CHINA'S ECONOMY AT A GLANCE

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KEY POINTS

China’s industrial sector still driving the recovery, with consumers lagging

- China’s economic recovery remains driven by its industrial sector – where growth returned to its pre-COVID-19 trend in August. Much of this activity seems to be driven by housing and infrastructure construction – with a fresh record for crude steel output in August and strong investment in these sectors. Consumption trends remain subdued – with real retail sales still declining in year-on-year terms.

- China’s industrial production grew more rapidly in August – increasing by 5.6% yoy (compared with 4.8% yoy in July). There remained a considerable divergence between the two major manufacturing surveys in August, with the private sector Caixin Markit PMI much stronger than the official NBS measure.

- Real fixed asset investment rose by 9.4% yoy, up from 8.5% yoy previously. This was the strongest increase since August 2016. Surprisingly there was a slowdown in investment by state-owned enterprises (which had driven growth in recent months), with a strong increase in private investment.

- While nominal retail sales grew for the first time in 2020, real retail sales remained negative – falling by 1.1% yoy in August (compared with 2.8% yoy in July).

- China’s trade surplus narrowed slightly in August – remaining historically high at US$58.9 billion (down from US$62.3 billion in July). This reflected a marginal month-on-month decline in the value of exports and a slight increase in imports.

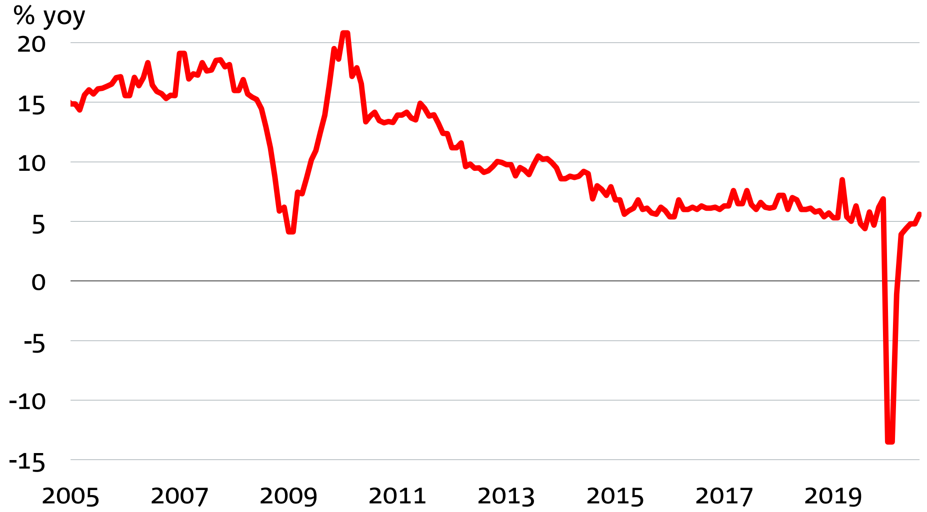
- China’s new credit issuance accelerated in August – totalling RMB 3.6 trillion (compared with RMB 1.7 trillion in July). When compared with the previous month’s level, the increase was largely driven by an increase in non-bank lending.

- China’s monetary policy has remained stable since the previous cut in the Loan Prime Rate in April. According to statements made by People’s Bank of China officials, the bank intends to maintain “normal” monetary policy as its economy recovers – suggesting that further easing is unlikely unless economic conditions deteriorate.

INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

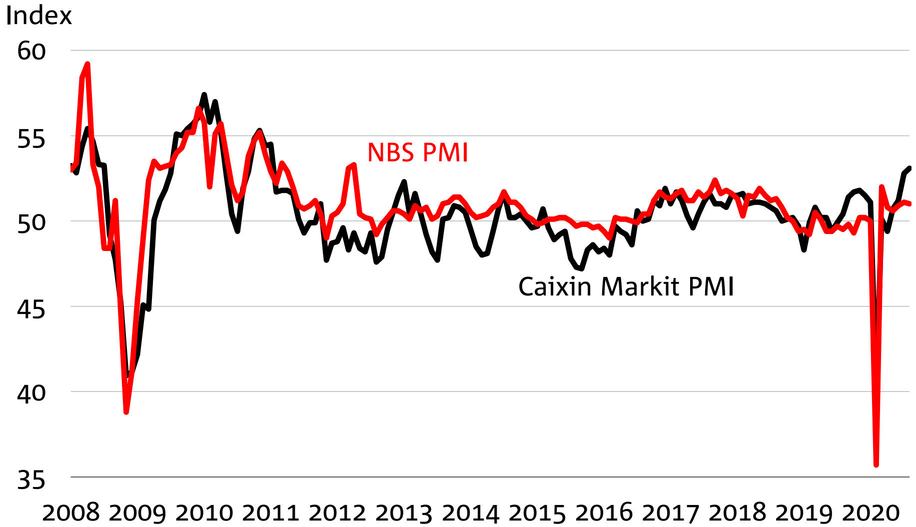
Growth back to pre-COVID-19 trend levels



