CHINA'S ECONOMY AT A GLANCE

JANUARY 2020

National Australia Bank

CONTENTS

CONTACT

Gerard Burg, Senior Economist - International

NAB Group Economics

KEY POINTS

China's ends 2019 in line with expectations

- China's economic growth was stable in Q4 – increasing by 6.0% yoy, the same rate as in Q3 – in line with our expectations. For the full year, China's economy grew by 6.1%, towards the lower bound of the Government's target of 6%-6.5%. This was the weakest increase since 1990. Despite the negative impact of the US-China trade war, there was a pickup in growth from the industrial sectors in Q4 – offsetting a slowdown in services.

- Reports suggest that China will lower the growth target for 2020 to 'around 6%' at the National People's Congress in March. Our forecasts for China's economic growth remain unchanged. We anticipate further gradual slowing over the next two years, with growth of 5.9% in 2020 (near the reported target), before easing to 5.8% in 2021.

- China's industrial production growth accelerated for the second straight month in December. Seasonally adjusted month-on-month data suggest the industrial sector stabilised in Q3 and has started to strengthen more recently – in line with the results of PMI surveys.

- Fixed asset investment growth accelerated again in December. State-owned enterprises (SOEs) grew more strongly than private sector firms across much of 2019, however nominal investment by SOEs slowed in December. In contrast, investment by private firms has picked up.

- China's trade surplus widened in December, as the month-on-month increase in exports exceeded the increase in imports. The large year-on-year increase in import values, combined with a decrease in commodity prices over the same period, suggests a sizeable rise in import volumes in December (in stark contrast to steep falls across much of the year).

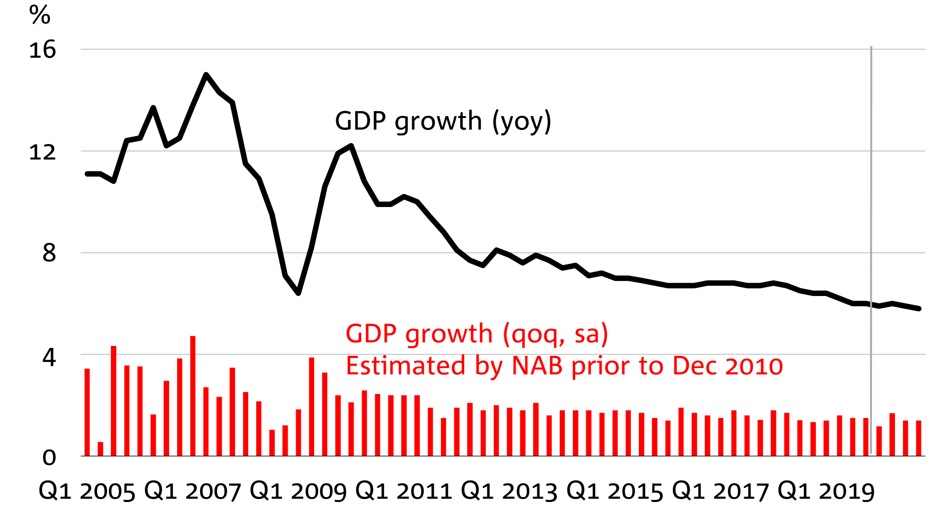
- Producer prices fell by around 0.5% yoy in December – compared with 1.4% fall in November. The overall Producer Price Index appears to have stabilised – having fallen from the latter months of 2018 through mid-2019. Month-on-month falls in global commodity prices have occurred more recently, easing the pressure on China's manufacturing sector.

- Chinese authorities have made further reforms to monetary policy transmission – by removing previous loan benchmarks and requiring banks to reprice existing loans to the new benchmark Loan Prime Rate between March and August this year. This should lower funding costs for borrowers, with the exception of real estate (which is excluded). The Loan Prime Rate (LPR) remained unchanged at 4.15% in December.

