

# CHINA'S ECONOMY AT A GLANCE

MAY 2020



National  
Australia  
Bank

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# KEY POINTS

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## Cautious consumers constraining China's economy recovery

- The latest economic data from China continues to highlight some challenges in its recovery phase – with consumer trends remaining weak and export markets looking constrained going forward. This will limit the potential of industrial led growth if these trends persist. Our forecasts are unchanged – with economic growth of 1.0% in 2020 (the weakest growth rate since 1976), before increasing by 9.75% in 2021.
- After falling in year-on-year terms in February and March, China's industrial production increased in April – up by 3.9% yoy (compared with a 1.1% yoy fall previously). It is worth noting that this increase was far below the typical pre-COVID-19 rates. Questions remain around the sustainability of the recovery in industrial production. Domestic consumption remains weak, with consumers cautious. Although exports grew more strongly than expected in April, this in part reflected the fulfilment of pre-lockdown orders, while new export order survey measures have deteriorated.
- China's trade balance widened in April – totalling US\$45.3 billion (from US\$19.9 billion in March). Exports rose strongly month-on-month, while imports declined, even as a wider range of countries imposed COVID-19 countermeasures. Tensions between the US and China have escalated in recent weeks – with President Trump threatening to reintroduce tariffs rolled back as part of the Phase One trade deal.
- China's retail sales continued to fall in April – down by 7.5% yoy (from -15.8% yoy in March). Consumer prices have continued to increase (albeit largely due to strong growth in pork prices) meaning that real retail sales have declined more rapidly – down by 9.0% yoy in April (from -18.1% yoy previously).
- In the first four months of 2020, new credit issuance rose by 38% yoy to RMB 14.2 trillion. Bank loans comprised the largest share of lending, increasing by almost 28% yoy to RMB 9.2 trillion.
- In its latest quarterly monetary policy report, the People's Bank of China (PBoC) stated that it will resort to “more powerful” policies to combat the COVID-19 related economic impacts. The statement did not provide specific details, but highlights the PBOC's concern about weakness in both the domestic and global economies, despite Chinese authorities easing COVID-19 restrictions.

# INDUSTRIAL PRODUCTION

## INDUSTRIAL PRODUCTION

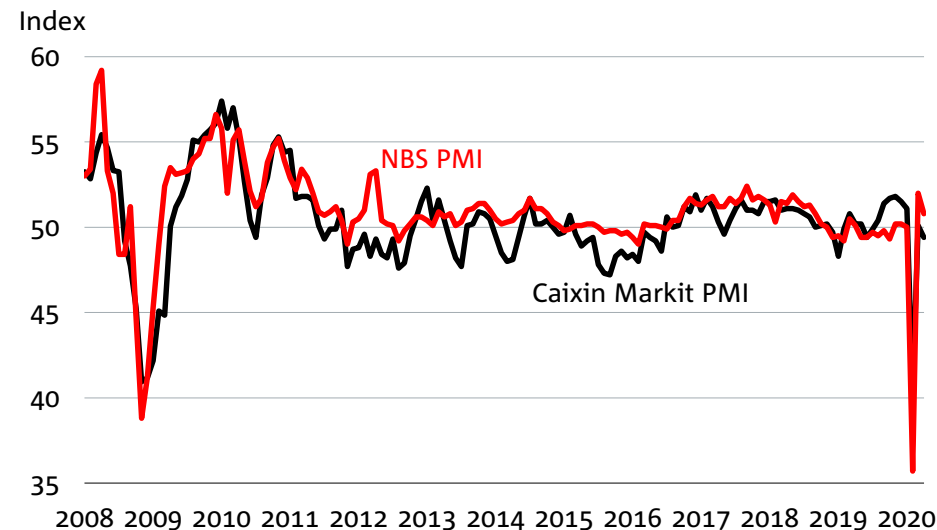
Output grew yoy in April, but questions around sustainability



