

# CHINA'S ECONOMY AT A GLANCE

MARCH 2020



National  
Australia  
Bank

## CONTENTS

<a href="#">Key points</a>	2
<a href="#">Industrial Production</a>	3
<a href="#">Investment</a>	4
<a href="#">International trade</a>	5
<a href="#">Retail sales and inflation</a>	6
<a href="#">Credit conditions</a>	7

## CONTACT

[Gerard Burg](#), Senior Economist -  
International

# KEY POINTS

---

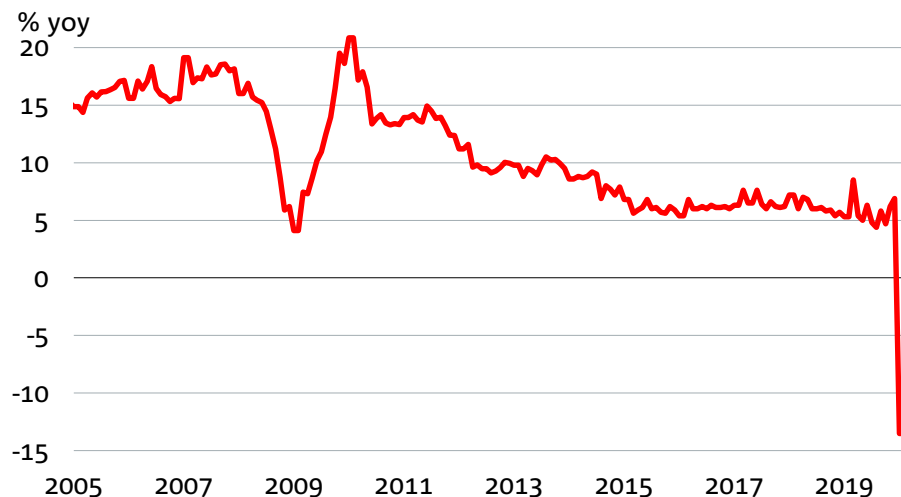
## Data highlights the huge toll of Coronavirus countermeasures

- Chinese authorities introduced a range of measures to control the spread of the Coronavirus across the country. These included travel restrictions, business closures and quarantines that substantially disrupted normal activity. While surveys ahead of today's data anticipated declines in the key measures, these surveys failed to predict the extent of the plunges in industrial production, investment and retail sales (down by 13.5% yoy, 24.5% yoy and 20.5% yoy respectively). Although the countermeasures have clearly taken a heavy toll on China's economy, they appear to have been relatively successful in slowing the transmission of the virus – with new cases slowing significantly from early March.
- In this month's Forward View – Global, we revised down our forecast for China's annual growth to 4.8% in 2020 (previously 5.4%). The resumption of normal activity should provide a boost to annual growth in 2021 – forecast at 6.1% (up from 5.8% previously). However, there remains uncertainty around the duration and scale of the downturn related to the Coronavirus countermeasures, along with the impact on the demand for Chinese exports (given the spread of the Coronavirus beyond China). Given the scale of the declines seen in the first two months, and the seemingly slow recovery in March (even as various provinces have reduced their emergency restrictions), there remains downside risk to our forecast.
- The People's Bank of China (PBoC) has taken a range of actions to support the recovery in economic activity – as restrictions imposed to control the spread of the Coronavirus are gradually eased. Liquidity injections have pushed down interbank rates – with the 7 day Shanghai Interbank Offered Rate (Shibor) falling to its lowest levels since the brief dip in early July 2019.
- In addition, the PBoC announced cuts to the Required Reserve Ratio (RRR) of between 50 and 100 basis points for eligible banks (that meet lending targets to SME and private firms). This is estimated to release around RMB 550 billion for bank lending. The benchmark Loan Prime Rate was cut by 10 basis points on 20 February to 4.05%. Easing monetary policy globally may provide impetus for further cuts in coming months.