GROSS DOMESTIC PRODUCT

CHINA'S ECONOMIC GROWTH STABLE IN Q4

Annual growth of 6.1% the weakest since 1990

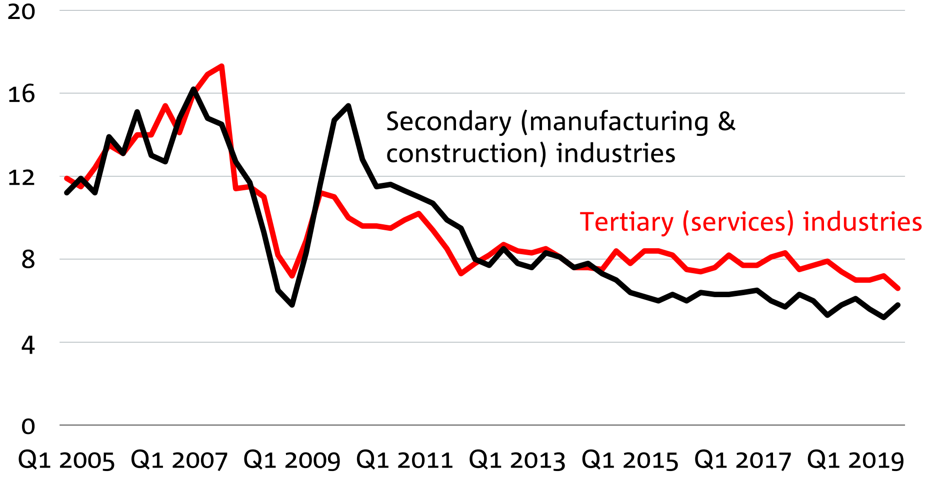


Source: CEIC, NAB Economics

ECONOMIC GROWTH BY INDUSTRY

Slower services offset by a pickup in the industrial sectors

Chinese economic growth by sector (% yoy)



Source: Refinitiv, NAB Economics

- China's economic growth was stable in Q4 – increasing by 6.0% yoy, the same rate as in Q3 – in line with our expectations. For the full year, China's economy grew by 6.1%, towards the lower bound of the Government's target of 6%-6.5%. This was the weakest increase since 1990.
- Despite the negative impact of the US-China trade war, there was a pickup in growth from the industrial sectors in Q4 – with growth of 5.8% yoy (from 5.2% yoy previously). This was enough to offset slowing in the services sector – which eased to 6.6% yoy growth, from 7.2% in Q3.
- Reports suggest that China will lower the growth target for 2020 to 'around 6%' at the National People's Congress in March. So far, authorities have resisted the large scale stimulus measures seen during earlier periods, however they may target further infrastructure development this year.
- Our forecasts for China's economic growth remain unchanged. We anticipate further gradual slowing over the next two years, with growth of 5.9% in 2020 (near the reported target), before easing to 5.8% in 2021.

