CHINA'S ECONOMY AT A GLANCE

JANUARY 2021

National Australia Bank

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CONTACT

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KEY POINTS

China's economy enters 2021 with momentum, but expected to slow across the year

- According to official national accounts data, China's economy grew by 2.3% in 2020 – its weakest rate of growth since the end of the Cultural Revolution in 1976. A downward revision to growth in 2019 – to 6.0% (from 6.1% previously) – helped add some additional strength to the full year growth rate. It is worth noting an inconsistency between the annual and quarterly data – with the sum of quarterly growth rates suggesting slightly slower annual growth (at around 1.9%).

- We expect quarterly growth momentum to slow across 2021, however year-on-year growth will be boosted in Q1 due to base effects – given the scale of the downturn in Q1 2020. For the full year, we expect growth of 9.5%.

- Growth in China's industrial production accelerated in December, increasing by 7.3% yoy (up from 7.0% yoy in November). It is worth noting that industrial production has grown more rapidly than its pre-COVID-19 rates in recent months.

- There was a noticeable slowdown in fixed asset investment growth in December – with real investment rising by 6.5% yoy, down from 11.4% yoy in November. Investment by state-owned firms slowed considerably in December.

- China's trade surplus continued to widen in December, resulting in a fresh record high. The surplus totalled US$78.1 billion (up from US$75.4 billion in November) as exports rose rapidly month-on-month, compared with a slightly more modest increase in imports. The largest share of China's trade surplus remains with the United States, which could reignite trade tensions between the two countries.

- Compared with strength in the industry sector, the recovery in consumption has been relatively soft. Real retail sales increased by 4.9% yoy, down from 6.2% yoy in November. This was around the levels seen pre-COVID-19 that had been weakened by the US-China trade war.

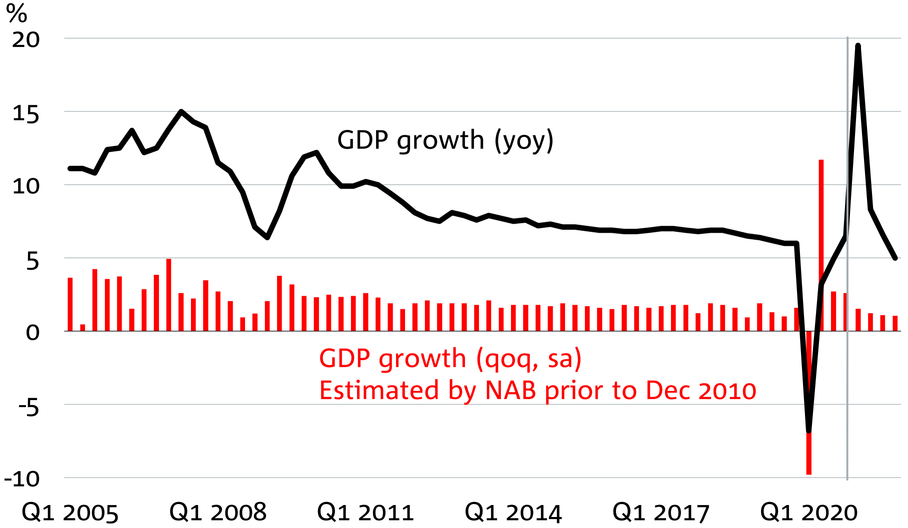
- New credit issuance totalled RMB 34.9 trillion in 2020, an increase of 35.8%. Bank loans accounted for the majority of the total – at RMB 20.2 trillion, however bank lending grew comparatively slowly, up by 20.4%. Non-bank lending was driven by corporate and government bond issuance, rather than shadow banking.

- Chinese authorities appear to moving to unwind support – given medium-to-longer term risks due to high debt levels in the corporate sector. Regulators have announced new restrictions on bank lending to the property sector, which may constrain funding for new property developments going forward.