Source: CEIC, NAB Economics

## PMI SURVEYS SHOW LIMITED IMPROVEMENT

Conditions slightly weaker for SME firms in April



Source: CEIC, NAB Economics

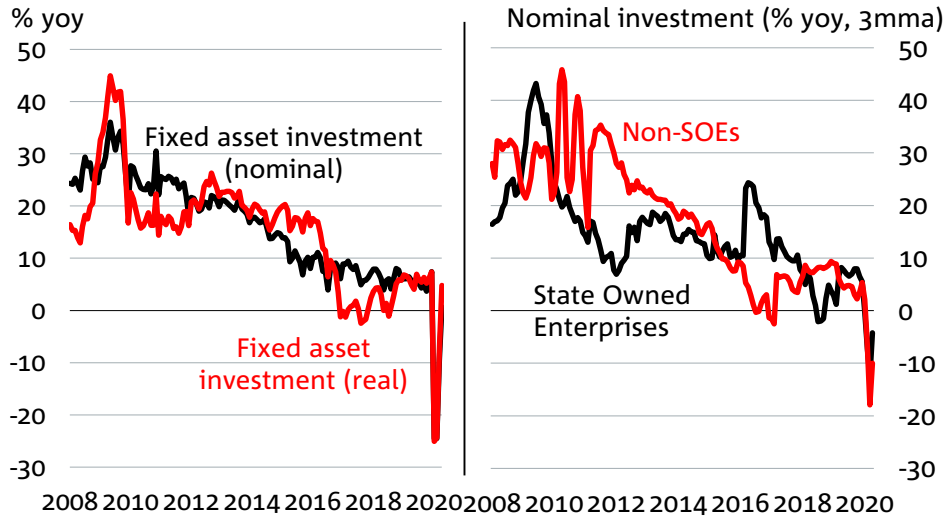
- After falling in year-on-year terms in February and March, China's industrial production increased in April – up by 3.9% yoy (compared with a 1.1% yoy fall previously). It is worth noting that this increase was far below the typical pre-COVID-19 rates.
- Trends remain highly mixed by industry sub-sector – with strong increases in consumer electronics (increasing by 11.8% yoy) and motor vehicles (up by 5.1% yoy). In contrast, increases in other major categories were more modest, with a 3.8% yoy increase in cement output, and just 0.3% yoy and 0.2% yoy increases in electricity generation and crude steel production respectively.
- Questions remain around the sustainability of the recovery in industrial production. Domestic consumption remains weak, with consumers cautious. Although exports grew more strongly than expected in April, this in part reflected the fulfilment of pre-lockdown orders, while new export order survey measures have deteriorated.
- Trends in China's two major manufacturing surveys were somewhat mixed in April. The official NBS PMI – which has a greater share of large firms – was marginally weaker, but still positive, at 50.8 points (from 52.0 points in March). In contrast, the private sector Caixin Markit PMI dipped back into negative territory – at 49.4 points (from 50.1 points in March).
- This suggests that there has not been a significant improvement in manufacturing conditions. Both surveys suggested that export orders remain particularly weak, while businesses continue to reopen – albeit at a modest pace. A separate survey by the China Beige Book noted that 91% of Chinese companies had resumed activity by late April, but that just 4% of them were at full capacity.