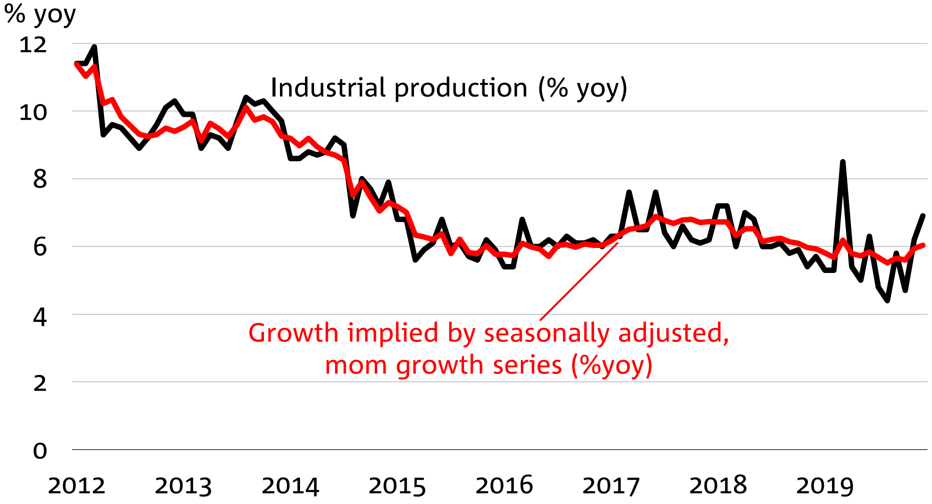
NAB CHINA GDP FORECASTS

%	2019	2020	2021
GDP	6.1	5.9	5.8

INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

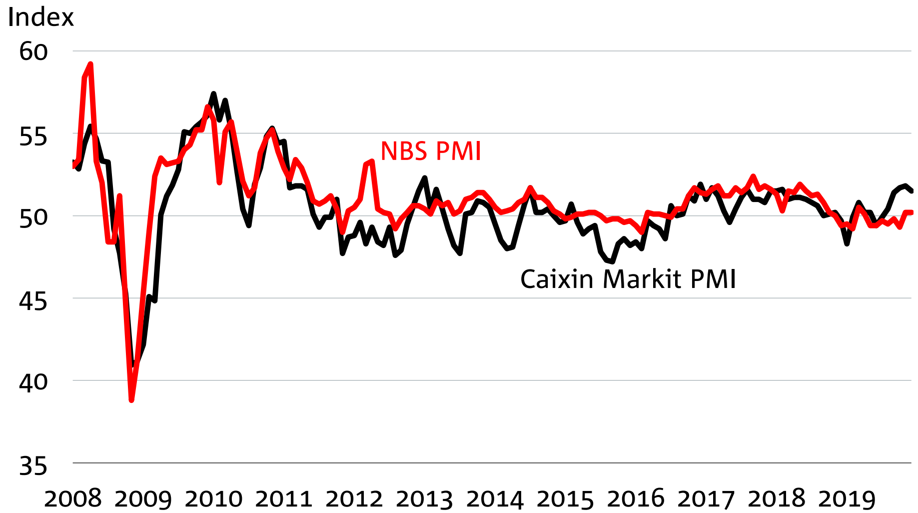
Signs of recovery in the industrial sector



Source: CEIC, NAB Economics

CHINA'S PMI SURVEYS HAVE IMPROVED

However still a wide gap between two major surveys



Source: CEIC, NAB Economics

- China's industrial production growth accelerated for the second straight month in December – increasing by 6.9% yoy (from 6.2% yoy in November). These data have been highly volatile across 2019, however the seasonally adjusted month-on-month series from the National Bureau of Statistics suggests the industrial sector stabilised in Q3 and has started to strengthen more recently – in line with the results of PMI surveys.

- Output rose strongly across a range of major industrial sectors. Production of crude steel rose by 11.6% yoy, the same rate of growth as the output of consumer electronic products. Production of motor vehicles increased by 8.1% yoy – with the sector continuing its recovery from the weakness evident between late 2018 and mid-2019.

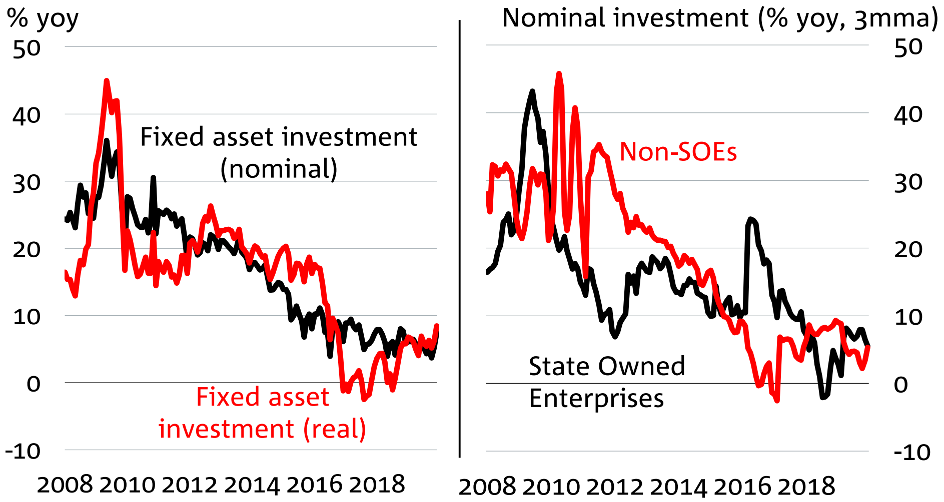
- China's two major manufacturing surveys remained in positive territory in December – with the sizeable divergence between the two measures remaining in place. The official NBS PMI was unchanged at 50.2 points in December – a level that is barely above breakeven. In contrast, the private sector Caixin Markit PMI was at 51.5 points (down from 51.8 points in November).

- China's industrial sector has been significantly impacted by the deterioration in the global trading environment – particularly as US tariffs have increased over the past year. That said, there has been an improvement in the new export order readings in both surveys in recent times, with both surveys recording positive readings in December for the first time since March 2018.