Source: CEIC, NAB Economics

THE GAP BETWEEN PMI SURVEYS REMAINED WIDE

Private sector survey showing greater strength



Source: CEIC, NAB Economics

- China's industrial production grew more rapidly in August – increasing by 5.6% yoy (compared with 4.8% yoy in July). The industrial sector has been the key driver of China's recovery from the COVID-19 related downturn, and output growth returned to the pre-COVID-19 trend.

- Strong housing and infrastructure construction activity was supported by growth in steel output – up by 8.4% yoy to 94.9 million tonnes (a new record high) – and cement – up by 6.6% yoy. Production of electronics rose by 8.7% yoy and motor vehicles by 7.6% yoy – the latter considerably lower than the 26.8% yoy increase recorded in July. Output of electricity rose by 6.8% yoy.

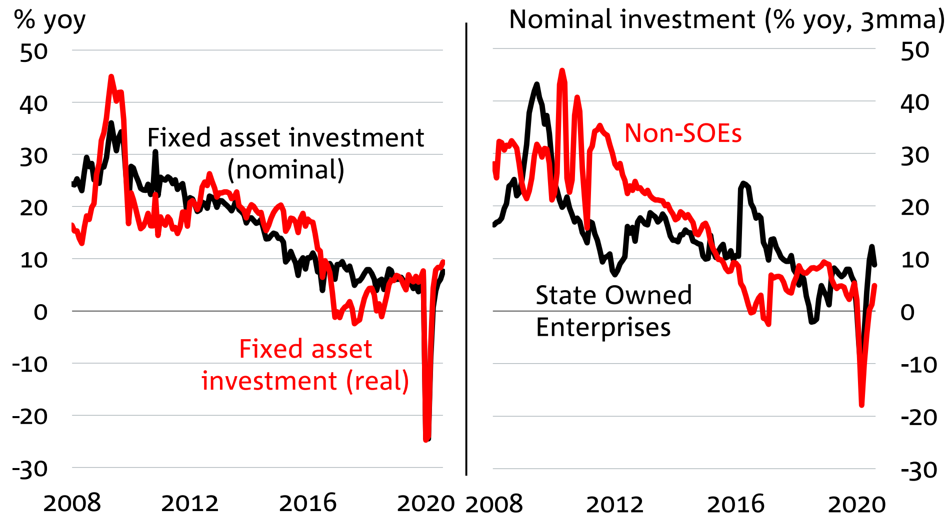
- There remained a considerable divergence between the two major manufacturing surveys in August. The private sector Caixin Markit PMI – which has a larger share of SME firms – was slightly stronger at 53.1 points (from 52.8 points previously). In contrast, the official NBS PMI (which has a greater concentration of large state-owned firms) was marginally softer – at 51.0 points (from 51.1 points in July).

- Export demand for manufacturers has been constrained by the global economic downturn, however the picture is improving as the recovery commenced in Q3. New export orders in the Caixin Markit PMI turned positive in August for the first time this year. This measure in the NBS survey remained negative – at 49.1 points – however this was the strongest reading since April 2019.