# INVESTMENT

## FIXED ASSET INVESTMENT

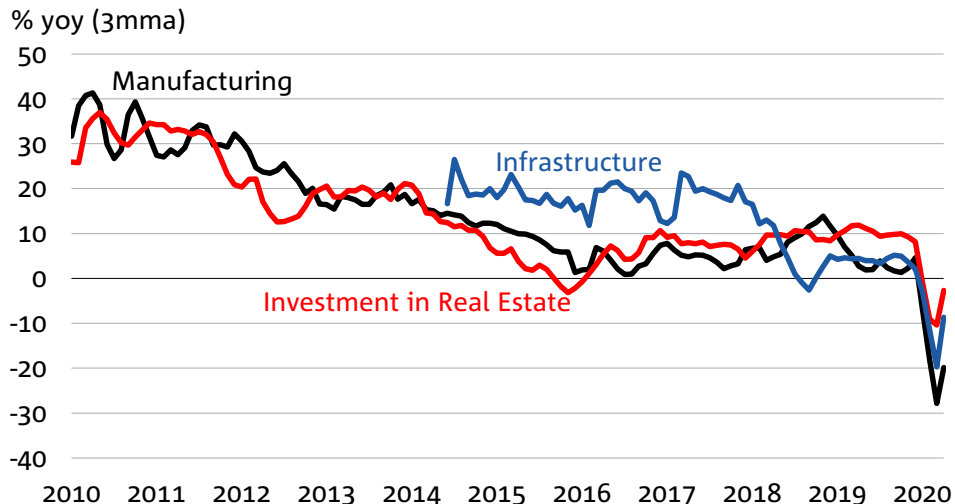
SOEs drove the recovery in investment in April



Source: CEIC, NAB Economics

## FIXED ASSET INVESTMENT BY SECTOR

Turnaround in real estate and infrastructure following earlier falls



Source: CEIC, NAB Economics

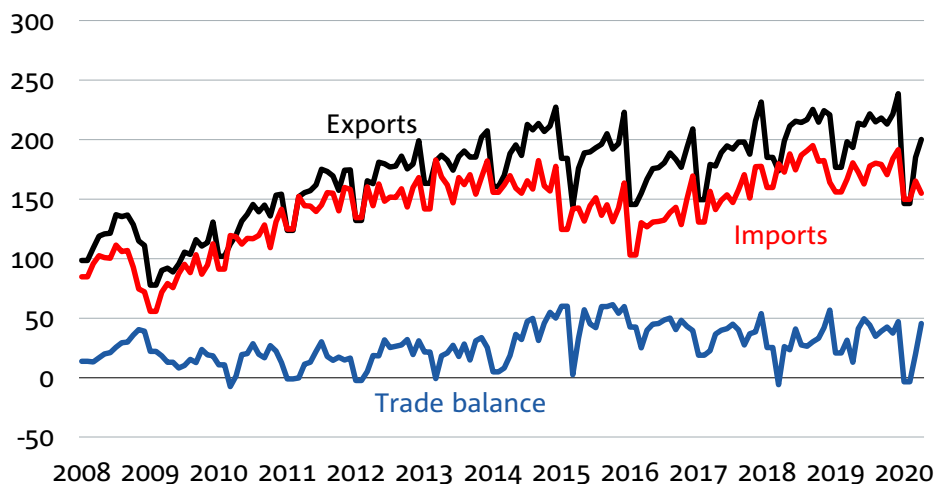
- China's fixed asset investment increased marginally in April, following on from declines across the first quarter. Investment rose by 0.7% yoy, compared with a 9.4% yoy fall in March. Given the sizeable decline in producer prices – which flows through into lower costs for investment goods – this results in a larger increase in real investment, up by 4.8% yoy (compared with a 7.6% fall previously).
- The modest recovery in nominal investment has been driven by state-owned enterprises (SOEs), with SOE investment increasing by 3.6% yoy in April. This was compared with a 1.1% yoy fall in private sector investment.
- In monthly terms, there was a comparatively strong increase in investment in real estate (up by 7.0% yoy) and infrastructure (which rose by 2.3% yoy, having plunged in the first quarter). In contrast, manufacturing investment declined by around 6.7% yoy in April.
- Chinese authorities have used housing construction and the property sector to stimulate the economy during previous downturns (such as the global financial crisis and China's mini-stimulus in 2012). However the sector was excluded from monetary policy easing prior to the COVID-19-related downturn. It remains to be seen if this position will shift due to growing concerns around the pace of economic recovery.

# INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

## CHINA'S TRADE BALANCE

Surplus widened as exports surged in April

US\$ billion (adjusted for new year effects)



Sources: CEIC, NAB Economics

## CHINA'S TRADE SURPLUS WITH THE UNITED STATES

Stabilising surplus may build on growing tensions

US\$ billion (12 month rolling sum)



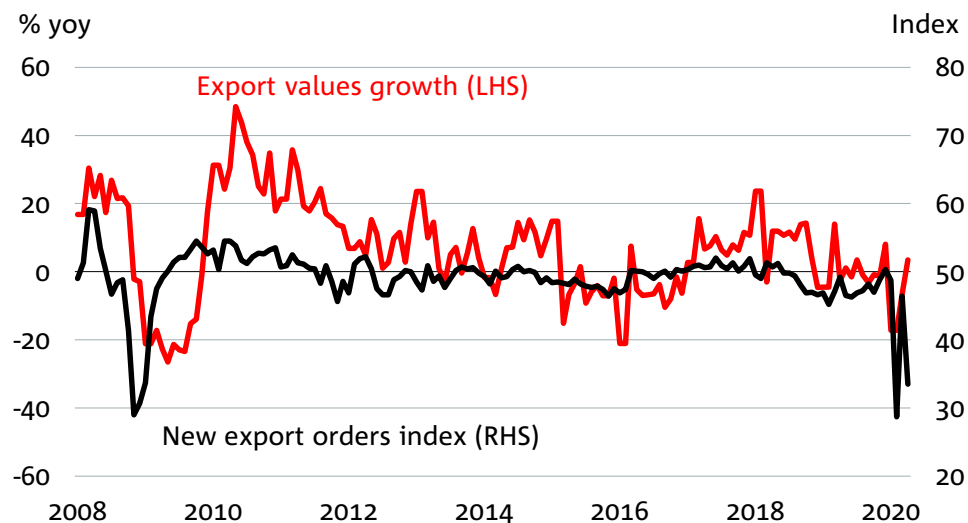
Sources: CEIC, NAB Economics

- China's trade balance widened in April – totalling US\$45.3 billion (from US\$19.9 billion in March). Exports rose strongly month-on-month, while imports declined, even as a wider range of countries imposed COVID-19 countermeasures.
- The United States continues to account for the bulk of China's trade surplus. While the surplus has narrowed from peaks prior to the US-China trade war, the twelve month rolling surplus has stabilised in recent months – at around US\$275 billion. Tensions between the US and China have escalated in recent weeks – with President Trump threatening to reintroduce tariffs rolled back as part of the Phase One trade deal.
- China's imports declined month-on-month, down to US\$154.9 billion (from US\$165.2 billion in March). In year-on-year terms, imports fell by 14.2% yoy. This was led by a 21% yoy fall in imports from the European Union.
- Import volumes fell sharply in April. Our estimate uses global commodity prices as a proxy for import prices. This measure suggests that import volumes fell by over 11% yoy, having been relatively stable yoy in the first quarter. This weakness may reflect the impact of COVID-19 countermeasures on China's input suppliers along with below average economic activity.
- Despite the overall weakness in volumes, there was a large increase in import volumes for a number of key commodities. Coal imports rose by 22% yoy in April, along with an 18% yoy increase in iron ore imports and a 14% yoy increase in copper. In contrast, crude oil imports fell by 7.5% yoy.

