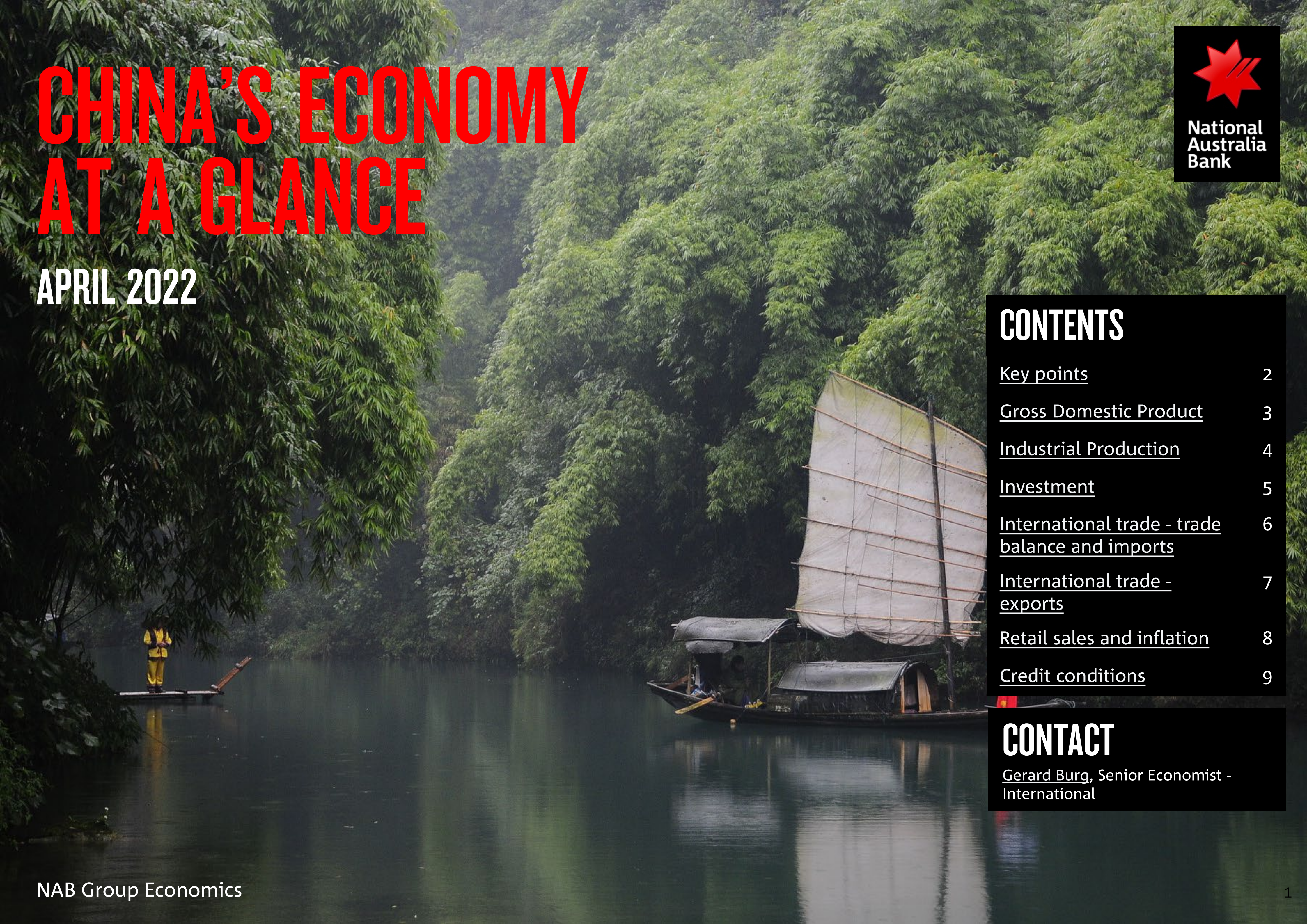

CHINA'S ECONOMY AT A GLANCE

APRIL 2022

CONTENTS

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NAB Group Economics

KEY POINTS

COVID outbreaks dampened growth in March, and cloud near-term outlook

- According to official national accounts data, China's economy grew by 4.8% yoy in the first quarter of 2022, up from the 4.0% yoy increase recorded in Q4 2021. That said, quarterly growth slowed in Q1 – down to 1.3% qoq, compared with 1.5% qoq in Q4 – with comparatively strong trends in various partial indicators across January and February dampened by the impact of COVID-19 in a range of population centres in March. The outlook for China's economy remains extremely clouded – particularly in the near-term, given the policy responses to COVID-19 outbreaks. We have kept our forecasts unchanged this month, with growth of 5.0% in 2022 and 5.4% in 2023.

