CHINA'S ECONOMY AT A GLANCE

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CONTACT

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KEY POINTS

Consumers gradually returning to the market, with China still reliant on industry

- The latest data from China show China's economic recovery continued into the start of Q4, however consumption still remains below its pre-COVID-19 growth. Instead, growth continues to be driven by heavy industry, supported by construction demand. Overall, our forecasts are unchanged, with China's economy to expand by 1.8% in 2020 and 9.5% in 2021.

- China's industrial production grew at an unchanged rate in October – increasing by 6.9% yoy. This rate of increase is comparatively strong when compared with recent history, highlighting the sector's key role in China's post-COVID-19 growth.

- Real fixed asset investment increased strongly in October, up by 11.5% yoy. This was the strongest increase since May 2016. Private sector investment has grown more rapidly in recent months, as growth in real estate investment has continued to accelerate.

- Real retail sales increased by 4.6% yoy in October (up from 2.5% yoy in September), only the second positive reading in 2020. Retail sales growth remains below its pre-COVID-19 levels (particularly in nominal terms).

- China's trade surplus widened significantly in October, reflecting a month-on-month drop in the value of the country's imports. The surplus totalled US$58.4 billion (compared with US$37.0 billion in September). China's trade surplus with the United States has been trending higher in recent months. The incoming Biden Administration in the United States is likely to be less aggressive on trade policy than President Trump, however it may pursue multi-lateral trade deals that could prove negative for China.

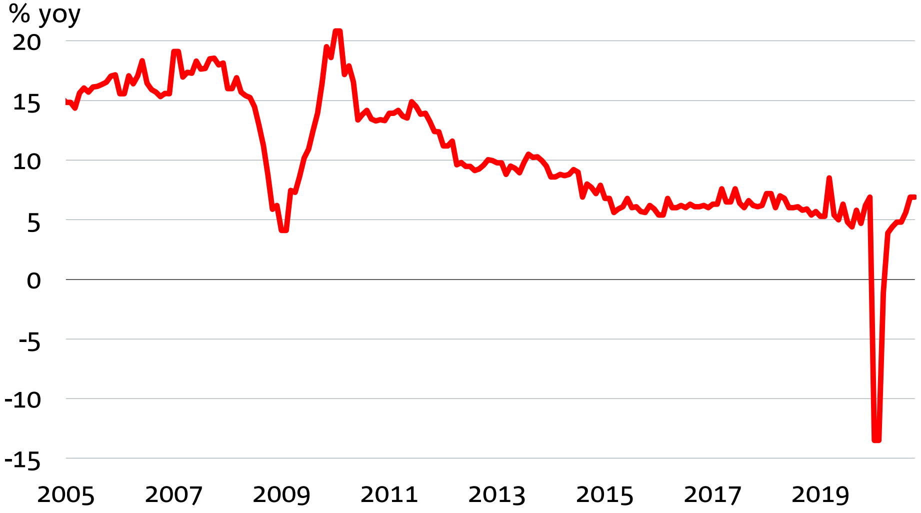
- In the first ten months of 2020, new credit issuance totalled RMB 31.0 trillion, an increase of 44.5% yoy. Bank loans account for the largest share of the total, however these loans have grown relatively slowly this year – increasing by 22.8% yoy to RMB 17.6 trillion.

- China's monetary policy has remained stable since April, when the People's Bank of China (PBoC) last cut its policy rate. Compared with other major economies, the PBoC has considerable policy room, however officials have stated repeatedly in recent months that current rates are appropriate – in part reflecting the longer term risks given existing high debt levels in the corporate sector and the potential for asset price bubbles.

INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

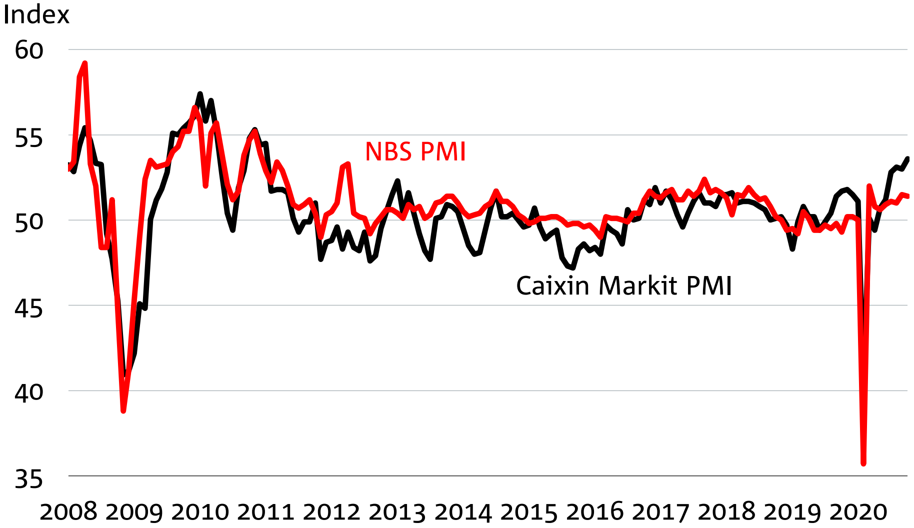
Growth unchanged in October, but strong for recent history



Source: CEIC, NAB Economics

MANUFACTURING PMI

Widening gap between the two surveys



Source: CEIC, NAB Economics

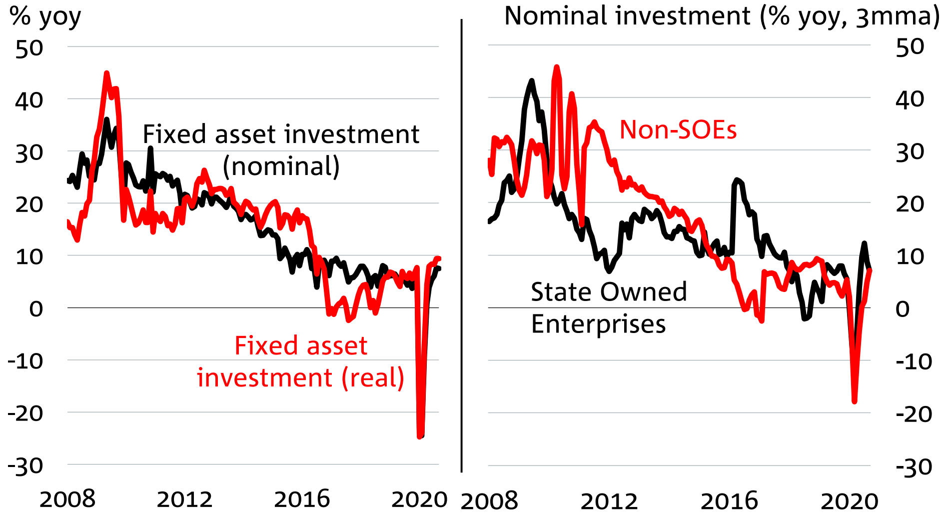
- China's industrial production grew at an unchanged rate in October – increasing by 6.9% yoy. This rate of increase is comparatively strong when compared with recent history, highlighting the sector's key role in China's post-COVID-19 growth.
- Strong activity in the construction sector has supported growth in heavy industrial products – such as crude steel and cement, where output increased by 12.7% yoy and 9.6% yoy respectively.
- Production of motor vehicles continued to expand rapidly – up by 11.1% yoy – while output of electronics rose by 5.0% yoy, down from 8.0% yoy in September. This slowing growth reflected a year-on-year fall in mobile phone production.
- In recent months there has been a persistent gap between the readings of China's two major manufacturing surveys and the gap widened in October. The private sector Caixin Markit PMI was stronger – up to 53.6 points (from 53.1 points in September). In contrast, the official NBS PMI eased marginally – down to 51.4 points (from 51.5 points previously).
- There were differing trends in the measure of new export orders. While both have been in positive territory in recent months, the NBS PMI measure strengthened in October, while the Caixin Markit measure eased from a multi-year high, attributed to the impact of COVID-19 in Europe. Given that the survey was largely conducted ahead of announced restrictions across the continent, prospects are likely to weaken further next month.

