CHINA'S ECONOMY AT A GLANCE

APRIL 2020

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KEY POINTS

China's economy sharply contracted in Q1; weakest growth in over forty years in 2020

- According to the latest national accounts data, China's economy contracted by 6.8% yoy in Q1 2020, the first contraction in quarterly data on record (which commenced in 1992). This is the first time Chinese authorities have reported a negative GDP result since an annual decline in 1976.

- China's economic growth will slow considerably in 2020 – reflecting the scale of the downturn in Q1. We expect the rebound in activity – which started in the industrial sector in March – will be spread across Q2 and Q3. For the full year, we forecast limited growth in China's economy – just 1.0% - which would be the weakest rate of growth since 1976. The resumption of normal activity will result in a rapid increase in year average growth in 2021 – which we forecast at 9.75%. While this would represent the strongest annual growth rate since 2010, it is worth noting that China's economy will be smaller at the end of 2021 under our current profile than if our pre-Covid-19 forecasts had eventuated.

- The fall in quarterly GDP was driven by a plunge in activity in February with a robust recovery evident in the March data. Industrial production in month-on-month terms, having fell by 23% in February but rebounded strongly in March – up by 32% mom. This would suggest that production was equivalent to 96% of its December level, a considerably stronger recovery than indicated by the PMI surveys.

- China's trade balance returned to surplus in March – totalling US$19.9 billion, compared with a US$7.1 billion deficit across the first two months of the year. Exports rebounded more rapidly than imports from the weak levels across January and February, despite the ramping up of Covid-19 containment measures in key markets – which presents a negative outlook for Chinese exports in the near term. Some of the pickup in exports reflected the delivery of delayed orders from the first two months.

- China's retail sales fell again in March – down by 15.8% yoy – following on from a 20.5% yoy decline during January and February. Given that consumer prices have continued to increase – largely driven by pork prices – real retail sales declined more rapidly, down by 18.1% yoy (compared with almost 24% yoy over the first two months).

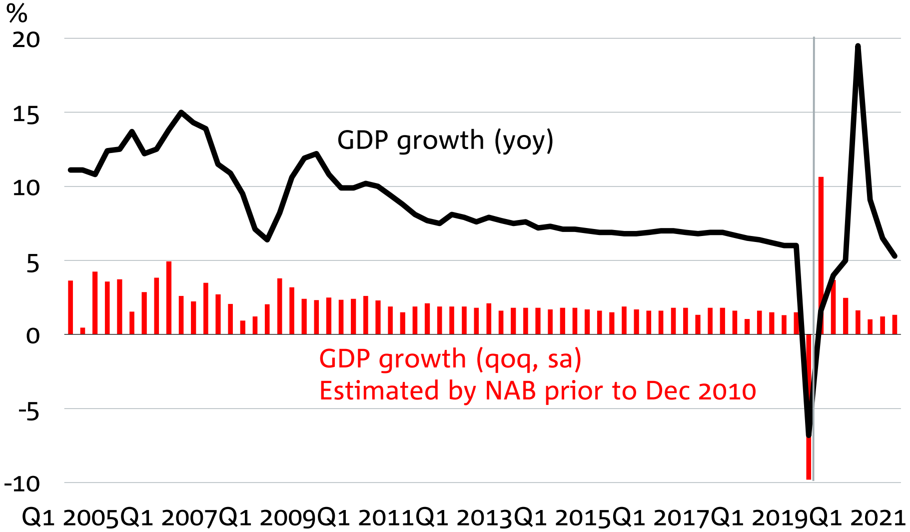
- In the first quarter of 2020, new credit issuance rose by 28.7% yoy to RMB 11.1 trillion. Bank lending provided the single largest source of new credit – increasing by 17.9% yoy to RMB 7.4 trillion. Policy makers have been urging banks to expand lending, particularly to small-to-medium sized firms. Within non-bank lending, corporate bond and government bond issuance surged, with other categories relatively muted.

- The PBoC has eased monetary policy further this month (albeit far more modestly than other central banks). The PBoC cut the rate on its one year Medium Term Lending Facility (MLF) by 20 basis points in mid-April to 2.95%. The MLF is the reference rate used to price the Loan Prime Rate (China's main monetary policy rate) – which is likely to be cut by 20 basis points on 20 April. The PBoC has also announced cuts to the Required Reserve Ratio for small banks – boosting their capacity to lend.