- Growth in China's industrial production eased back to 5.0% yoy in March (from the surprisingly strong 7.5% yoy increase recorded across January and February). COVID-19 outbreaks in a number of industrial centres – most notably Shenzhen – impacted activity, however this was more evident in surveys than industrial production data.

- Nominal fixed asset investment grew less rapidly in March – up by 7.1% yoy (compared with the 12.2% yoy increase across January-February). The easing in producer price growth should have flowed through to the cost of investment goods, meaning that our estimate of real investment declined more modestly – up by 1.5% yoy (from 5.9% yoy in the first two months).

- China's trade surplus continued to narrow in March to US$47.4 billion (compared with an average of US$58.0 billion across January and February). While this level is weaker than the peaks recorded in late 2021, it remains high by historical standards.

- Retail sales activity plunged in March as COVID-19 restrictions impacted various centres. Retail price inflation was also somewhat stronger in March than the start of the year, meaning a larger contraction in real retail sales – which fell by 6.0% yoy (compared with a 5.0% yoy increase across January-February).

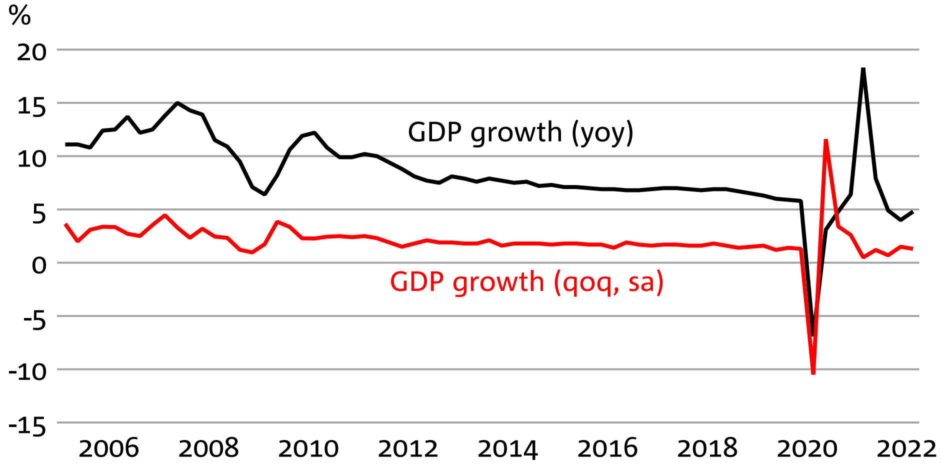
- In the first quarter of 2022, China's new credit issuance totalled RMB 12.0 trillion, an increase of 16.8% yoy. Bank lending rose relatively modestly in Q1, up by 5.2% yoy, while non-bank lending surged in the first quarter, up by almost 60% yoy. Government bond issuance was the key driver of this increase, while corporate bond issuance also rose strongly.

- At the early April meeting of China's State Council, authorities expressed concerns around the larger than expected risks emerging in both the domestic and global economy. They suggested that multiple monetary policy tools will be used at an appropriate time to support the economy – without providing any specific information around the tools or timing. The People's Bank of China cut the Reserve Requirement Ratio (RRR) for banks in mid April – which will increase the funds available for them to lend to customers – however further interest rate cuts would carry considerable risk, particularly given the increasingly hawkish outlook for other major central banks. A prolonged monetary policy imbalance could risk capital outflows that could destabilise China's financial sector.

GROSS DOMESTIC PRODUCT

CHINA'S ECONOMIC GROWTH

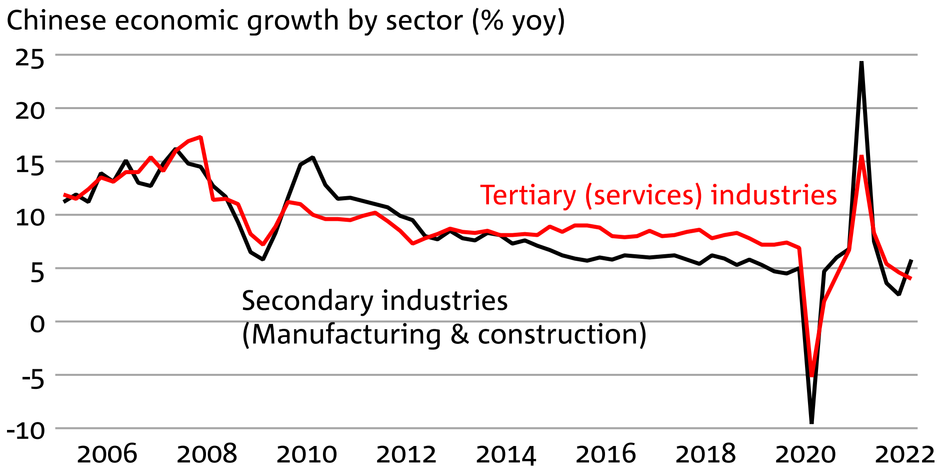
Softer qoq growth points to COVID-19 impact



Source: Macrobond, NAB Economics

ECONOMIC GROWTH BY INDUSTRY

Industrial rebound drove growth in Q1



Source: Macrobond, NAB Economics

- According to official national accounts data, China's economy grew by 4.8% yoy in the first quarter of 2022, up from the 4.0% yoy increase recorded in Q4 2021. That said, quarterly growth slowed in Q1 – down to 1.3% qoq, compared with 1.5% qoq in Q4 – with comparatively strong trends in various partial indicators across January and February dampened by the impact of COVID-19 in a range of population centres in March.