INVESTMENT

FIXED ASSET INVESTMENT

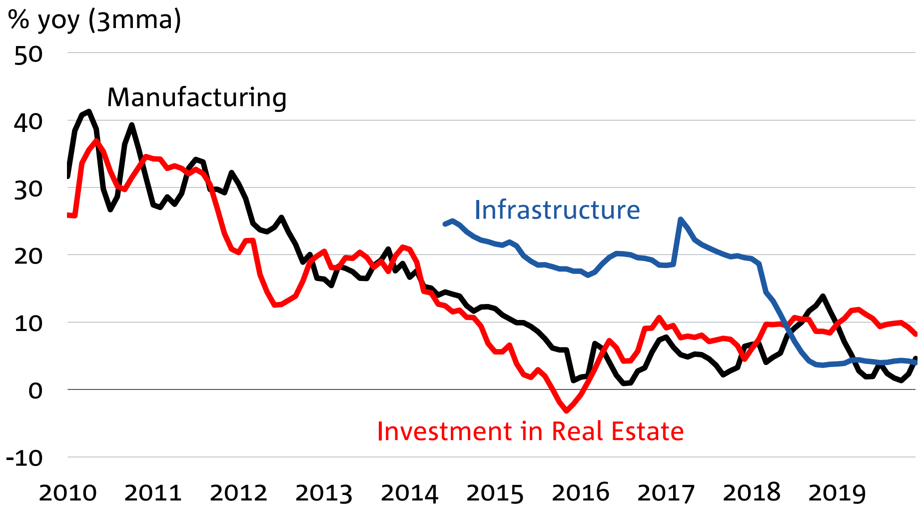
Real investment is continuing to trend higher



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY SECTOR

Real estate investment a little softer (though still relatively strong)



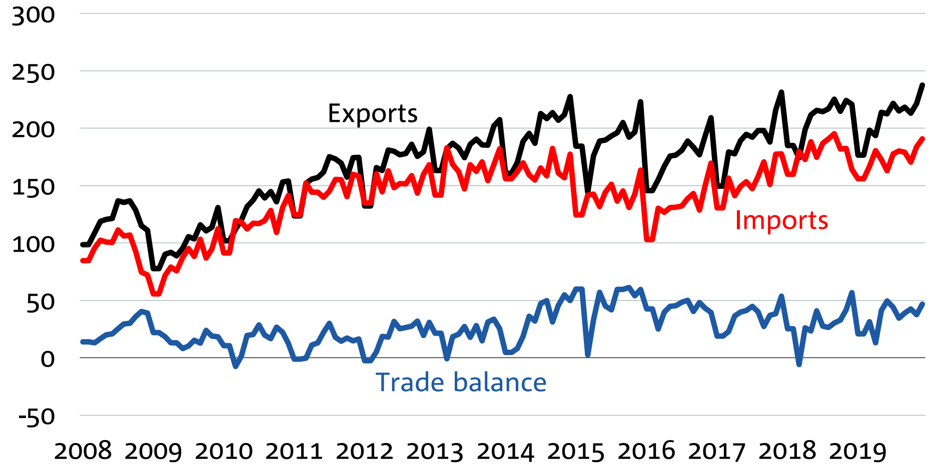
Source: CEIC, NAB Economics

- Fixed asset investment growth accelerated again in December – up to 7.4% yoy (from 5.2% yoy in November). Reflecting the still falling prices for investment goods – driven by the declines in factory gate prices – real investment has continued to strengthen – up to an estimated 8.4% yoy in December, from 6.2% yoy previously.
- State-owned enterprises (SOEs) grew more strongly than private sector firms across much of 2019, however nominal investment by SOEs slowed in December – down to 5.5% yoy (on a three month moving average basis), from 6.5% yoy (3mma) previously. In contrast, investment by private firms has picked up – growing by 5.3% yoy (3mma) in December, from 3.5% yoy (3mma) in November.
- Investment trends across major industries remains highly mixed. Investment in real estate has continued to outpace other industries – increasing by 8.2% yoy (3mma), down from 9.2% yoy (3mma) previously. It remains to be seen whether the relatively strong construction and sales activity will continue into 2020.
- Manufacturing investment has been weak across much of 2019, however growth picked up in December – to 4.6% yoy (3mma), up from 2.3% yoy (3mma) previously. Infrastructure investment was fairly stable at 4.0% yoy (3mma) – with projects likely lacking fresh funding due to local government bond quotas being reached in November, and 2020 quotas only being brought forward in December (later than had been anticipated).

