CHINA'S ECONOMY AT A GLANCE

MARCH 2022

CONTACT

Gerard Burg, Senior Economist - International

KEY POINTS

COVID and energy prices present sizeable risk to China's ambitious growth target

- At the National People's Congress at the start of March, Chinese authorities unveiled a growth target of 'around 5.5%' for 2022. Although this would represent a comparatively weak rate of growth (when compared with pre-2020 rates), this appears to be highly ambitious in the current environment. China's growth momentum was weak heading into the new year, reflecting subdued growth in domestic consumption, limited additional support from global trade and slowing activity in the property sector – while COVID-19 remains a risk – due in part to the relatively low efficacy of domestic vaccines against the Omicron variant. This is highlighted by lockdowns in Shenzhen and Jilin along with a partial lockdown in Shanghai at the time of writing. Reflecting the impact of global energy prices as a result of the Russia-Ukraine conflict, we have lowered our forecast for China's growth in 2022 to 5.0% (previously 5.1%), while we expect a pickup in 2023 to 5.5%.

- Growth in China's industrial output surprised on the upside in January-February – increasing by 7.5% yoy (compared with an increase of 4.3% yoy in December 2021). That said, this increase may remain influenced by lingering base effects. The seasonally adjusted month-on-month growth in industrial production was broadly similar to the trend across the last three months of 2021 – which suggests that relatively strong year-on-year growth may not represent a sustained acceleration in underlying activity.

- China's trade surplus retreated in January-February, from record highs recorded in December, reflecting the seasonal easing in global demand post-Christmas and the impact of the Chinese new year holidays. The surplus averaged US$58.0 billion a month – a level that is quite strong on a historical basis – down from US$94.5 billion previously. This decline was driven by a sharp pullback in exports, with the fall in imports across the period comparatively modest.

- There was a notable pickup in China's retail sales growth in January-February – with nominal sales increasing by 6.7% yoy (up from 1.7% yoy in December 2021). Retail price inflation eased a little over this period, meaning that there was a slightly larger recovery in real retail sales – up by 5.0% yoy (compared with a decrease of 0.5% yoy in December). As with the uptick in industrial production, the strength of the increase in retail sales could reflect some lingering base effects – with the increase in seasonally adjusted month-on-month retail sales broadly in line with the trend evident across late 2021.

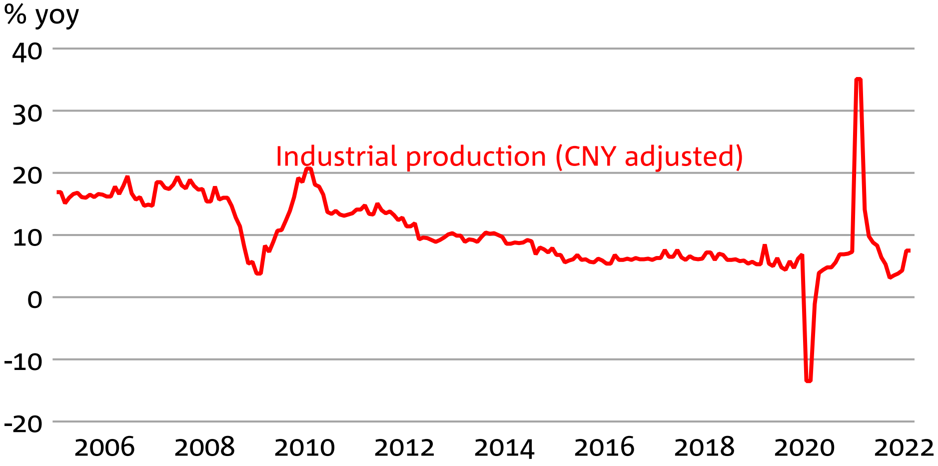
- The People's Bank of China (PBoC) followed up December's modest rate cut with another in January – this time by 10 basis points to 3.7% (for the Loan Prime Rate). Given the weak momentum in China's domestic economy – and the risks around COVID-19 lockdowns in major economic centres – another 10 basis point cut had been widely anticipated this month, however the PBoC kept its Medium Term Lending Facility rate (which the Loan Prime Rate is based on) unchanged in March.