# INDUSTRIAL PRODUCTION

## INDUSTRIAL PRODUCTION

Output contracted year-on-year for the first time on record

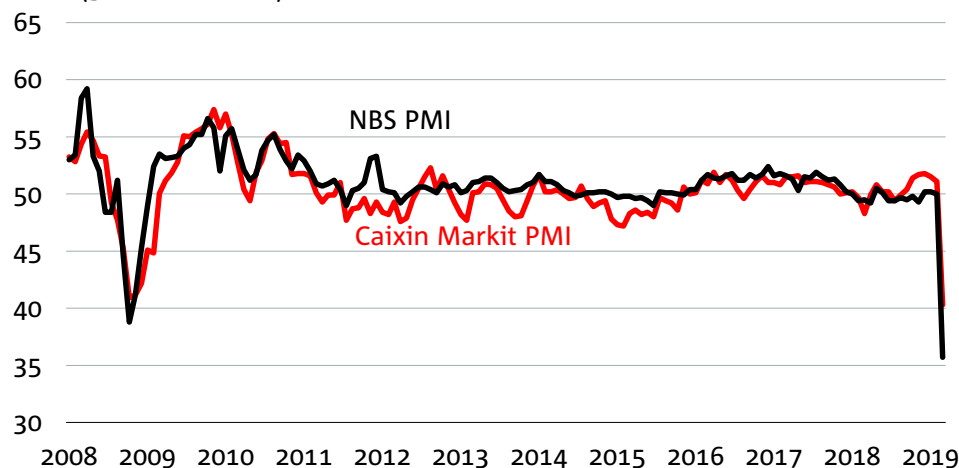


Source: CEIC, NAB Economics

## MANUFACTURING SURVEYS PLUNGE BELOW GFC LEVELS

Coronavirus countermeasures have hit the sector hard

Index (50 = breakeven)



Source: Refinitiv, CEIC, NAB Economics

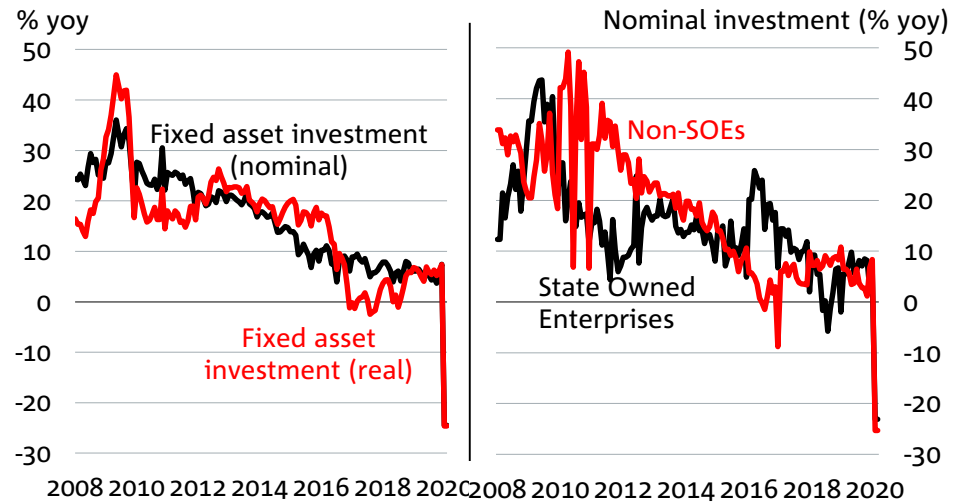
- China's industrial production plunged in the first two months of the year – down by 13.5% yoy. This was the first contraction recorded in this series (which stretches back to 1995).
- Measures introduced by Chinese authorities to limit the spread of the Coronavirus impacted heavily in February – as firms would typically have been restarting following the Chinese new year holidays. In month-on-month terms, output fell by 26.3% in February alone. Travel restrictions, business closures and quarantines substantially disrupted normal activity.
- While there were sharp declines in output across most industrial sectors, the production of crude steel actually rose – up by 3.1% yoy in the first two months of 2020. In contrast, production of cement fell by almost 30% yoy, computers and mobile phones by 31% yoy and 34% yoy respectively and motor vehicles by 46% yoy.
- China's two major manufacturing surveys plunged in February, again reflecting the Coronavirus countermeasures. The official NBS PMI fell to 35.7 points (down from the breakeven level of 50 in January). The private sector Caixin Markit PMI dropped to 40.3 points (from 51.1 points previously). For both surveys, these were record lows – exceeding the trough of the Global Financial Crisis.