- The breakdown of growth by industry highlights the pickup in year-on-year growth was driven by a rebound in the secondary sector (manufacturing and construction) – which increased by 5.8% yoy (up from 2.5% yoy in Q4). In contrast, the services sector grew by 4.0% yoy (down from 4.6% yoy previously).

- The outlook for China's economy remains extremely clouded – particularly in the near-term, given the policy responses to COVID-19 outbreaks. At the time of writing, Shanghai (among other cities) is in lockdown and the impact of these public health measures will be evident in Q2 data. Further outbreaks in other localities cannot be ruled out.

- China's growth target for 2022 – 5.5% – appears highly ambitious, particularly given the relative weakness in measures of household consumption, along with both domestic and international risks. While Chinese authorities have signalled a willingness to implement stimulus this year, it is unclear how committed they are to this target. Large scale stimulus would risk building on existing imbalances in the economy and increase medium-to-longer term financial risks. We have kept our forecasts unchanged this month – with growth of 5.0% in 2022 and 5.4% in 2023.

NAB CHINA GDP FORECASTS

%	2021	2022	2023
GDP	8.1	5.0	5.4

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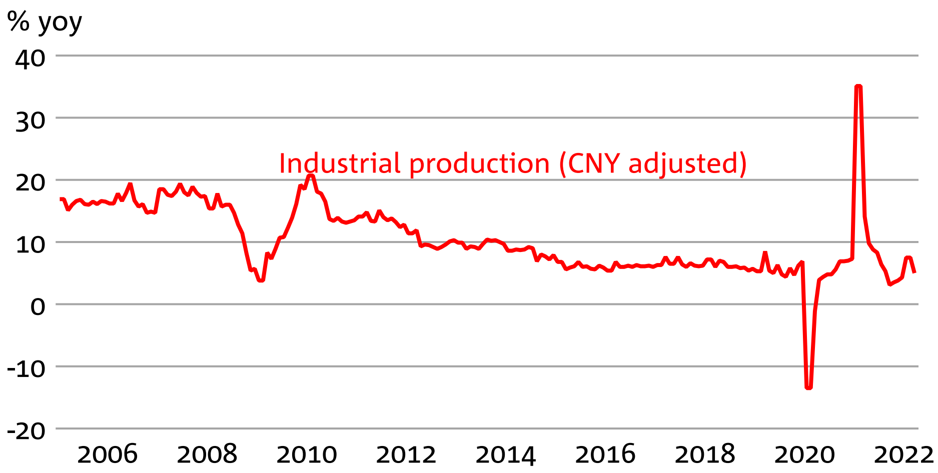
INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

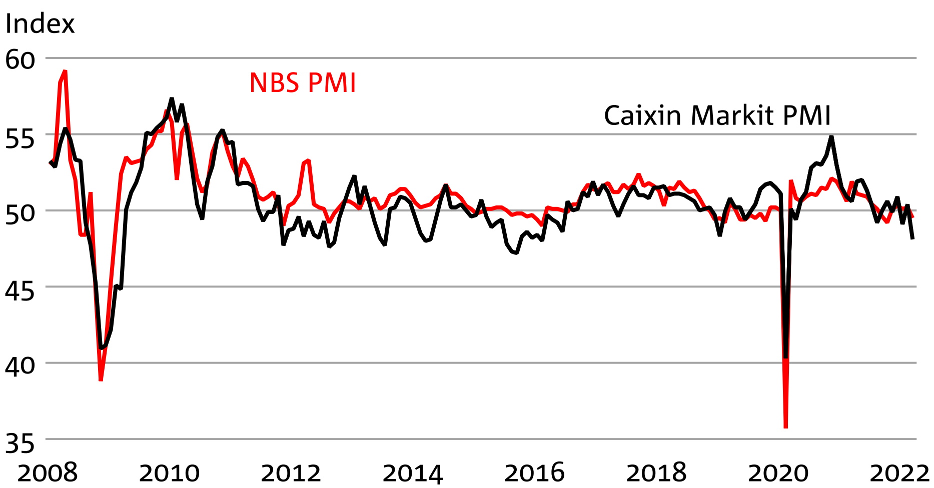
COVID-19 pulled industrial growth back from early 22 strength



Source: Macrobond, NAB Economics

MANUFACTURING PMIS TURNED NEGATIVE IN MARCH

COVID-19 restrictions hit the private sector particularly hard



Source: Macrobond, NAB Economics

- Growth in China's industrial production eased back to 5.0% yoy in March (from the surprisingly strong 7.5% yoy increase recorded across January and February). COVID-19 outbreaks in a number of industrial centres – most notably Shenzhen – impacted activity, however this was more evident in surveys than industrial production data.