# INTERNATIONAL TRADE – EXPORTS

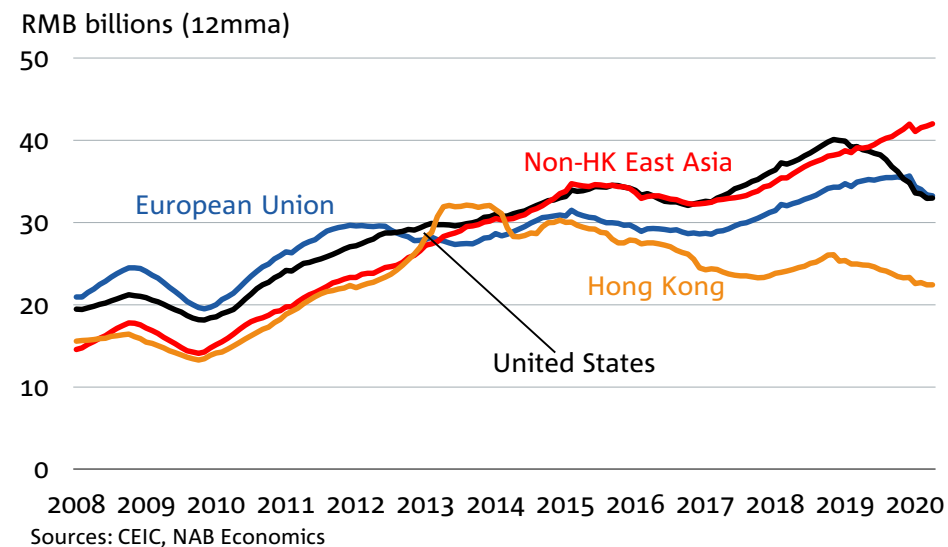
## EXPORTS ROSE IN APRIL

New export orders appear weak, suggesting growth won't last



## EXPORTS BY MAJOR TRADING PARTNERS

East Asia (ex. Hong Kong) has grown more strongly

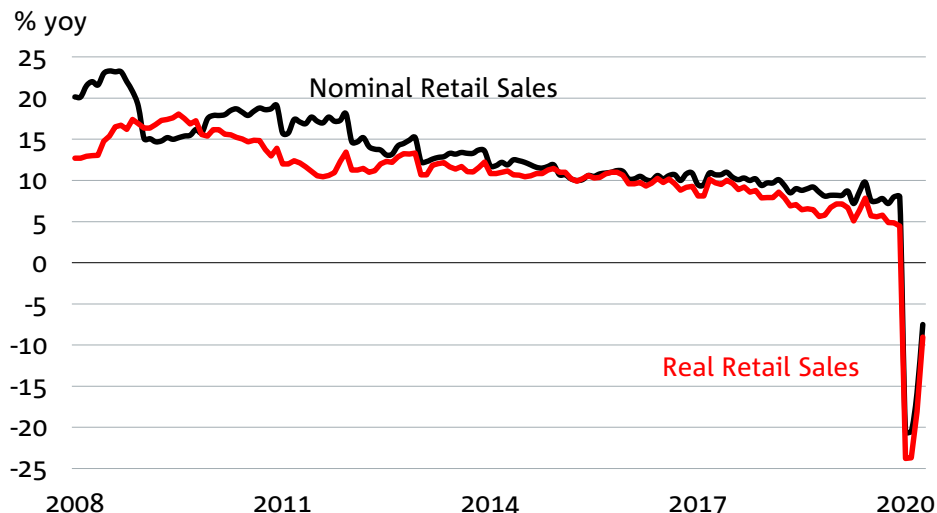


- China's exports rose strongly month-on-month – to US\$200.3 billion (from SU\$185.1 billion in March). In year-on-year terms, the increase was only modest, an increase of 3.5% yoy – albeit this was in contrast with market expectations of a large fall. In particular, there was a large increase in exports of high tech equipment – with exports increasing by 10.9% yoy in April.
- In part this increase in exports reflected the fulfillment of earlier orders delayed by China's COVID-19 countermeasures. In addition, there was a surge in exports of medical equipment – reflecting the increase in demand globally – particularly for personal protective equipment (PPE). However export demand is unlikely to be sustained – given the global economic downturn –with the new export orders measure in NBS PMI survey down to a very negative 33.5 points in April.
- There was some divergence in exports to major export markets. Exports to East Asia – which account for the largest share of the total – increased by 4.5% yoy. Exports to Hong Kong fell slightly – down by 0.8% yoy – while exports to non-Hong Kong East Asia rose by 7.4% yoy. The largest increases were in Thailand, Taiwan and Vietnam, while there was a considerable fall in exports to the Philippines.
- In contrast, exports to the United States rose by just 2.2%, while exports to the European Union fell by 4.5%.

