CHINA'S ECONOMY AT A GLANCE

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KEY POINTS

COVID restrictions hit retail in August, building on existing imbalances in China's economy

- The impact of COVID-19 restrictions (that were implemented in the second half of July) were evident in a range of indicators in August – particularly retail sales, where growth plunged on apparent caution from consumers. This further exacerbates the existing imbalance between production and consumption in China's domestic economy. The length of the outbreak, and duration of restrictions, remains uncertain, with accelerating case numbers in Fujian province in the past week presenting some downside risk to our outlook. Last month, we revised down our forecast for 2021 to 8.7%, followed by growth of 5.9% in 2022 and 5.7% in 2023.

- Real retail sales growth plunged to 0.9% yoy (from 6.5% yoy in July). While there has been a downward trend for several months – reflecting diminishing base effects – this downturn reflected the impact of COVID-19 restrictions.

- In contrast, the slowdown in industrial production was relatively modest – down to 5.3% yoy (from 6.4% yoy in July).

- Continued strong growth in producer prices – which flows through into the cost of investment goods – meant that real investment fell again in August – down by 6.8% yoy (compared with a 7.8% yoy decrease previously). Nominal investment in infrastructure has contracted in recent months, which may be related to falls in government bond issuance in the first eight months of 2021.

- China's trade surplus widened in August – continuing a trend evident since April 2021 – totalling US$58.3 billion (compared with US$56.6 billion in July). The value of both exports and imports rose strongly month-on-month, with the increase in exports slightly larger – with higher prices contributing to this trend.

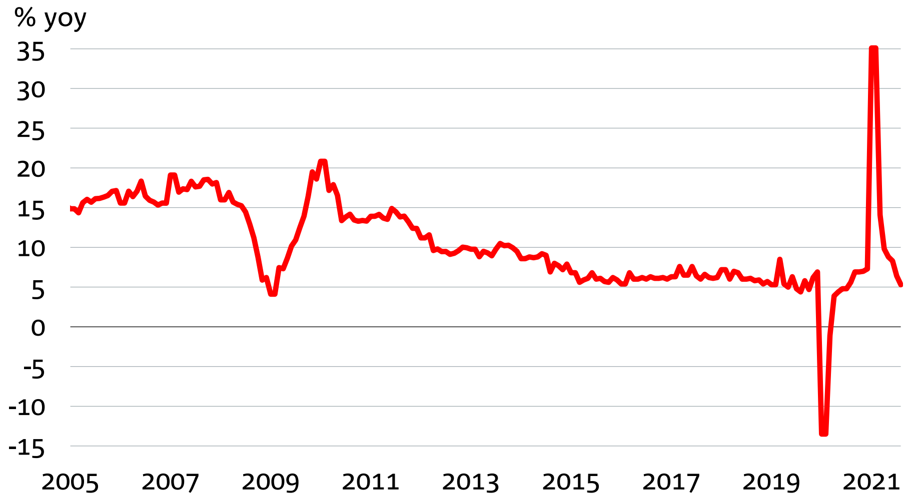
- In the first eight months of 2021, new credit issuance totalled RMB 21.8 billion, a decrease of 16.8% yoy. A sharp decline in non-bank lending has been the main driver of this trend, with bank loans increasing by around 1.3% yoy to RMB 15.3 trillion.

- Recent statements by officials from the People's Bank of China (PBoC) have dampened expectations of additional monetary easing – following the surprise cut to the Required Reserve Ratio and COVID-19 outbreak in July. At a news conference in early September, the head of the bank's monetary policy department noted that there was no shortfall in base money and that demand and supply of liquidity would likely be balanced in coming months.

INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

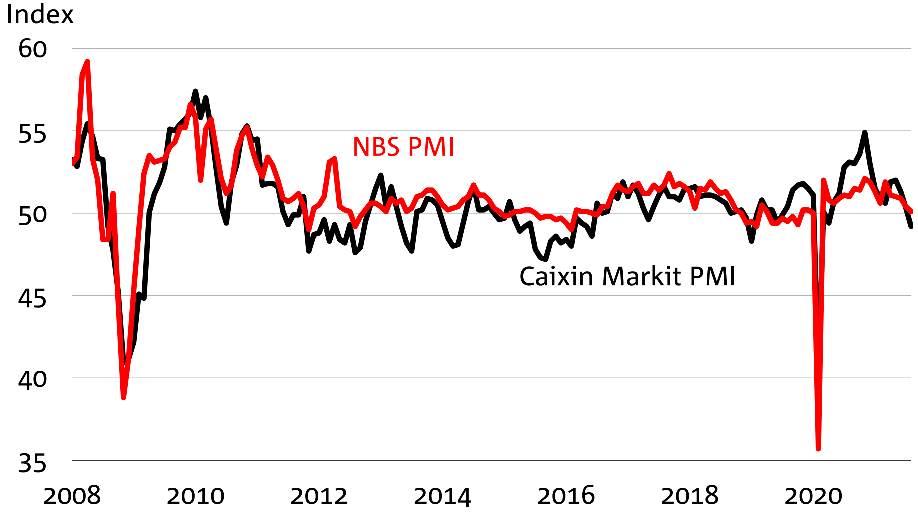
COVID-19 restrictions impact production growth in August



Source: CEIC, NAB Economics

MANUFACTURING PMIS WEAKER IN AUGUST

COVID-19 restrictions negatively impacted the sector



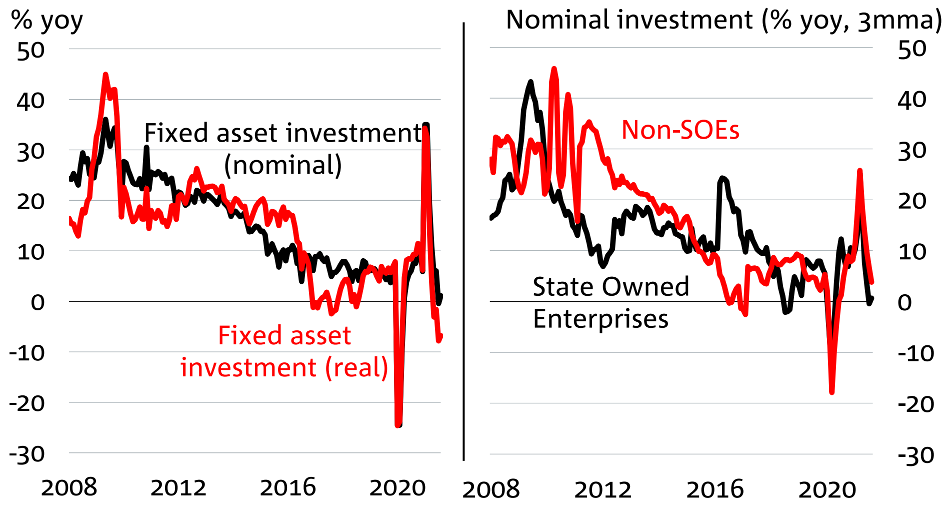
Source: CEIC, NAB Economics

- China's industrial production growth slowed again in August – down to 5.3% yoy (from 6.4% yoy in July). We have noted in recent months that diminishing base effects (related to the early 2020 COVID-19 restrictions) are contributing to the slowing trend, however the slowdown across July and August are more related to the current COVID-19 outbreak in China.
- Month-on-month growth in production was relatively stable in August – at 0.31% – albeit still below the stronger trend exhibited between November 2020 and June 2021.
- There have been divergent trends in industrial production between sub-sectors. Output in construction related heavy industries – such as crude steel and cement – plunged in August, down by 13.2% yoy and 5.2% yoy respectively. Similarly, motor vehicle output fell by 19.1% yoy – which may in part be related to global semi-conductor shortages.
- In contrast, output of electronics rose strongly – up by 13.3% yoy – while electricity generation rose by 0.2% yoy.
- China's major manufacturing surveys pointed towards weakening conditions in the sector in August. The official NBS PMI survey eased to 50.1 points (from 50.4 points in July). The decline in the private sector Caixin Markit PMI was more significant – down to 49.2 points (from 50.3 points previously).
- Survey respondents noted the impact of COVID-19 restrictions that were implemented in mid-July – impacting both manufacturing production, as well as demand, while supply chains were disrupted. In addition, new export orders in both surveys were negative.