- There was marked divergence in growth trends in individual subsectors in March. Construction related heavy industry saw declines in output – with crude steel and cement manufacturing contracting by 6.4% yoy and 5.6% yoy respectively. Motor vehicle output also fell significantly – down by 4.9% yoy. In contrast, output of electronics rose strongly – up by 12.5% yoy.

- China's major manufacturing surveys turned negative in March – in part reflecting the impact of restrictions imposed to control the spread of COVID-19 in various parts of the country. The severity and duration of these measures differ between localities, with the lockdown of Shanghai coming after these surveys were conducted – meaning it will impact April's readings.

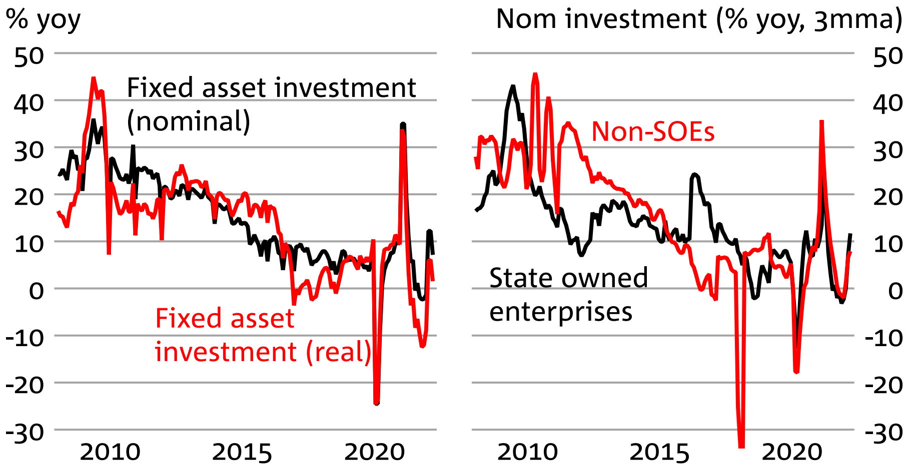
- The private sector Caixin Markit PMI fell to 48.1 points in March (from 50.4 points in February) – the weakest reading since China's initial COVID-19 outbreak in February 2020. The decline in the official NBS manufacturing PMI survey was more modest – down to 49.5 points (from 50.2 points previously).

- Demand measures deteriorated in both surveys – with new orders in negative territory in March. New export orders were particularly weak in the Caixin Markit survey, recording its lowest reading post the initial COVID-19 wave.

INVESTMENT

FIXED ASSET INVESTMENT

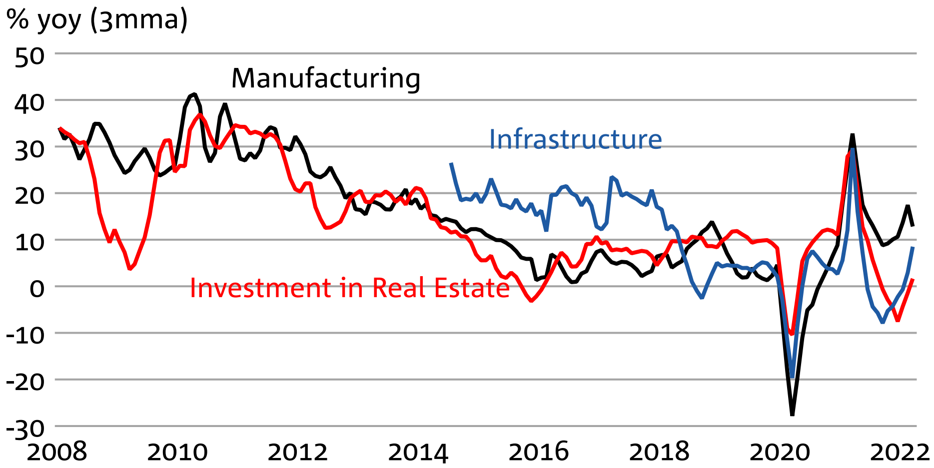
Investment growth softened from the strong start in Jan-Feb



