

CHINA'S ECONOMY AT A GLANCE

NOVEMBER 2021



National
Australia
Bank

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KEY POINTS

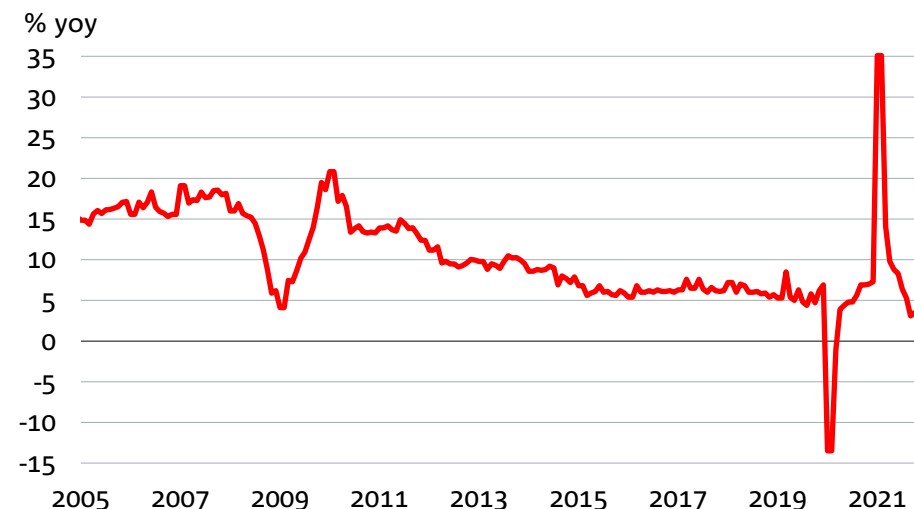
Partials point to a weak start to Q4, with production and retail soft and investment contracting

- There remains considerable near term uncertainty in China's economy, following the impact of electricity shortages in recent months. This was evident in divergent trends in China's two major manufacturing PMIs in October. Reports suggest that shortages have been alleviated in November, via a combination of increased domestic coal production and energy commodity imports, however the prospect of a colder than average winter means additional shortage risks in coming months (more on this topic is available [here](#)). Our forecasts for China's GDP remain unchanged – at 8.3% for 2021 and 6.0% for 2022 – however the electricity issues present some downside risks to both forecasts.
- China's industrial production growth was slightly stronger in October – increasing by 3.5% yoy (compared with 3.1% yoy in September). However, it is worth noting that this is a weak growth rate by historical standards. Sectors closely aligned to construction fell dramatically – with crude steel and cement production falling by 23% yoy and 17% yoy respectively. Motor vehicle output also fell by 8.3% yoy. In contrast, output of electronics rose by 14% yoy.
- Producer prices have continued to accelerate – and these flow through into the cost of investment goods – which means that in real terms, fixed asset investment fell by 13.1% yoy (from a 9.7% yoy decrease previously). The downturn in real estate investment overtook that of infrastructure in October – with real estate investment contracting by 5.4% yoy. This downturn is set to continue for some time – with residential sales and new residential construction falling sharply.
- The value of both imports and exports was weaker month-on-month in October – with imports falling more significantly, which resulted in China's trade surplus increasing to US\$84.5 billion – the largest monthly total by a sizeable margin. It is worth noting that there has been a steady increase in both import and export prices in recent months – reflecting a range of factors, including rising commodity prices, physical shortages of some inputs (most notably semi-conductors) and disruptions to global shipping (leading to increased freight rates).
- Real retail sales increased by 1.9% yoy (down from 2.6% yoy in September). Real sales remain incredibly weak when compared with pre-COVID-19 trends, remaining a constraint on China's economy.
- Over the first ten months of 2021, new credit issuance totalled RMB 26.3 trillion – down around 15% yoy. Over this period, there was a marginal increase in bank lending – rising by 1.2% yoy to RMB 17.9 trillion – while non-bank lending has fallen substantially. This is largely the result of large scale declines in bond issuance by China's corporate sector (down 39.0% yoy) and governments (down 30.3% yoy).
- The PBoC has continued to hold the Loan Prime Rate (its main policy rate) steady at 3.85%, having last cut rates in April 2020. Global markets are expecting policy rates for major advanced economies to rise earlier than previously anticipated (albeit still some time away), and this may limit the capacity of the PBoC to provide any additional monetary boost to the economy.

INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

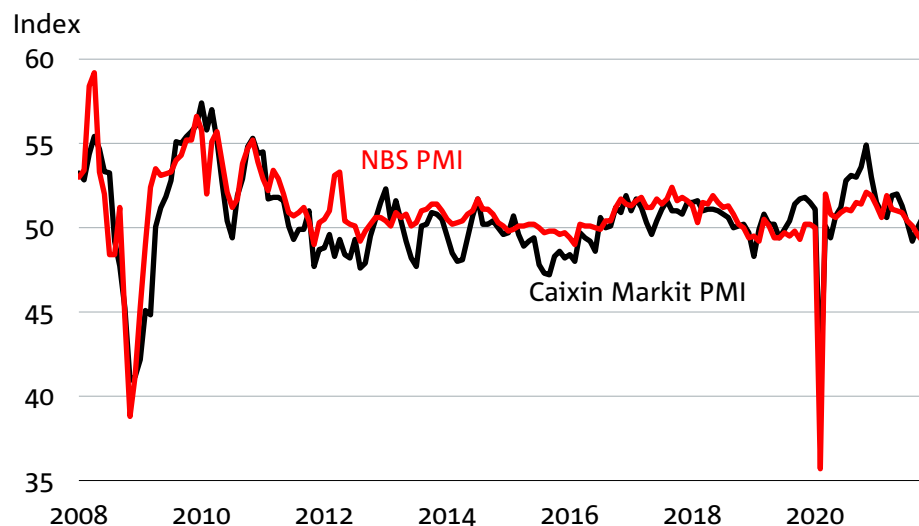
Growth marginally stronger, but historically weak, in October