- Meeting the government's growth target in 2022 will be a significant challenge, and would likely require additional stimulus. At the end of the National People's Congress, Premier Li confirmed tax cuts and tax rebates that will total around RMB 2.5 trillion this year. In addition, Beijing will increase direct financial support for local governments – which will likely be necessary for localised fiscal spending.

INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

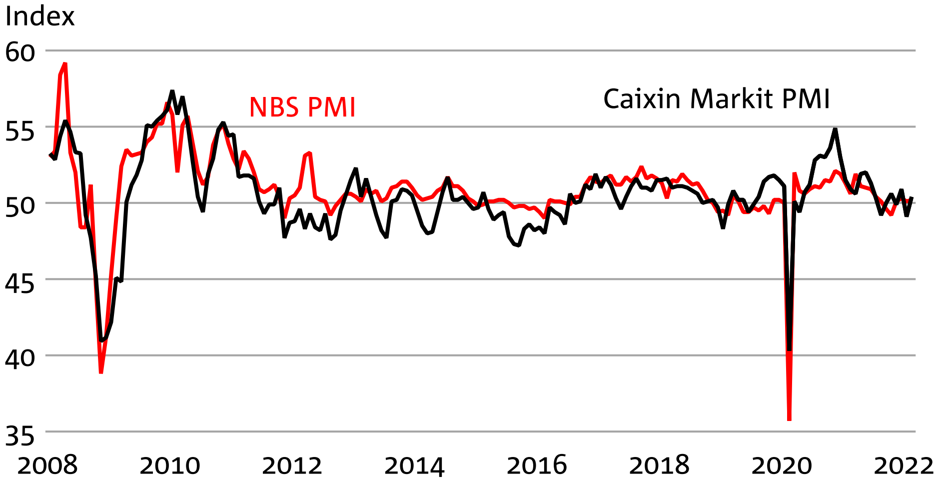
Uptick in IP growth may reflect lingering base effects



Source: Macrobond, NAB Economics

MANUFACTURING PMIS MARGINALLY POSITIVE

Divide remains between domestic and international orders



Source: Macrobond, NAB Economics

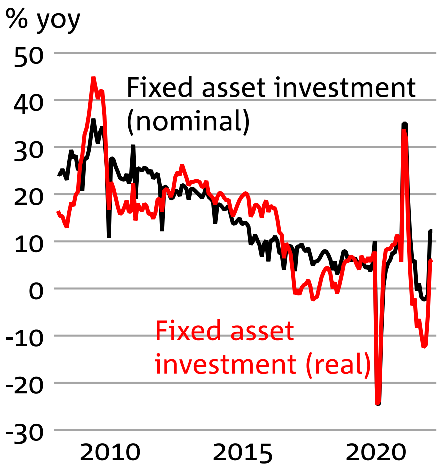
- Growth in China's industrial output surprised on the upside in January-February – increasing by 7.5% yoy (compared with an increase of 4.3% yoy in December 2021). That said, this increase may remain influenced by lingering base effects.
- The seasonally adjusted month-on-month growth in industrial production was broadly similar to the trend across the last three months of 2021 – which suggests that relatively strong year-on-year growth may not represent a sustained acceleration in underlying activity.
- Output trends at the subsector level remain highly mixed. There were steep contractions in production for construction-related heavy industry – with cement and crude steel output falling by 17.8% yoy and 10.0% yoy respectively.
- In contrast, there were strong increases in the production of electronics (up by 12.7% yoy) and motor vehicles (which increased by 11.1% yoy). Electricity output rose by 4.0% yoy.
- China's two major manufacturing surveys converged in February in marginally positive territory. The official NBS manufacturing PMI edged higher – up to 50.2 points (from 50.1 points in January). The private sector Caixin Markit PMI picked up considerably – moving to 50.4 points (from 49.1 points previously).
- Both surveys continue to highlight a divergence between domestic and international markets. New orders measures were modestly positive in February (with this measure in the Caixin Markit survey at its highest level in eight months), while new export orders remained negative in both surveys.