GROSS DOMESTIC PRODUCT

CHINA'S ECONOMIC GROWTH

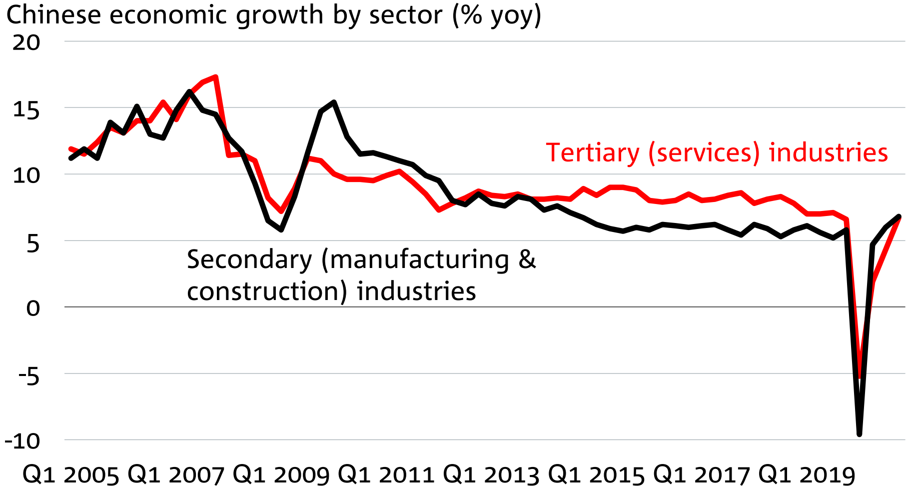
Quarterly growth to ease across 2021



Source: CEIC, NAB Economics

ECONOMIC GROWTH BY INDUSTRY

Services sector finally recovered in Q4, following industrial lead



Source: Refinitiv, NAB Economics

- According to official national accounts data, China's economy grew by 2.3% in 2020 – its weakest rate of growth since the end of the Cultural Revolution in 1976. A downward revision to growth in 2019 – to 6.0% (from 6.1% previously) – helped add some additional strength to the full year growth rate.
- In Q4, China's economy grew by 6.5% yoy, with momentum from Q3 largely maintained – with quarter-on-quarter (seasonally adjusted) growth easing marginally to 2.6% from 2.7% previously. It is worth noting an inconsistency between the annual and quarterly data – with the sum of quarterly growth rates suggesting slightly slower annual growth (at around 1.9%).
- The breakdown of growth by industry showed a strong recovery in the services sector in Q4 – increasing by 6.7% yoy in real terms – up from 4.3% yoy in Q3. Much of the strength in services in Q3 was concentrated in finance and real estate – it will be interesting to see if there was broader strength across the sector in Q4 (these data are not yet available).
- In contrast, the secondary sector (which comprises construction and manufacturing) increased by 6.8% yoy (up from 6.0% yoy in Q3) – with this sector recovering more rapidly than services in earlier quarters.
- We expect quarterly growth momentum to slow across 2021, however year-on-year growth will be boosted in Q1 due to base effects – given the scale of the downturn in Q1 2020. For the full year, we expect growth of 9.5%.

NAB CHINA GDP FORECASTS

%	2019	2020	2021
GDP	6.0	2.3	9.5

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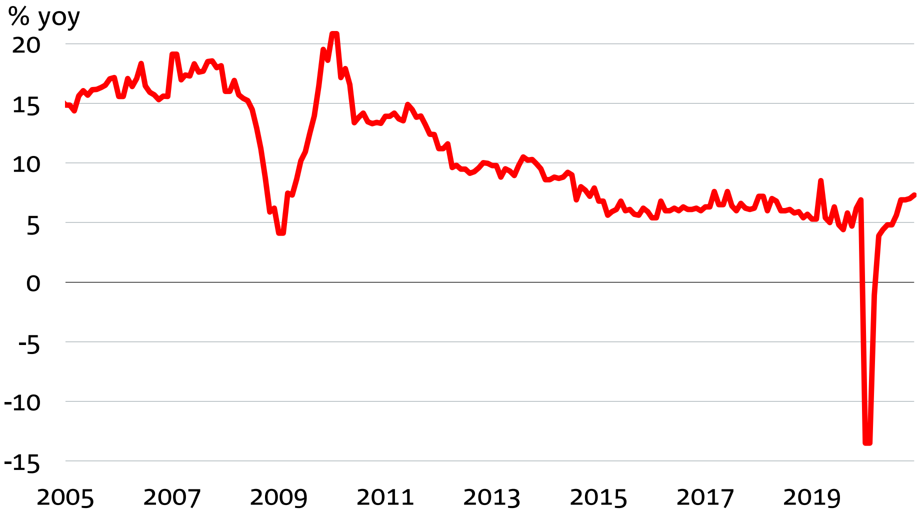
INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