Source: CEIC, NAB Economics

MANUFACTURING PMIS DIVERGE FURTHER IN OCTOBER

Export demand remains negative in both surveys



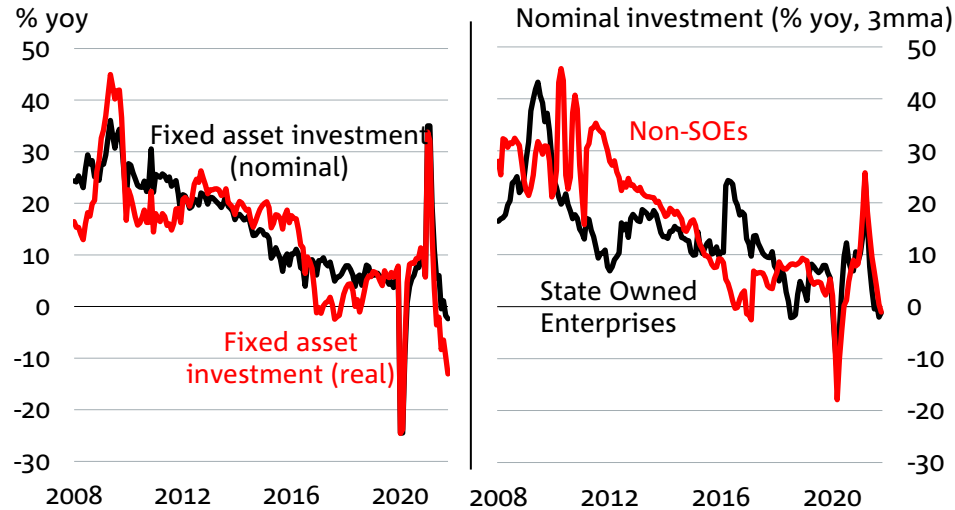
Source: CEIC, NAB Economics

- Despite the impact of electricity shortages that continued in October, China's industrial production growth was slightly stronger – increasing by 3.5% yoy (compared with 3.1% yoy in September). However, it is worth noting that this is a weak growth rate by historical standards.
- Although reports suggest that electricity shortages have been resolved in November, a range of factors that contributed to this crisis could re-emerge over the northern winter, adding downside risk to our economic forecasts.
- Output trends from major industrial sectors differed significantly. Sectors closely aligned to construction fell dramatically – with crude steel and cement production falling by 23% yoy and 17% yoy respectively. Motor vehicle output also fell by 8.3% yoy. In contrast, output of electronics rose by 14% yoy.
- China's two major manufacturing surveys diverged further in October – which may in part reflect the differing impact of electricity shortages that persisted during the month. The official NBS PMI survey was somewhat more negative, down to 49.2 points (from 49.6 points in September). In contrast, the private sector Caixin Markit PMI survey rose to 50.6 points in October (from a neutral 50.0 points previously).
- The different compositions of these surveys may explain this divergence. Energy intensive heavy industry was the most negatively impacted sector during China's recent electricity supply crunch, and it is generally understood that these firms represent a larger share in the NBS survey than in the Caixin Markit one. In contrast, higher tech manufacturers were less directly impacted by the electricity shortages – in some cases receiving prioritised access to power.
- Demand conditions also diverged in the two surveys. The NBS survey saw new orders continue to weaken (down to 48.8 points) – with conditions particularly negative for export orders – while the new orders measure was positive and strengthened in the Caixin Markit survey. That said, this was due to stronger domestic demand, with new export orders remaining negative.

INVESTMENT

FIXED ASSET INVESTMENT

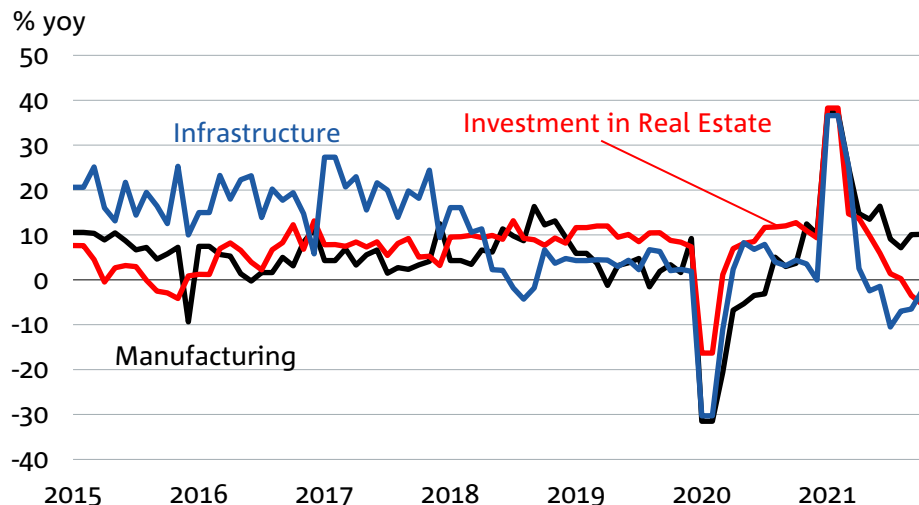
Real investment plunged in October as prices surged