National Australia Bank

INVESTMENT

FIXED ASSET INVESTMENT

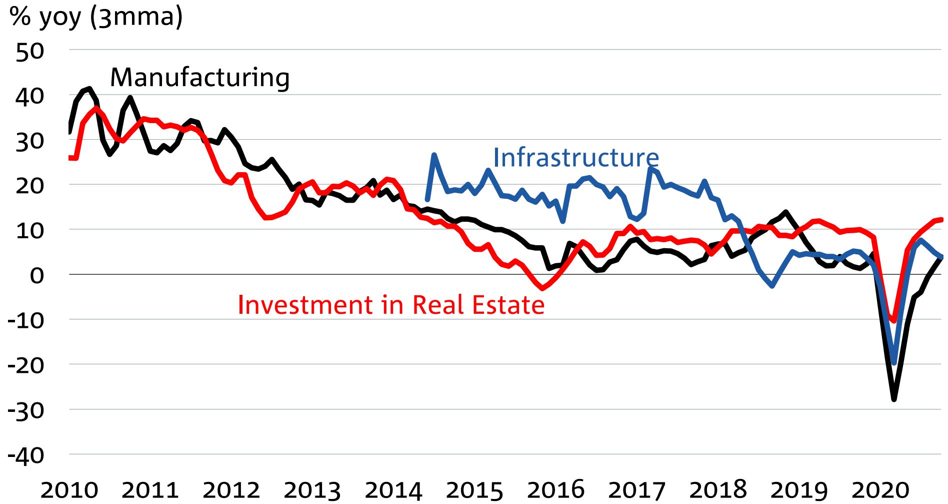
Private sector driving a greater share of the growth



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY SECTOR

Real estate investment continues to lead the way



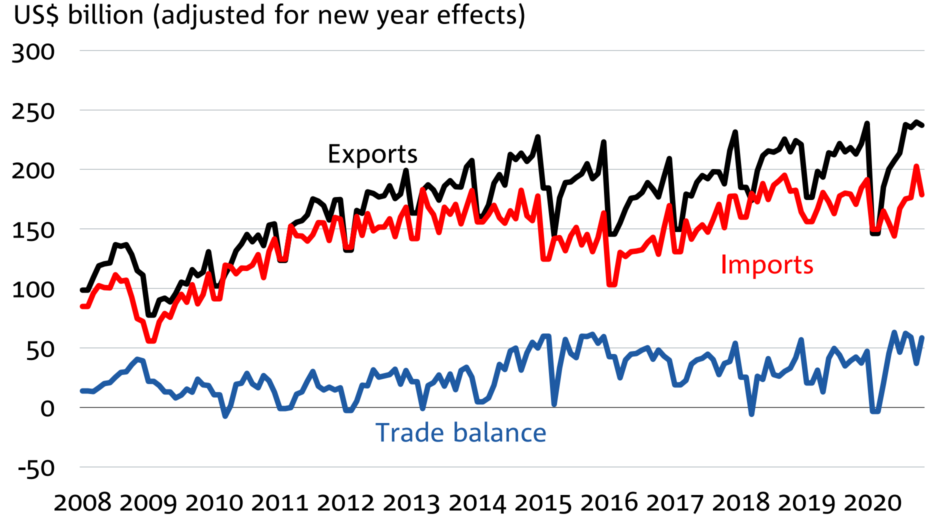
Source: CEIC, NAB Economics

- Growth in fixed asset investment accelerated again in October, increasing by 9.5% yoy (from 7.5% yoy in September). Stability in producer price inflation – which flows through to the cost of investment goods – means that our estimate of real investment increased strongly, up by 11.5% yoy. This was the strongest increase since May 2016.
- While state-owned enterprises (SOEs) drove the initial recovery in investment, growth has slowed in recent months (on a three month moving average basis). In nominal terms, SOE investment rose by 6.9% yoy (3mma), compared with double-digit growth in July.
- In contrast, private sector investment has continued to grow more rapidly – up by 9.0% yoy (3mma), from 7.1% yoy (3mma) in September. Last month private sector growth overtook that of SOEs.
- When broken down by industry, investment trends remain divergent. On a three month moving average basis, investment in real estate has continued to pick up – increasing by 12.2% yoy (3mma). In contrast, infrastructure investment has continued to ease in recent months, increasing by 3.8% yoy (3mma), compared with a peak of 7.6% yoy (3mma) in July). Investment in manufacturing increased for only the second month in 2020 – up by 3.9% yoy (3mma), from 1.6% yoy (3mma) in September.