GROSS DOMESTIC PRODUCT

CHINA'S ECONOMIC GROWTH FELL SHARPLY IN Q1

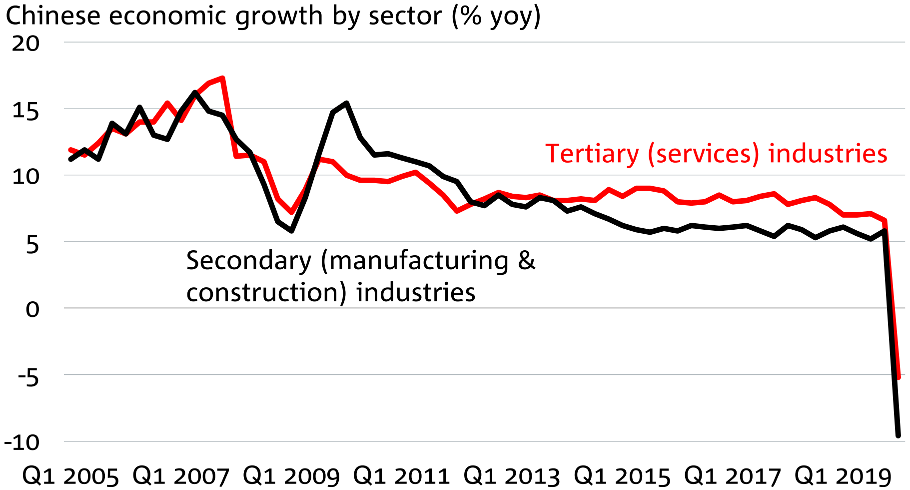
First quarterly fall in GDP in recorded history



Source: CEIC, NAB Economics

ECONOMIC GROWTH BY INDUSTRY

Service sector growth held up comparatively well



Source: Refinitiv, NAB Economics

- According to the latest national accounts data, China's economy contracted by 6.8% yoy in Q1 2020, the first contraction in quarterly data on record (which commenced in 1992). This is the first time Chinese authorities have reported a negative GDP result since an annual decline in 1976.

- By industry, there was a much larger decline in China's secondary industries (comprising manufacturing and construction) – where output fell by 9.6% yoy in Q1 – than the services sector (where output fall by 5.2% yoy). This smaller fall was somewhat surprising, given the high degree of person-to-person interaction required in many services. This decline was far smaller than the double digit declines in retail in Q2.

- China's economic growth will slow considerably in 2020 – reflecting the scale of the downturn in Q1. We expect the rebound in activity will be spread across Q2 and Q3. For the full year, we forecast limited growth in China's economy – just 1.0%. The resumption of normal activity will result in a rapid acceleration in growth in 2021 – which we forecast at 9.75%.

- While this would represent the strongest annual growth rate since 2010, it is worth noting that China's economy will be smaller at the end of 2021 under our current profile than if our pre-Covid-19 forecasts had eventuated.

NAB CHINA GDP FORECASTS

%	2019	2020	2021
GDP	6.1	1.0	9.75

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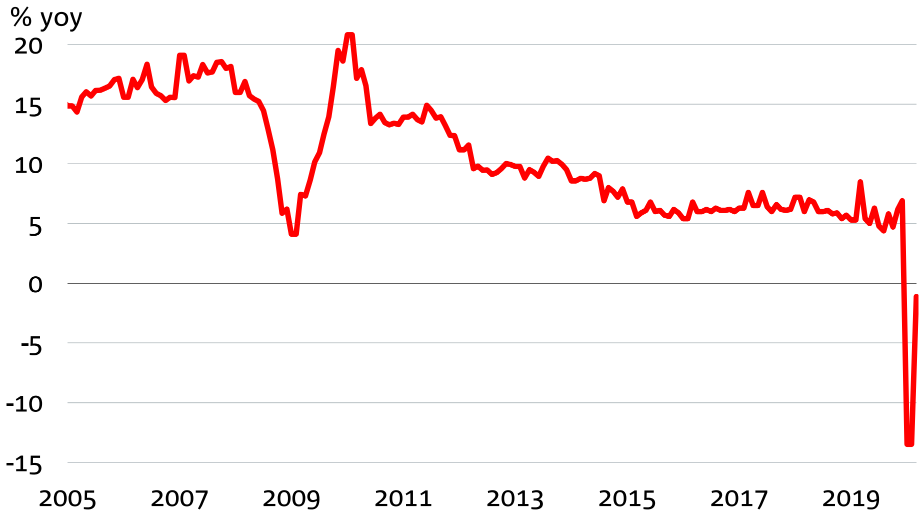
INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