INVESTMENT

FIXED ASSET INVESTMENT

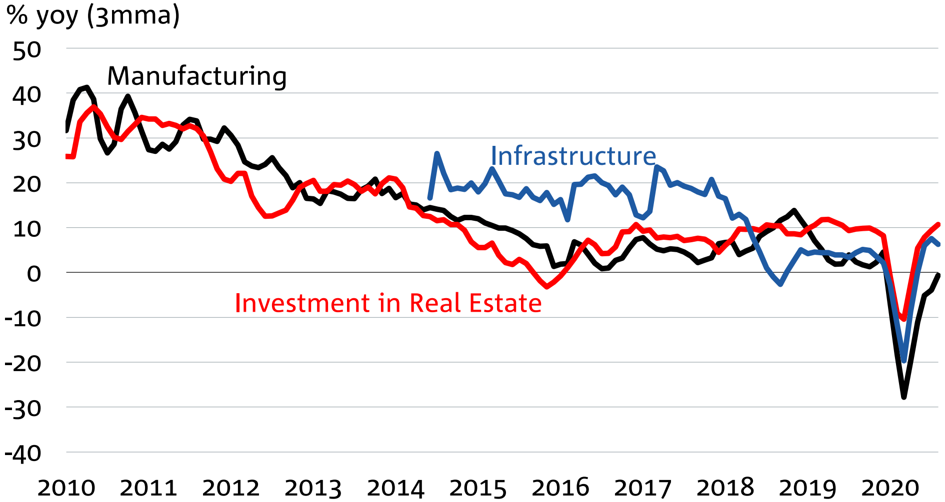
Real investment grew by its strongest rate in four years



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY SECTOR

Real estate and infrastructure key areas of growth



Source: CEIC, NAB Economics

- Nominal growth in fixed asset investment has continued to accelerate – increasing by 7.6% yoy in August, compared with 6.1% yoy in July. As producer prices – which flow through into the cost of investment goods – contracted in August, this meant there was a strong increase in real terms. We estimate real investment rose by 9.4% yoy, up from 8.5% yoy previously. This was the strongest increase since August 2016.

- State-owned enterprises (SOEs) have been the key drivers of investment in recent months, however there was a marked shift in this pattern in August. SOE investment fell by 0.4% yoy, compared with a 12.7% yoy increase in July. In contrast, investment by previously subdued private sector firms rose by 12.0% yoy (from 2.5% yoy in July).

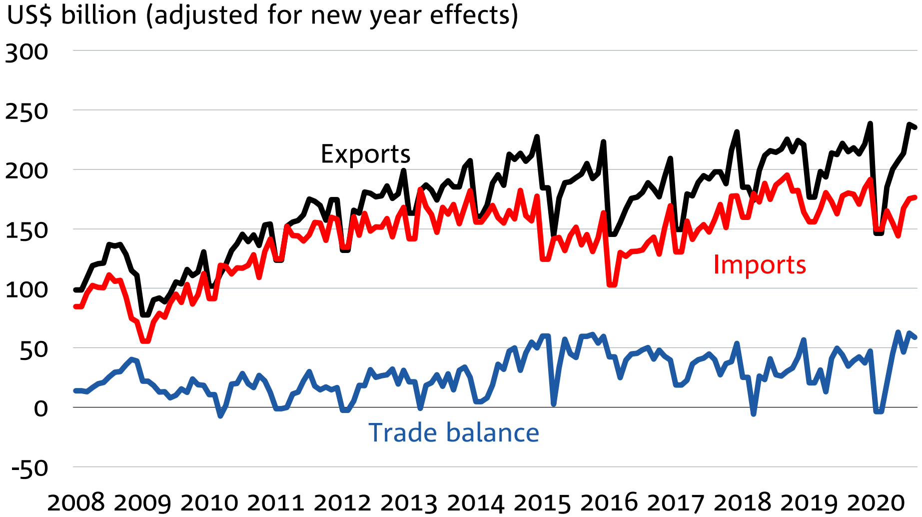
- Investment trends by industry continue to show some divergence. Although manufacturing investment has continued to contract on a three month moving average basis (3mma) (-0.7% yoy), investment grew in August for the first time in 2020 (up by 5.0% yoy).

- Investment in real estate has continued to accelerate – reflecting the boom in construction activity. Infrastructure investment has also grown strongly in recent months, albeit growth slowed in August – down to 4.0% yoy (from 7.9% yoy in July). This may reflect the earlier start to infrastructure investment in 2020 (relative to previous years), which may slow growth rates in the latter months of the year.