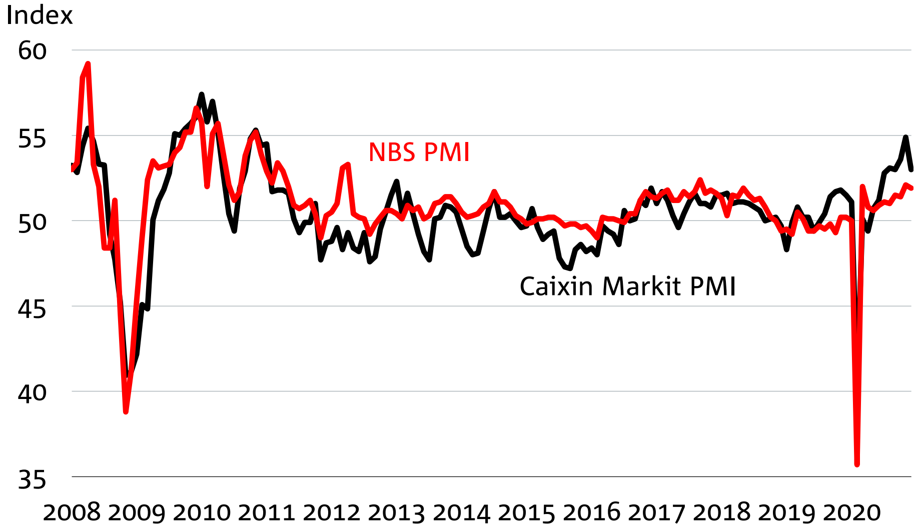
Growth remains above pre-COVID-19 rates



Source: CEIC, NAB Economics

MANUFACTURING SURVEYS SOMEWHAT WEAKER

Levels remain high by recent historical standards



Source: CEIC, NAB Economics

- Growth in China's industrial production accelerated in December, increasing by 7.3% yoy (up from 7.0% yoy in November). It is worth noting that industrial production has grown more rapidly than its pre-COVID-19 rates in recent months.

- Production trends were relatively strong across a range of sub-sectors. Output of consumer electronic products grew by 11.4% yoy – supported by strong global demand due to increased rates of working from home – while electricity generation rose by 9.1% yoy. Construction related sectors – such as crude steel and cement – increased by 7.7% yoy and 6.3% yoy respectively, while motor vehicle output rose by 6.5% yoy.

- China's two major manufacturing surveys were slightly weaker in December – albeit remaining at strong levels by recent historical standards. The private sector Caixin Markit PMI survey was at 53.0 points (from 54.9 points in November). The official NBS PMI survey was marginally softer – at 51.9 points, compared with 52.1 points previously.

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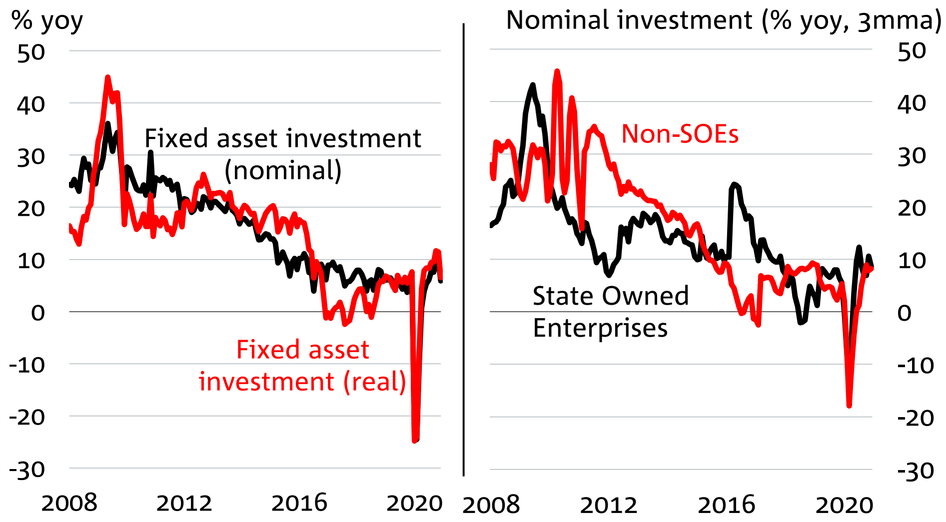
INVESTMENT

