CHINA'S ECONOMY AT A GLANCE

DECEMBER 2020

CONTENTS

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KEY POINTS

China’s consumers finally remerging

- China’s latest economic data showed little change in either industrial production or investment – key drivers of its economic recovery from COVID-19 – however stronger growth in retail sales data suggests that household consumption may finally be recovering. Our forecasts are unchanged, with China’s economy forecast to expand by 1.8% in 2020 and 9.5% in 2021.

- Growth in industrial production was marginally stronger in November – increasing by 7.0% yoy (compared with 6.9% yoy in both September and October). Compared with pre-COVID-19 rates of growth, the increase in industrial production remains strong.

- Fixed asset investment grew at a marginally slower rate – up by 11.3% yoy (from 11.7% yoy previously). Despite this easing, real investment remains particularly strong when compared with recent history.

- China’s major manufacturing surveys showed improving measures for new orders – with domestic orders picking up more strongly than export ones. This could point to a recovery in domestic consumption – with China’s recovery since April having largely been driven by production.

- The gradual recovery in China’s consumption continued in November – with real retail sales up by 6.2% yoy (from 4.6% yoy previously) – marginally below the average recorded across the first half of 2019.

- China’s trade surplus rose to a record high in November, reflecting a larger month-on-month increase in exports than the rise in imports. The surplus totalled US$75.4 billion (compared with US$58.4 billion in October). The United States continues to account for a sizeable share of China’s trade surplus, and in recent months, this surplus has been trending higher again – having shrunk following the US-China trade war. At this stage it is unclear how the incoming Biden Administration in the United States will respond to this trend.

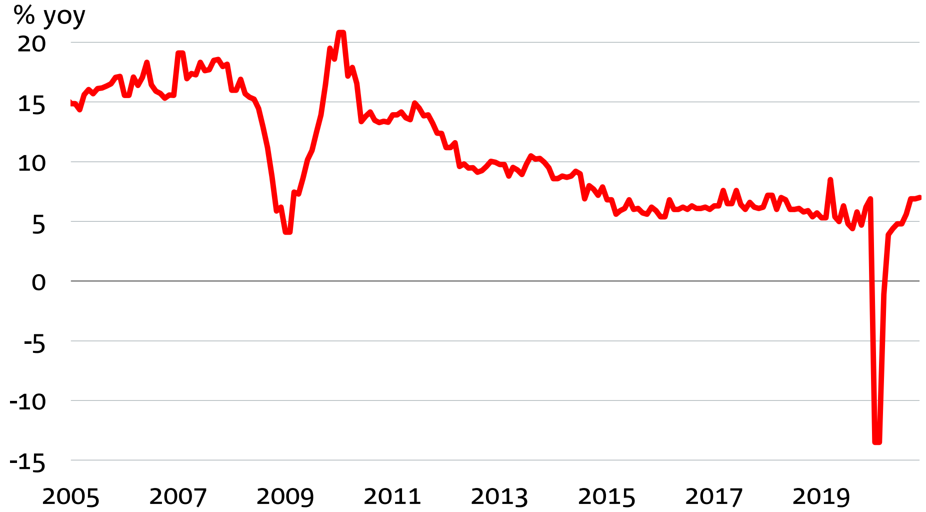
- In the first eleven months of 2020, new credit issuance totalled RMB 33.2 trillion, an increase of 41.3% yoy. Bank loans accounted for the largest share of this total – at RMB 19.1 trillion – however bank lending has grown comparatively slowly, up by 21.8% yoy. Growth in government and corporate bond issuance has been much stronger.

- The People’s Bank of China (PBoC) cut interest rates to support the recovery from COVID-19 countermeasures, however it cut rates more modestly than other central banks, and has kept them on hold since April. The bank has also added liquidity to financial markets, maintaining interbank rates below pre-COVID-19 levels. Reports suggest that the PBoC is considering unwinding some of this support – given existing risks related to high corporate debt levels and the potential for asset price bubbles – however some former bank officials have speculated that it may keep measures in place until the second half of 2021.

INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

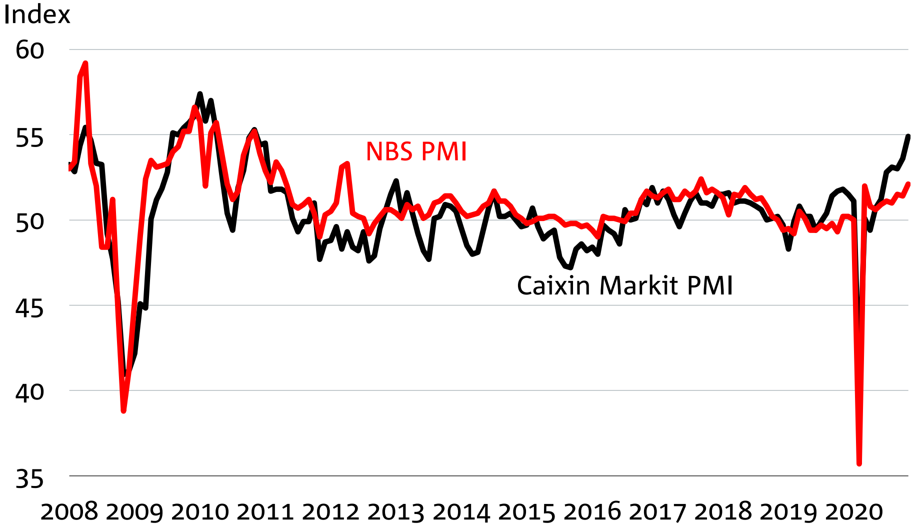
Growth edged higher in November; growth relatively strong



Source: CEIC, NAB Economics

MANUFACTURING SURVEYS SHOW STRONGER CONDITIONS

Private sector survey widens gap to official measure



Source: CEIC, NAB Economics

- Growth in industrial production was marginally stronger in November – increasing by 7.0% yoy (compared with 6.9% yoy in both September and October). Compared with pre-COVID-19 rates of growth, the increase in industrial production remains strong.

- Production trends varied considerably at the sub-sector level. The output of consumer electronics products grew more rapidly – up by 9.3% yoy (from 5.0% yoy previously) – while electricity output also accelerated, growing by 6.8% yoy in November.

- In contrast, there was slower growth (compared with October) in crude steel (8.0% yoy), cement (7.7% yoy) and motor vehicles (8.1% yoy).

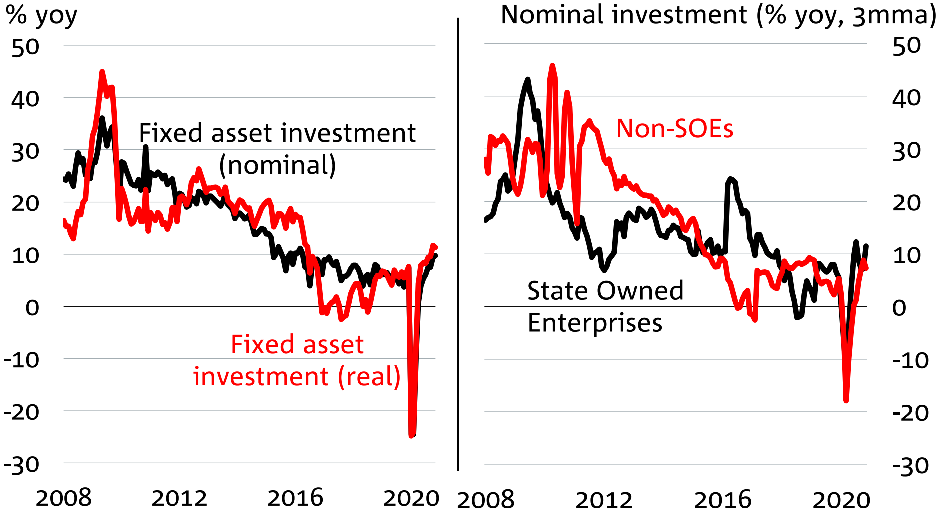
- There remains a sizeable gap in the readings from China's two major manufacturing surveys. The private sector Caixin Markit PMI continued to strengthen in November, up to 54.9 points (from 53.6 points in October). In contrast, the official NBS PMI was slightly stronger, at 52.1 points (compared with 51.4 points previously).