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

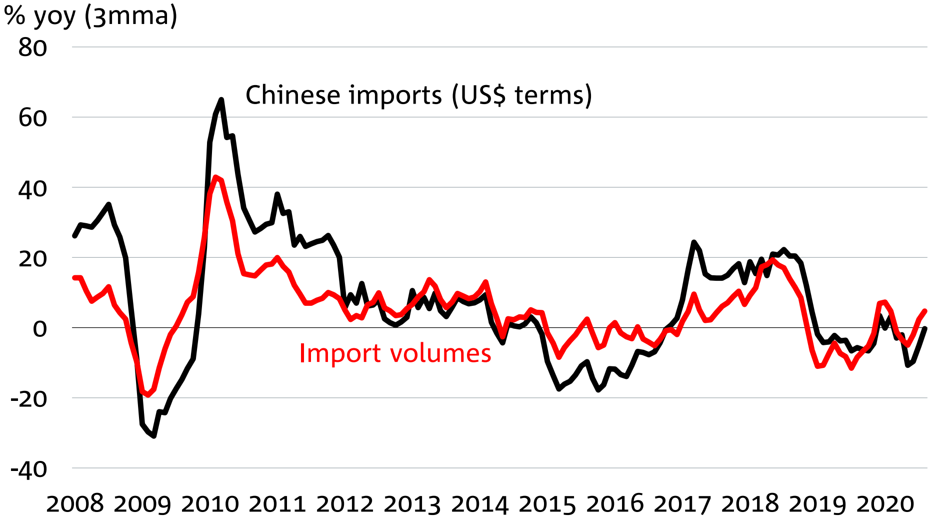
Surplus eased in August but remains historically high



Sources: CEIC, NAB Economics

CHINA'S IMPORT VALUES AND VOLUMES

Recent declines in import values largely price related



Source: CEIC, NAB Economics

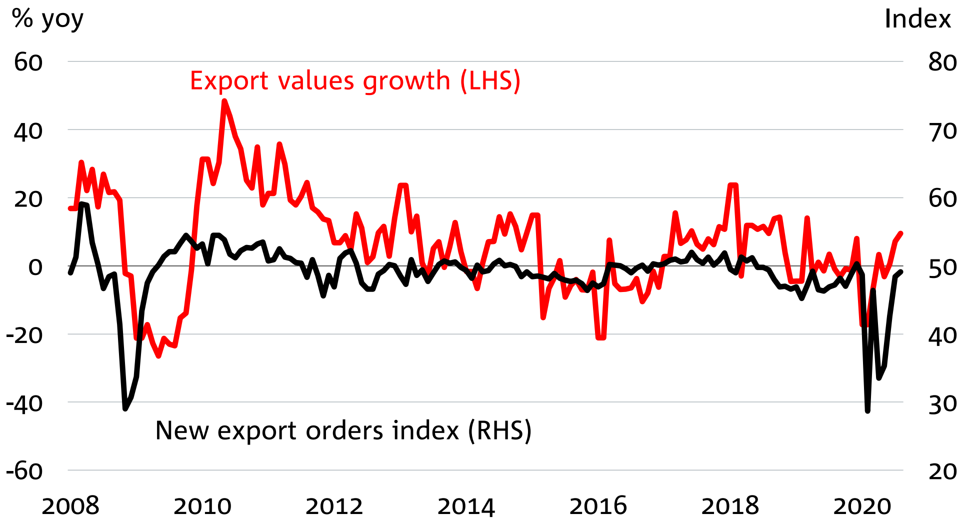
- China's trade surplus narrowed slightly in August – remaining historically high at US$58.9 billion (down from US$62.3 billion in July). This reflected a marginal month-on-month decline in the value of exports and a slight increase in imports.
- Trade tensions between the United States and China have reignited, despite the Phase One trade deal signed in January. President Trump has discussed "decoupling" the two economies and prohibited US firms from transacting with various Chinese corporates. China's rolling twelve month trade surplus with the US has trended higher since March 2020 – up to US$287.9 billion in August 2020.
- China's imports totalled US$176.3 billion in August (compared with US$175.3 billion previously). In year-on-year terms, this represented a decline of 2.1%.
- It appears that lower import prices are a key driver of this trend. Our estimate of volumes uses global commodity prices as a proxy for China's import prices, with US dollar commodity prices (measured by the RBA Index of Commodity Prices) falling by 6.8% yoy.
- That said, volume growth appears to be slowing. While there was an increase of almost 16% yoy in June – much of it likely related to deliveries delayed due to COVID-19 disruptions – our estimate of volume growth slowed to zero in August.
- Import trends by key commodity differed widely in August. Imports of copper rose by over 65% yoy. Imports of crude oil and iron ore also rose significantly – up by 12.6% yoy and 5.8% yoy – albeit volumes declined considerably from peaks in June and July. Imports of coal fell by 37% yoy in August.