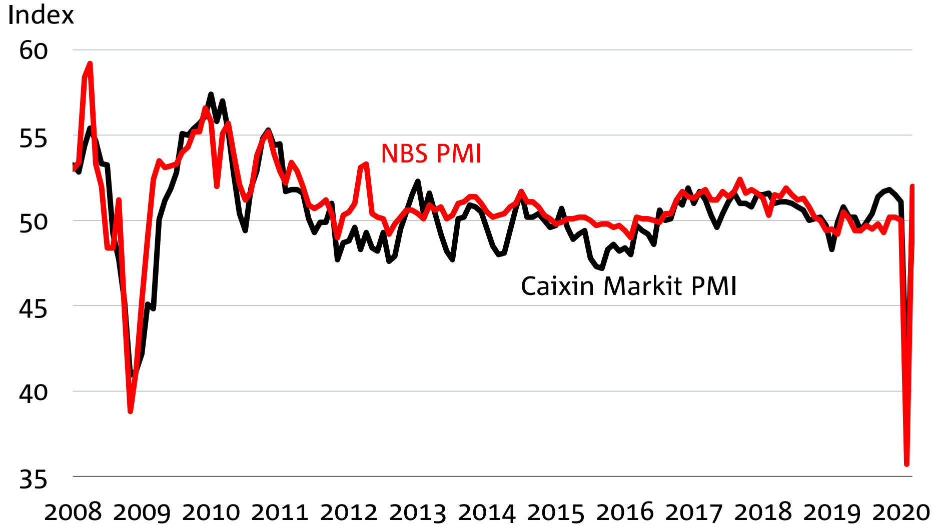
Output contracted again in March, albeit less than Jan-Feb



Source: CEIC, NAB Economics

MANUFACTURING SURVEYS REBOUNDED IN MARCH

Conditions improved, but not back to pre-virus levels



Source: CEIC, NAB Economics

- Following on from the steep plunge in industrial production in the first two months of 2020 (down 13.5% yoy), output declined modestly in March – down by 1.1% yoy.
- In month-on-month terms, output in March rebounded strongly – up by 32% mom – having fallen by 23% in February. This would suggest that production was equivalent to 96% of its December level. The strength of this recovery was considerably larger than anticipated, given the results of the PMI surveys (detailed below).
- There were some significant declines in output in a number of industrial sectors – with motor vehicle production falling by 43% yoy and cement output falling by 18.3% yoy. Electricity generation decline by 4.3% yoy and crude steel fell by 1.7% yoy.
- The exception to this falling trend was consumer electronic products – where output rose by 9.9% yoy.
- China's two major manufacturing surveys rebounded in March – following on from the record lows in both surveys in February (which were the result of Covid-19 countermeasures restricting activity). The official NBS PMI rose to 52.0 points (from 35.7 points previously), while the private sector Caixin Markit PMI rose to an essentially neutral 50.1 points (from 40.3 points).
- It is important to understand these results correctly. As each survey is compared with the previous month, the results in both measures indicates an improvement relative to the extremely weak conditions in February (and an extremely modest improvement in the case of the Caixin Markit survey). They do not indicate a recovery to pre-virus levels – with other indicators suggesting that China's industrial sector is operating somewhere in the range of 70%-80% of normal activity in early April.

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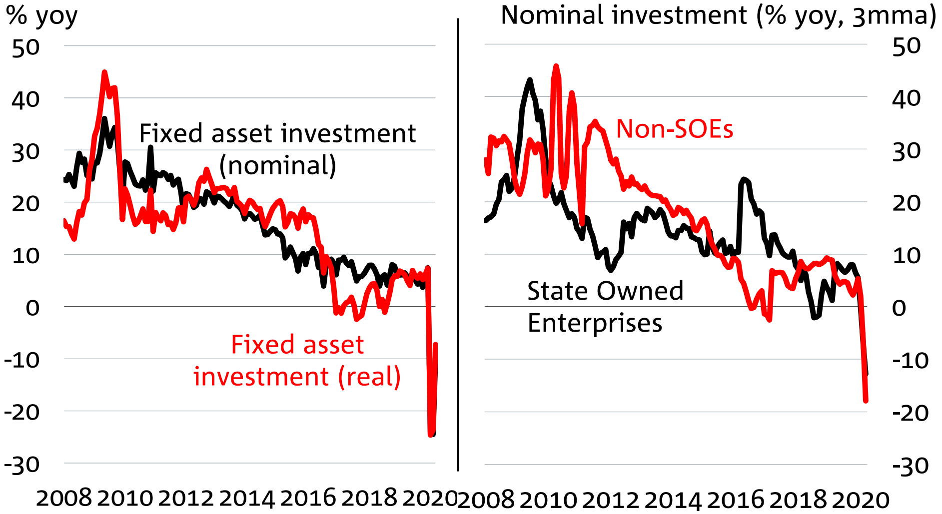
INVESTMENT