Source: CEIC, NAB Economics

FIXED ASSET INVESTMENT BY INDUSTRY

Real estate investment continues to contract



Source: CEIC, NAB Economics

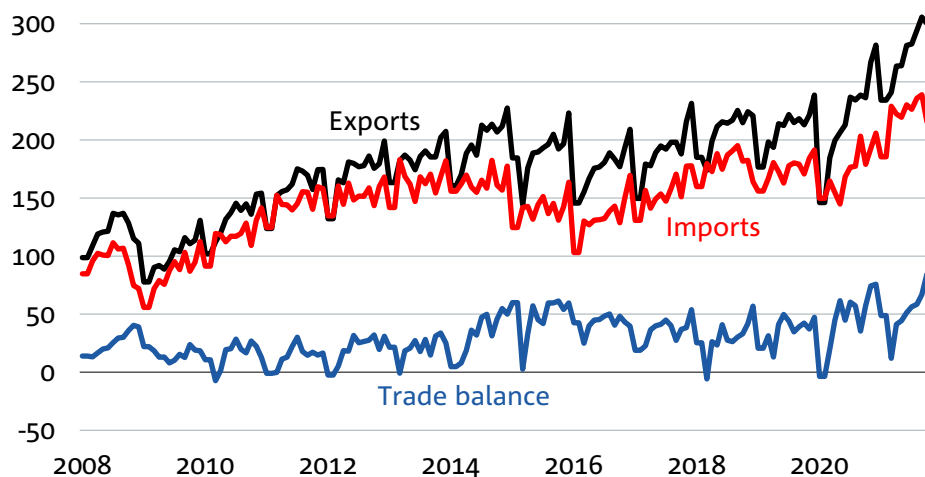
- In nominal terms, China's fixed asset investment contracted more rapidly in October – decreasing by 2.4% yoy (compared with 1.8% yoy in September). Producer prices have continued to accelerate – and these flow through into the cost of investment goods – which means that in real terms, fixed asset investment fell by 13.1% yoy (from a 9.7% yoy decrease previously).
- Nominal investment contracted for both state-owned enterprises (SOEs) and private sector firms in October – down by 2.0% yoy and 2.6% yoy respectively.
- By industry, investment in the manufacturing sector has continued to grow comparatively strongly – with nominal investment increasing by 10.1% yoy in October. In contrast, infrastructure investment contracted by 2.5% yoy (albeit this was less than the 6.5% yoy decrease in September). Infrastructure development is largely funded by local governments, and overall government bond issuance has contracted by over 30% in the first ten months of the year.
- The downturn in real estate investment overtook that of infrastructure in October – with real estate investment contracting by 5.4% yoy. This downturn is set to continue for some time – with residential sales (by square metre) falling by almost 24% yoy in October, while new residential construction starts fell by 34% yoy – which is set to negatively impact demand for steel, and by extension, demand for Australian iron ore in coming months.

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

China's trade surplus rose to a record level in October

US\$ billion (adjusted for new year effects)