INVESTMENT

FIXED ASSET INVESTMENT

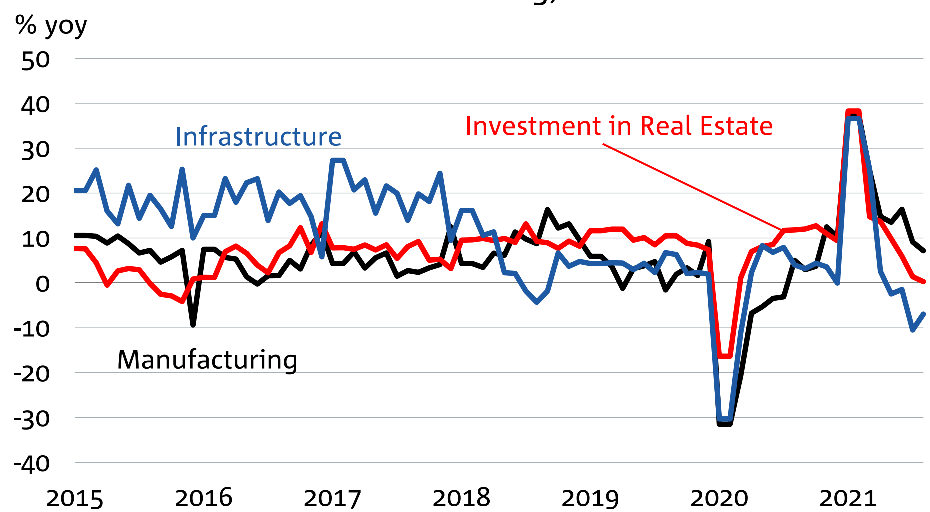
Real investment contracted again in August



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY INDUSTRY

Infrastructure investment contracting, while real estate slows



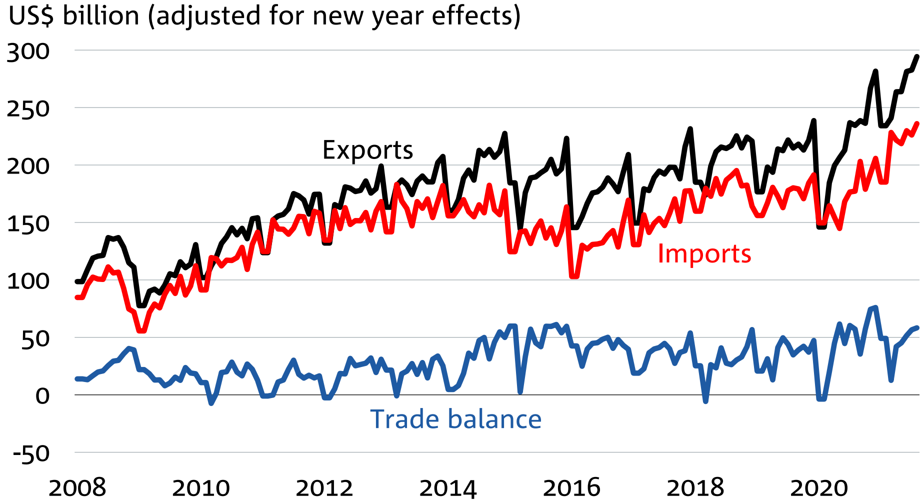
Source: CEIC, NAB Economics

- China's nominal fixed asset investment grew modestly in August – up by 1.1% yoy (following on from a 0.4% yoy fall in July). That said, continued strong growth in producer prices – which flows through into the cost of investment goods – meant that real investment fell again in August – down by 6.8% yoy (compared with a 7.8% yoy decrease previously).
- State-owned firms have exhibited weaker conditions in nominal investment in recent months – driving the decline recorded in July. That said, investment by SOEs recovered in August – increasing by 0.5% yoy (from -4.8% yoy in July). In contrast, investment by private sector firms slowed in August – down to 1.4% yoy (from 2.1% yoy previously).
- By sector, there was another steep decline in investment in infrastructure – which fell by 7.0% yoy. Access to finance is likely an issue in this sector – with government bond issuance down by 37% yoy in the first eight months of the year. That said, government bond issuance was considerably stronger in August, which could provide support in coming months.
- Investment in real estate has slowed significantly in recent months, down to 0.3% yoy in August (from 1.4% yoy previously). In comparison, investment in manufacturing has slowed, but continued to grow relatively strongly, up by 7.1% yoy.