FIXED ASSET INVESTMENT

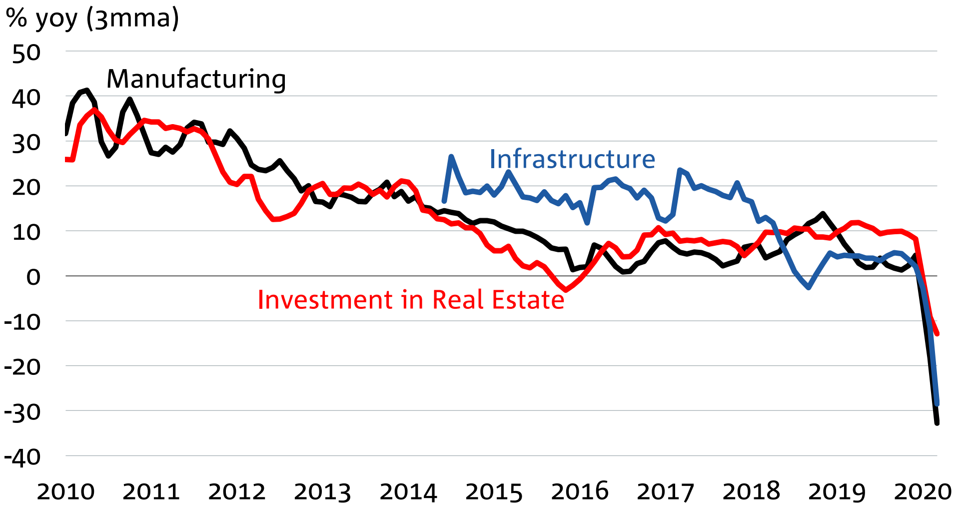
Further falls in investment in March, led by private firms



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY SECTOR

Major investment sector continued to decline



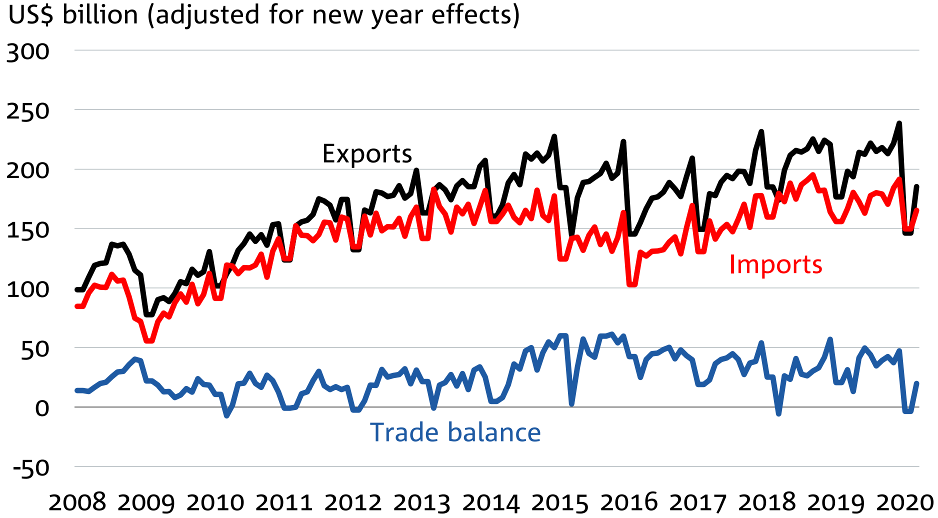
Source: CEIC, NAB Economics

- China's fixed asset investment declined again in March, albeit slower than in the first two months of the year. Investment fell by 9.4% yoy (compared with a 24.5% yoy fall in January-February), however the decline in producer prices reduced the scale in real terms – with real investment falling by an estimated 7.3% yoy in March.
- In nominal terms, investment slowed more significantly for private sector firms (down by 12.1% yoy in March) than for state-owned enterprises (SOEs), where investment fell by just 4.5% yoy.
- Investment continued to decline across the major industrial categories in March. On a three month moving average basis, manufacturing investment fell by 32.8% yoy, infrastructure by 28.5% yoy and real estate by 12.9% yoy. Construction projects in major cities often rely on migrant workers, with labour availability constrained by travel restrictions, some of which continued into March.