National Australia Bank

INTERNATIONAL TRADE – EXPORTS

EXPORTS STRONGLY HIGHER YOY

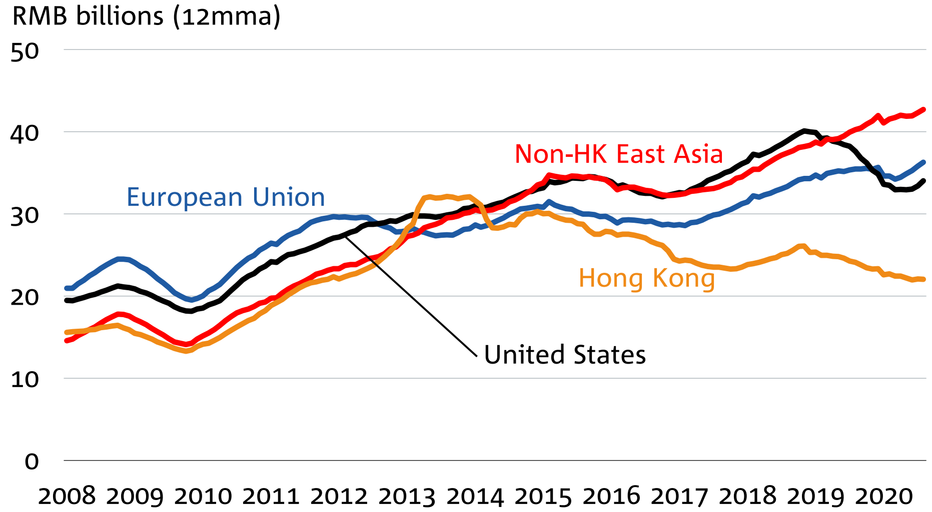
New export orders highest since April 2019