- Both surveys showed improving measures for new orders – with domestic orders picking up more strongly than export ones. This could point to a recovery in domestic consumption – which would be a more sustainable driver of growth. Since April, China's recovery has largely been driven by the production side of the economy (particularly manufacturing and construction), with household consumption comparatively weak.

INVESTMENT

FIXED ASSET INVESTMENT

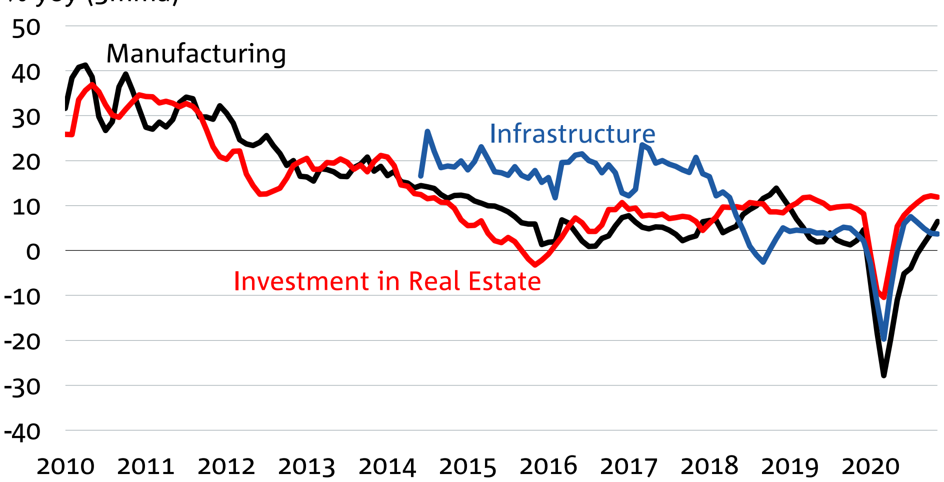
Real investment eased in November, but high for recent history



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY SECTOR

Real estate investment continues to outpace other sectors



Source: CEIC, NAB Economics

- Fixed asset investment grew slightly more rapidly in November – increasing by 9.7% yoy (from 9.5% yoy previously). However, our estimate of investment goods prices (based on producer prices) was less negative in November than in October, meaning that real investment grew at a marginally slower rate – up by 11.3% yoy (from 11.7% yoy previously). Despite this easing, real investment remains particularly strong when compared with recent history.

- Across the course of 2020, nominal investment by China's state-owned enterprises (SOEs) has outpaced that of private firms. After briefly stalling in August, SOE investment grew by double digit rates in October and November. This was in contrast with average growth around 7.5% for non-SOEs over the past two months. This may reflect the differing composition (by industry) of SOE and private sector firms.

- There remain highly divergent trends in investment by industry. On a three month moving average basis, investment in real estate increased by 11.9% yoy – in part reflecting the strength of construction activity. In contrast, infrastructure investment has slowed in recent months – down to 3.7% yoy (3mma) in November (less than half the rate of growth seen in July). Investment in manufacturing was comparatively slow to recover, but rose by 6.4% yoy (3mma) in November.

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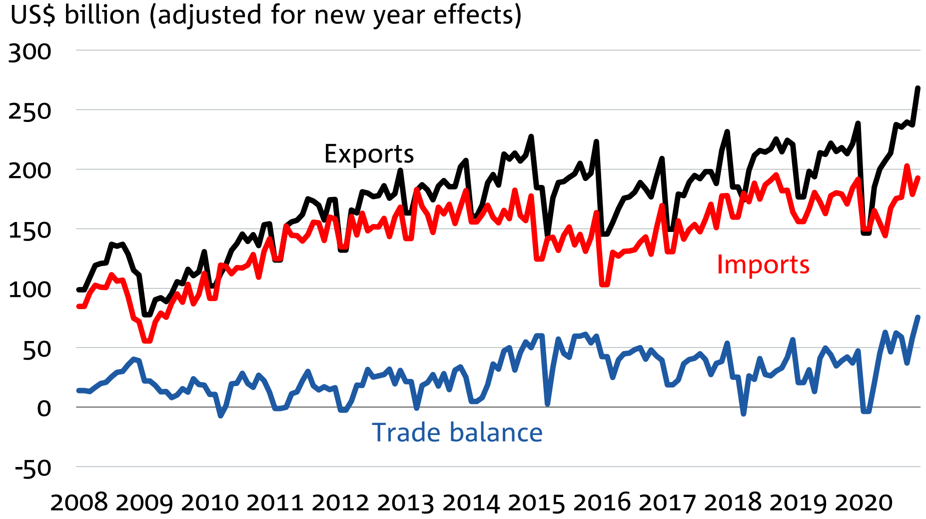
INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