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

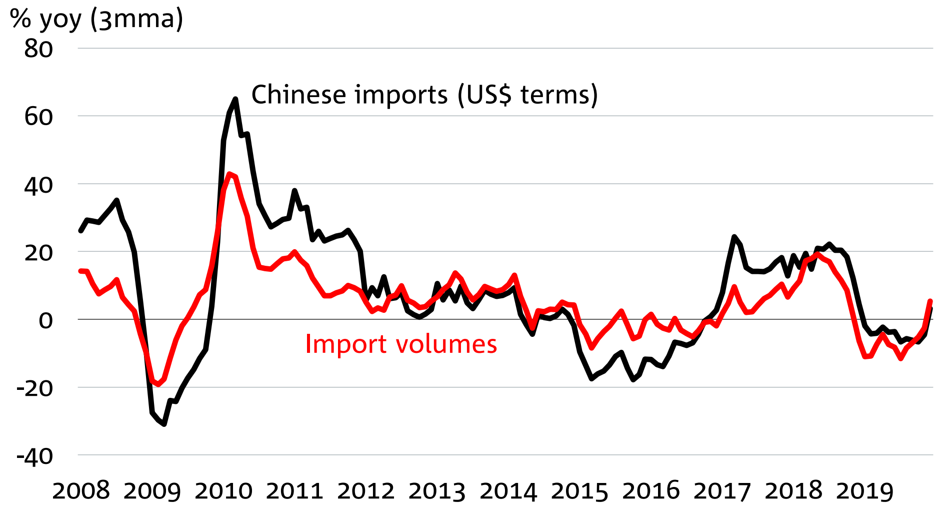
Surplus widened in December as trade expanded



Sources: CEIC, NAB Economics

CHINA'S IMPORT VALUES AND VOLUMES

Volumes rose sharply in December, following months of yoy falls



Source: CEIC, NAB Economics

- China's trade surplus widened in December, as the month-on-month increase in exports exceeded the increase in imports. The trade surplus totalled US$46.8 billion (compared with US$37.9 billion previously), the largest value since June 2019.

- Although the tariff measures introduced by both the United States and China have slowed the two-way trade between the two countries, the US continues to account for the bulk of China's trade surplus. On a rolling twelve month basis, the surplus totalled US$295 billion, down from a peak of US$331 billion in June 2019.

- China's imports rose in monthly terms – up to US$190.9 billion in December (from US$183.4 billion previously) – but surged in year-on-year terms – increasing by 16.3% yoy. While China's tariffs have impacted demand for US imports across 2019, imports from the US rose year-on-year in December. However, on a three month moving average basis, imports from the US fell by 1.5% yoy (compared with a 9.6% yoy (3mma) fall in November). In contrast, imports from all other economies rose by 3.5% yoy (3mma).

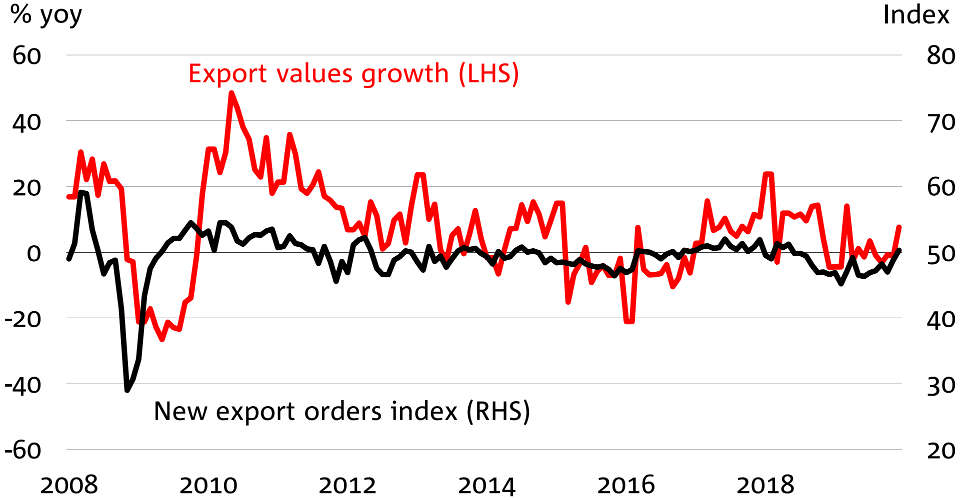
- Our estimate of import volumes – using global commodity prices as a proxy for import prices – rose by 5.3% yoy (3mma) in December, the largest increase since October 2018.

- Imports of most major commodities rose in December – with the notable exception of coal. Coal imports fell 73% yoy, as Beijing capped full year imports to 300 million tonnes. In contrast, imports of other major commodities rose strongly – with copper imports up 10.2% yoy (3mma), iron ore up by 9.0% yoy (3mma) and crude oil rising 8.9% yoy (3mma) in December.

