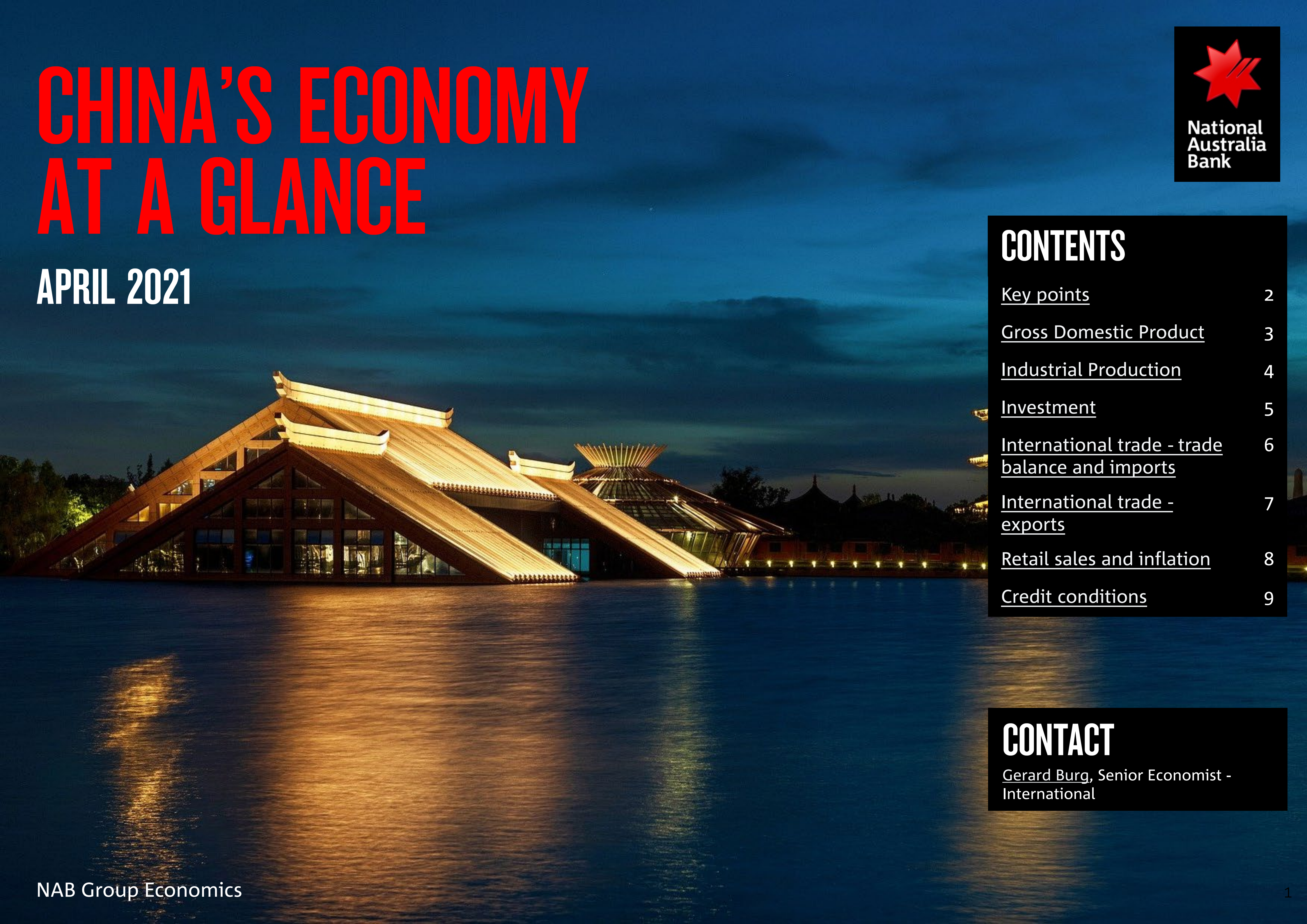

CHINA'S ECONOMY AT A GLANCE

APRIL 2021

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KEY POINTS

Quarterly data point to weak start to 2021, but signs of consumers returning is positive

- Although the headline rate of growth for China's economy in Q1 2021 seems incredibly strong – at 18.3% yoy – quarterly growth data point to a weak start to the year – just 0.6%, which was the weakest increase since Q1 1999 (excluding the COVID-19 downturn). Our forecast for 2021 is unchanged at 9.5%. As COVID-19 related distortions wash out, we expect growth to slow below 6% in both 2022 and 2023, as the Chinese economy becomes more reliant on household consumption than industry.

- China's industrial production grew by 14.1% yoy in March 2021, compared with an average 35.1% yoy increase in January and February. In seasonally adjusted terms, the month-on-month growth in industrial production slowed more modestly – down from 0.7% to 0.6%.

- Fixed asset investment grew somewhat more slowly in March – up by 19.4% yoy – following the strength of January-February that was even more distorted by COVID-19 restrictions in 2020. State-owned Enterprises provided the majority of investment growth in the early stages of China's recovery from COVID-19, with private firms returning later in the year. Compared with March 2019, SOE investment was around 15% higher in March 2021, while private investment increased by just 4.4%.