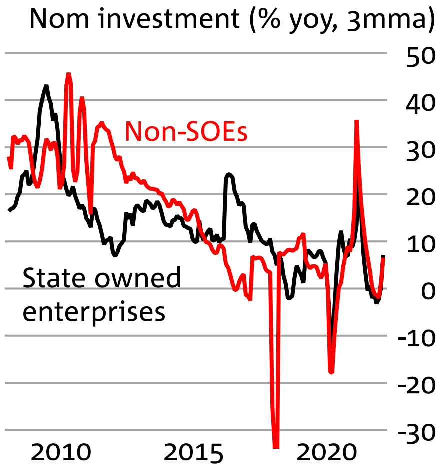
National Australia Bank

INVESTMENT

FIXED ASSET INVESTMENT

Strong rebound in investment growth in early 2022

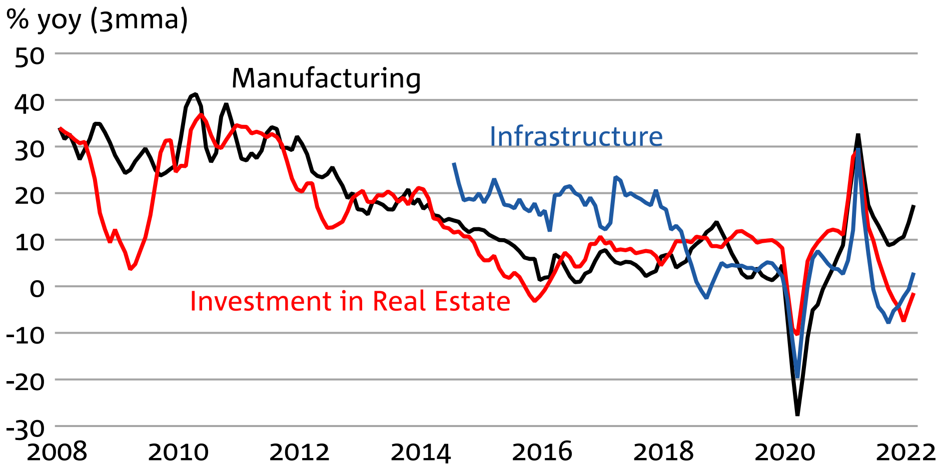




Source: Macrobond, NAB Economics

FIXED ASSET INVESTMENT BY INDUSTRY

Manufacturing investment higher, real estate stabilising



Source: Macrobond, NAB Economics

- Nominal fixed asset investment accelerated sharply in January-February 2022 – rising by 12.2% yoy (compared with 2.0% yoy in December 2021). While growth in producer prices (which flow through to the cost of investment goods) remains historically high, it has gradually declined since peaks of late last year – meaning that real investment recovered more strongly – up by 5.9% yoy (compared with a 5.5% fall in December).

- Similar to the upward trend in both industrial production and retail sales, there is the potential for these data to be inflated by base effects. That said, the bringing forward of investment in infrastructure (which is primarily driven by local government spending) may also have contributed to this rebound.

- The rebound in nominal growth was evident for both state-owned enterprises (SOEs) and private sector firms, with SOEs recording slightly stronger growth in early 2022. SOE investment rose by 14.1% yoy in January-February (up from 1.8% yoy in December 2021), while investment by private firms rose by 11.1% yoy (up from 2.1% yoy previously).