Source: Macrobond, NAB Economics

FIXED ASSET INVESTMENT BY INDUSTRY

Strong rebound in infrastructure investment since late '21



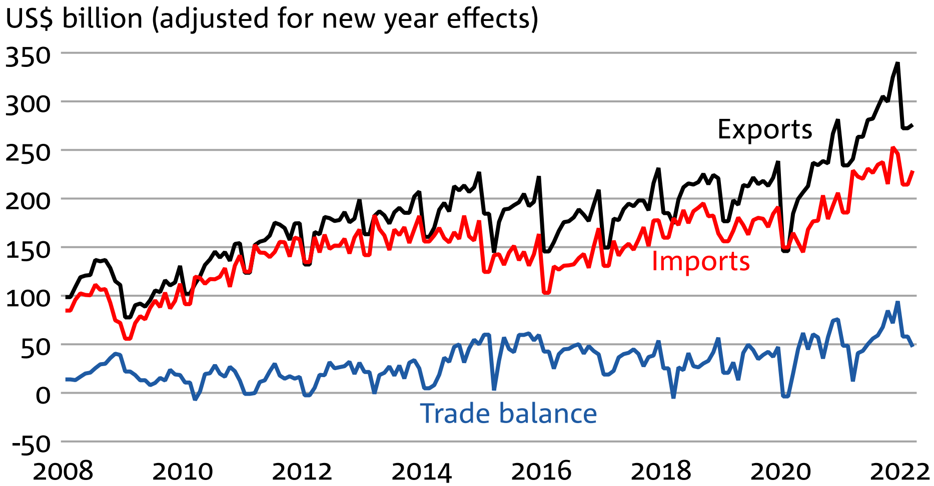
Source: Macrobond, NAB Economics

- Nominal fixed asset investment grew less rapidly in March – up by 7.1% yoy (compared with the 12.2% yoy increase across January-February). The easing in producer price growth should have flowed through to the cost of investment goods, meaning that our estimate of real investment declined more modestly – up by 1.5% yoy (from 5.9% yoy in the first two months).
- State-owned enterprises have recorded stronger growth in nominal investment in 2022 – increasing by 10.0% yoy in March (down from 14.1% yoy in January-February). In contrast, investment growth by private sector firms slowed more significantly – down to 5.0% yoy in March (compared with 11.1% yoy previously).
- Trends in investment by industry continue to diverge. Manufacturing investment continues to increase comparatively strongly – up 15.6% yoy (albeit down from almost 21% yoy in January-February). Infrastructure investment rose by 8.8% yoy in March – benefiting from the strong issuance of government bonds in the early part of the year.
- In contrast, real estate investment contracted by 2.4% yoy (having increased by around 3.7% yoy in the first two months). Chinese authorities have publicly stated that they are seeking to stabilise real estate conditions, but face significant challenges – given the importance of the sector to the overall economy, as well as mortgage stress among highly leveraged households and wealth effects related to property price changes.

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

CHINA'S TRADE BALANCE

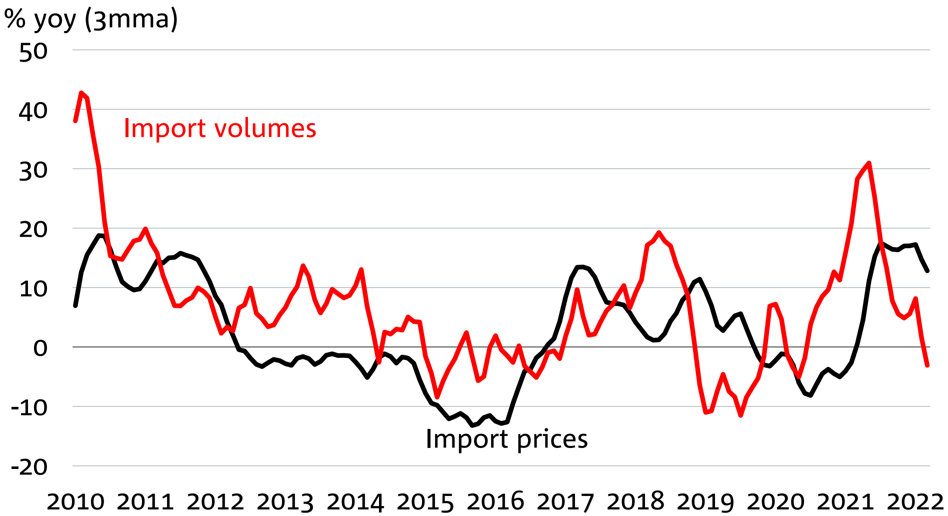
Surplus in early 2022 narrowed from record highs



Source: Macrobond, NAB Economics

IMPORT VOLUMES AND VALUES

Prices have driven the increase in total imports since H2 2021



Source: CEIC, Macrobond, NAB Economics

- China's trade surplus continued to narrow in March to US$47.4 billion (compared with an average of US$58.0 billion across January and February). While this level is weaker than the peaks recorded in late 2021, it remains high by historical standards.