- China's trade surplus narrowed significantly in March – down to US$13.8 billion, compared with US$37.9 billion in February – driven by a surge in imports. The overall surplus has declined rapidly over the past few months, following a record high of US$78.2 billion in December 2020.

- Nominal retail sales grew strongly again in March – increasing by 34.2% yoy, following on from a 33.8% yoy increase in January and February. Compared with sales recorded in March 2019, the increase in real retail sales was around 8.9% – below the increase in industrial production, which reflects the degree to which China's recovery has been led by the industrial sector. That said, the increase in real sales was larger than in February – just 2.4% – which suggests that consumers may be returning to the market.

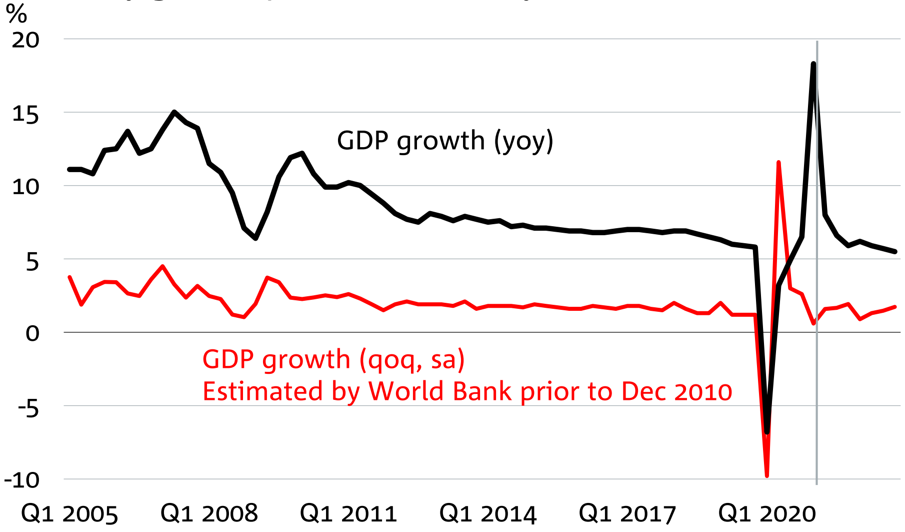
- In the first three months of 2021, China's new credit issuance totalled RMB 10.2 trillion, a decrease of 7.9% yoy. Bank lending accounted for the largest share of new issuance, with loans increasing by 8.8% yoy to RMB 8.1 trillion. In contrast, non-bank lending has declined significantly – down by 42% yoy to RMB 2.1 trillion. The main driver of this fall was a slowdown in government and corporate bond issuance.

- The People's Bank of China (PBoC) has held policy rates stable since April 2020 and is yet to indicate any intention to raise rates – aided by low rates (with a stable outlook) from other major central banks providing little external pressure. Instead Chinese authorities have signalled that they aim to slow credit creation in coming months, with more targeted support for key sectors negatively impacted by the pandemic.

GROSS DOMESTIC PRODUCT

CHINA'S ECONOMIC GROWTH

Quarterly growth points to relatively weak start to 2021

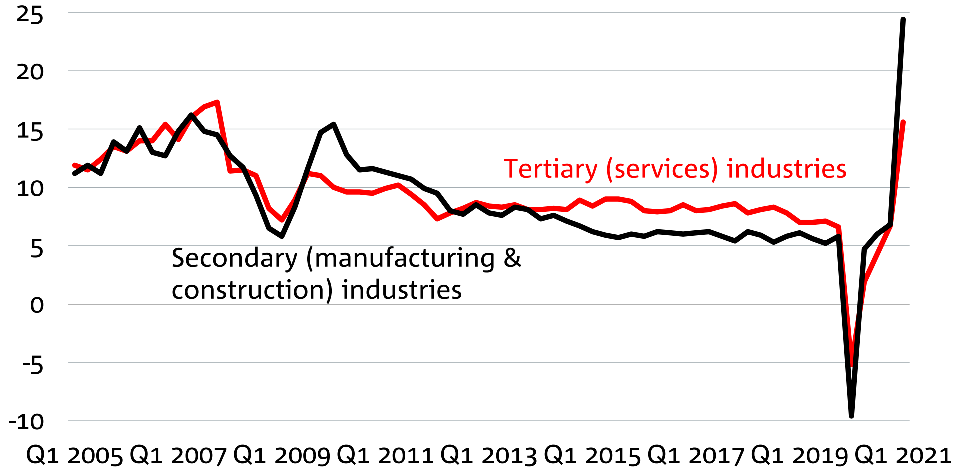


Source: CEIC, Refinitiv, NAB Economics

ECONOMIC GROWTH BY INDUSTRY

Industrial growth stronger in Q1 due largely to base effects

Chinese economic growth by sector (% yoy)