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

Surplus widened on large month-on-month fall in imports



Sources: CEIC, NAB Economics

CHINA'S TRADE SURPLUS WITH THE UNITED STATES

Rolling surplus trending higher in recent months

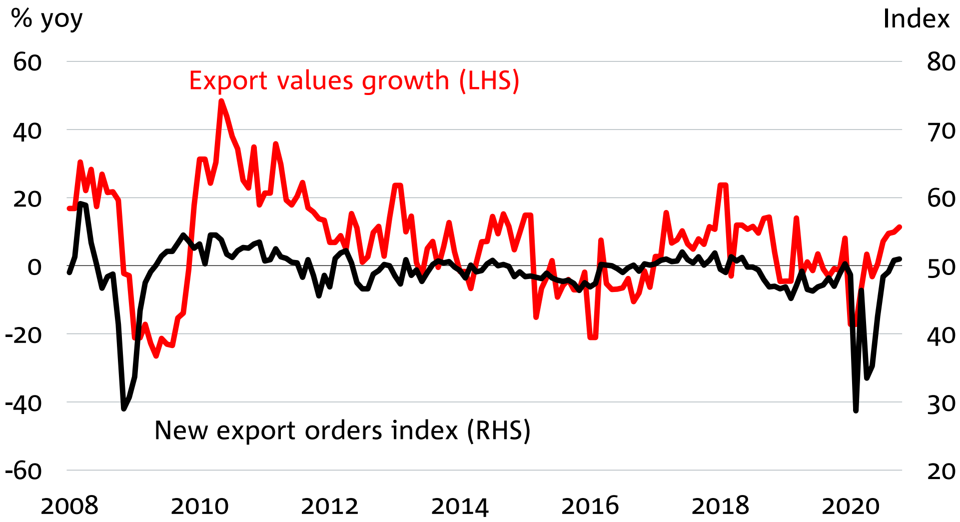
Sources: CEIC, NAB Economics

- China's trade surplus widened significantly in October, reflecting a month-on-month drop in the value of the country's imports. The surplus totalled US$58.4 billion (compared with US$37.0 billion in September).
- China's trade surplus with the United States has been trending higher in recent months. On a rolling twelve month basis, the surplus totalled US$297.7 billion, compared with the post-trade war low of US$273.8 billion in March. The incoming Biden Administration in the United States is likely to be less aggressive on trade policy than President Trump, however it may pursue multi-lateral trade deals that could prove negative for China.
- China's imports totalled US$178.7 billion in October – down from a record high of US$202.8 billion previously. A decline was expected, following business closures due to the Golden Week holidays. In year-on-year terms, imports rose by 4.7%.
- This year-on-year increase in imports was partly price related – reflecting a 2.8% yoy increase in commodity prices (as measured by the RBA Index of Commodity Prices) – but also an increase in volumes. Using commodity prices as a proxy for Chinese import prices, we estimate that import volumes rose by 3.8% yoy in October (somewhat more modest than the 13.9% increase in September).
- The import trends for key commodities diverged substantially in October. Import volumes for refined copper grew strongly again – up 43.4% yoy reflecting strong domestic demand and shortages in copper concentrate markets. Iron ore imports also rose – up by 14.9% yoy. In contrast, oil import volumes fell by 6.5% yoy and coal imports by 43.4% yoy.