INTERNATIONAL TRADE – EXPORTS

CHINA'S EXPORTS ROSE IN DECEMBER

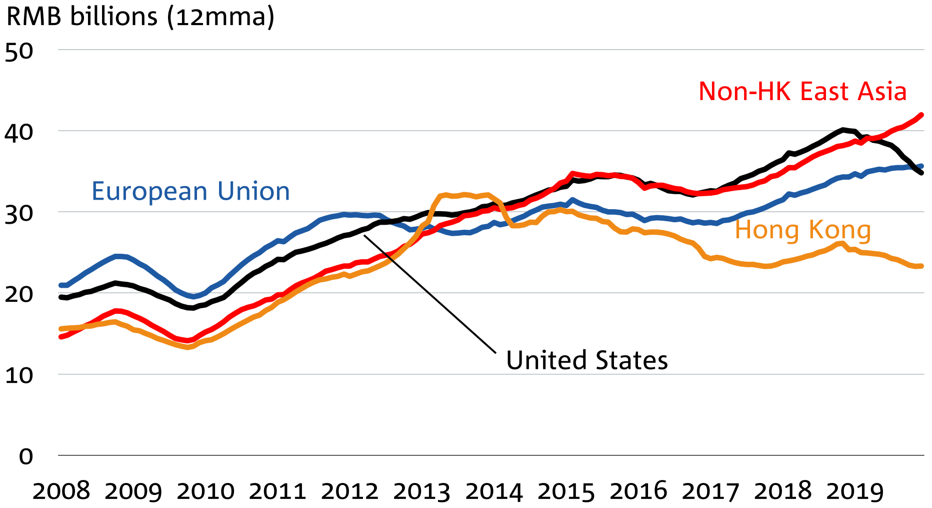
New export orders turned positive for the first time since May-18



Source: CEIC, NAB Economics

EXPORTS TO MAJOR TRADING PARTNERS

Exports to Asia largely offset declines to the United States



Sources: CEIC, NAB Economics

- China's exports rose by 7.6% yoy in December to US$237.6 billion (up from US$221.5 billion in November). There was a notable improvement in export conditions in the NBS PMI survey – with new export orders rising to a marginally positive 50.3 points (from 48.8 points in November).

- The "Phase One" trade deal between the US and China was officially signed on 15 January, providing a ceasefire in the trade war between the two countries. The deal maintains the bulk of tariff measures already introduced and does not address major concerns around China's industrial policies. This means further escalation in trade tensions cannot be ruled out.

- Export trends to individual markets have shifted considerably over the course of the US-China trade war, as the rolling twelve month value of total exports has essentially plateaued since late 2018. Exports to the United States have declined considerably – falling by 18.1% yoy (on a three month moving average basis) in December, while exports to all other markets rose by 6.7% yoy (3mma).

- Exports to the European Union rose by 2.1% yoy (3mma) – following a slight decline in November – while exports to East Asia rose by 5.8% yoy (3mma). Exports to non-Hong Kong East Asia rose by 14.5% yoy (3mma) in December. Vietnam, Singapore, the Philippines and Malaysia were the main drivers of this increase.

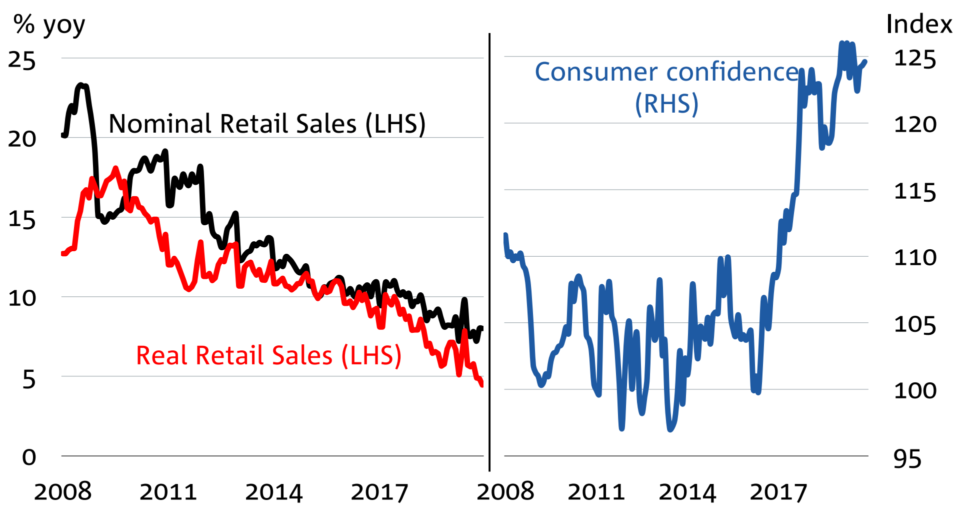
- Official Chinese data suggests that exports to Hong Kong have fallen considerably across 2019 – down by 7.1% yoy (3mma) in December – however these data have been subject to considerable historical distortion (reflecting capital flows disguised as trade activity). China Customs data shows a 8.9% yoy fall in exports to Hong Kong in the first eleven months of 2019, whereas Hong Kong Customs data reported a 6.0% yoy fall over the same period.