# INVESTMENT

## FIXED ASSET INVESTMENT

Investment contracted sharply in early 2020, led by private firms

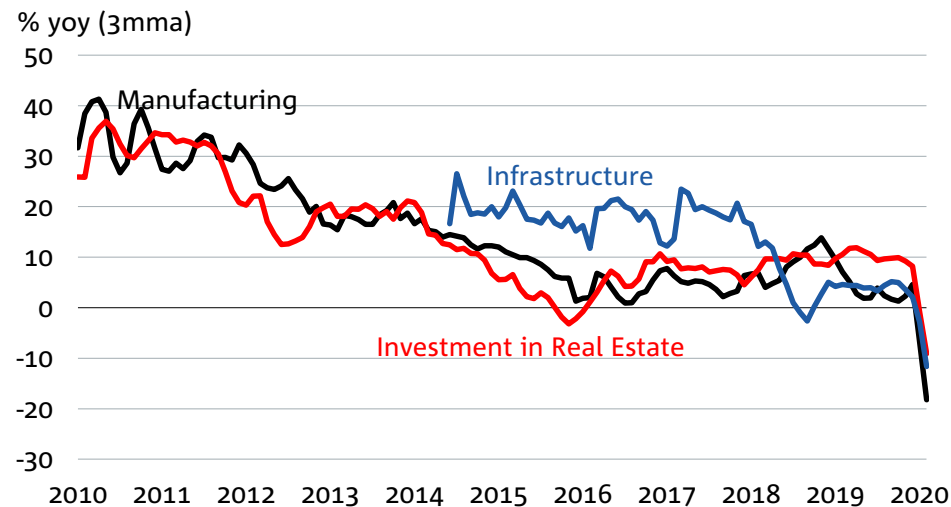


Source: CEIC, NAB Economics

- Following a similar pattern to industrial production, China’s fixed asset investment contracted sharply in the first two months of 2020 – down by 24.5% yoy. With producer price inflation near zero, this meant a similar decline in real investment over this period.
- The decline in nominal investment was somewhat larger among private sector firms (down 26.4% yoy) in January and February than for State-owned enterprises (SOEs) – which declined by 23.1% yoy. This was compared with relatively modest increases (by historical standards) in December 2019.
- Investment declined across every reported industrial category in the first two months of the year. Manufacturing investment fell by 31.5% yoy – led by falls in textiles and equipment manufacturers – while investment in real estate fell by around 16% yoy (having grown strongly in the latter months of 2019).