Source: Refinitiv, NAB Economics

- Given the negative impact of COVID-19 restrictions on economic activity in Q1 2020, China's growth in Q1 2021 was always going to be strong – increasing by 18.3% yoy according to the official national accounts data. That said, this increase was weaker than expectations (19% yoy in the Reuters poll), reflecting relatively modest quarter-on-quarter growth.
- The official seasonally adjusted quarterly series increased by just 0.6% qoq (compared with an expected 1.5% in the Reuters poll), down from 2.6% qoq in Q4 2020. Excluding the massive downturn caused by the COVID-19 pandemic, this was the weakest increase since Q1 1999 (based on the World Bank's quarterly growth estimates).
- The breakdown of GDP by sector showed stronger growth for secondary industries (including manufacturing and construction) – which rose by 24.4% yoy – than the services sectors – up by 15.6% yoy. That said, it is worth noting that the secondary sectors contracted more rapidly in Q1 2020. When compared with output in Q1 2019, the secondary sectors grew by 12.5% versus a 9.6% increase in services – consistent with the view that China's "old economy" industrial sector provided a greater impetus for the country's recovery from COVID-19.
- Despite the slightly weaker than expected growth in Q1 2021, our forecast for the full year is unchanged at 9.5% - however it highlights potential downside risk. As COVID-19 related distortions wash out, we expect growth to slow below 6% in both 2022 and 2023, as the Chinese economy becomes more reliant on household consumption than industry.

NAB CHINA GDP FORECASTS

%	2021	2022	2023
GDP	9.5	5.8	5.6

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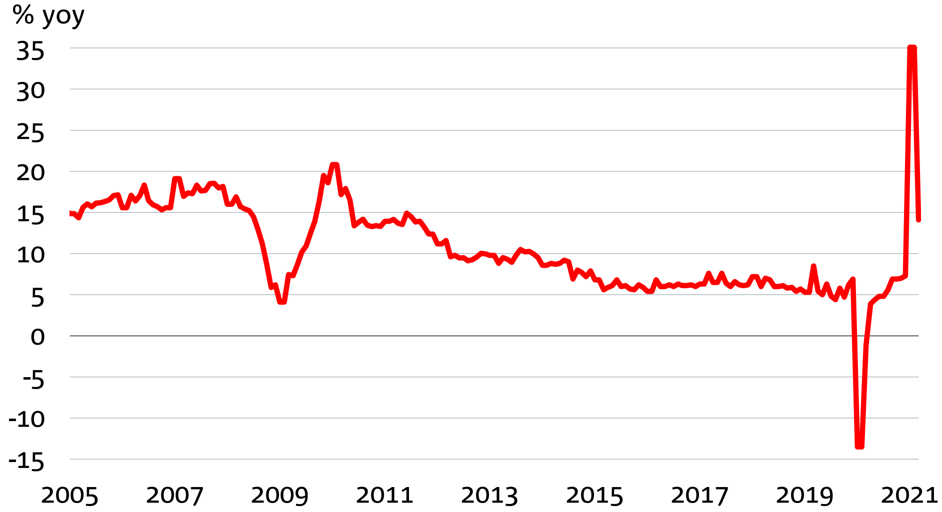
INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

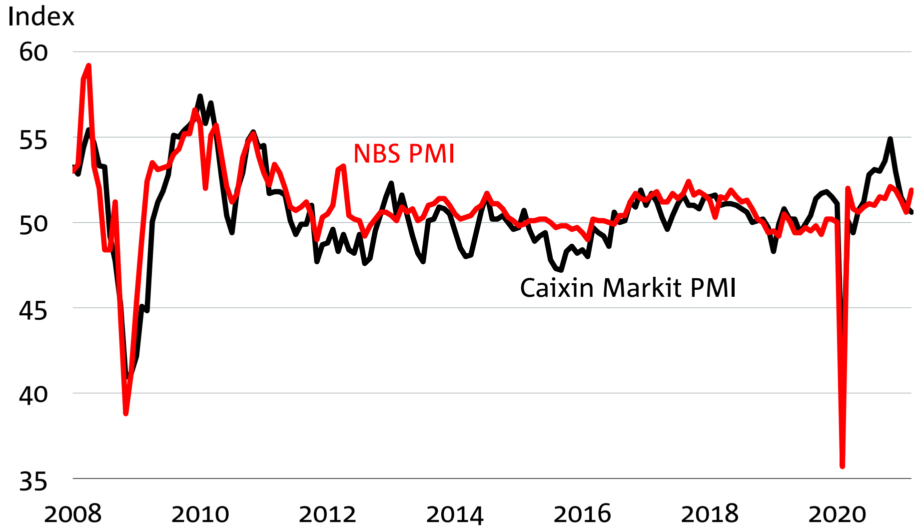
Growth slowed from record rate in Jan-Feb 21, but still high



Source: CEIC, NAB Economics

MANUFACTURING SURVEYS DIVERGED IN MARCH

New export measures turned positive in both surveys



Source: CEIC, NAB Economics

- China's industrial production grew by 14.1% yoy in March 2021, compared with an average 35.1% yoy increase in January and February. In seasonally adjusted terms, the month-on-month growth in industrial production slowed more modestly – down from 0.7% to 0.6%.