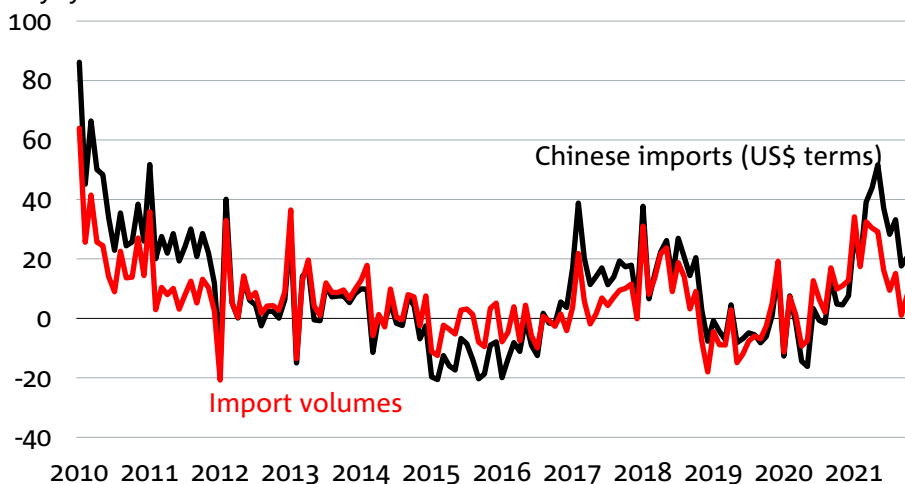


Sources: CEIC, NAB Economics

IMPORT VOLUMES AND VALUES

Rising import prices contributing to growth in import values

% yoy



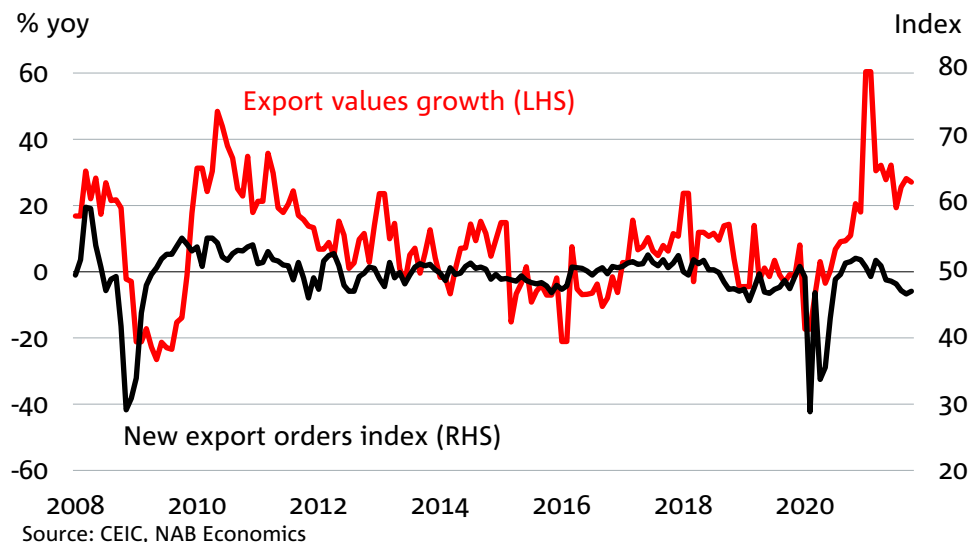
Source: CEIC, NAB Economics

- The value of both imports and exports was weaker month-on-month in October – with imports falling more significantly, which resulted in China's trade surplus increasing to US\$84.5 billion – the largest monthly total by a sizeable margin.
- The value of China's imports fell month-on-month in October – to US\$215.7 billion (down from a record high of US\$239.0 billion). That said, it is worth noting the impact of the Golden Week holiday period at the start of the month. In year-on-year terms, imports rose strongly – up by 20.6% (compared with 17.6% yoy in September).
- It is also worth noting that there has been a steady increase in import prices in recent months – reflecting a range of factors, including rising commodity prices, physical shortages of some inputs (most notably semi-conductors) and disruptions to global shipping (leading to increased freight rates). In US dollar terms, the RBA Index of Commodity Prices rose by 40.6% yoy in October.
- Our estimate of China's import volumes takes commodity prices as a proxy for import prices. It suggests that import volumes grew more strongly in October than September (up by 7.9% yoy vs. 1.1% yoy). However, the overall trend has been a slowing one – down from strong double digit growth across the first eight months of the year (in part reflecting base effects following on from the COVID-19 related weakness in early 2020) – to 7.7% yoy (on a three month moving average basis) in October.
- The strongest increases in import volumes in October were energy related commodities – reflecting the electricity shortages experienced in recent months. Coal imports rose by 96% yoy, followed by LPG and other gases (which increased by 87% yoy) and refined petroleum products (up by 44% yoy). In contrast, other major commodity exports fell – with refined copper imports down by 34% yoy, iron ore falling by 14.2% yoy and crude oil declining by 11.2% yoy.