INTERNATIONAL TRADE – EXPORTS

EXPORTS GREW STRONGLY AGAIN IN OCTOBER

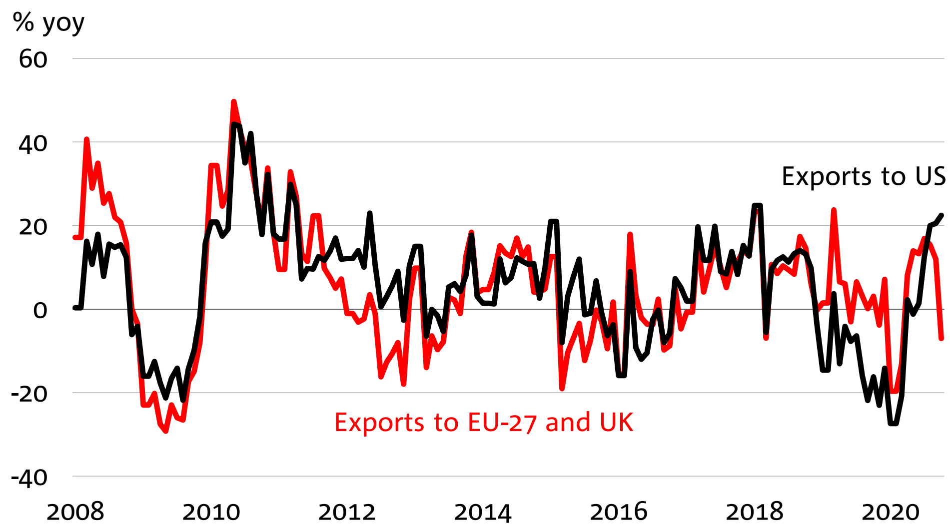
New export orders positive ahead of European lockdowns



Source: CEIC, NAB Economics

EXPORTS TO THE US AND EUROPE

Diverging trends in growth as European prospects deteriorate



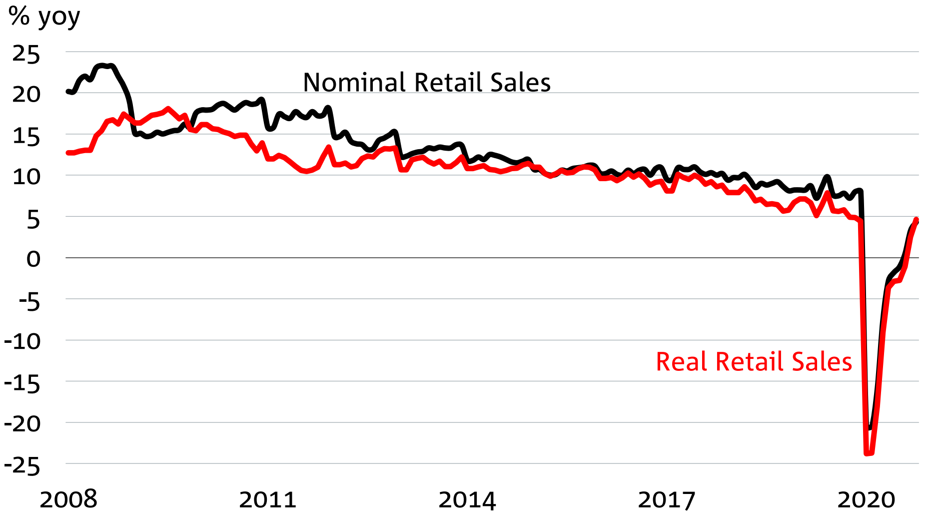
Sources: CEIC, NAB Economics

- The total value of China's exports eased marginally month-on-month in October – to US$237.2 billion (compared with an all time high of US$239.8 billion in September). However, in year-on-year terms, exports grew by 11.4% – supported by strong demand for medical supplies and electronics.
- There was a slight increase in the new export orders measure in the NBS PMI survey – up to 51.0 points (compared with 50.8 points previously). This was the strongest reading since May 2018.
- Export trends differed significantly in October. There was a strong increase in exports to the United States – up by 22.5% yoy – compared with a more modest increase in East Asia, where exports increased by 5.8% yoy. In contrast, exports to the European Union and the United Kingdom fell by 7.0% yoy. This was largely ahead of COVID-19 restrictions, which (with the exception of the Netherlands) were implemented in the latter part of the month.
- Within East Asia, exports to Hong Kong rose a little more modestly than the average, up by 4.3% yoy. There has been a long history of distortion in trade data between mainland China and Hong Kong – largely reflecting capital flows disguised as trade activity.
- In contrast, exports to other East Asian markets rose by 6.6% yoy. This increase was largely driven by stronger exports to Vietnam and Malaysia, while exports to Indonesia fell.