- Growth by sub-sector were considerably different in March, however this largely reflected the size of the slowdown in March 2020. For example, motor vehicle and cement output surged – up by 69.8% yoy and 33.1% yoy respectively – however these sectors shrunk by 43% yoy and 18.3% yoy in March 2020. In the case of motor vehicles, this suggests output in March 2021 was lower than March 2019.

- In contrast, electronics production rose by just 12.2% yoy in March 2021, however electronics was one of the few sectors to see growth twelve months ago (when it rose by 9.3% yoy).

- China's major manufacturing surveys recorded divergent results in March. The official NBS PMI rose to 51.9 points (from 50.6 points in February), with a strong pickup in the new orders and production measures.

- In contrast, the Caixin Markit PMI survey continued to weaken, down 50.6 points in March, from 50.9 points previously, with domestic supply and demand measures less positive than has been the case in recent months.

- Both surveys saw new export orders return to positive territory – with this measure negative in both January and February in the Caixin Markit survey and negative in the NBS PMI survey in February.

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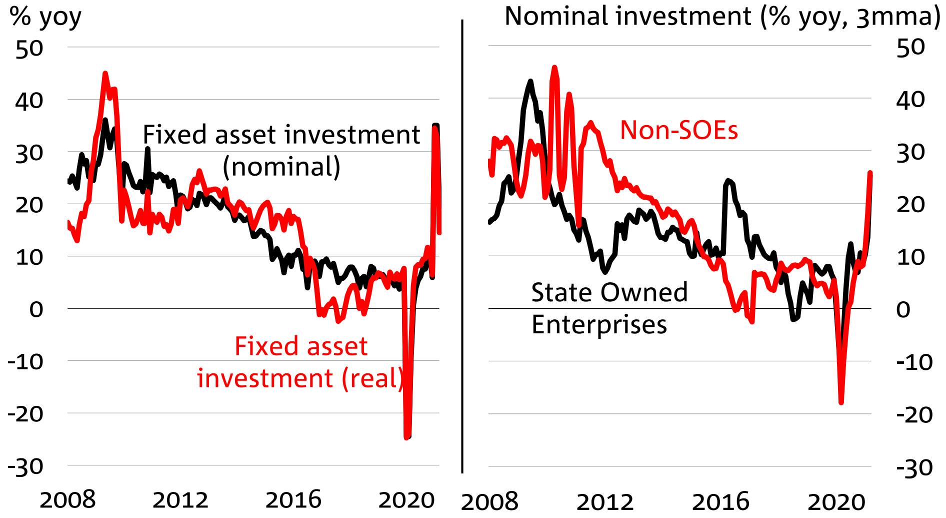
INVESTMENT

FIXED ASSET INVESTMENT

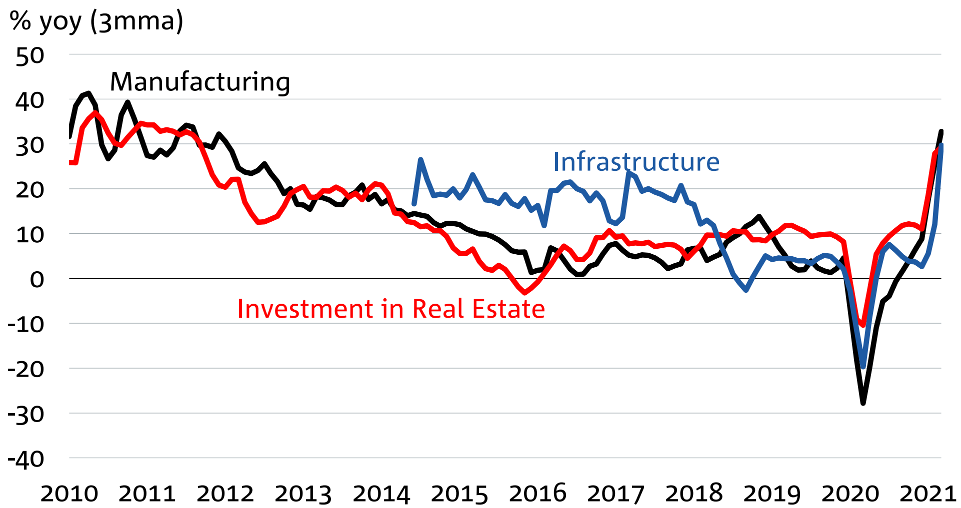
Slower growth in March than highly distorted Jan-Feb peak



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY SECTOR

Surge in early 2021 but infrastructure likely to slow



Source: CEIC, NAB Economics

- Fixed asset investment grew somewhat more slowly in March – up by 19.4% yoy – following the strength of January-February that was distorted by COVID-19 restrictions in 2020. Producer prices rose more strongly in March than the first two months of the year, and this measure is closely tied to the cost of investment goods. Our estimate of real investment rose by 14.5% yoy (compared with 32.8% yoy in February).