INTERNATIONAL TRADE – EXPORTS

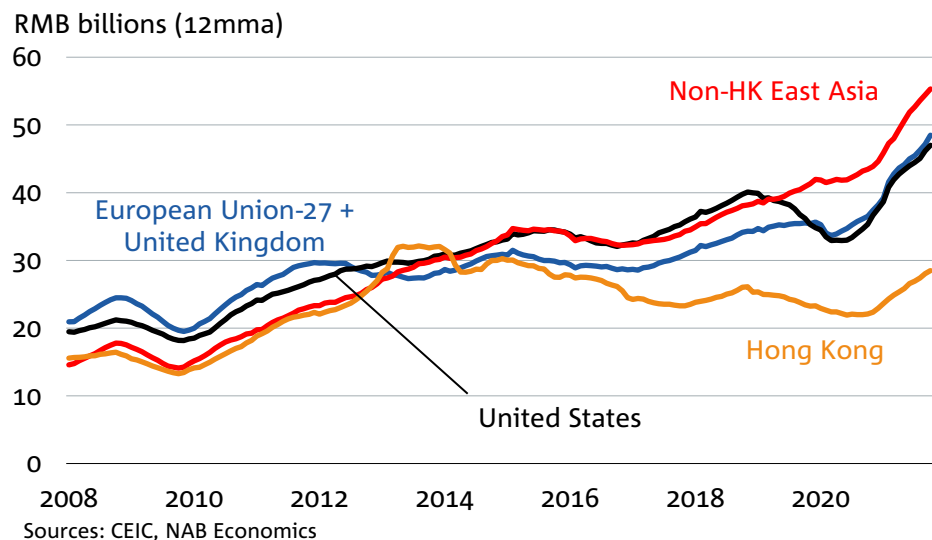
EXPORT VALUE AND NEW EXPORT ORDERS

Exports continue to grow despite weak new export orders



EXPORTS TO MAJOR TRADING PARTNERS

Strong growth in EU-27+UK in October

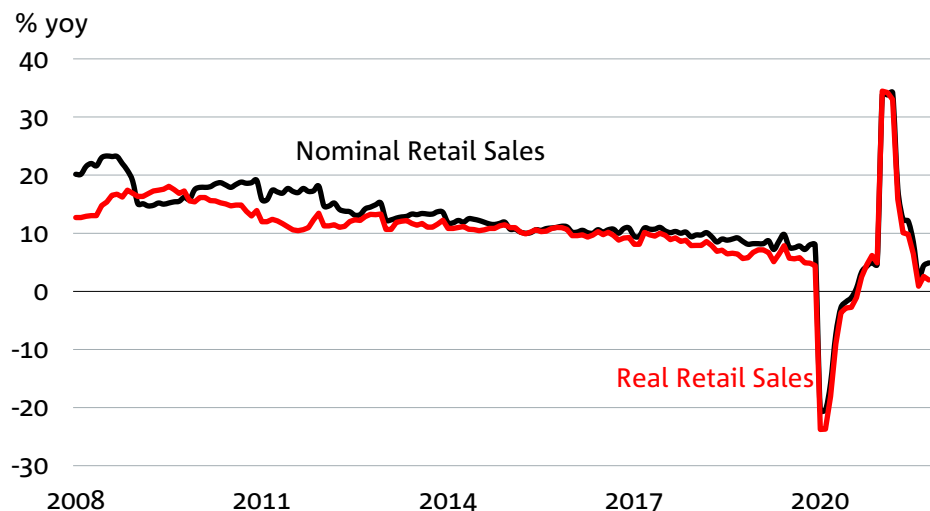


- There was a slight decline in the value of China’s exports in October – down to US\$300.2 billion – from US\$305.7 billion in September – however this outcome was the second largest on record. In year-on-year terms, exports rose by 27.1%.
- Similar to the trends with imports, export prices have increased over the past few months – up by around 10.6% yoy in September (compared with 6.5% in August). This compares with an increase of 8.4% yoy in volumes in September.
- The recent strength in exports has been somewhat at odds with the new export orders measure in the NBS manufacturing PMI. It has been negative since May 2021, edging higher to 46.6 points in October (from 46.2 points in September).
- Strong growth in exports remains evident to China’s major trading partners. This month, the largest increase was in exports to the European Union-27 + the United Kingdom – which rose by 39.2% yoy. In contrast, exports to the United States rose by 22.7% yoy and exports to East Asia rose by 21.8% yoy.
- As we have noted in recent months, there is the potential for trade tensions between the United States and China to re-emerge, given the growing trade imbalance. In the twelve months to October 2021, China’s trade surplus with the United States rose to US\$388.3 billion – a new record high.