- China's imports totalled US$228.7 billion in March, up from an average of US$214.4 billion in the first two months of the year. That said, this level represented a fall in year-on-year terms – down by 0.1%. Given a substantial increase in import prices, this would suggest that import volumes were considerably lower in March.

- Growth in the total value of imports in the second half of 2021 and early 2022 has been driven more strongly by prices than overall volumes. Official data show volumes fell by around 3.2% yoy in February and our estimate for March – which uses global commodity prices as a proxy for import prices – showed a fall of around 10% yoy – with disruptions related to COVID-19 outbreaks potentially impacting some import activity during the month.

- The difference between import values and volumes was particularly stark regarding China's energy imports in March – with global energy prices surging following Russia's invasion of Ukraine. There were strong increases in the US dollar value of crude oil (up 36% yoy), refined petroleum products (20.7% yoy) and coal imports (6.7% yoy), while the total volume of imports of these products declined – down by 14% yoy, 11.8% yoy and 39.9% yoy respectively.

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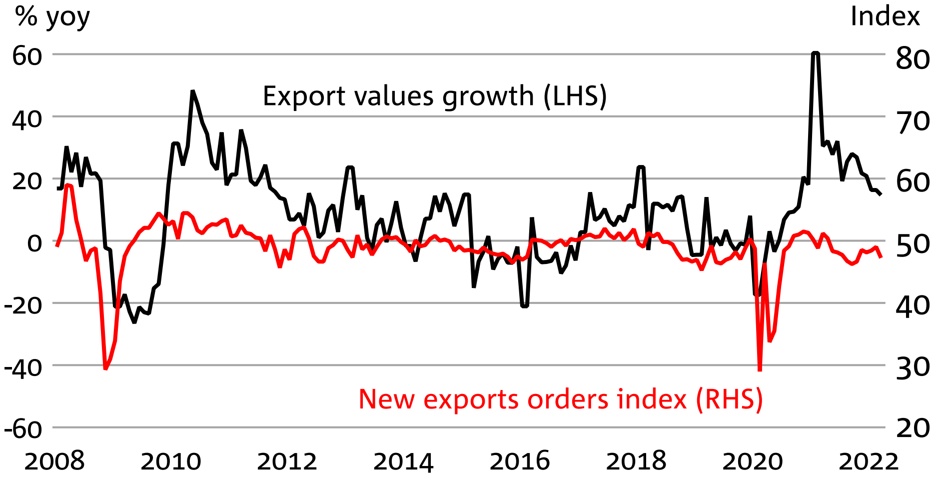
INTERNATIONAL TRADE – EXPORTS

EXPORT VALUE AND NEW EXPORT ORDERS

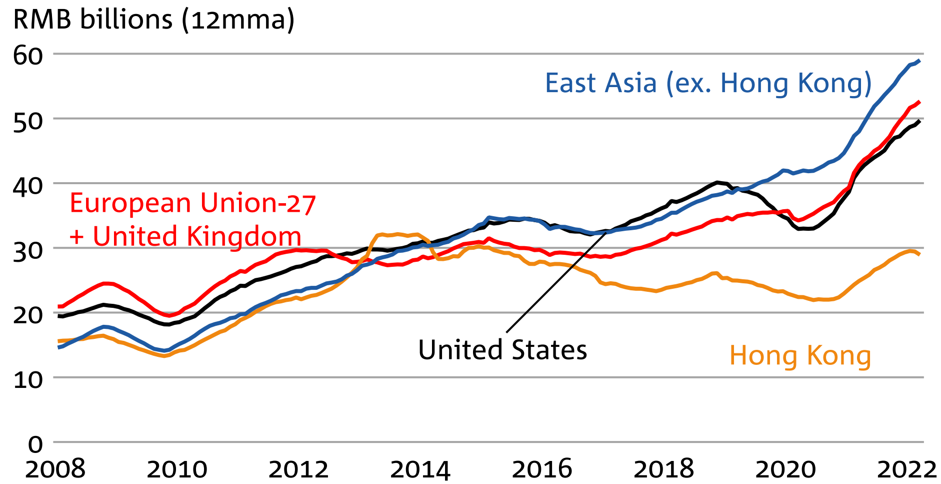
Strong growth in values continues, but new orders weak