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

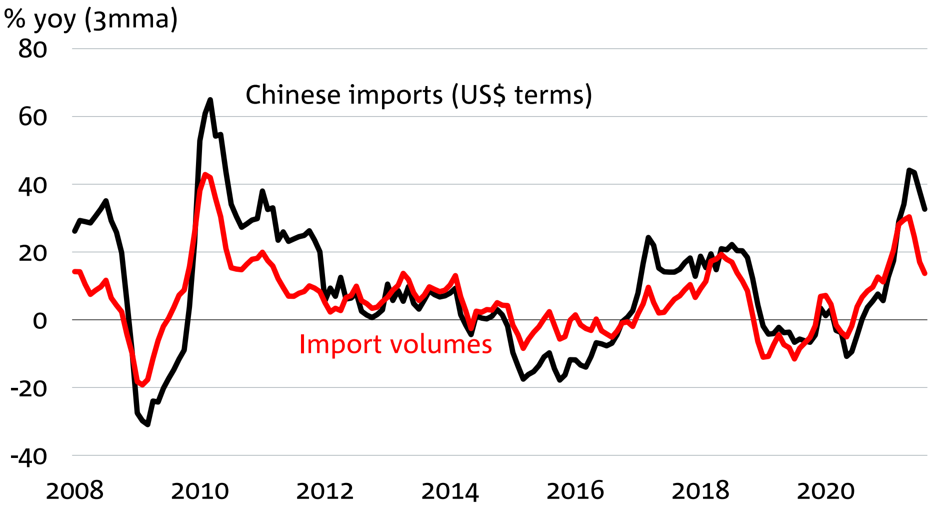
Surplus widens as both exports and imports rise to record highs



Sources: CEIC, NAB Economics

IMPORT VALUES AND VOLUMES

Rising prices contributing to strong growth in imports



Source: CEIC, NAB Economics

- China's trade surplus widened in August – continuing a trend evident since April 2021 – totalling US$58.3 billion (compared with US$56.6 billion in July). The value of both exports and imports rose strongly month-on-month, with the increase in exports slightly larger.

- The value of China's imports totalled US$236.0 billion in August – a record high – up from US$226.1 billion previously. In year-on-year terms, imports rose by 33.1% yoy (up from 28.1% yoy in July). Although base effects have gradually declined over the course of 2021 – as the impact of the early 2020 COVID-19 restrictions have eroded – volatility that occurred in the second half of 2020 continues to distort growth rates.

- The scale of the increase also reflects rising costs in supply chains – in part related to rising commodity prices. In US dollar terms, the RBA Index of Commodity Prices rose by 51.5% yoy in August – weaker than the increase in July, but extremely strong nonetheless. Our estimate of import volumes uses these commodity prices as a proxy for China's import prices, which suggests that volumes rose by 16.4% yoy in August. On a three month moving average basis, there has been a downward trend in import volumes since May – reflecting the diminishing base effects.

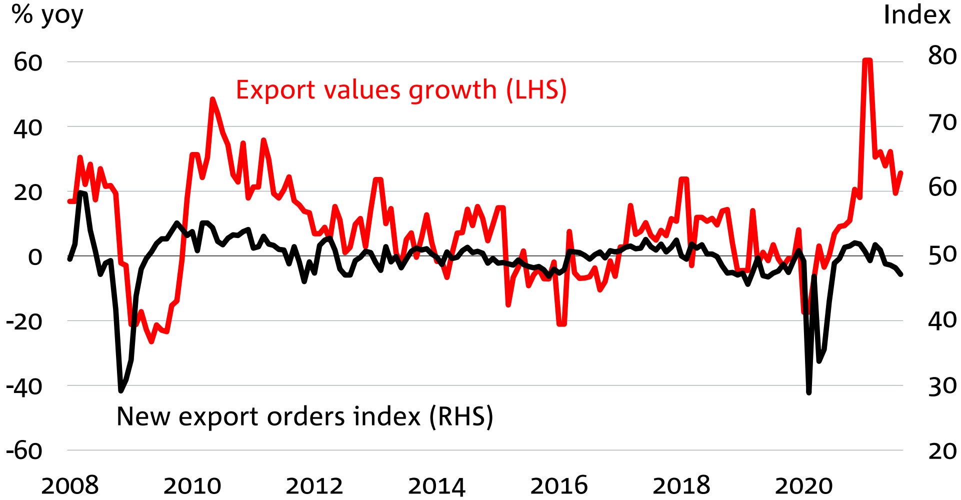
- That said, it appears that commodities are not the key driver of import volume growth – with highly mixed trends among key commodity imports. Refined copper imports fell by 41% yoy in August, while imports of crude oil and iron ore also fell – down by 6.2% yoy and 2.9% yoy respectively. A key exception was coal – where imports rose by almost 36% yoy.