RETAIL SALES AND INFLATION

RETAIL SALES GROWTH

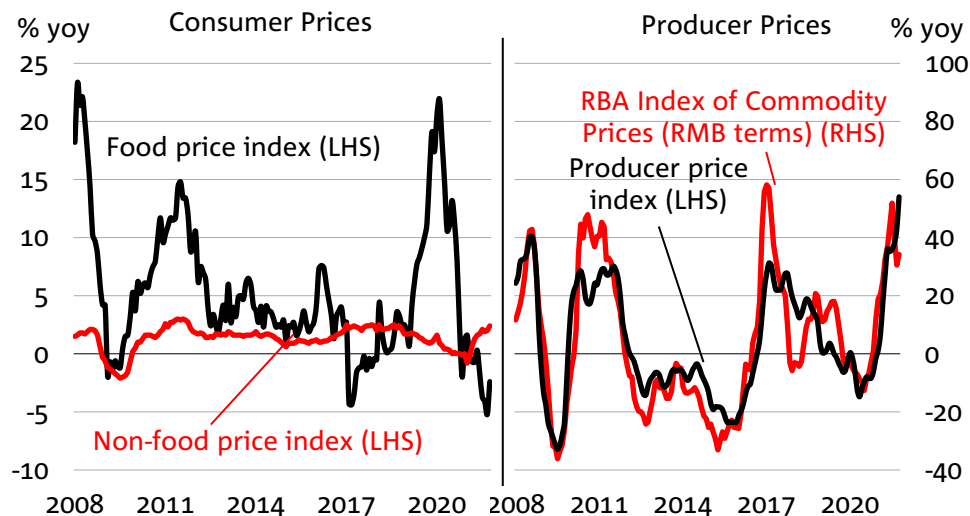
Rising prices more than offset a nominal pickup in growth



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

Producer price growth rises to record high in October



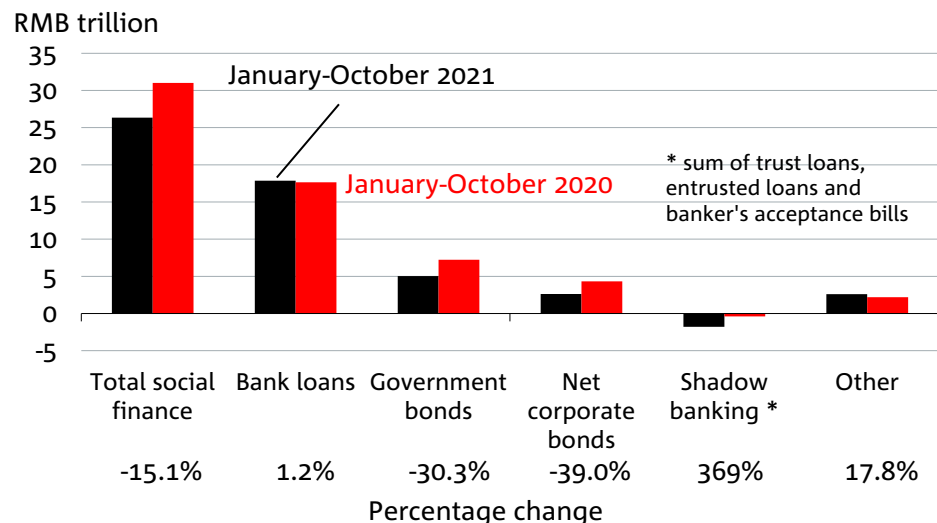
Source: CEIC, RBA, NAB Economics

- In nominal terms, China's retail sales grew more strongly in October – increasing by 4.9% yoy (up from 4.4% yoy in September). This is the second month of improvement following the slump in August following the most recent major COVID-19 outbreak.
- However, this improvement was not evident in real terms, as the acceleration in nominal sales was more than offset by rising prices. Real retail sales increased by 1.9% yoy (down from 2.6% yoy in September). Real sales remain incredibly weak when compared with pre-COVID-19 trends, remaining a constraint on China's economy.
- China's consumer prices rose more strongly in October – with the headline consumer price index increasing by 1.5% yoy (compared with 0.7% yoy previously). This acceleration reflected both a reduction in food price deflation as well as a pickup in non-food price inflation.
- The food price index decreased by 2.4% yoy in October (compared with a 5.2% fall in September). The falling price of pork remains a key driver for the overall decline in food prices – with pork prices falling by 44% yoy in October – reflecting the increase in supplies as China continues to recover from the African swine fever outbreak across 2019 and 2020. However this was partially offset by rising fresh vegetable prices – in part due to poor weather conditions.
- Non-food prices increased by 2.4% yoy (from 2.0% yoy in September). Vehicle fuel prices have continued to increase strongly – up by 31.4% yoy – reflecting rising global oil prices.
- Growth in producer prices accelerated again in October – in part reflecting the impact of electricity shortages during the month – with prices up by 13.5% yoy (from 10.7% yoy in September) – the largest monthly increase on record (back to late 1996). Producers were also impacted by other supply chain disruptions, as well as continued growth in commodity prices. When converted into RMB terms, the RBA Index of Commodity Prices rose by 34.2% yoy in October (up from 31.0% previously).