Source: Macrobond, NAB Economics

EXPORTS TO MAJOR TRADING PARTNERS

Exports to Hong Kong fell sharply in March



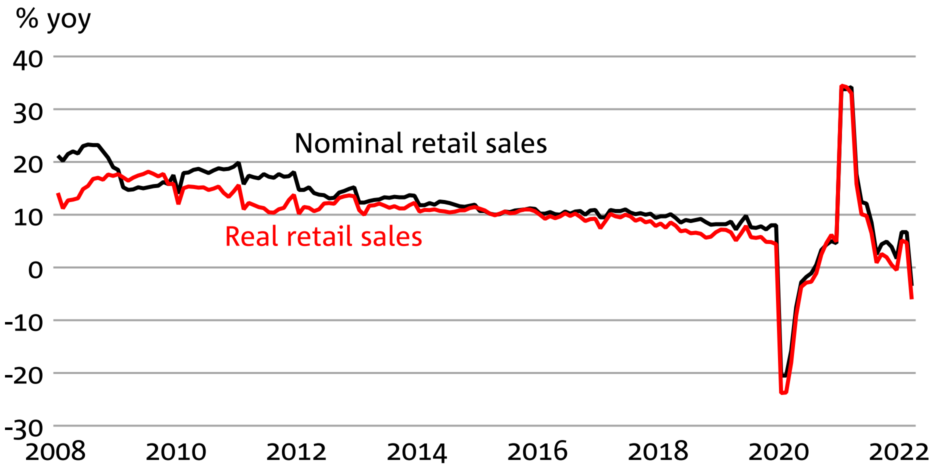
Source: Macrobond, NAB Economics

- Month-on-month, China's exports rose only modestly in March – up to US$276.1 billion, from an average of US$272.4 billion across January and February. That said, this represented an increase of 14.7% yoy.
- In a similar fashion to trends in imports, export prices have also risen significantly in recent times – up by 11.7% yoy in February. In part this reflects the cost pressures flowing through the manufacturing value chain, and export volumes are likely to show the impact of COVID-19 lockdowns in coming months.
- There were some significant differences in China's exports to major trading partners in March. Exports grew strongly to the United States – up by 22.4% yoy – while exports to the European Union-27 + the United Kingdom also saw robust growth – rising by 17.7% yoy. In contrast, exports to East Asia increased by just 0.6% yoy.
- That said, the weakness in East Asia largely reflects a steep fall in exports to Hong Kong in March – down by 21.9% yoy. Trade data between Hong Kong and China have been highly distorted in the past – including capital flows disguised as trade activity – however the steep fall this month may also reflect COVID-19 impacts in both Hong Kong and Shenzhen.
- Excluding Hong Kong, exports to East Asia rose by 12.3% yoy, with strong increases to Taiwan, South Korea and Malaysia.

RETAIL SALES AND INFLATION

RETAIL SALES GROWTH

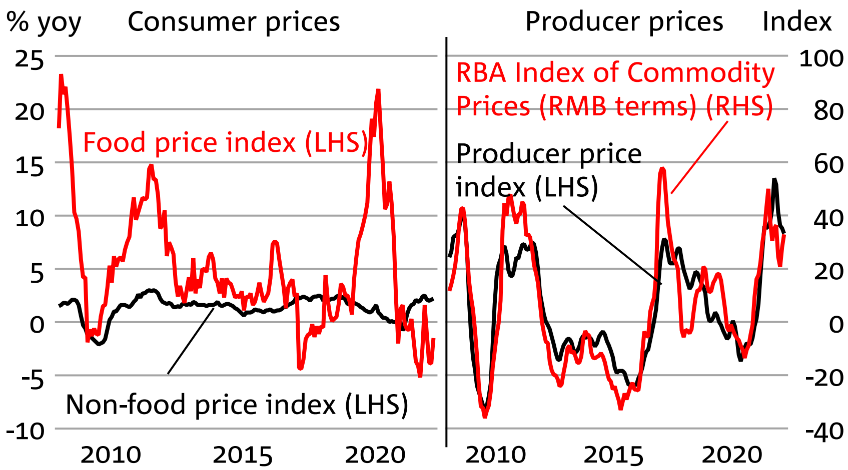
COVID restrictions and stronger inflation saw real sales plunge



Source: Macrobond, NAB Economics

CONSUMER AND PRODUCER PRICES

Producer prices growing more slowly, but still at high rates



Source: Macrobond, NAB Economics

- Retail sales activity plunged in March – with nominal retail sales falling by 3.5% yoy (compared with a 6.7% yoy increase in the first two months) – as COVID-19 restrictions impacted various population centres. Retail price inflation was also somewhat stronger in March than the start of the year, meaning a larger contraction in real retail sales – which fell by 6.0% yoy (compared with a 5.0% yoy increase across January-February).

- China's headline Consumer Price Index grew more strongly in March – increasing by 1.5% yoy (compared with a 0.9% yoy increase across the January-February period).

- Food prices fell more modestly in March, with the food price index declining by 1.5% yoy (compared with a 3.8% yoy contraction in the first two months of the year). Pork prices remain a major influence on food price inflation – with prices down 41.4% yoy in March – as pork supply continues to recover from the African Swine Fever outbreak that started in 2018. In contrast, fresh vegetable prices rose considerably – up by 17.2% yoy – while fresh fruit prices rose by 4.3% yoy.