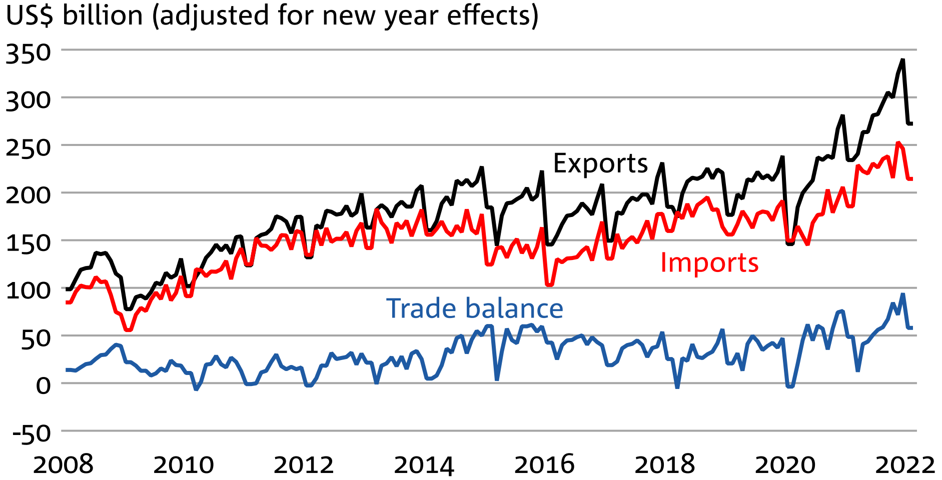
- Trends in investment by industry remained divergent. There was a strong increase in manufacturing investment – with nominal investment up by almost 21% yoy in January-February, while infrastructure investment rose by 8.1% yoy (likely benefiting from government bond issuance being brought forward).

- Real estate investment was a little stronger in January-February – but remained negative on a three month moving average basis. Chinese policy makers have spoken of seeking to stabilise the sector but managing the collapse of Evergrande (along with smaller property developers) and adjusting investor expectations presents a significant risk to China's growth prospects.

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

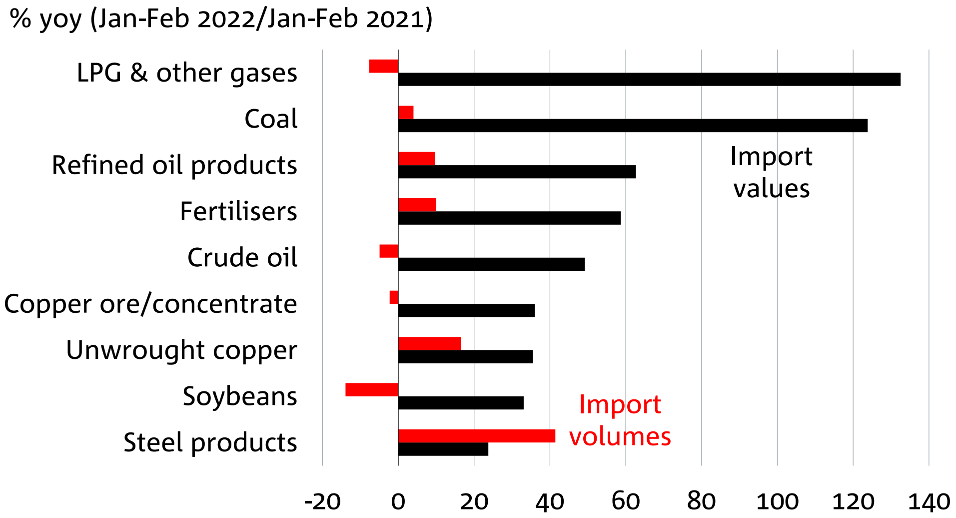
Surplus in early 2022 narrowed from record highs



Source: Macrobond, NAB Economics

IMPORT VOLUMES AND VALUES

Price pressures evident in energy related commodities



Source: Datastream, NAB Economics

- China's trade surplus retreated in January-February, from record highs recorded in December, reflecting the seasonal easing in global demand post-Christmas and the impact of the Chinese new year holidays. The surplus averaged US$58.0 billion a month – a level that is quite strong on a historical basis – down from US$94.5 billion previously. This decline was driven by a sharp pullback in exports, with the fall in imports across the period comparatively modest.