National Australia Bank

RETAIL SALES AND INFLATION

RETAIL SALES AND CONSUMER CONFIDENCE

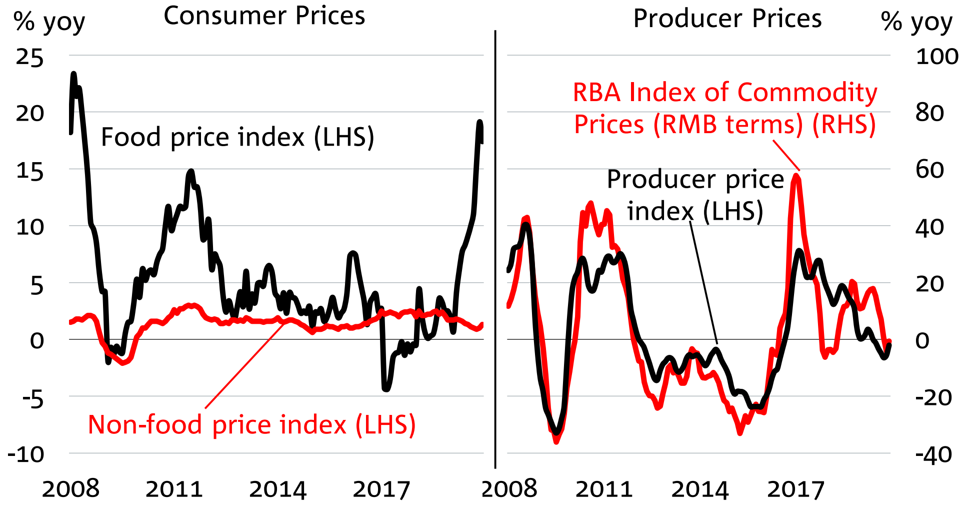
Real sales growth slips to multi-decade low



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

Food price growth marginally lower in December, but still high



Source: CEIC, RBA, NAB Economics

- Growth in China's nominal retail sales was unchanged in December – increasing by 8.0% yoy. However there has been a steady increase in retail prices – driven in a large part by pork price inflation – with retail prices up by 3.4% yoy in December. As a result, real retail sales eased to 4.4% yoy (compared with 4.9% yoy in November) – the slowest growth since April 1994.

- Retail sales includes both private and government consumption – with weakness in the latter possibly explaining the disconnect between weak sales and strong consumer confidence. Confidence in November – the latest reading – rose to 124.6 points (from 124.3 points previously), the fourth highest reading in 2019 and of all time.

- Growth in consumer prices was unchanged in December, with the Consumer Price Index increasing by 4.5% yoy. Food prices have been the main driver of the uptick in headline inflation over recent months, however the rate of increase was more modest in December – up by 17.4% yoy (compared with 19.1% yoy previously). Surging pork prices – due to the devastating impact of African Swine Fever – have pushed food prices higher since mid-2019, however pork prices rose by 97% yoy in December (down from 110% in November) and fell in month-on-month terms. That said, the loss of breeding stock will limit pork supply going forward, meaning that it is unlikely that pork prices will fall significantly in the near term.