## FIXED ASSET INVESTMENT BY SECTOR

Investment contracted across all major sectors



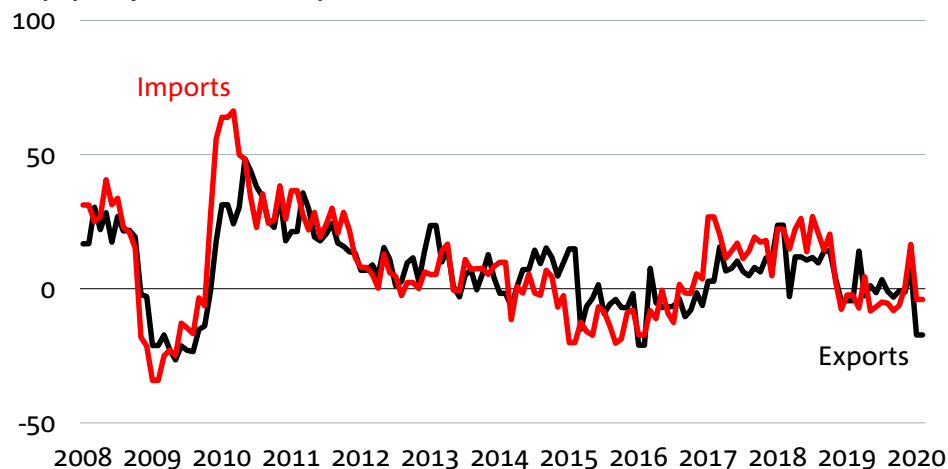
Source: CEIC, NAB Economics

# INTERNATIONAL TRADE

## CHINA'S TRADE GROWTH

Exports declined at their fastest pace since 2016

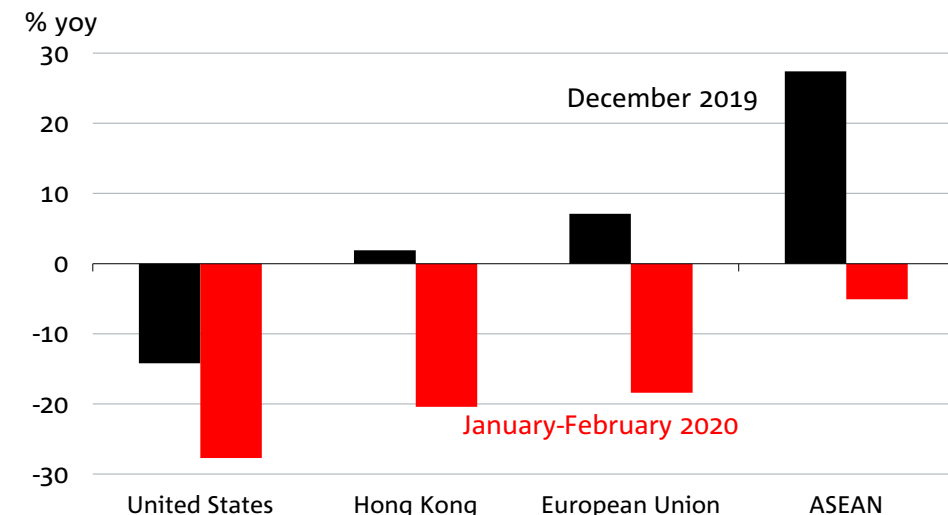
% yoy (adjusted for new year effects)



Sources: CEIC, NAB Economics

## EXPORTS BY MAJOR TRADING PARTNER

Rapid plunge in trade in early 2020



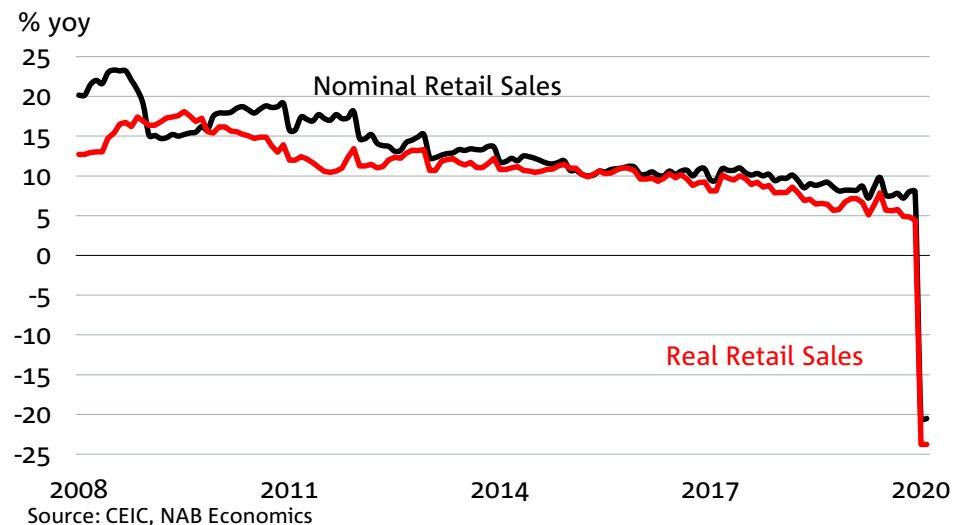
Sources: Bloomberg, NAB Economics

- China recorded a trade deficit in the first two months of 2020, as exports plunged amid the extended Coronavirus shutdown. The deficit totalled US\$7.1 billion, compared with a surplus of US\$46.8 billion in December 2019.
- China's total imports fell by 4.0% yoy over the first two months of 2020 – to total US\$299.5 billion. Our estimate of import volumes – which uses global commodity prices as a proxy for import prices – suggests that this was largely price related. Commodity prices have fallen significantly – particularly in February – suggesting that import volumes declined by around 1.7% yoy in the first two months, compared with a reported 20% increase in volumes in December.
- There was a noticeable increase in imports for a number of key commodities. Coal imports surged – rising by 33% yoy in the first two months – however this may have reflected restocking, given quota based restrictions imposed in the latter months of 2019.
- Imports of copper and crude oil also increased strongly – up by 7.2% yoy and 5.2% yoy respectively – while iron ore imports rose by 1.5% yoy over the first two months.
- China's exports fell by 17.2% yoy in the first two months of 2020, to total US\$292.4 billion, with the downturn in manufacturing limiting China's supply. New export orders in the NBS PMI survey plunged in February – in part reflecting the spread of the Coronavirus to key export markets, which could negatively impact the recovery in manufacturing activity.
- Exports fell to all of China's major trading partners. Exports to the United States fell by 27.7% yoy in the first two months, compared with 20.4% to Hong Kong and 18.4% to the European Union. In contrast, exports to ASEAN fell by just 5.1% yoy.