CREDIT CONDITIONS

NEW CREDIT ISSUANCE

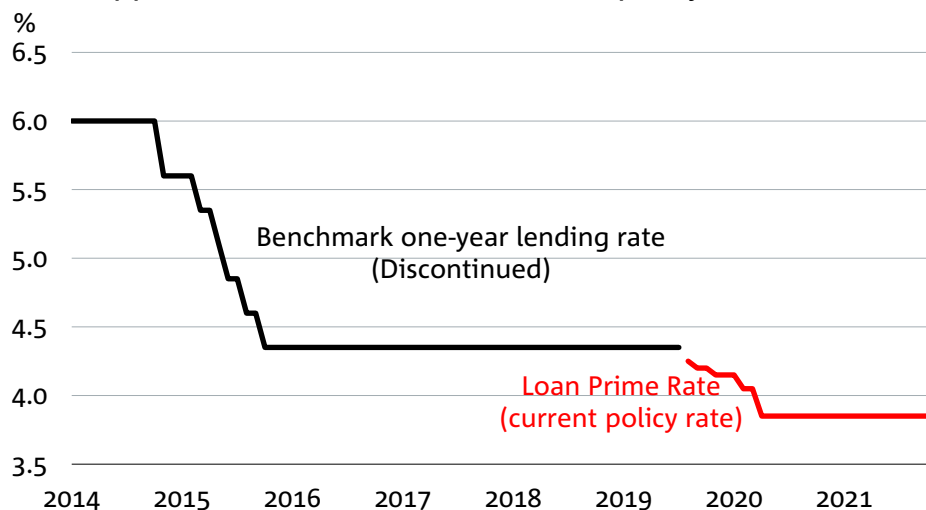
Decline in issuance primarily driven by bonds



Sources: CEIC, NAB Economics

MONETARY POLICY

PBoC appears to have little room to ease policy



Source: CEIC, NAB Economics

- China's new credit issuance slowed significantly month-on-month in October – in line with typical seasonal patterns, due to the Golden Week holiday at the start of the month – totalling RMB 1.6 trillion (down from RMB 3.0 trillion in September). That said, this represented an increase of over 14% yoy – which has been a rarity in 2021.
- Over the first ten months of 2021, new credit issuance totalled RMB 26.3 trillion – down around 15% yoy. Over this period, there was a marginal increase in bank lending – rising by 1.2% yoy to RMB 17.9 trillion.
- In contrast, non-bank lending has fallen substantially – down by 36.5% yoy to RMB 8.5 trillion. This is largely the result of large scale declines in bond issuance by China's corporate sector (down 39.0% yoy) and governments (down 30.3% yoy).
- Concerns around China's corporate sector – particularly property developers – persist, despite Evergrande avoiding default for the third time in November via a last minute payment. Concerned around the potential systematic risk related to the company, the People's Bank of China pumped liquidity into financial markets in September, and to a lesser extent, October.
- The PBoC has continued to hold the Loan Prime Rate (its main policy rate) steady at 3.85%, having last cut rates in April 2020. Global markets are expecting policy rates for major advanced economies to rise earlier than previously anticipated (albeit still some time away), and this may limit the capacity of the PBoC to provide any additional monetary boost to the economy.
- In part this reflects the sizeable US dollar denominated bond issuance by property developers in recent years, which could become more difficult to service if the currency were to depreciate as the US Fed raises rates. The PBoC has indicated it may favour unspecified targeted measures to support sectors requiring assistance.

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