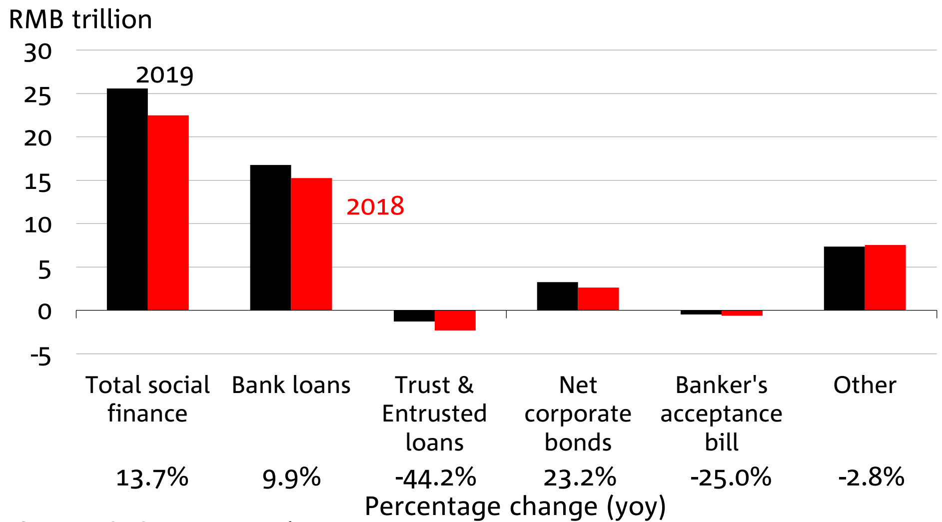
- The easing in food price inflation was offset by an increase in non-food price growth. The index rose by 1.3% yoy (up from 1.0% yoy in November). Vehicle fuel prices rose slightly in December – up by 0.6% yoy – however this was compared with a 10.6% yoy fall in November.

- Producer prices fell by around 0.5% yoy in December – compared with 1.4% fall in November. The overall Producer Price Index appears to have stabilised – having fallen from the latter months of 2018 through mid-2019. Month-on-month falls in global commodity prices have occurred more recently, easing the pressure on China's manufacturing sector.

CREDIT CONDITIONS

NEW CREDIT ISSUANCE

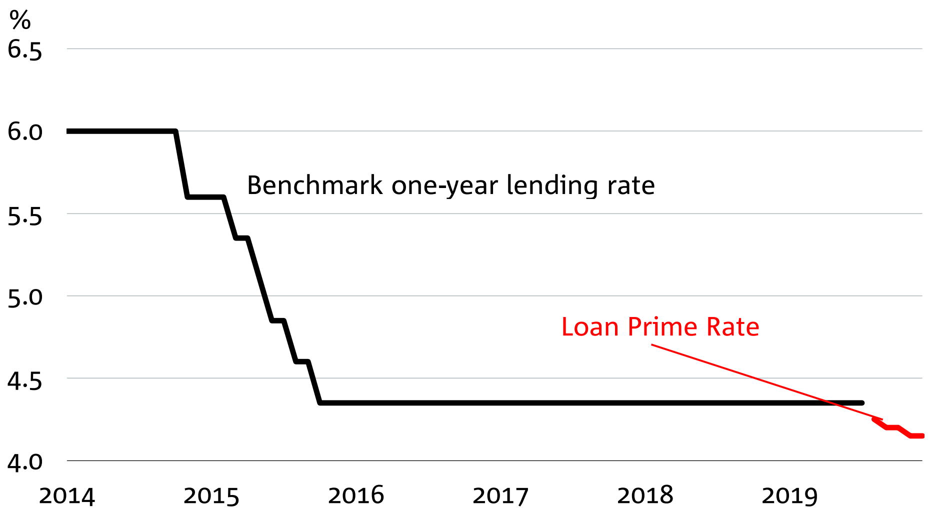
Strong growth in credit in 2019



Sources: CEIC, NAB Economics

MODEST EASING IN MONETARY POLICY

Loan Prime Rate becoming more widely adopted



Source: CEIC, NAB Economics

- Growth in new credit issuance slowed a little in December – down to around 8.9% yoy – despite a modest upturn government bond issuance (with the definition broadened in this month's release), after authorities brought forward the 2020 quota. Overall, non-bank lending contracted by 2.5% in December.

- For the full year, new credit issuance increased by 13.7% to RMB 25.6 trillion. Bank lending accounted for around two-thirds of the total, increasing by 9.9% to RMB 16.8 trillion.

- Non-bank lending increased more strongly – up by 21.8% in 2019 to RMB 8.8 trillion – however trends were highly mixed across different categories. The bulk of this total comprised government bonds (which contracted by 2.7% for the full year) and net corporate bond issuance (which rose by 23%). Key segments of the shadow banking sector (such as trust and entrusted loans and banker's acceptance bills) contracted more slowly in 2019.

- Chinese authorities have made further reforms to monetary policy transmission – by removing previous loan benchmarks and requiring banks to reprice existing loans to the new benchmark Loan Prime Rate between March and August this year. This should lower funding costs for borrowers, with the exception of real estate (which is excluded). The Loan Prime Rate (LPR) remained unchanged at 4.15% in December.

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

John Sharma
Economist
+(61 3) 8634 4514

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

Global Markets Research

Ivan Colhoun
Global Head of Research
+61 2 9237 1836

National Australia Bank