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

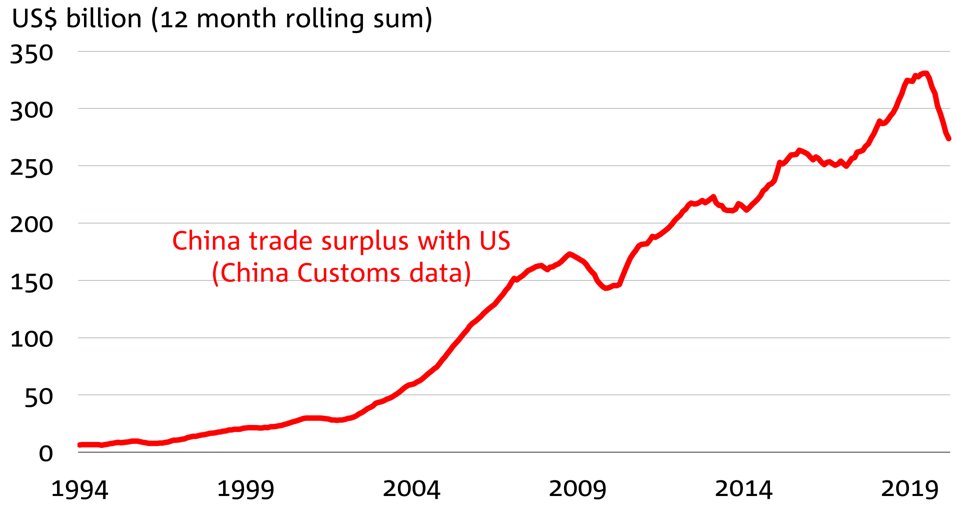
Return to surplus in March as exports recovered



Sources: CEIC, NAB Economics

CHINA'S TRADE SURPLUS WITH THE UNITED STATES

Rolling value has declined since mid-2019



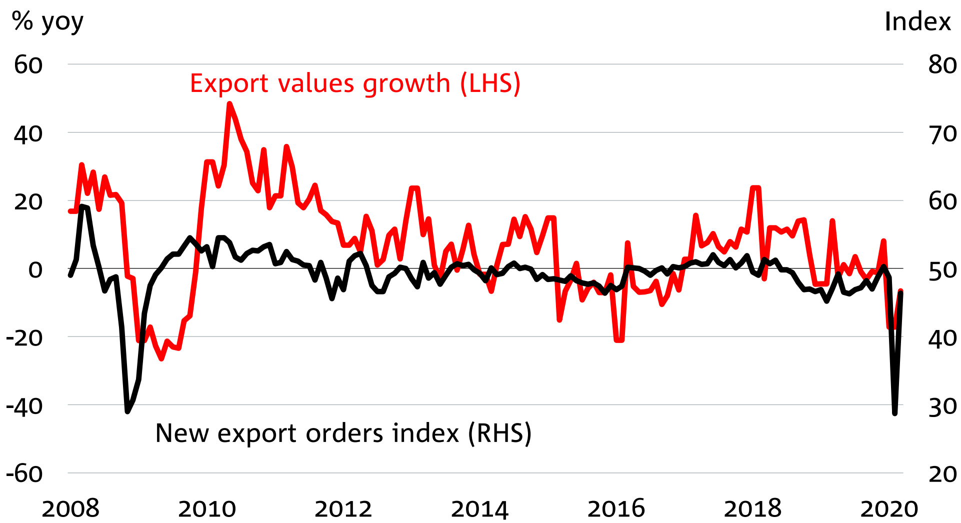
Sources: CEIC, NAB Economics

- China's trade balance returned to surplus in March – totalling US$19.9 billion, compared with a US$7.1 billion deficit across the first two months of the year. Exports rebounded more rapidly than imports from the weak levels across January and February, despite the ramping up of Covid-19 containment measures in key markets.
- The United States continues to account for the bulk of China's trade surplus, however the surplus has narrowed in 2020, when compared with the trend across the past few years. Given the trade disruptions due to Covid-19 containment measures in both countries, it is unclear whether the Phase One trade deal concluded in January has materially altered the trade flows between them.
- China's imports rose considerably month-on-month – to US$165.2 billion (from an average of US$149.8 billion across January and February). That said, imports fell by 0.9% yoy.
- Our estimates of China's import volumes use global commodity prices as a proxy for import prices. This suggests that import volumes were virtually unchanged year-on-year over the first three months – compared with a 20% increase in December 2019.
- Import volume trends differed among major commodities. There was a large scale increase in coal imports over the first three months of 2020 – up by 28% yoy – however this may have reflected restocking following the restricted imports in December 2019 (when imports fell by almost 73% yoy) due to an annual import quota. Imports of crude oil also rose strongly – up by 5.0% yoy in the first quarter.
- In contrast, imports of iron ore rose by just 0.8% yoy in Q1 2020, while copper imports fell by 0.7% yoy over the same period.