Source: CEIC, NAB Economics

EXPORTS TO MAJOR TRADING PARTNERS

Strong growth in exports to US & EU as global economy recovers



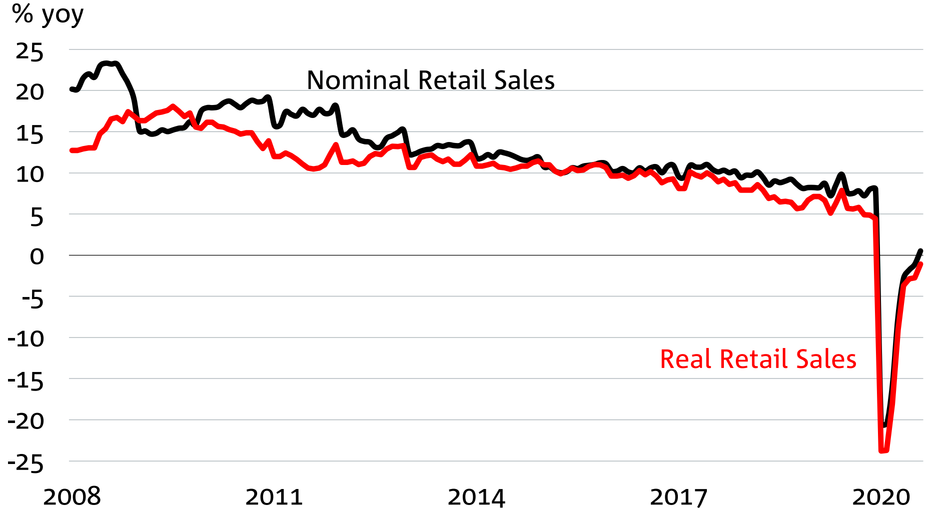
Sources: CEIC, NAB Economics

- The value of China's exports was slightly weaker in August – totalling SU$235.3 billion (down from US$237.6 billion in July) – but still historically high. Overall, this was the third largest total in history (with the peak being December 2019). Exports rose by 9.5% yoy in August, partly reflecting the recovery in global economic activity, as well as demand for medical supplies and electronics.
- The new export orders measure in the NBS PMI survey remains marginally negative. However, it recorded its strongest result since April 2019 – when the US-China trade war was ramping up.
- Growth in exports was driven by strong increases in exports to the United States – up by 20% yoy – and the European Union and United Kingdom (which increased by 15.4% yoy).
- In contrast, exports to East Asian markets rose more modestly – up by just 6.4% yoy. That said, this reflected a decline in exports to Hong Kong – which fell by 3.0% yoy. There has been a long history of distortions in trade data with Hong Kong – where large scale capital flows have been disguised as trade activity.
- Exports to non-Hong Kong East Asia rose by 11.8% yoy. This increase was driven by growing deliveries to the Philippines, Thailand, Malaysia, Taiwan and Vietnam. In contrast, exports to Indonesia fell.

RETAIL SALES AND INFLATION

RETAIL SALES REMAIN HISTORICALLY WEAK

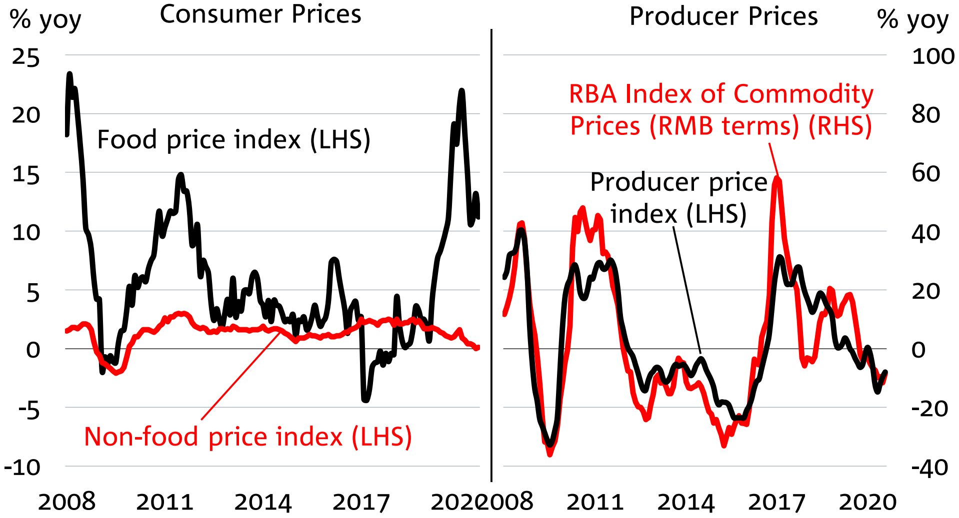
Real sales contracted yoy, but this was the smallest fall in 2020



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

Non-food consumer and producer price trends remain weak



Source: CEIC, RBA, NAB Economics

- China's retail sales increased for the first time in 2020 – up by 0.5% in August (compared with a 1.1% yoy decline in July). However, this increase was smaller than retail price inflation – meaning that real retail sales fell by 1.1% yoy, a more modest decline than the 2.8% yoy fall in July.

- Consumer price growth was a little more modest in August, with the Consumer Price Index increasing by 2.4% yoy (compared with 2.7% yoy in July). The rising cost of food remains the key driver of consumer prices.

- Food prices rose by 11.2% yoy in August, compared with a 13.2% yoy increase previously. Pork has been the key driver of food price inflation since early 2019 – with African Swine Fever impacting pork supply. Pork prices rose by 52.6% yoy in August – the smallest increase since August 2019. In contrast, prices for fresh fruit fell by 19.8% yoy.