# RETAIL SALES AND INFLATION

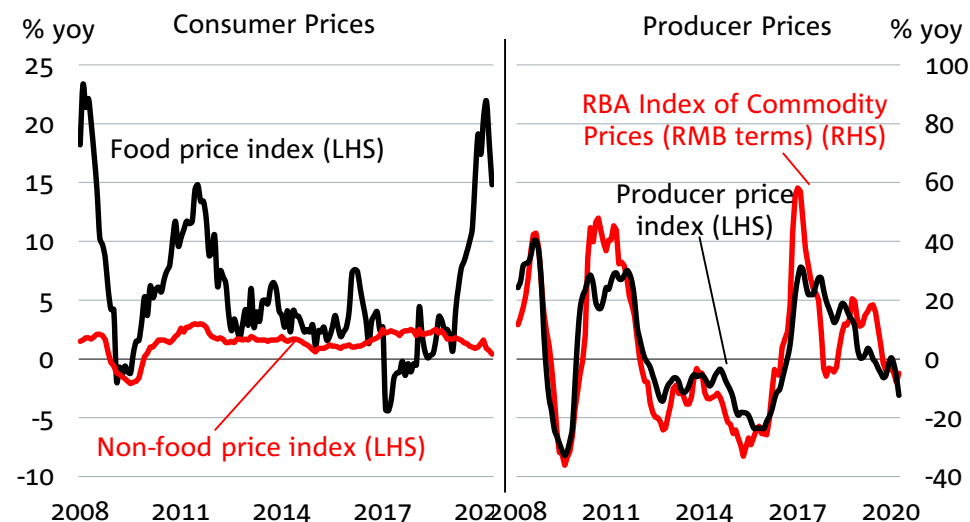
## RETAIL SALES

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## CONSUMER AND PRODUCER PRICES

Non-pork price growth softening, particularly for producers



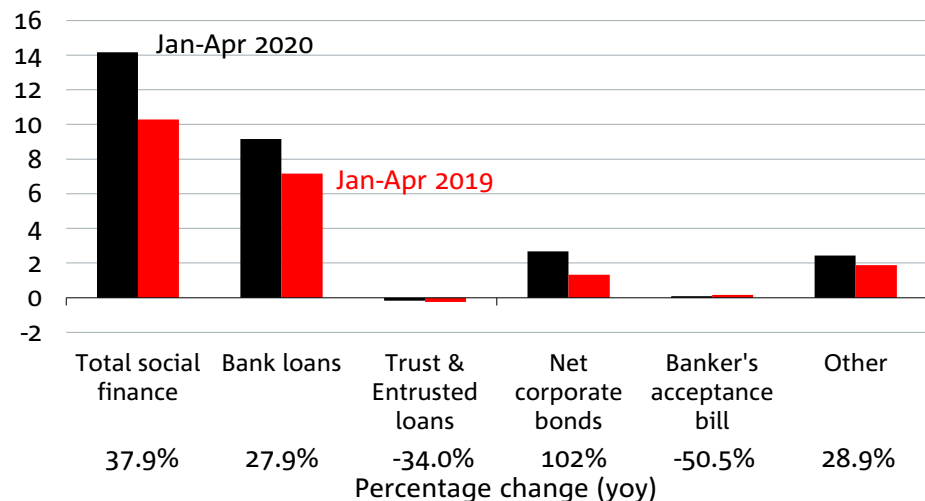
- China's retail sales continued to fall in April – down by 7.5% yoy (from -15.8% yoy in March). As noted below, consumer prices have continued to increase – albeit largely due to strong growth in pork prices – meaning that real retail sales have declined more rapidly – down by 9.0% yoy in April (from -18.1% yoy previously).
- China's consumer prices rose more modestly in April – increasing by 3.3% yoy (down from 4.3% yoy in March). Food price growth remains elevated, however there are significant differences in individual food categories.
- Food prices rose by 14.8% yoy in April (down from 18.3% yoy previously) – however they have declined in monthly terms over the past two months. Pork prices rose by almost 97% yoy – reflecting the impact of African Swine Fever on the country's pork supply since early 2019. In contrast, prices for fresh fruit and fresh vegetables fell significantly – down 10.5% yoy and 3.7% yoy respectively.
- Growth in non-food prices also slowed in April – increasing by just 0.4% yoy (from 0.7% yoy previously). Vehicle fuel prices plunged 20.5% yoy in April – reflecting the drop in global oil prices.
- Producer prices fell by 3.1% yoy in April (compared with a 1.5% yoy fall in March). Global commodity prices fell by 4.9% yoy in RMB terms – reflecting the impact of COVID-19 countermeasures on global commodity demand – however the decline in producer prices also reflects the weakness in domestic demand.