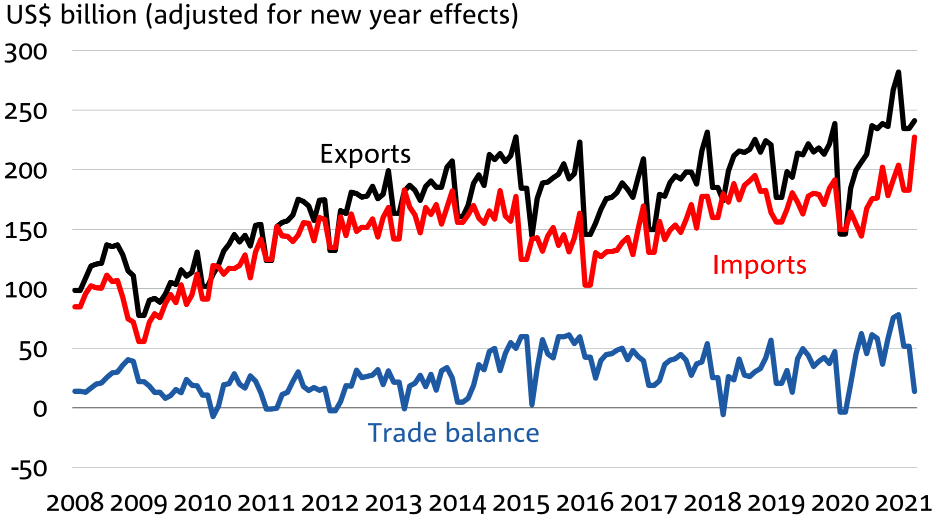
- State-owned enterprise investment was a little stronger than private sector investment in March – up by 20.4% yoy versus 18.8% yoy (both in nominal terms). SOEs provided the majority of investment growth in the early stages of China's recovery from COVID-19, with private firms returning later in the year. Compared with March 2019, SOE investment was around 15% higher in March 2021, while private investment increased by just 4.4%.

- There was strong growth in investment across a range of major industries. Manufacturing investment rose by 25.1% yoy while investment in real estate rose by 14.7% yoy. Investment in infrastructure rose by 25.3% yoy, however this growth will be harder than other sectors to maintain across the 2021, given the cut to the quota for local government special bonds – a primary source of infrastructure funding.

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

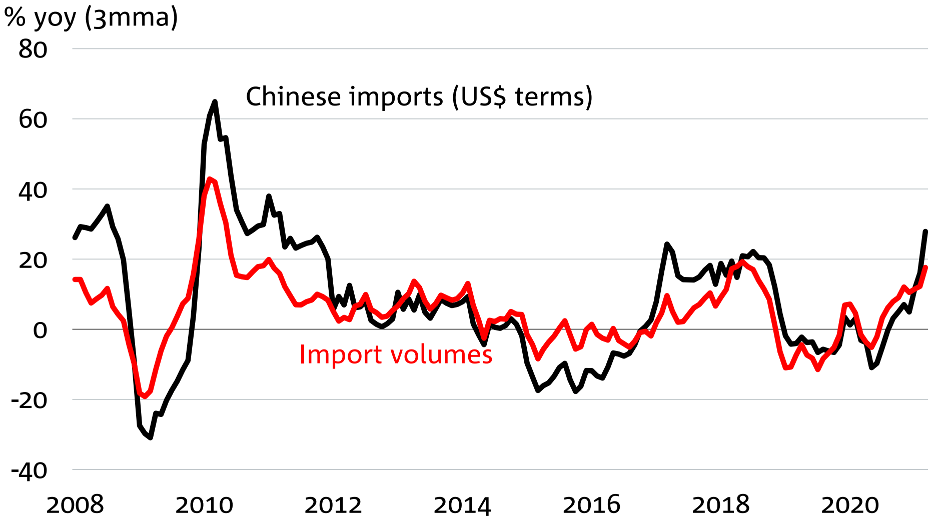
Trade surplus narrowed substantially as imports soared in March



Sources: CEIC, NAB Economics

IMPORT VALUE AND VOLUMES

Import volumes have risen in recent months



Source: CEIC, NAB Economics

- China's trade surplus narrowed significantly in March – down to US$13.8 billion, compared with US$37.9 billion in February – driven by a surge in imports. The overall surplus has declined rapidly over the past few months, following a record high of US$78.2 billion in December 2020.
- China's trade surplus with the United States has also narrowed in recent months, from a monthly high of US$37.4 billion in November 2020 to US$21.4 billion in March 2021. That said, on a rolling twelve month basis, China's surplus with the US set a new record of US$349 billion.
- The total value of China's imports rose by 38.2% yoy in March to US$227.3 billion, up from an average of US$182.8 billion a month in January and February. While in part the scale of the increase reflects base effects, given the weakness in import demand in March 2020 due to COVID-19 restrictions, imports rose strongly when compared with recent months, exceeding the previous monthly record of US$203.8 billion in December 2020.
- Rising commodity prices partially contributed to this increase, however volumes also rose as well. In US dollar terms, the RBA Index of Commodity Prices rose by over 33% yoy in March, reflecting the broader global economic recovery, especially in manufacturing. Our estimate of China's import volumes uses commodity prices as a proxy for import prices, with volumes increasing by 25.9% yoy, up from an average of 12.6% yoy in January and February.
- There was strong growth in a range of key commodities in March. Imports of refined copper rose by 25% yoy, while crude oil volumes increased by almost 21%. Iron ore imports were around 19% yoy higher. In contrast, imports of coal fell by 1.8% yoy (albeit they were around 32% higher month-on-month).