- In contrast, there has been stronger growth in a range of refined products (such as liquefied petroleum gas and other gases) and advanced technologies (such as semi-conductors and integrated circuits).

INTERNATIONAL TRADE – EXPORTS

EXPORT VALUE AND NEW EXPORT ORDERS

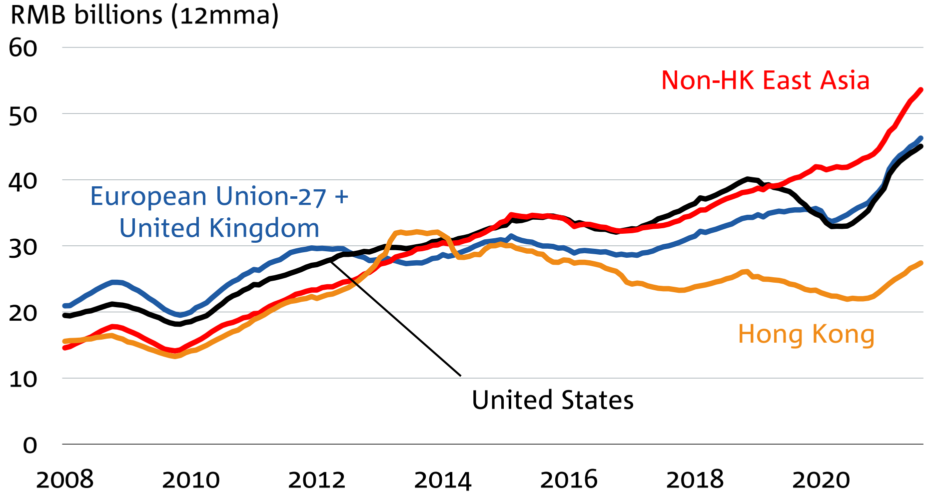
New export orders point to weaker prospects going forward



Source: CEIC, NAB Economics

EXPORTS TO MAJOR TRADING PARTNERS

Exports to East Asia have continued to climb



Sources: CEIC, NAB Economics

- China's exports rose strongly in August, rising to a fresh record high of US$ 294.3 billion (up from US$282.7 billion in July). In year-on-year terms, exports rose by 25.6% yoy (up from 19.3% yoy previously). Similar to the growth in imports, base effects that inflated growth rates earlier in the year have eroded, however recent growth trends have been quite volatile.

- The new export orders measure in the NBS manufacturing PMI has been negative for several months, pointing to weaker prospects for export growth going forward. The People's Bank of China has also highlighted slowing export growth as a downside risk to China's economy.

- Strong growth to major trading partners persisted in August. The largest increase was to East Asia – up by 24.2% yoy – followed by the European Union-27 + the United Kingdom, which saw exports rise by 22.5% yoy.

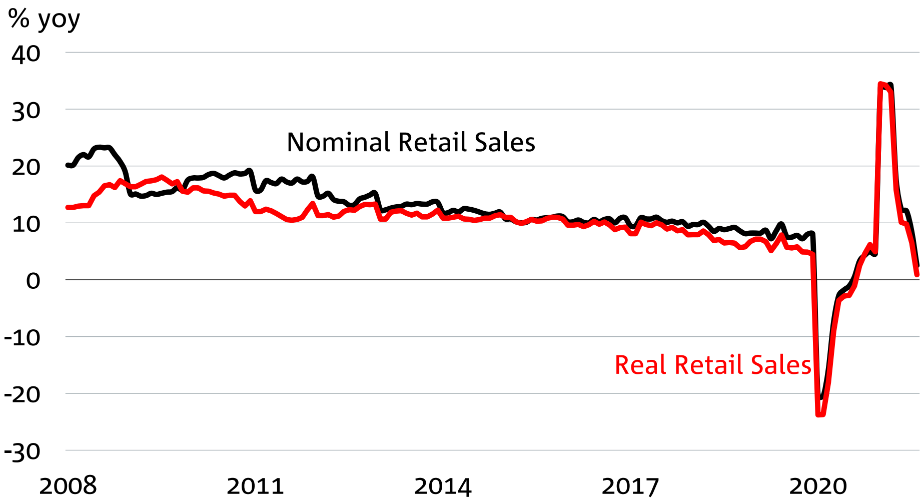
- In contrast, exports to the United States rose by just 15.5% yoy. It is worth noting that exports to the United States grew strongly in August 2020 – compared with other major trading partners. However, this growth was also distorted by the earlier US-China trade war. A longer run view can see that the United States has dropped back in significance for China's exporters since the trade war – now on a par with Europe.