# CREDIT CONDITIONS

## NEW CREDIT ISSUANCE

Surge in bank loans, corporate and government bonds

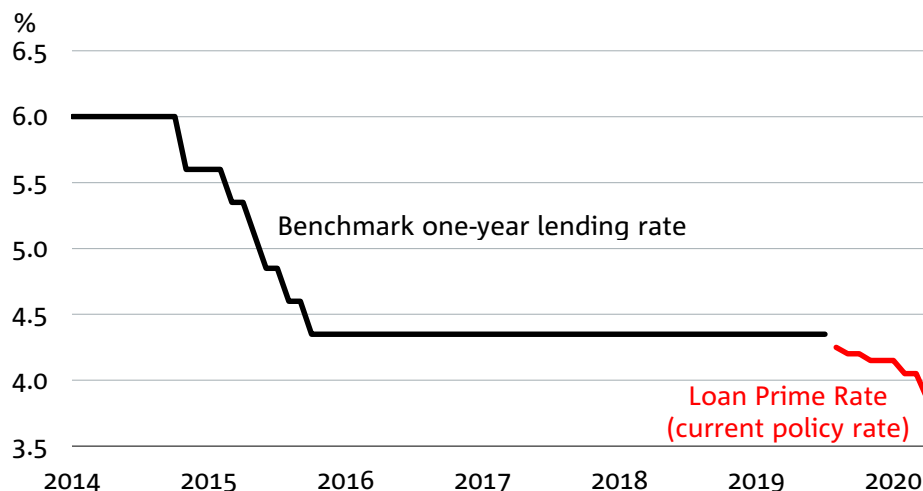
RMB trillion



Sources: CEIC, NAB Economics

## PBOC CONTINUES TO EASE MONETARY POLICY

Rate cuts modest compared with other economies



Source: CEIC, NAB Economics

- China's new credit surged again in April – totalling RMB 3.1 trillion – an increase of 85% yoy. This followed record issuance in March, but relatively weak growth in the first two months – in part due to COVID-19 constraints.
- In the first four months of 2020, new credit issuance rose by 38% yoy to RMB 14.2 trillion. Bank loans comprised the largest share of lending, increasing by almost 28% yoy to RMB 9.2 trillion. China's policy makers have been attempting to expand lending to small-to-medium sized firms, however these firms still face challenges in access to traditional finance.
- Non-bank lending increased more rapidly – up by 61% yoy to RMB 5.0 trillion. Unlike earlier credit surges – following the Global Financial Crisis and the 2012 stimulus – shadow banking growth has been subdued. Instead the growth has been fuelled by corporate bond issuance (which more than doubled in the first four months of the year) and government bonds – which rose by almost 38% yoy.
- In its latest quarterly monetary policy report, the People's Bank of China (PBoC) stated that it will resort to “more powerful” policies to combat the COVID-19 related economic impacts. The statement did not provide specific details, but highlights the PBoC's concern about weakness in both the domestic and global economies, despite Chinese authorities easing COVID-19 restrictions.
- The PBoC has eased its monetary policy twice so far in 2020, albeit far more modestly than advanced economy central banks. Further cuts to interest rates are expected in the short term as Chinese authorities aim to rebuild consumer and business confidence following the COVID-19 lockdowns.



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