INTERNATIONAL TRADE – EXPORTS

EXPORTS CONTRACTED IN MARCH

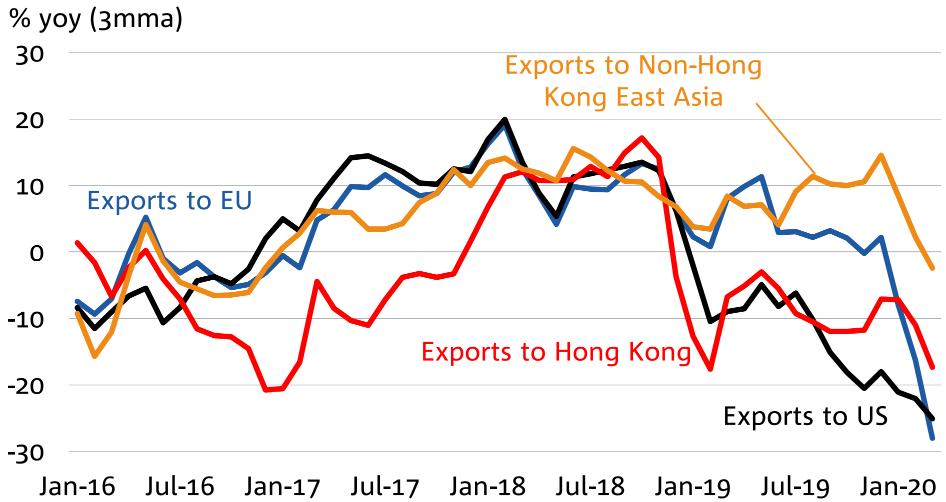
Weaker growth in export markets hitting new orders



Source: CEIC, NAB Economics

EXPORTS TO KEY MARKETS

Steep falls to US and EU as countermeasures hit their demand



Sources: CEIC, NAB Economics

- China's exports rose considerably month-on-month – to US$185.1 billion (from an average of US$146.2 billion across January and February) – with some of this recovery reflecting the delivery of delayed orders from the first two months. That said, exports fell by 6.6% yoy. The increase in Covid-19 countermeasures in key export markets over the past month presents a negative outlook for Chinese exports in the near term. The new export orders measure in the NBS PMI survey was at a negative 46.4 points in March, following the sharp plunge in February.

- There were considerably differences in export trends between individual markets in March. Exports to the European Union and United States fell sharply – down 24.2% yoy and 20.8% yoy respectively. This decline likely reflected both weaker manufacturing output in China (compared with last year) as well as weaker consumer demand in the export markets due to Covid-19 containment measures.

- In contrast, exports to East Asia barely declined in March – down by just 0.6% yoy. As has been the case over the past year, there has been a significant difference in trends between Hong Kong and other East Asian economies.

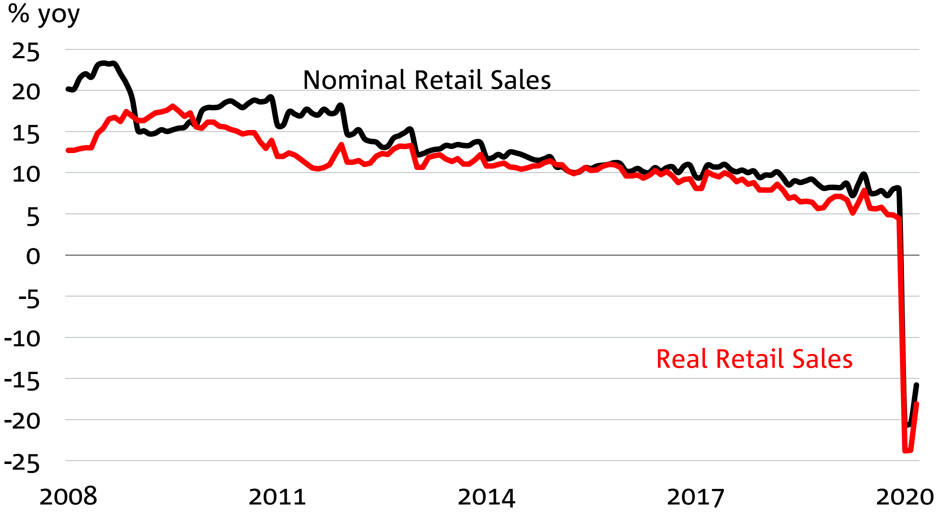
- Chinese data suggests that exports to Hong Kong fell by 12.6% yoy in March. There appeared to be little difference between data reported by China and Hong Kong Customs for the January-February period.