National Australia Bank

RETAIL SALES AND INFLATION

RETAIL SALES GROWTH

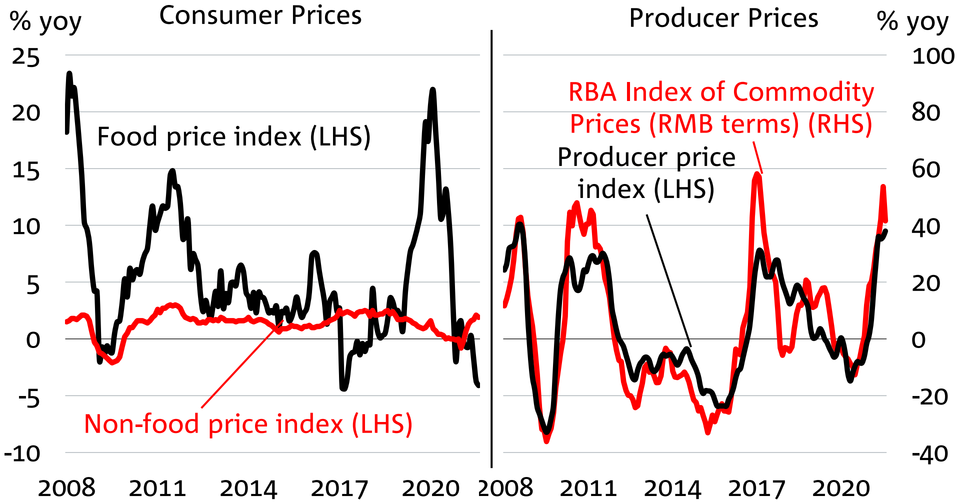
COVID-19 restrictions send sales growth plunging in August