Surge in exports drives trade surplus to new record high



Sources: CEIC, NAB Economics

CHINA'S TRADE SURPLUS WITH THE UNITED STATES

Rolling surplus back above US$300 billion in November

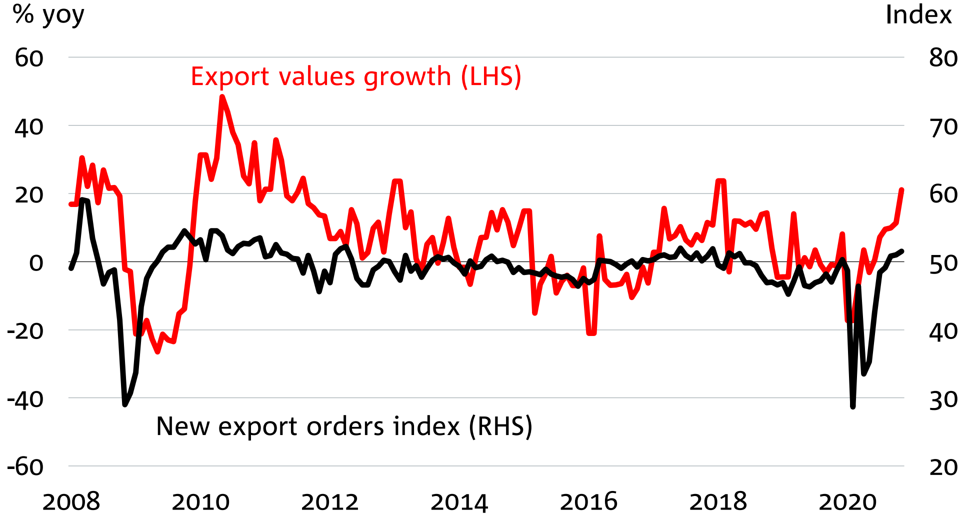
Sources: CEIC, NAB Economics

- China's trade surplus rose to a record high in November, reflecting a larger month-on-month increase in exports than the rise in imports. The surplus totalled US$75.4 billion (compared with US$58.4 billion in October).
- The United States continues to account for a sizeable share of China's trade surplus. In recent months, this surplus has been trending higher again – having shrunk following the US-China trade war. For the twelve months to November 2020, the surplus totalled US$310.5 billion, up from a post-trade war low of US$273.8 billion in March. At this stage it is unclear how the incoming Biden Administration in the United States will respond to this trend.
- The value of China's imports totalled US$192.6 billion in November – up from US$178.7 billion in October, but lower than the US$202.8 billion record set in September. In year-on-year terms, imports rose by 4.5%.
- Compared with a massive surge in September, the increase in import volumes has been more modest in recent months. Our estimate of import volumes uses commodity prices (as measured by the RBA Index of Commodity Prices) as a proxy for Chinese import prices – with US dollar denominated commodity prices increasing by 5.5% yoy in November. We estimate that import volumes rose by 2.8% yoy, down from 3.8% yoy in October and 13.8% yoy in September.
- Import volume trends for key commodities remained highly mixed in November. Imports of refined copper continued to grow strongly – up by 16.2% yoy (albeit volumes have shrunk considerably since September), while imports of iron ore rose by 8.3% yoy. In contrast, crude oil imports fell by 0.8% yoy and coal by 43.8% yoy – with the latter impacted by consumers having almost exhausted their annual import quotas.

