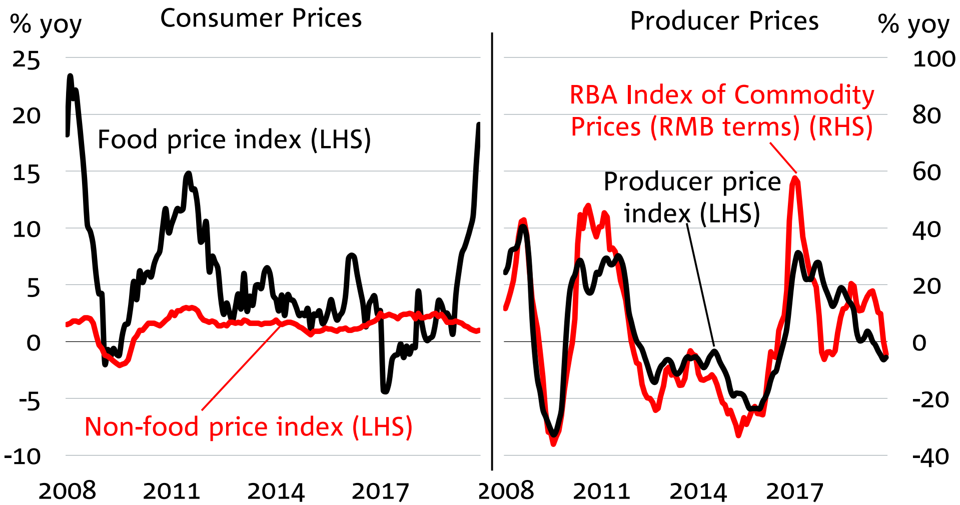
Real sales growth remains below 5%



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

Pork continues to drive CPI higher; producer prices falling



Source: CEIC, RBA, NAB Economics

- There was a modest recovery in China's nominal retail sales in November – which increased by 8.0% yoy (from 7.2% yoy previously). However, this acceleration was in line with higher inflation, with retail prices up by 3.0% yoy. As a result, real retail sales were unchanged at 4.9% yoy – the slowest rate of growth since May 2003.
- Despite weak real sales growth, China's main consumer confidence survey has remained historically strong – with the most recent reading (from October) edging up to 124.3 points (from 124.1 points previously) – not far from its all time high.
- Soaring food prices have continued to drive China's headline inflation – with the Consumer Price Index increasing by 4.5% yoy in November (from 3.8% yoy previously).
- The food price index rose by 19.1% yoy (from 15.5% yoy in October). The surging price of pork remains the key contributor to this trend – with pork prices rising by 110% yoy, as African Swine Fever has devastated the country's pork supply. A large scale loss of breeding stock, and China's position as (by far) the largest pork producer, means that there is little prospect of an improvement in this sector in the short term – meaning that food price inflation will remain elevated for some time.
- Non-food prices have been trending lower since late 2018 – albeit the index rose marginally faster in November, increasing by 1.0% yoy (compared with 0.9% previously). While vehicle fuel prices are still falling, they declined by 10.6% yoy in November (compared with 15.1% in October).
- China's producer prices continued to fall in November – albeit slightly less rapidly than in October. The Producer Price Index declined by 1.4% yoy in November (compared with 1.6% previously). In RMB terms, commodity prices have fallen in recent months, suggesting some of the margin pressure for industrial firms evident across much of 2019 will have eased.

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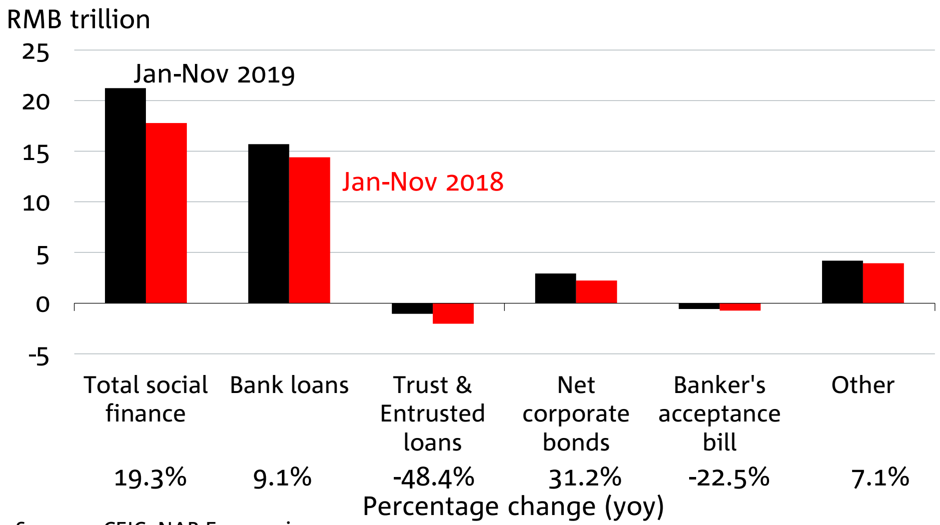
CREDIT CONDITIONS