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

Food prices soften CPI growth; producer prices surge



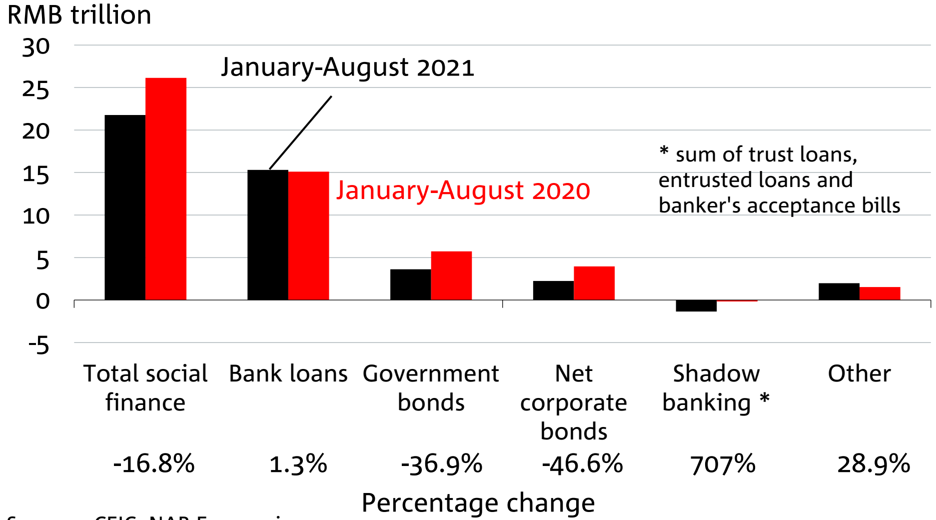
Source: CEIC, RBA, NAB Economics

- Growth in China's nominal retail sales plunged in August – increasing by 2.5% yoy (down from 8.5% yoy in July). While there has been a downward trend for several months – reflecting diminishing base effects – this downturn reflected the impact of COVID-19 restrictions.
- Retail price inflation was slightly softer in August, meaning a marginally more modest slowdown in real retail sales growth – down to 0.9% yoy (from 6.5% yoy in July).
- China's headline consumer price inflation has slowed since May – increasing by 0.8% yoy in August (compared with 1.0% yoy in July). Deflation in food prices has been a key driver of this trend.
- The food price index fell by 4.1% yoy in August (from 3.7% yoy previously). Meat prices – particularly pork – have been a key driver of the overall food price index in recent years, with pork falling by 44.9% yoy in August. In contrast, seafood prices rose by 11.7% yoy and eggs by 13.9% yoy. There remains some concerns around a resurgence in African swine fever – which negatively impacted pork supply in 2019 and 2020 – however this has not impacted markets so far.
- Non-food prices rose by 1.9% yoy, down from 2.1% yoy in July. In recent months, surging global oil prices have flowed through into higher vehicle fuel prices – which rose by 22.1% yoy in August.
- Producer prices rose strongly again in August – up by 9.5% yoy (compared with 9.0% yoy in July). In part, this reflects the impact of rising commodity prices – leading to higher prices through supply chains for manufacturers. The RBA Index of Commodity Prices (when converted into RMB terms) rose by 41.6% yoy (compared with 53.6% yoy previously).

CREDIT CONDITIONS

NEW CREDIT ISSUANCE

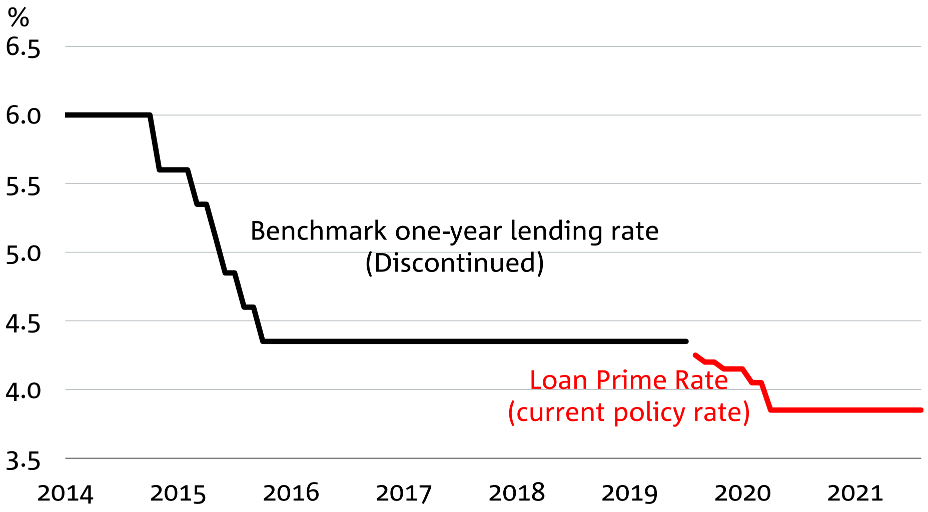
Declines in credit driven by government and corporate bonds



Sources: CEIC, NAB Economics

CHINA MONETARY POLICY

PBoC officials have dampened expectations of policy easing



Source: CEIC, NAB Economics

- China's new credit issuance was stronger in August – totalling RMB 3.0 trillion (compared with RMB 1.1 trillion in July). That said, July's result was particularly weak (the lowest issuance since February 2020).
- In the first eight months of 2021, new credit issuance totalled RMB 21.8 billion, a decrease of 16.8% yoy. A sharp decline in non-bank lending has been the main driver of this trend, with bank loans increasing by around 1.3% yoy to RMB 15.3 trillion.
- The decline in non-bank lending – which fell by 42% yoy to RMB 6.5 trillion – was driven by steep falls in both corporate and government bond issuance over this period – down by 44% yoy and 37% yoy respectively. That said, there was a sizeable increase in government bond issuance in August – which could support an increase in infrastructure in the latter months of 2021.
- Recent statements by officials from the People's Bank of China (PBoC) have dampened expectations of additional monetary easing – following the surprise cut to the Required Reserve Ratio and COVID-19 outbreak in July. At a news conference in early September, the head of the bank's monetary policy department noted that there was no shortfall in base money and that demand and supply of liquidity would likely be balanced in coming months.
- The PBoC has held its main policy rate – the Loan Prime Rate – unchanged at 3.85% since April 2020.

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