FIXED ASSET INVESTMENT

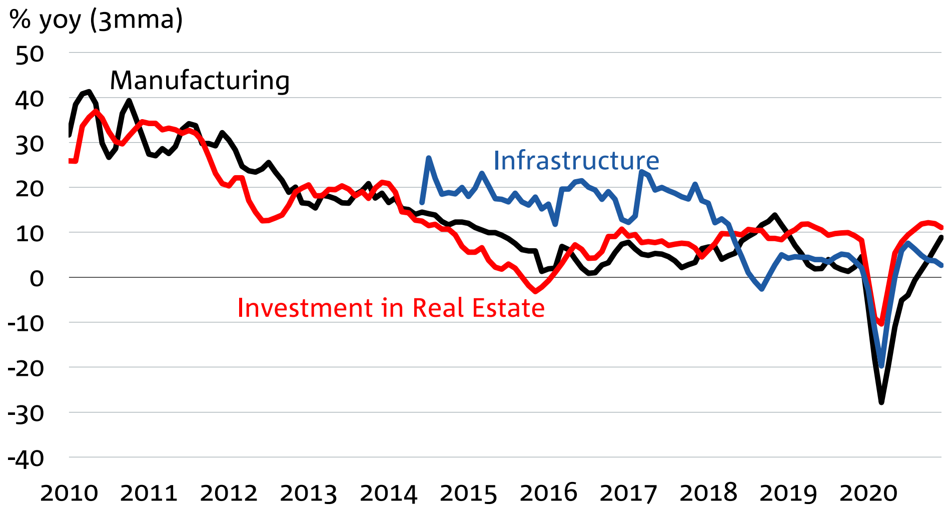
Real investment slowed in December; SOEs considerably weaker



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY SECTOR

Real estate remains strong, as manufacturing accelerates



Source: CEIC, NAB Economics

- In nominal terms, there was a noticeable slowdown in fixed asset investment growth in December – down to 5.9% yoy (compared with 9.7% yoy in November). The cost of investment goods is closely tied to producer prices – which saw a more modest decline in December – meaning that there was a steeper slowing in real investment. We estimate real investment rose by 6.5% yoy, down from 11.4% yoy in November.

- Investment by state-owned firms slowed considerably in December – with nominal investment increasing by just 2.2% yoy, compared with double-digit growth rates across October and November. In contrast, investment growth for non-SOEs slowed marginally, down from around 8.5% yoy in November to 7.9% yoy in December.

- Investment trends remain mixed across major industries. On a three month moving average basis, investment in real estate has remained strong – increasing by 11.0% yoy in December. Investment in manufacturing has accelerated more recently – having remained weak across much of 2020 – up by 8.8% yoy (3mma), from 6.4% yoy (3mma) in November. In contrast, infrastructure investment has slowed more recently (as local governments reached their annual bond quotas), increasing by just 2.6% yoy (3mma) in December.

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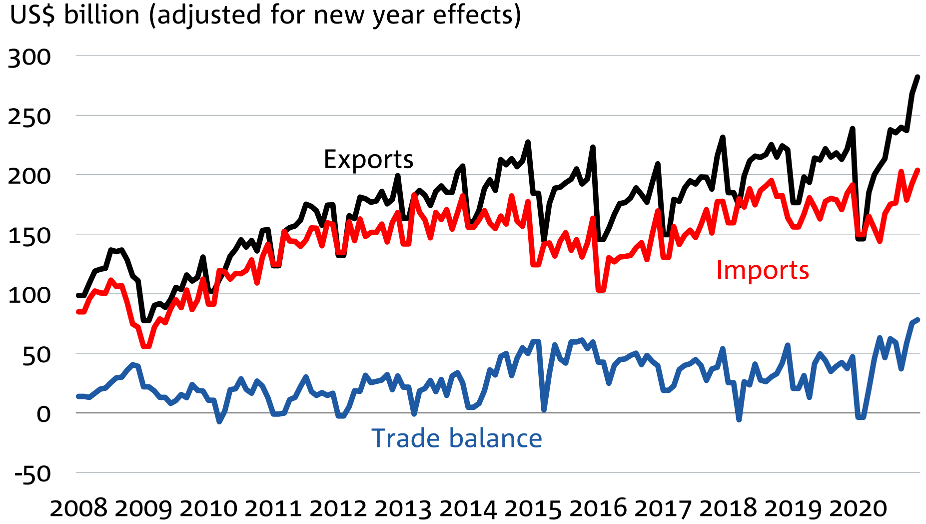
INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