- China's imports averaged US$214.4 billion in the first two months of 2022, down from US$246.0 billion in December 2021. In year-on-year terms, imports rose strongly – up by 15.5% – albeit this increase was softer than any rate recorded in 2021.

- Much of the strength in import values across the second half of 2021 was driven by rising prices, with volume growth far more modest. Volume data are only available up to December 2021, and we use global commodity prices to estimate subsequent months. This estimate showed a considerable pickup in volumes in January-February (close to 10% yoy) – however this measure generally overstated growth in 2021 – suggesting that prices (rather than volumes) could still be the primary driver of the growth in import values.

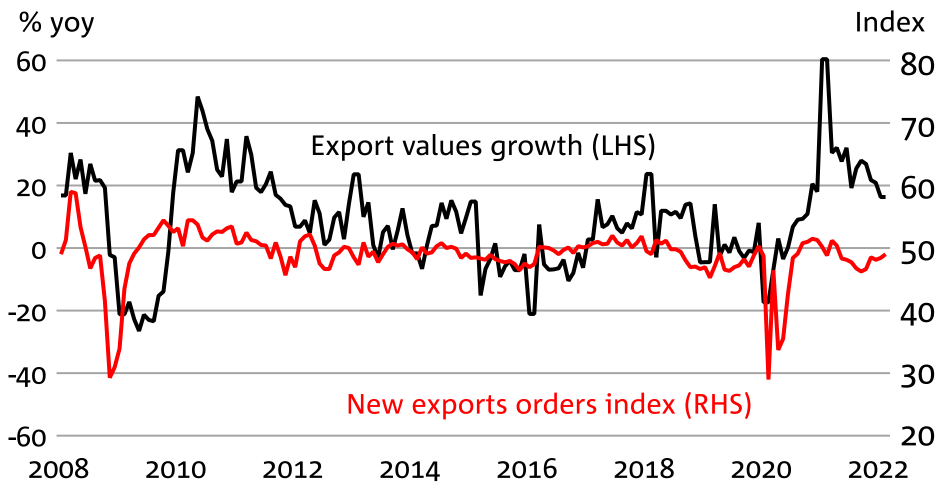
- This appears consistent with data for key commodities. The value of a broad range of energy commodities rose extremely strongly in year-on-year terms in January and February – and it is worth noting that this was largely prior to the surge in energy prices following the start of the Russia-Ukraine conflict. In contrast, growth in volumes of these commodities grew more modestly – including falls recorded in liquid petroleum gas & other gases and crude oil.

National Australia Bank

INTERNATIONAL TRADE – EXPORTS

EXPORT VALUE AND NEW EXPORT ORDERS

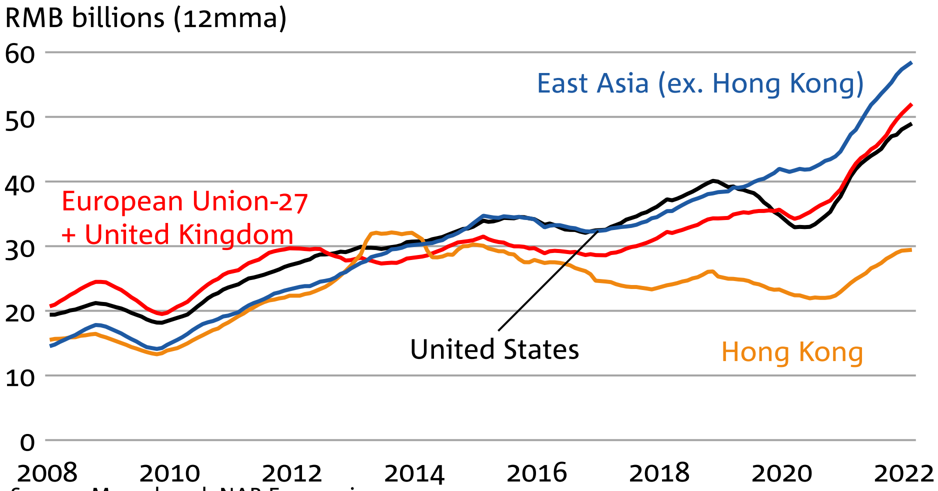
Survey measures remain at odds with strong export growth