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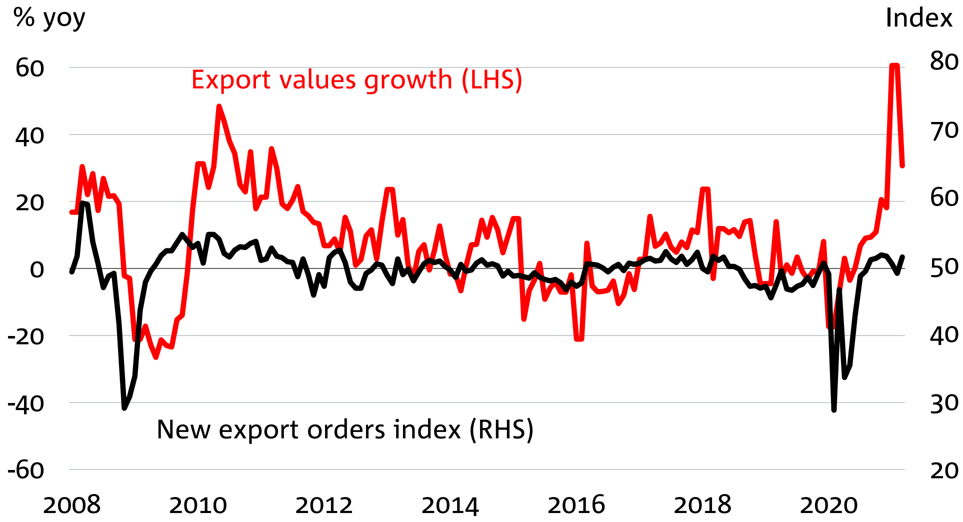
INTERNATIONAL TRADE – EXPORTS

EXPORT VALUE AND NEW EXPORT ORDERS

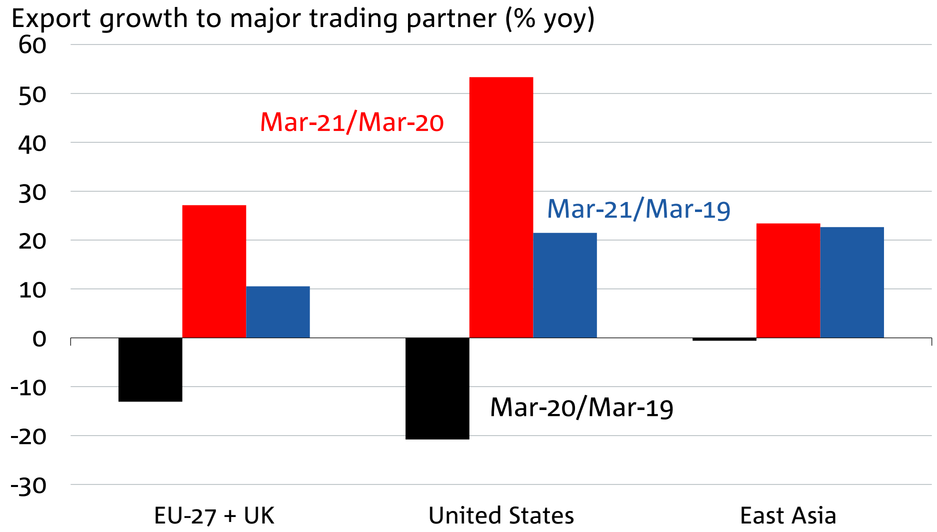
Surge in export growth driven by 2020 COVID-19 closures



Source: CEIC, NAB Economics

EXPORTS TO MAJOR TRADING PARTNERS

Surge in yoy exports to the US partly reflected the fall in Mar-20



Sources: CEIC, NAB Economics

- China's exports rose strongly year-on-year – up by 30.6% to US$241.1 billion – however this was only a relatively modest increase from the average export value of US$234.4 billion recorded across January and February. As with the large year-on-year increase in imports, factory closures implemented in March 2020 due to COVID-19 contributed to the scale of the increase in exports.

- New export orders in the NBS PMI survey returned to positive territory – having been briefly (and only marginally) negative in February. Strong global demand for electronics and furniture (driven by the increasing trend of working from home) and medical supplies (due to the COVID-19 pandemic) has supported China's exporters.

- Growth trends differed considerably between China's major trading partners. Exports to the United States surged – up by 53% yoy in March – compared with relatively more modest growth for exports to the European Union and United Kingdom (27% yoy) and East Asia (23% yoy). In part the scale of the increase in exports to the US reflects the impact of base effects – exports to the US fell by more in March 2020 than to other trading partners (in particular there was a negligible decline in Asia). Compared with March 2019, exports to East Asia rose slightly faster than to the United States, with the European Union and United Kingdom lagging.

- Within East Asia, there was a sizeable increase in exports to Hong Kong (up by 33% yoy). Exports to Non-Hong Kong East Asia rose by 18.8% yoy, with Vietnam, South Korea and Taiwan being the largest contributors.