INTERNATIONAL TRADE – EXPORTS

EXPORTS SURGED TO RECORD HIGHS IN NOVEMBER

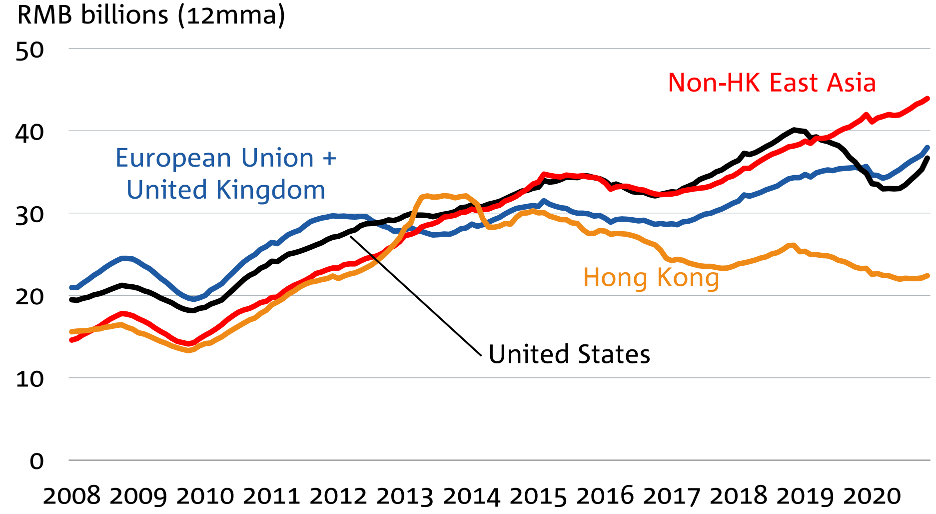
New export order measure strongest in almost three years



Source: CEIC, NAB Economics

EXPORTS TO MAJOR TRADING PARTNERS

Exports the US and Europe are recovering



Sources: CEIC, NAB Economics

- China's exports surged in November, totalling US$268.1 billion – a new record total – up from a previously historically strong US$237.2 billion in October. In year-on-year terms, exports increased by 21.1% yoy, with demand for medical supplies and electronics remaining strong. Disruptions to global delivery services (due to COVID-19) may also have brought Christmas demand forward.
- The new export orders measure in the NBS PMI survey has continued to edge higher – up to 51.5 points (compared with 51.0 points in October). This was the strongest reading in this survey since December 2017 (51.9 points).
- There was some noticeable divergence in China's exports to major trading partners in October. Exports to the US soared – up by 46.1% yoy to US$52 billion in November (by far the largest on record) – while exports to the European Union and United Kingdom rose by 31.0% yoy, despite the implementation of various COVID-19 restrictions across the continent.
- In contrast, exports to East Asia rose by a comparatively modest 11.4% yoy. Unlike earlier periods, there was minimal difference between the growth in exports to Hong Kong and other East Asian economies. Exports to Hong Kong rose by 12.1% yoy, while exports to other East Asia rose by 11.0% yoy – with the latter led by Vietnam, Malaysia and South Korea.

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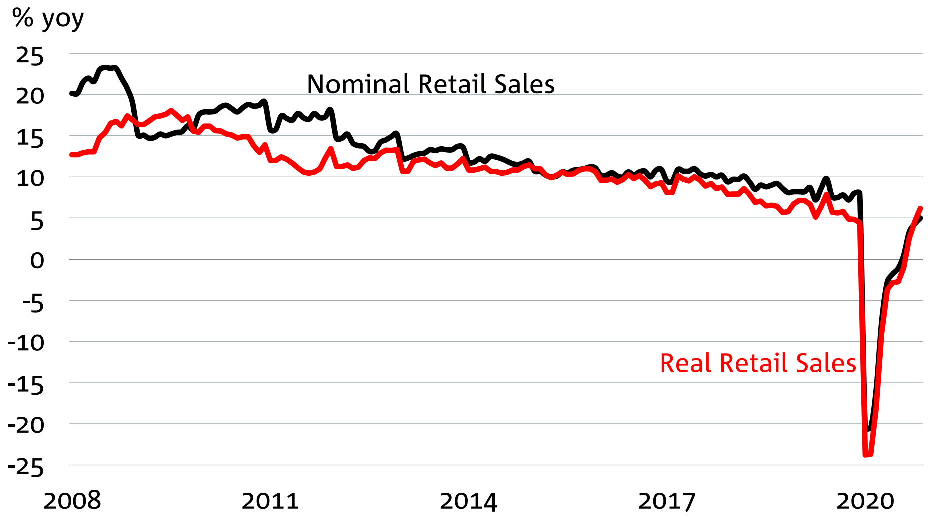
RETAIL SALES AND INFLATION