Source: Macrobond, NAB Economics

EXPORTS TO MAJOR TRADING PARTNERS

Strongest growth in exports was with the EU-27+UK in Jan-Feb



Source: Macrobond, NAB Economics

- Compared with the peak in December 2021, the value of China's exports fell significantly across January and February – down to US$272.4 billion (from US$340.5 billion previously). In year-on-year terms, exports rose by 16.3%.

- Much like imports, export prices have risen significantly in recent months – up by 9.3% yoy in December 2021 – in part reflecting the impact of cost pressures through the manufacturing value chain. Strong growth in exports in 2021 came despite weakness in the new export orders measure in the NBS manufacturing PMI survey (which has been negative since May 2021).

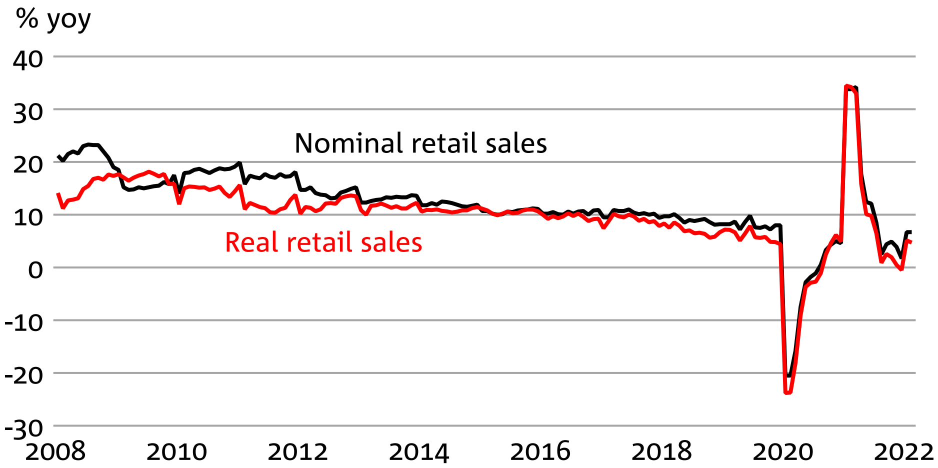
- Growth rates for exports to China's major trading partners differed somewhat in the first two months of 2022. There was strong growth in exports to the European Union-27 + the United Kingdom – which rose by 21.5% yoy. In contrast, exports to the United States rose by 13.7% yoy and East Asia by 10.8% yoy.

- Within East Asia, exports to Hong Kong were notably weak – rising by just 3.5% yoy in January-February. Historically there have been considerable distortions in trade data with Hong Kong – including capital flows disguised as trade activity. Excluding Hong Kong, exports to East Asia rose by 14.3% yoy – led by South Korea, Indonesia and Malaysia.

RETAIL SALES AND INFLATION

RETAIL SALES GROWTH

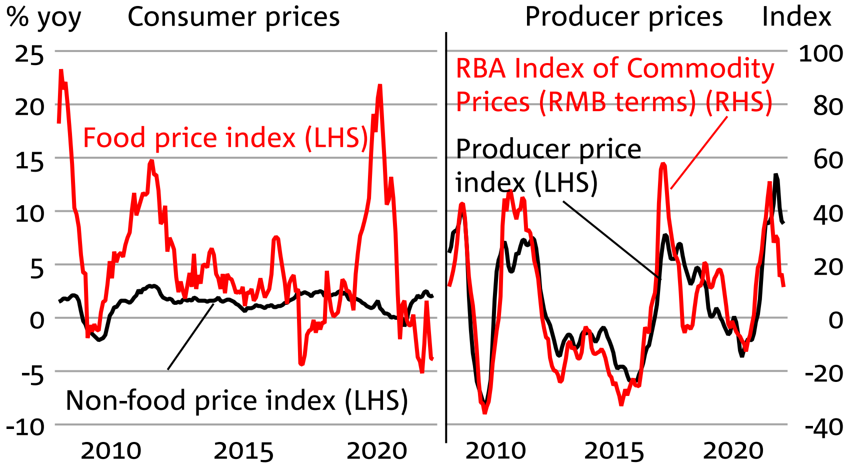
Acceleration in real sales may be inflated by base effects