- In contrast, exports to other East Asian economies rose by 6.2% yoy in March – driven by increases in Vietnam and Thailand. This increase followed declines across January and February, meaning that exports fell modestly on a three month moving average (3mma) basis. This likely reflects the delivery in March of delayed orders.

RETAIL SALES AND INFLATION

RETAIL SALES

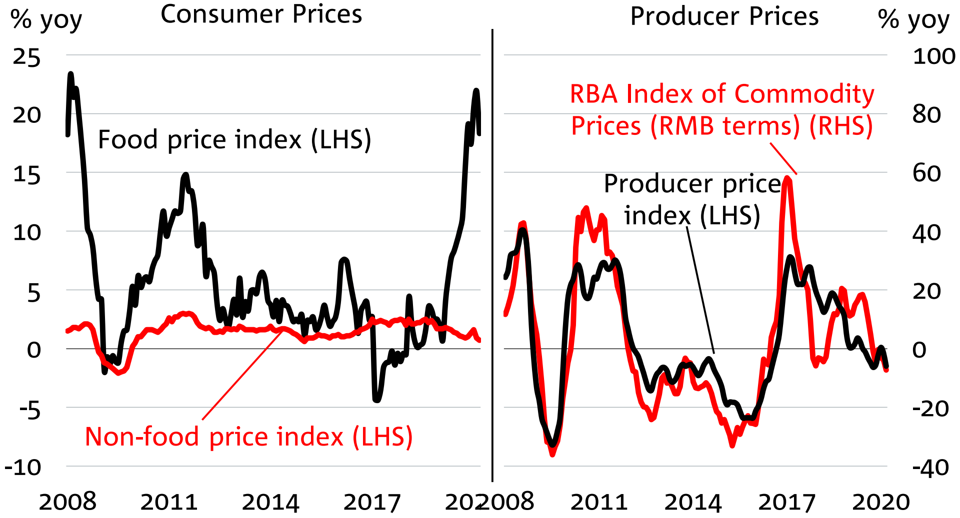
Large scale declines in retail sales in Q1



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

Pork prices rose sharply, counter to non-food & producer trends



Source: CEIC, RBA, NAB Economics

- China's retail sales fell again in March – down by 15.8% yoy – following on from a 20.5% yoy decline during January and February. Given that consumer prices have continued to increase – largely driven by pork prices – real retail sales declined more rapidly, down by 18.1% yoy (compared with almost 24% yoy over the first two months).
- Consumer prices rose more slowly in March – increasing by 4.3% yoy (down from 5.3% yoy across the first two months of 2020). There remains a substantial difference in trends for food and non-food prices.
- Food prices have surged since early 2019 – largely reflecting the impact of African Swine Fever on the country's pork supply. Pork prices rose by 116% yoy in March, compared with an increase of 126% yoy over the first two months. In contrast, there was minimal price pressure in other food markets.
- Non-food price growth slowed in March – with the index increasing by 0.7% yoy (down from 1.4% yoy in January and February). Vehicle fuel prices fell by 14.6% yoy – reflecting the plunge in global oil prices during the month.
- China's producer prices fell by 1.5% yoy in March, following on from a 0.2% yoy fall in the first two months of the year. Global commodity prices fell significantly during the month – reflecting in part the global spread of Covid-19 (and containment measures to address it) restricting commodity demand – with the RBA Index of Commodity Prices falling by 7.3% yoy in RMB terms.