NEW CREDIT ISSUANCE

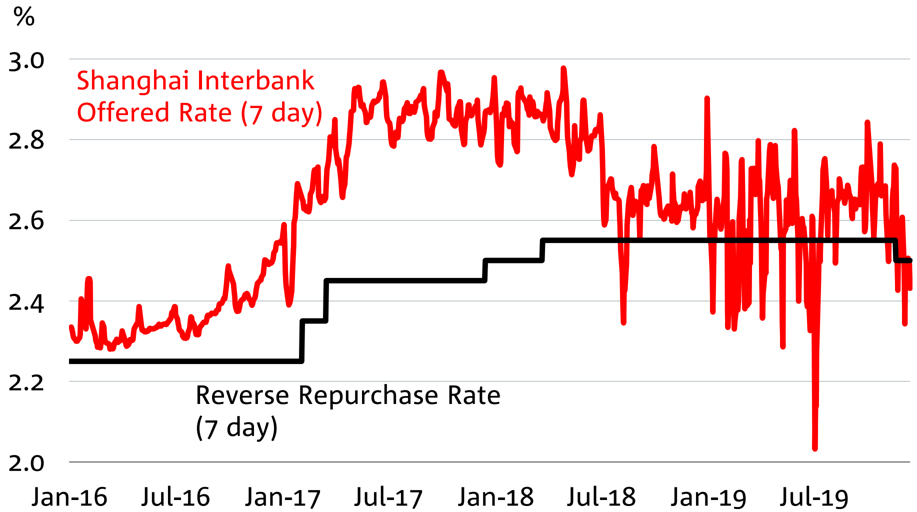
Credit growth has been easing as local gov't bonds slow



Sources: CEIC, NAB Economics

SHORT TERM INTEREST RATES

Shibor trending lower since policy rate cut



Source: CEIC, NAB Economics

- New credit issuance picked up in November – following a particularly weak result in October. Issuance rose by 9.4% yoy in November, well below the average rate recorded across the year to date, in part due to the slowdown in local government special bond issuance as annual quotas were reached. Some of the 2020 local bond quota was brought forward in late November, meaning there may be some pickup in December.

- In the first 11 months of 2019, new issuance totalled RMB 21.2 trillion, an increase of 19.3% yoy. Bank loans accounted for the majority of new issuance over this period – totalling RMB 15.7 billion, an increase of 9.1% yoy.

- The increase in non-bank lending has been considerably larger – around 62% yoy in the first eleven months. This increase reflects a sizeable expansion in corporate bond issuance (up by 31% yoy over his period) along with a 23% yoy increase in local government special bond issuance (part of the "Other" category in the chart), albeit this segment slowed rapidly in recent months. In addition, key shadow banking components – such as trust and entrusted loans and banker's acceptance bills – declined more slowly than the same period last year.

- China's recently adopted monetary policy benchmark – the Loan Prime Rate (LPR) – edged lower in mid-November, down 5 basis points to 4.15%. The LPR is based on quotes from major banks, which are expressed as a premium above the PBoC's Medium Term Lending Facility (MLF) rate – which was cut by 5 basis points early in November. Compared with monetary policy easing in other countries, China's rate cuts have been extremely modest, however the PBoC has scope for deeper cuts if required in the future.

- Rates in short term money markets have also eased, following a 5 basis point cut to the PBoC's Reverse Repurchase Rate in mid-November. The 7 day Shanghai Interbank Offered Rate (Shibor) has trended lower since this time – from around 2.65% to around 2.45% at the time of writing.

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