RETAIL SALES SHOWING SIGNS OF LIFE

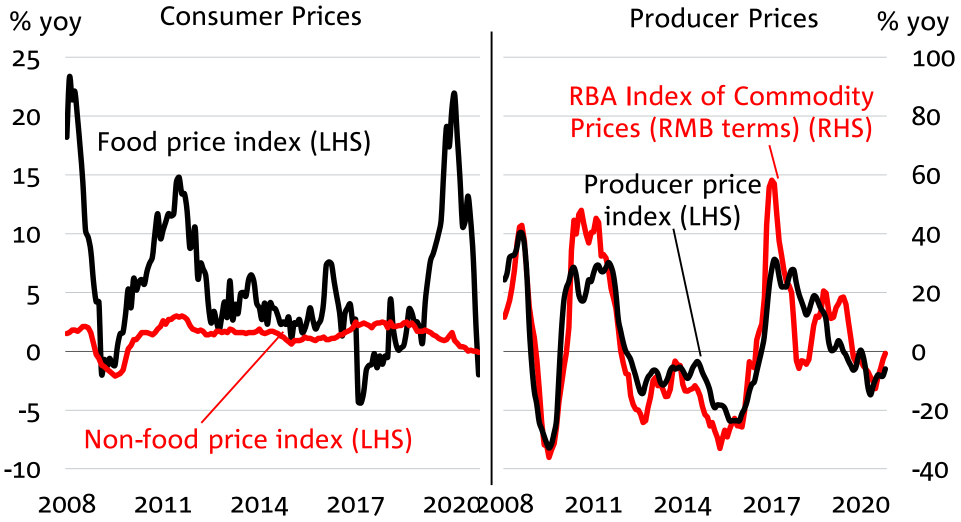
Real sales back to more typical levels in November



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

Pork drives fall in consumer prices; producer prices fall again



Source: CEIC, RBA, NAB Economics

- The gradual recovery in China's consumption continued in November – with nominal retail sales increasing by 5.0% yoy (compared with 4.3% yoy in October). A contraction in retail prices resulted in a larger increase in real retail sales – up by 6.2% yoy (from 4.6% yoy previously) – marginally below the average recorded across the first half of 2019 (with the second half of 2019 considerably weaker).

- Consumer prices contracted in November – a result that was weaker than anticipated by markets – with the headline Consumer Price Index declining by 0.5% yoy (compared with a 0.5% yoy increase in October). This was the first year-on-year decline in the index since October 2009.

- A decline in food prices was the key driver of the overall fall in the CPI. The food price index fell by 2.0% yoy (compared with a 2.2% increase in October). Pork has been the main influence on the overall food index since early 2019, following the outbreak of African Swine Fever, however pork supply now appears to be recovering. As a result, pork prices fell by 12.5% yoy in November.

- Non-food prices also fell in November, down by 0.1% yoy, compared with no change in October. Falling vehicle fuel prices have been a major contributor to the weaker than normal price trend – dropping by 17.6% yoy in November.

- In year-on-year terms, producer prices have fallen for ten months in a row – down by 1.5% yoy (compared with 2.1% yoy in October). Commodity prices (in RMB terms) fell by 0.7% yoy, contributing to the decline, however factory gate prices for consumer goods fell by 0.8% yoy – highlighting the ongoing relative weakness in domestic consumption.