Record exports drive China's trade surplus to new high



Sources: CEIC, NAB Economics

CHINA'S TRADE SURPLUS WITH THE UNITED STATES

Surplus continues to rise, which could reignite trade tensions

Sources: CEIC, NAB Economics

- China's trade surplus continued to widen in December, resulting in a fresh record high. The surplus totalled US$78.1 billion (up from US$75.4 billion in November) as exports rose rapidly month-on-month, compared with a slightly more modest increase in imports.

- The largest share of China's trade surplus remains with the United States. In December, the surplus narrowed somewhat, down to US$29.9 billion, from US$37.4 billion in November– reflecting a sizeable month-on-month jump in imports from the US, along with a fall in China's exports. That said, the rolling twelve month surplus has increased in recent months and rose again in December, to US$317.0 billion (from US$310.5 billion previously) – which could once again increase tensions between the two countries.

- China's imports rose by 6.5% yoy in December, to total US$203.8 billion – an all time high (exceeding the US$202.8 billion recorded in September 2020).

- According to our estimates of China's import volumes, the increase in import values in December was largely driven by prices. US dollar denominated commodity prices (as measured by the RBA Index of Commodity Prices) rose by 16.6% yoy. As a result, we estimate that import volumes rose by just 1.3% yoy in December, compared with 2.6% yoy in November.

- Import volumes differed considerably among key commodities. Crude oil imports plunged – down 15.4% yoy – while there were more modest falls in iron ore (down 4.2% yoy) and copper (down 2.8% yoy), with the latter easing following several months of rapid growth. Coal imports surged as quota restrictions were eased in mid-December (excluding imports from Australia) – with volumes roughly tripling those of November.

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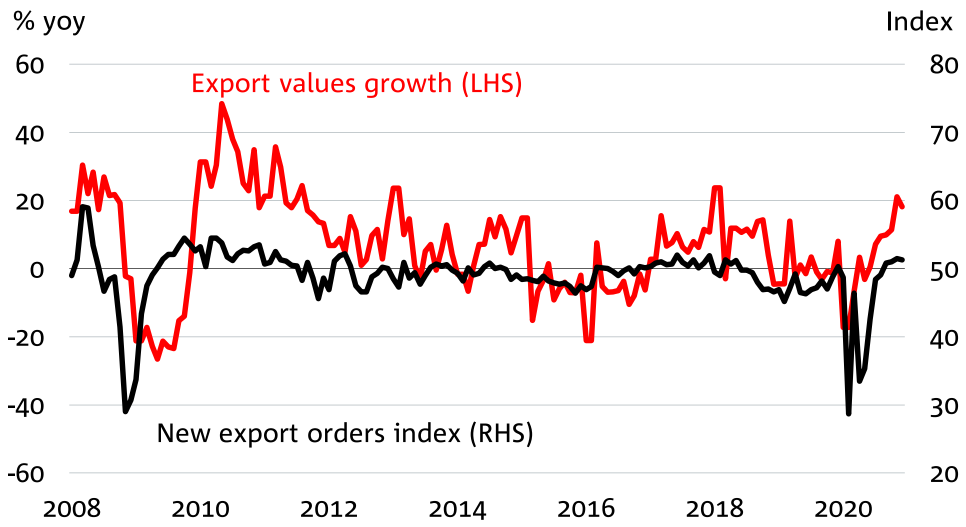
INTERNATIONAL TRADE – EXPORTS