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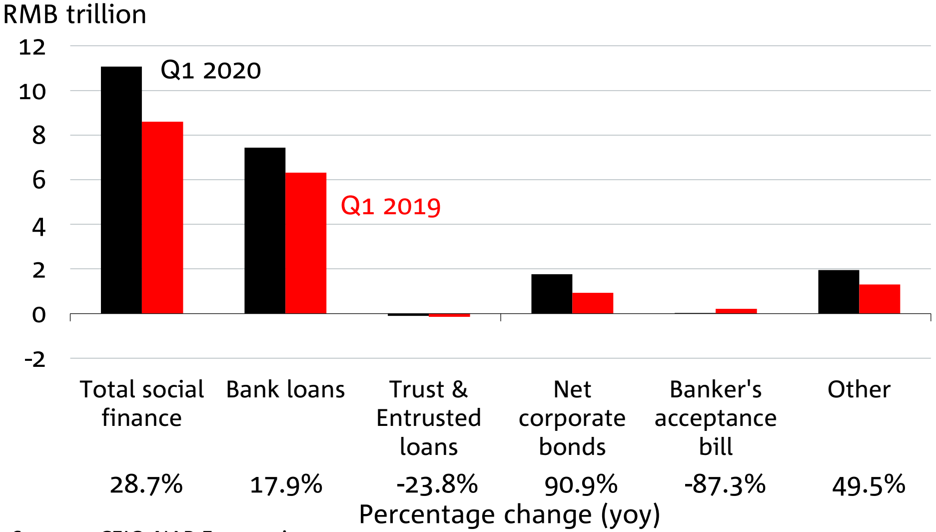
CREDIT CONDITIONS

NEW CREDIT ISSUANCE

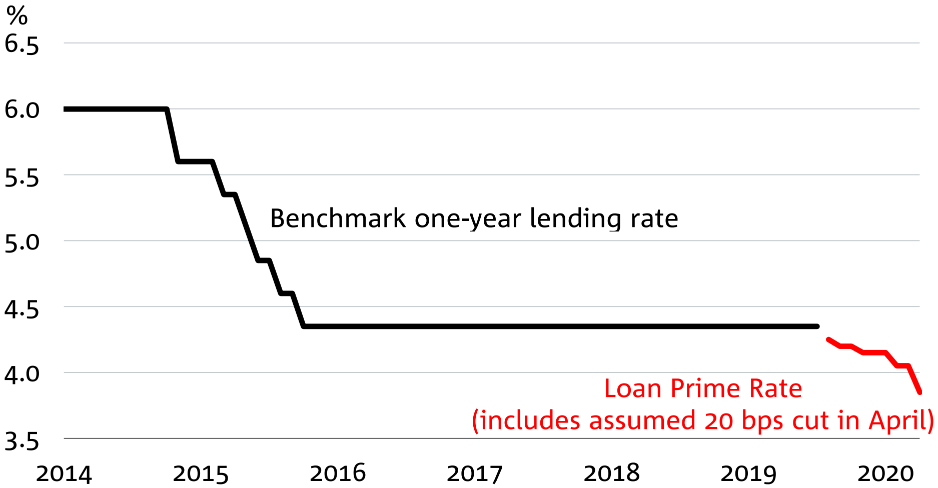
Surge in bank loans, corporate and government bonds



Sources: CEIC, NAB Economics

CHINA EASING MONETARY POLICY

Stark contrast to sharp cuts in advanced economies



Source: CEIC, NAB Economics

- New credit issuance surged in March – totalling RMB 5.1 trillion – an increase of 74% yoy and the largest single monthly total in history (exceeding the previous record in January). While historically March often has relatively strong issuance (reflecting the pick up in demand after the annual Chinese new year holiday period), the month is typically weaker than usual peaks in January.

- In the first quarter of 2020, new credit issuance rose by 28.7% yoy to RMB 11.1 trillion. Bank lending provided the single largest source of new credit – increasing by 17.9% yoy to RMB 7.4 trillion. Policy makers have been urging banks to expand lending, particularly to small-to-medium sized firms.

- Non-bank lending rose by 58.6% yoy to RMB 3.6 trillion in Q1, however shadow banking products remained muted. Net corporate bond issuance rose by almost 91% yoy over this period, while government bond issuance rose by 67% yoy. Excluding these categories, non-bank lending contracted by around RMB 130 billion.

- The People's Bank of China (PBoC) announced a two-stage cut to the Required Reserve Ratio for small banks of 50 basis points each in mid-April and mid-May. This is expected to release around RMB 400 billion in additional liquidity. In addition, the PBoC cut the interest rate for financial institutions excess reserves held with the central bank to 0.35% (from 0.72% previously).

- The PBoC has eased monetary policy further (albeit far more modestly than other central banks). The PBoC cut the rate on its one year Medium Term Lending Facility (MLF) by 20 basis points in mid-April to 2.95%. The MLF is the reference rate used to price the Loan Prime Rate (China's main monetary policy rate) – which is likely to be cut by 20 basis points on 20 April.

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