# RETAIL SALES AND INFLATION

## RETAIL SALES

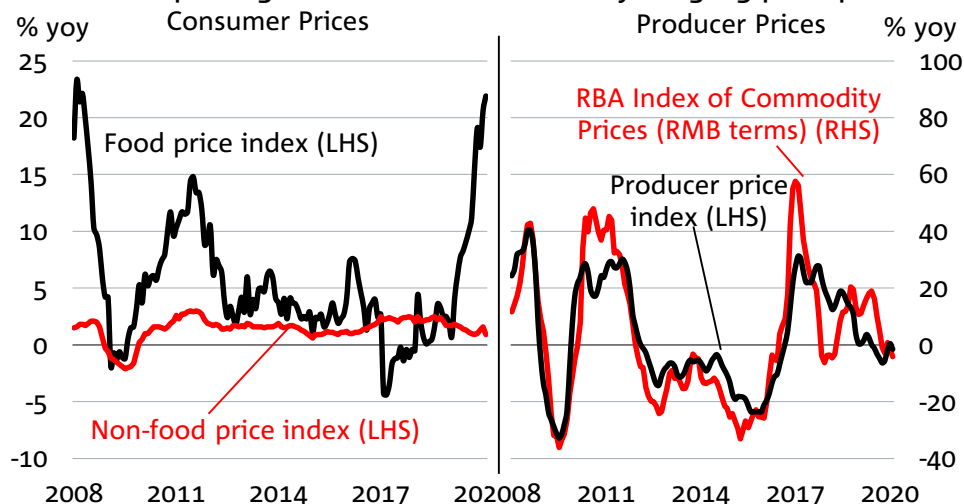
Real sales decline for the first time



- China's retail sales fell rapidly in the first two months of 2020 – down by 20.5% yoy – the first decline in recorded history (back to January 1994). Consumer prices rose noticeably – driven by pork prices, meaning that in real terms, retail sales fell by almost 24% yoy.
- Consumer prices jumped across the first two months of the year – with the Consumer Price Index increasing by 5.3% yoy (compared with 4.5% yoy in December 2019). As has been the case in recent months, surging food prices drove the increases.
- Food prices rose by 21.3% yoy across January and February, with pork prices remaining the key driver of this trend. African Swine Fever has had a devastating impact on pork supply – driving prices up by 126% yoy across the first two months of the year. Prices for fresh vegetables were also significantly higher – up almost 14% yoy over this period.
- In contrast, growth in non-food prices was more modest – with the index increasing by 1.4% yoy across January and February (compared with 1.3% yoy in December). Vehicle fuel prices plunged in February – in line with falling global oil prices.
- Producer prices fell by 0.2% yoy in the first two months of the year, compared with a 0.5% fall in December 2019. Global commodity prices fell by 2.9% yoy over this period (in RMB terms), which may provide a boost to manufacturers as they gradually resume production following Coronavirus shutdowns.