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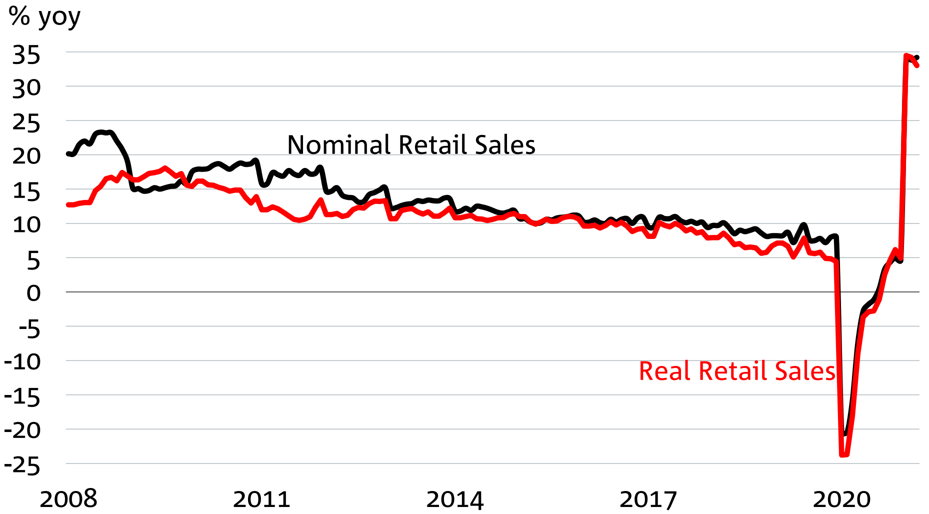
RETAIL SALES AND INFLATION

REAL RETAIL SALES HAVE SURGED YOY

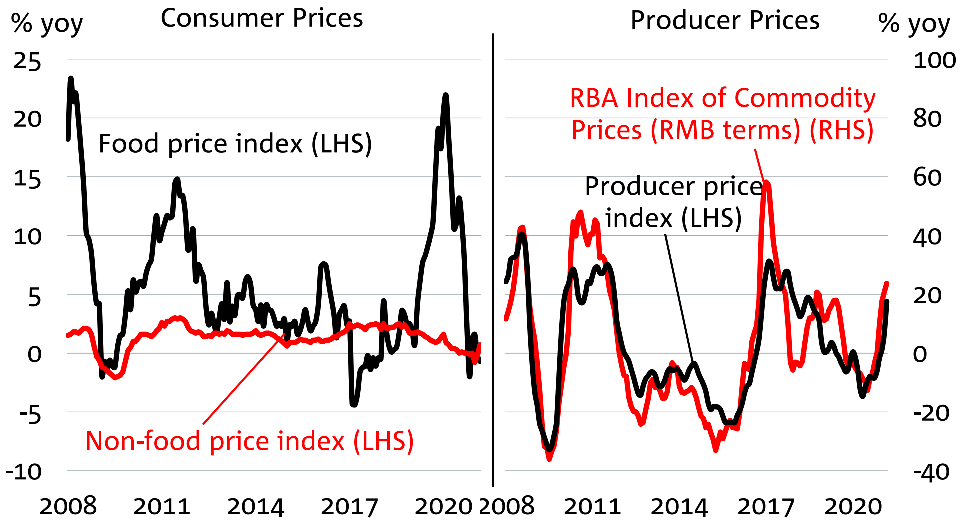
Signs consumers may finally be returning to the market



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

Food prices fell in March, but pork price pressure could return



Source: CEIC, RBA, NAB Economics

- Nominal retail sales grew strongly again in March – increasing by 34.2% yoy, following on from a 33.8% yoy increase in January and February. A rebound in retail prices – up by 0.9% yoy, compared with a fall in February – meant that real retail sales grew slightly more modestly – up by 33.0% yoy.

- Compared with sales recorded in March 2019, the increase in real retail sales was around 8.9% – below the increase in industrial production, which reflects the degree to which China's recovery has been led by the industrial sector. That said, the increase in real sales was larger than in February – just 2.4% - which suggests that consumers may be returning to the market.

- China's consumer prices increased modestly in March – up by 0.4% yoy – following on from falling prices in January and February. Food prices fell for the second straight month, down by 0.7% yoy (compared with a 0.2% yoy fall in February). Pork prices have had a major impact on food price inflation over the past two years – due to the impact of African Swine Fever on the country's supply – although prices have been falling year-on-year since October 2020 as supply has recovered. Reports suggest that a second wave of the virus is currently spreading, which has the potential to add upward pressure to food prices in the near future.