RETAIL SALES AND INFLATION

RETAIL SALES GRADUALLY RECOVERING

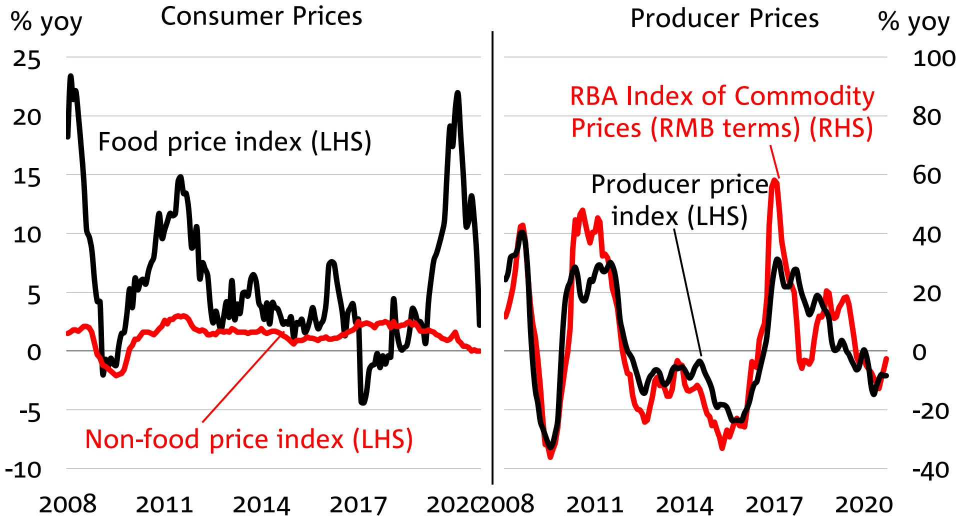
Sales growth still below pre-COVID-19 trends