Source: Macrobond, NAB Economics

CONSUMER AND PRODUCER PRICES

Consumer & producer price growth lower in early 2022



Source: Macrobond, NAB Economics

- There was a notable pickup in China's retail sales growth in January-February – with nominal sales increasing by 6.7% yoy (up from 1.7% yoy in December 2021). Retail price inflation eased a little over this period, meaning that there was a slightly larger recovery in real retail sales – up by 5.0% yoy (compared with a decrease of 0.5% yoy in December). As with the uptick in industrial production, the strength of the increase in retail sales could reflect some lingering base effects – with the increase in seasonally adjusted month-on-month retail sales broadly in line with the trend evident across late 2021.

- Over the first two months of 2022, China's Consumer Price Index increased by 0.9% yoy, compared with a 1.5% yoy increase in December 2021.

- Declining food prices have been the key driver of this trend. China's food price index contracted by 3.8% yoy in the first two months of the year, compared with a 1.2% yoy fall in December. Pork prices fell 42% yoy in January-February – with supply continuing to recover from the African Swine Fever outbreak that commenced in 2018. Prices for fresh vegetables fell by 2.1% yoy over this period, while fresh fruit rose by 8.2% yoy.

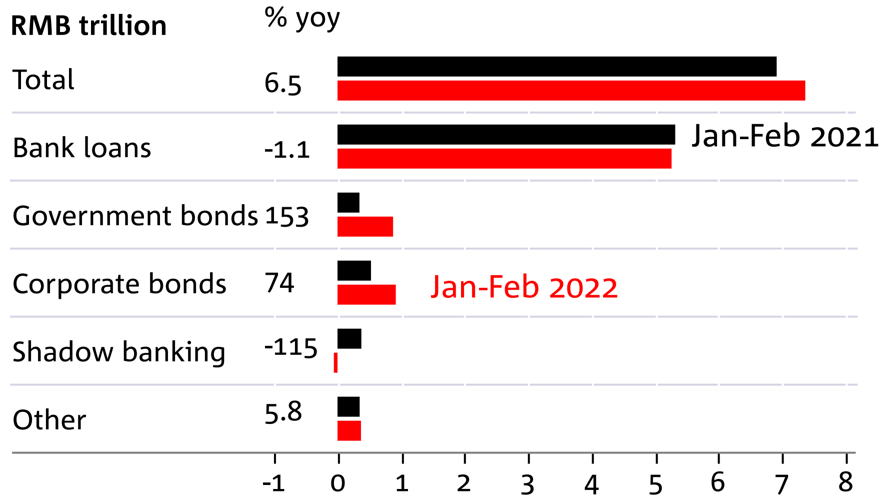
- Growth in non-food prices was relatively stable at the start of the year – increasing by 2.1% yoy in the first two months of 2022, unchanged from the rate of increase in December 2021. This was despite a sizeable increase in vehicle fuel prices – up by almost 22% yoy in January-February.

- Producer price growth has trended lower in the past few months – down to 8.9% yoy in January-February (compared with 10.3% yoy in December and a cycle peak of 13.5% yoy in October 2021). Slowing commodity price growth has been a major driver of this trend – when converted into RMB terms, the RBA Index of Commodity Prices rose by 13.9% yoy in the first two months (compared with increases in excess of 50% yoy in mid-2021. It is worth noting that since the Russian invasion of Ukraine in late February, commodity prices (led by energy commodities) have risen sharply – which is likely to add additional inflationary pressure in coming months.