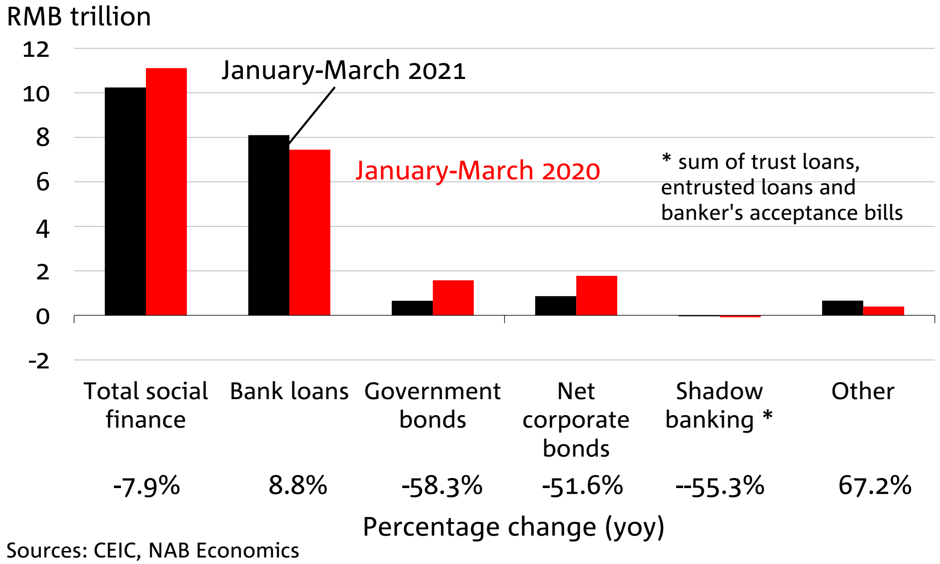
- Non-food prices rose by 0.7% yoy in March, compared with a 0.2% fall in February. Rising fuel prices were a major contributor to this trend – with vehicle fuel prices rising by 11.5% yoy in March, reflecting the upturn in global oil prices, compared with a 5.2% yoy fall in February.

- Producer prices accelerated rapidly in March, up by 4.4% yoy (compared with 1.7% yoy in February). There remains a clear distinction between price increases for producer goods (or intermediate products) – where prices rose by 5.8% yoy – and consumer goods, where prices edged up 0.1% yoy. Rising commodity prices contributed to this trend, with the RBA Index of Commodity Prices, converted into RMB terms, rising by almost 24% yoy in March.

CREDIT CONDITIONS

NEW CREDIT ISSUANCE

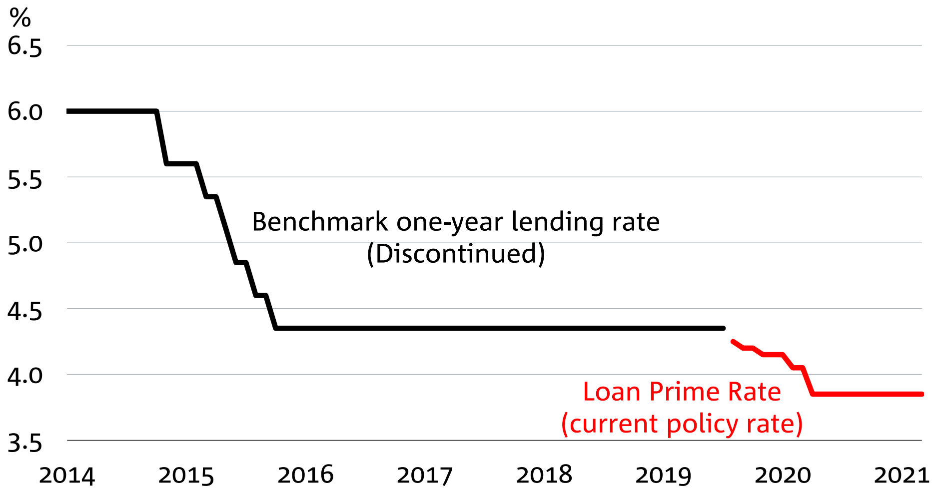
Weaker bond issuance leads to yoy decline in new credit growth



Sources: CEIC, NAB Economics

MONETARY POLICY

PBoC keeps rates stable, targeting credit creation to ease stimulus



Source: CEIC, NAB Economics

- New credit issuance was comparatively weak in March, down by almost 36% yoy. That said, it is worth noting that March 2020 was a record month for credit issuance, as Chinese authorities issued bonds and encouraged banks to expand lending to support the economy during the early stages of the COVID-19 pandemic.
- In the first three months of 2021, China's new credit issuance totalled RMB 10.2 trillion, a decrease of 7.9% yoy. Bank lending accounted for the largest share of new issuance, with loans increasing by 8.8% yoy to RMB 8.1 trillion.
- In contrast, non-bank lending has declined significantly – down by 42% yoy to RMB 2.1 trillion. The main driver of this fall was a slowdown in government and corporate bond issuance (down by 58% yoy and 52% yoy respectively) – with these components being major contributors to growth in credit in 2020. Total government bond issuance is expected to fall this year – reflecting a tighter local government quota and the absence in 2021 of special "anti-virus" bonds that were issued last year.
- The People's Bank of China (PBoC) has held policy rates stable since April 2020 and is yet to indicate any intention to raise rates – aided by low rates (with a stable outlook) from other major central banks providing little external pressure. Instead Chinese authorities have signalled that they aim to slow credit creation in coming months, with more targeted support for key sectors negatively impacted by the pandemic.

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