## CONSUMER AND PRODUCER PRICES

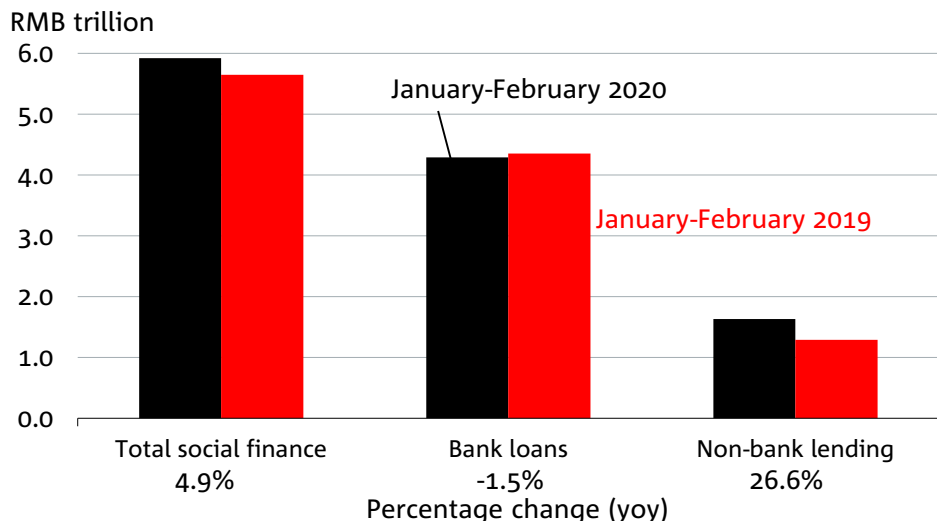
Consumer price growth remains driven by surging pork prices



# CREDIT CONDITIONS

## NEW CREDIT ISSUANCE

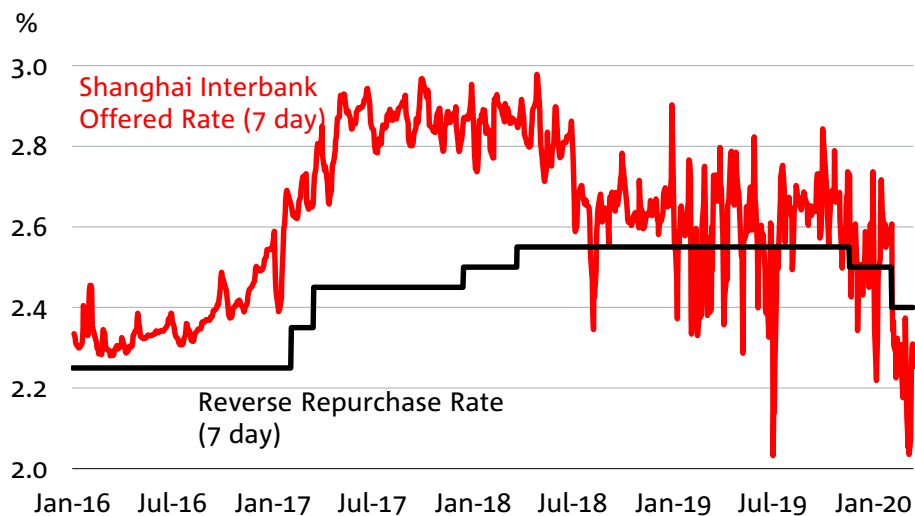
Government and corporate bonds drive increase in early 2020



Sources: CEIC, NAB Economics

## INTERBANK RATES LOWER AS PBoC INCREASES LIQUIDITY

Lowest since a brief dip in July 2019



Source: CEIC, NAB Economics

- New credit issuance rose by 4.9% yoy across the first two months of 2020 to RMB 5.9 trillion, despite the extended shutdown of activity following Chinese new year to slow the Coronavirus spread. It is worth noting that government bond issuance accounted for the entirety of the increase.
- Bank lending was weaker over this period, with issuance down around 1.5% yoy to RMB 4.3 trillion. This accounted for around 72% of total credit issuance.
- In contrast, non-bank lending rose by 26.6% yoy in the first two months to RMB 1.6 trillion. Government bond issuance surged – in part reflecting the moves that brought forward 2020 local government bond quotas – up by 56% yoy. Similarly, net corporate bond issuance rose by 35% yoy. Excluding these categories, the stock of non-bank lending contracted by around RMB 171 billion.
- The People’s Bank of China (PBoC) has taken a range of actions to support the recovery in economic activity – as restrictions imposed to control the spread of the Coronavirus are gradually eased. Liquidity injections have pushed down interbank rates – with the 7 day Shanghai Interbank Offered Rate (Shibor) falling to its lowest levels since the brief dip in early July 2019.
- In addition, the PBoC announced cuts to the Required Reserve Ratio (RRR) of between 50 and 100 basis points for eligible banks (that meet lending targets to SME and private firms). This is estimated to release around RMB 550 billion for bank lending.
- The benchmark Loan Prime Rate was cut by 10 basis points on 20 February to 4.05%. Easing monetary policy globally may provide impetus for further cuts in coming months.

## 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

### Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.