CREDIT CONDITIONS

NEW CREDIT ISSUANCE

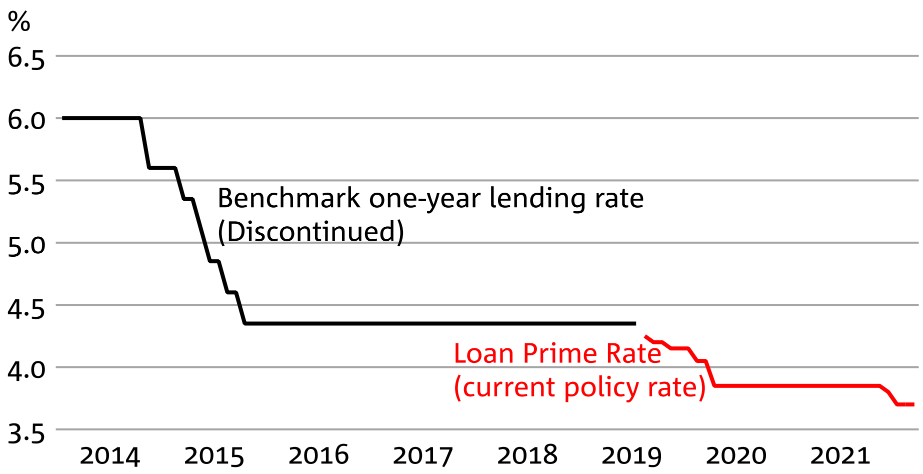
Weaker lending from bonds and shadow banking



Source: Macrobond, NAB Economics

MONETARY POLICY

Near term cut anticipated but limited further downside



Source: Macrobond, NAB Economics

- China's new credit issuance was stronger in the first two months of 2022 – totalling RMB 7.4 trillion. In year-on-year terms, this represented an increase of 6.5%.
- Bank lending remains the largest share of credit issuance – totalling RMB 5.3 trillion – however it contracted by around 1.1% yoy in January-February.
- In contrast, non-bank lending surged – up by 31.8% to RMB 2.1 trillion. Key to this increase was growth in the issuance of government and corporate bonds (which rose by 153% yoy and 74% yoy respectively). However, there was a contraction in the stock of shadow banking assets (comprising trust and entrusted loans and banker's acceptance bills).
- The People's Bank of China (PBoC) followed up December's modest rate cut with another in January – this time by 10 basis points to 3.7% (for the Loan Prime Rate). Given the weak momentum in China's domestic economy – and the risks around COVID-19 lockdowns in major economic centres – another 10 basis point cut had been widely anticipated this month, however the PBoC kept its Medium Term Lending Facility rate (which the Loan Prime Rate is based on) unchanged in March.
- It is worth noting that these cuts to interest rates have been relatively modest and are likely to provide only a limited boost to economic growth. Further downside to rates may be limited – due to anticipated rate increases in advanced economies (which could risk capital outflow and currency pressures).
- Meeting the government's growth target in 2022 will be a significant challenge, and would likely require additional stimulus. At the end of the National People's Congress, Premier Li confirmed tax cuts and tax rebates that will total around RMB 2.5 trillion this year. In addition, Beijing will increase direct financial support for local governments – which will likely be necessary for localised fiscal spending.

National Australia Bank

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Dean Pearson
Head of Behavioural & Industry Economics
+(61 3) 8634 2331

Australian Economics and Commodities
Gareth Spence
Senior Economist – Australia
+(61 4) 36 606 175

Brody Viney
Senior Economist
+(61 0) 452 673 400

Phin Ziebell
Economist – Agribusiness
+(61 4) 75 940 662

Behavioural & Industry Economics
Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural & Industry Economics
+(613) 9208 2929

International Economics
Tony Kelly
Senior Economist
+(61 4) 77 746 237

Gerard Burg
Senior Economist – International
+(61 4) 77 723 768

Global Markets Research
Ivan Colhoun
Global Head of Research
+61 2 9237 1836