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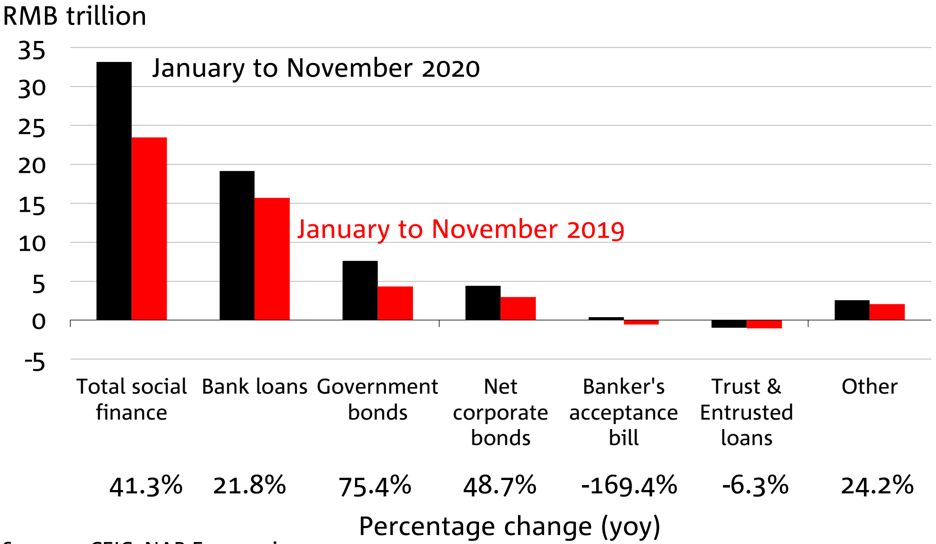
CREDIT CONDITIONS

NEW CREDIT ISSUANCE

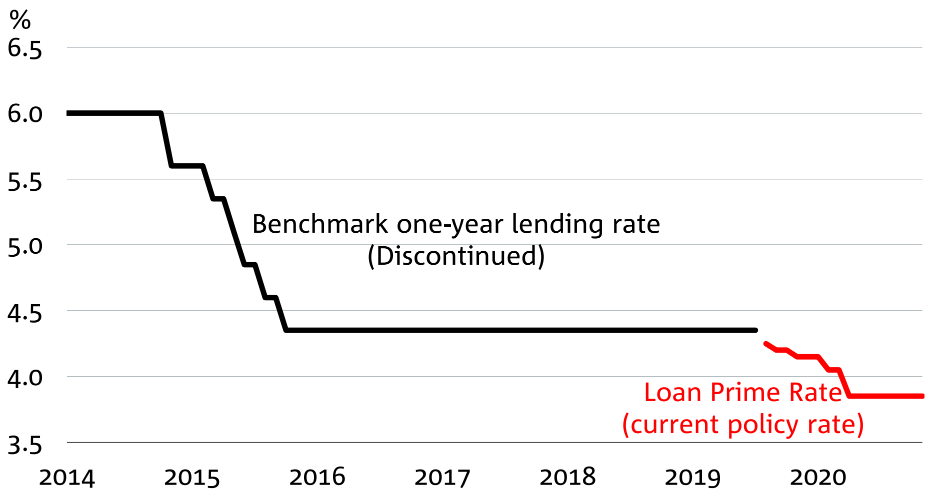
Growth in lending driven by government and corporate bonds



Sources: CEIC, NAB Economics

MONETARY POLICY

PBoC has kept rates stable, and may maintain liquidity support



Source: CEIC, NAB Economics

- China's new credit issuance strengthened month-on-month in November – a typical seasonal pattern following on from the week-long Golden Week holidays at the start of October. New issuance totalled RMB 2.1 trillion – an increase of 6.8% yoy.

- In the first eleven months of 2020, new credit issuance totalled RMB 33.2 trillion, an increase of 41.3% yoy. Bank loans accounted for the largest share of this total – at RMB 19.1 trillion – however bank lending has grown comparatively slowly, up by 21.8% yoy.

- In contrast, non-bank lending has rapidly grown over the course of the year – increasing by 81% yoy over the first eleven months to total RMB 14.0 trillion. Unlike earlier periods of stimulus, that were driven by growth in shadow bank lending, this time around it largely reflects government and corporate bond issuance – which increased by 75% yoy and 49% yoy respectively.

- The People's Bank of China (PBoC) cut interest rates to support the recovery from COVID-19 countermeasures, however it cut rates more modestly than other central banks, and has kept them on hold since April. The bank has also added liquidity to financial markets, maintaining interbank rates below pre-COVID-19 levels. Reports suggest that the PBoC is considering unwinding some of this support – given existing risks related to high corporate debt levels and the potential for asset price bubbles – however some former bank officials have speculated that it may keep measures in place until the second half of 2021.

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