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

Inflation pressures in China remain muted, as pork prices fall



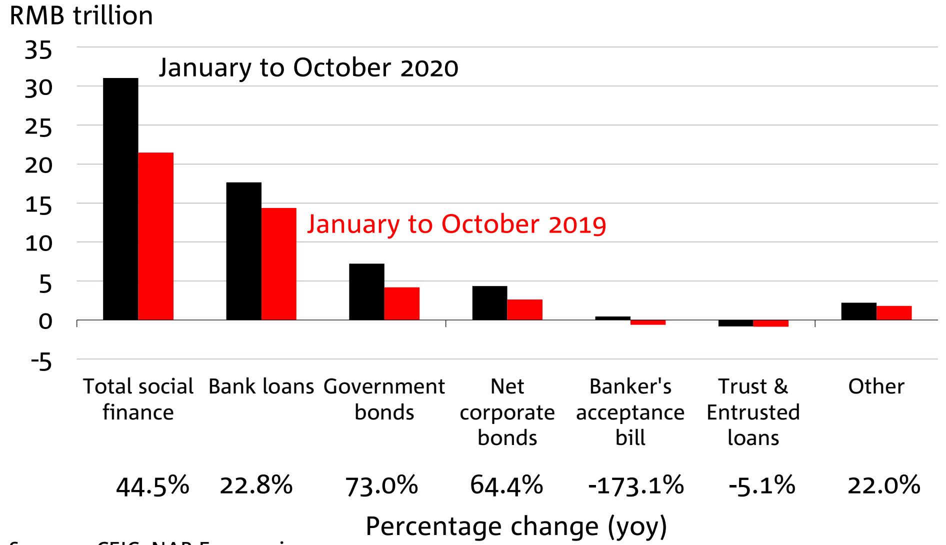
Source: CEIC, RBA, NAB Economics

- China's retail sector continued its gradual recovery in October, with nominal sales increasing by 4.3% yoy (up from 3.3% yoy previously). Compared with the rapid turn around in the industrial sector, retail sales remain below the pre-COVID-19 trend.
- Retail prices contracted year-on-year in October, meaning that real retail sales increased by 4.6% yoy (up from 2.5% yoy in September), only the second positive reading in 2020.
- Consumer price growth slowed significantly in October, with the headline Consumer Price Index increasing by 0.5% yoy (compared with 1.7% yoy in September).
- A substantial slowdown in food price inflation was the key driver of the weaker growth in the CPI. The food price index rose by 2.2% yoy (compared with 7.9% yoy in September) – the weakest increase since February 2019. Prices for pork – which drove the surge in food prices since early 2019 – fell by 2.8% yoy. Reports suggest that supply of pork is starting to recover, following the impact of the African Swine Fever outbreak.
- In contrast, non-food prices remained stable, unchanged in year-on-year terms for the third month out of four (with the other month being a 0.1% yoy increase in August). Falling vehicle fuel prices continue to support subdued non-food prices – down by 17.2% yoy in October.
- Producer prices (in year-on-year terms) fell for the ninth month in a row in October, down by 2.1% (the same rate as in September). In part this reflects falling commodity prices (in RMB terms), down by 2.6% yoy as a result of currency appreciation. However, falling factory gate prices for consumer products (down 0.5% yoy in October) points to ongoing softness in China's domestic consumption.

CREDIT CONDITIONS

NEW CREDIT ISSUANCE

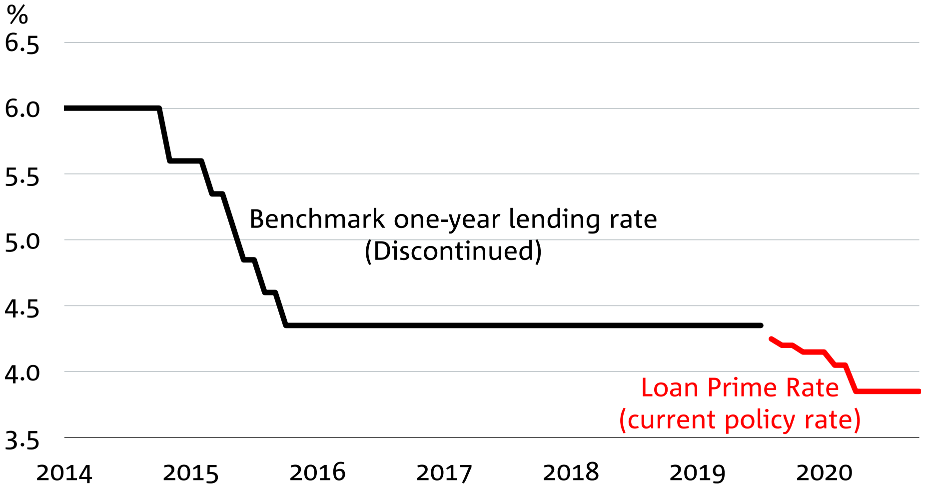
Surging in lending driven by growth in bonds and bank loans



Sources: CEIC, NAB Economics

MONETARY POLICY

Stable policy rates look set to continue



Source: CEIC, NAB Economics

- China's new credit issuance slowed significantly month-on-month in October, in line with a typical seasonal pattern. New issuance totalled RMB 1.4 trillion (compared with RMB 3.5 trillion in September).
- In the first ten months of 2020, new credit issuance totalled RMB 31.0 trillion, an increase of 44.5% yoy. Bank loans account for the largest share of the total, however these loans have grown relatively slowly this year – increasing by 22.8% yoy to RMB 17.6 trillion.
- In contrast, non-bank lending has surged over this period – increasing by 88% yoy to RMB 13.4 trillion. In earlier periods of stimulus, non-bank lending was driven by shadow banking – including segments such as trust and entrusted loans and banker's acceptance bills – however there has been minimal contribution this year, due in a large part to tighter regulation. Instead, growth has been driven by government bond issuance – up 73% yoy – and net corporate bond issuance (up by 64.4% yoy).
- China's monetary policy has remained stable since April, when the People's Bank of China (PBoC) last cut its policy rate. Compared with other major economies, the PBoC has considerable policy room, however officials have stated repeatedly in recent months that current rates are appropriate – in part reflecting the longer term risks given existing high debt levels in the corporate sector and the potential for asset price bubbles.

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