EXPORTS CONTINUED TO SURGE IN DECEMBER

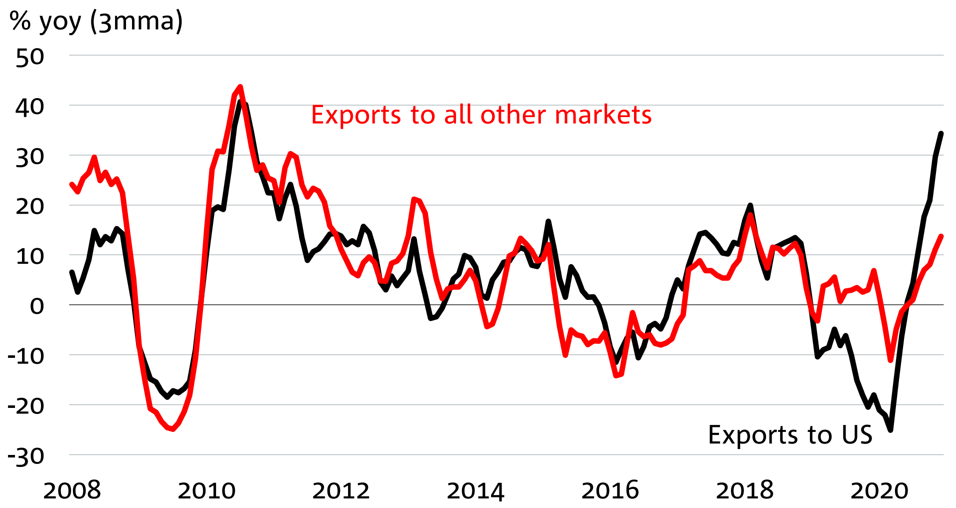
New export order measure dipped from near three year high



Source: CEIC, NAB Economics

EXPORTS TO THE US AND OTHER TRADING PARTNERS

Strong growth in US exports both COVID-19 and trade war related



Sources: CEIC, NAB Economics

- China's exports rose further in December, totalling US$281.9 billion, exceeding the previous record level of US$268.1 billion in November. In year-on-year terms, exports increased by 18.1% yoy. Chinese exporters have benefited in recent months from the strength of global demand for medical supplies and consumer electronics – both related to COVID-19.

- The new export orders measure in the NBS PMI survey was marginally softer in December – at 51.3 points (compared with 51.5 points previously). It is likely that demand for exports could ease once widespread vaccinations reduce the impact of COVID-19.

- There was strong growth in exports to major trading partners in December. Exports to the US declined month-on-month, but rose strongly in year-on-year terms – up by 34.5%. Part of this strength also reflects the weakness in exports in 2019 due to the trade war. Exports to the European Union and United Kingdom rose by 24.2% yoy, while exports to East Asia rose by 20.5% yoy.

- Within the East Asian region, there was a notable increase in exports to Hong Kong – well above historical norms – which has previously indicated capital flows disguised as trade activity. China Customs data suggests exports rose by 25.4% yoy. In contrast, exports to other East Asia rose by 17.9% yoy, with Vietnam, Malaysia and South Korea leading the increases.

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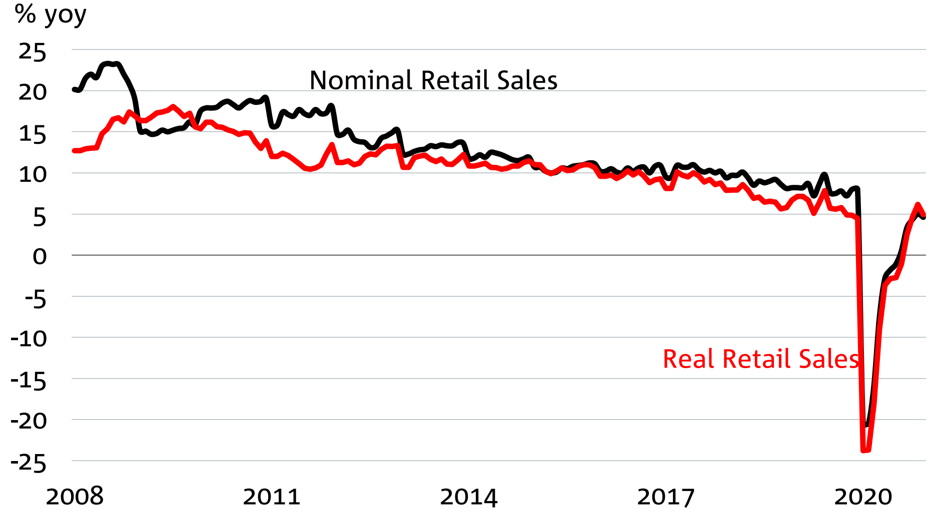
RETAIL SALES AND INFLATION