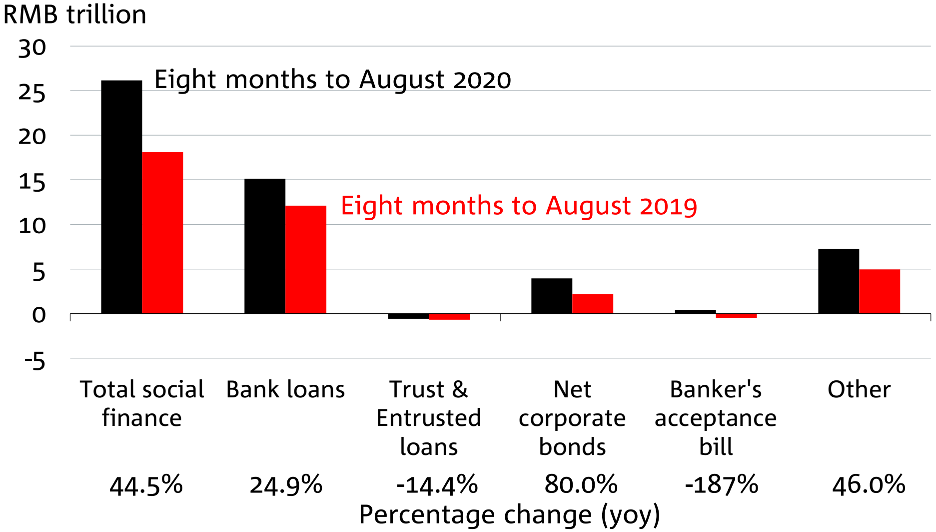
- Non-food price growth has been particularly weak in recent months – in part reflecting modest consumption trends. Non-food prices rose by 0.1% yoy in August, compared with no change in July. A wide range of categories saw declining prices in August, with vehicle fuel prices falling by 13.8% yoy.

- The decline in annual producer price growth moderated again in August – with the producer price index falling by 2.0% yoy (compared with 2.4% yoy in July and 3.0% yoy in June). This reflects a modest rise in producer prices in month-on-month terms for the past three months. Movements in producer prices have been closely aligned to trends in commodity markets.

CREDIT CONDITIONS

NEW CREDIT ISSUANCE

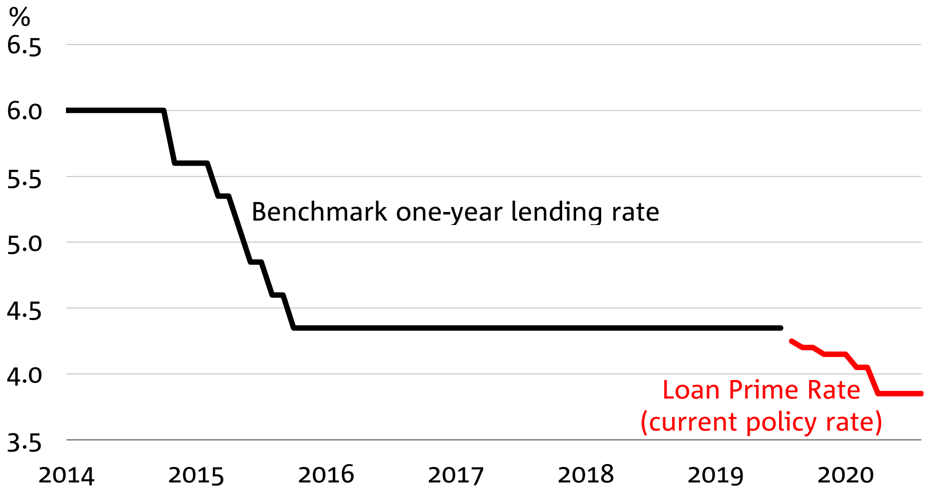
Non-bank growth driven by corporate and government bonds



Sources: CEIC, NAB Economics

MONETARY POLICY

PBoC intends to maintain “normal” monetary policy



Source: CEIC, NAB Economics

- China’s new credit issuance accelerated in August – totalling RMB 3.6 trillion (compared with RMB 1.7 trillion in July). When compared with the previous month’s level, the increase was largely driven by an increase in non-bank lending.
- Over the first eight months of 2020, new credit issuance increased by 44% yoy to RMB 26.1 trillion. Bank loans account for the largest share of the total, however they have grown comparatively slowly – by just 21.7% yoy to RMB 14.8 trillion.
- Most of the growth in issuance this year has been driven by non-bank lending, which rose by 84% yoy to RMB 11.0 trillion. In earlier periods of stimulus – following the GFC and in 2012 – non-bank lending was driven by shadow banking products (such as trust and entrusted loans and banker’s acceptance bills), however these segments have been subdued in 2020.
- Instead, growth has been driven by a surge in net corporate bond issuance and government bond issuance – increasing by 80% yoy and 58% yoy respectively over the first eight months.
- China’s monetary policy has remained stable since the previous cut in the Loan Prime Rate in April. According to statements made by People’s Bank of China officials, the bank intends to maintain “normal” monetary policy as its economy recovers – suggesting that further easing is unlikely unless economic conditions deteriorate.

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