RETAIL SALES GROWTH DIPS IN DECEMBER

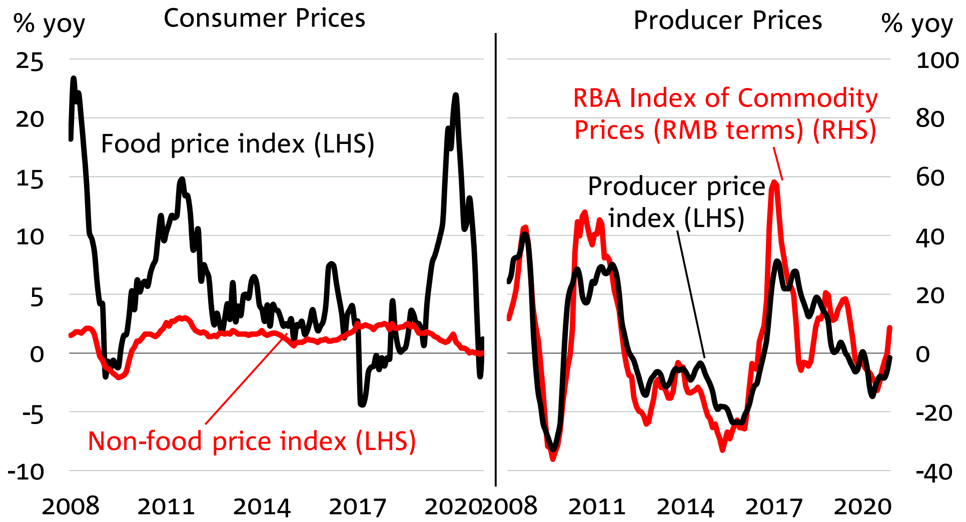
Sales growth weaker than pre-trade war rates



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

Prices remain subdued, with consumption still comparatively soft



Source: CEIC, RBA, NAB Economics

- Compared with strength in the industry sector, the recovery in consumption has been relatively soft. Nominal retail sales growth slowed in December – increasing by 4.6% yoy compared with a 5.0% yoy increase in November. There was also a more modest decline in retail prices in December, meaning that real retail sales increased by 4.9% yoy, down from 6.2% yoy in November. This was around the levels seen pre-COVID-19 that had been weakened by the US-China trade war.

- Consumer price inflation remained weak in December – increasing by 0.2% yoy (compared with a 0.5% yoy contraction in November).

- A weaker trend in food price growth has been a key driver of the recent softness in the CPI. The food price index rose by just 1.2% yoy (after a 2.0% yoy fall in November) – compared with double-digit growth between August 2019 and August 2020. Early strong growth in food prices was driven by the impact of African Swine Fever on China's pork supply, however pork supply now appears to be recovering. Pork prices fell by 1.3% yoy in December.

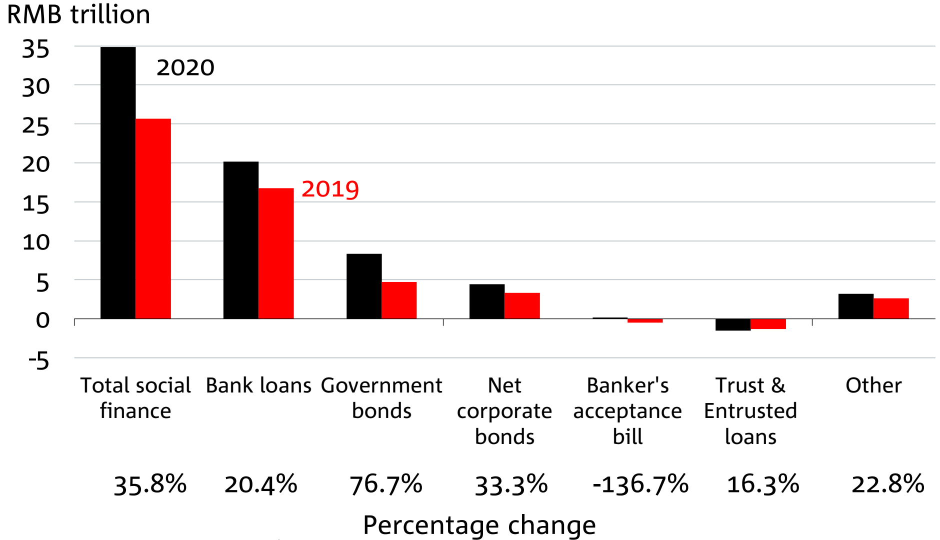
- Non-food price growth has remained subdued since early 2020 – with no change in year-on-year prices in December (compared with a 0.1% decline in November). Falling vehicle fuel prices have been a major contributor to this weakness, with prices down by 14.6% yoy in December.

- Producer prices fell again in December – the eleventh month in a row to record a fall in year-on-year terms – down by 0.4% yoy (compared with a 1.5% yoy decline in November). This fall does not reflect input costs – commodity prices (as measured by the RBA Index of Commodity Prices, converted into RMB terms) rose by 8.6% yoy. Factory gate prices remain weak for consumer products – reflecting the relative weakness that has persisted in domestic consumption.

CREDIT CONDITIONS

NEW CREDIT ISSUANCE

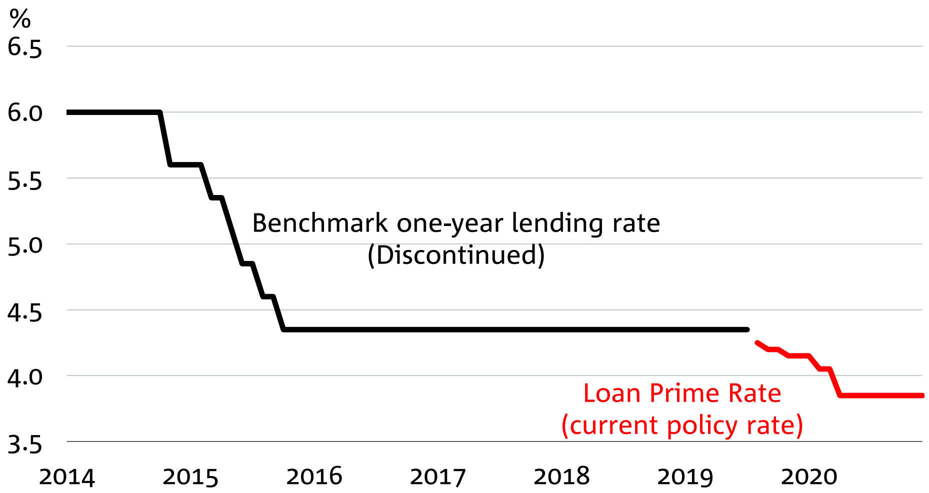
Government and corporate bonds surged in 2020



Sources: CEIC, NAB Economics

MONETARY POLICY

PBoC has held rates stable since April



Source: CEIC, NAB Economics

- In year-on-year terms, China's new credit issuance declined in December – down by almost 22% to RMB 1.7 trillion. The decline was largely driven by non-bank lending – including weaker corporate bond issuance and shadow bank lending.
- For the full year, new credit issuance totalled RMB 34.9 trillion, an increase of 35.8% (see chart). Bank loans accounted for the majority of the total – at RMB 20.2 trillion, however bank lending grew comparatively slowly, up by 20.4%.
- In contrast, non-bank lending expanded rapidly across 2020 – increasing by 64.7% to RMB 14.7 trillion. Earlier periods of stimulus were primarily driven by the shadow banking sector – with products such as trust and entrusted loans and banker's acceptance bills – however these segments have shrunk in recent years due to tighter regulatory scrutiny. Instead non-bank lending in 2020 was driven by government and corporate bond issuance – which rose by 77% and 33% respectively. Government bonds accounted for just under a quarter of total credit issuance in 2020.
- The People's Bank of China (PBoC) has kept interest rates stable since April, having cut rates relatively modestly when compared with other global central banks. The bank has also added liquidity to financial markets and maintained comparatively low interbank rates to minimise near term financial risks.
- That said, Chinese authorities appear to moving to unwind support – given medium-to-longer term risks due to high debt levels in the corporate sector. Regulators have announced new restrictions on bank lending to the property sector, which will limit large bank lending to 40% of their total book (with mortgages limited to 32.5% of total lending). Smaller banks will face lower limits. While some large banks are reportedly above this limit, reports suggest that they will have around four years to comply with these regulations. However this may constrain funding for new property developments.

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