- Non-food prices grew marginally more strongly in March, increasing by 2.2% yoy (up from 2.1% yoy across January and February). Vehicle fuel prices remain a key driver of non-food price growth – up by 24.1% yoy, and rising strongly month-on-month.

- Producer prices increased more slowly in March – up by 8.3% yoy (down from 8.9% yoy in the first two months of 2022. While producer price inflation has retreated from recent peaks (they rose by 13.5% yoy in October 2021), the price increases remain high by historical standards. Global commodity prices had grown more slowly across the latter months of 2021, however they increased by almost 33% yoy in March, following Russia's invasion of Ukraine.

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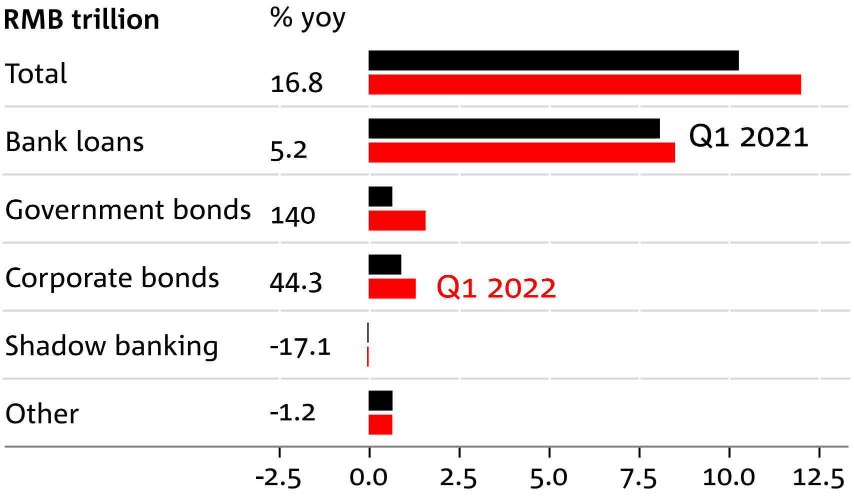
CREDIT CONDITIONS

NEW CREDIT ISSUANCE

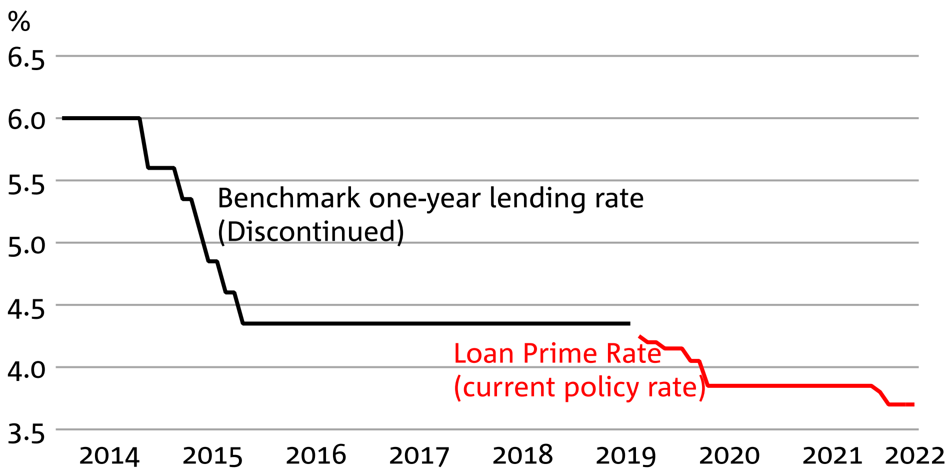
Government bonds drove surge in non-bank lending



Source: Macrobond, NAB Economics

MONETARY POLICY

Rates on hold since January; further cuts risk capital outflows



Source: Macrobond, NAB Economics

- In the first quarter of 2022, China's new credit issuance totalled RMB 12.0 trillion, an increase of 16.8% yoy.
- Bank lending continues to account for the largest share of new credit issuance – at RMB 8.5 trillion – however this component rose relatively modestly in Q1, up by 5.2% yoy.
- In contrast, non-bank lending surged in the first quarter, up by almost 60% yoy. Government bond issuance was the key driver of this increase – up by 140% yoy – while corporate bond issuance also rose strongly (up by 44% yoy). In contrast, shadow banking products (trust and entrusted loans and banker's acceptance bills) contracted in Q1.
- At the early April meeting of China's State Council, authorities expressed concerns around the larger than expected risks emerging in both the domestic and global economy. They suggested that multiple monetary policy tools will be used at an appropriate time to support the economy – without providing any specific information around the tools or timing.
- Cutting the Reserve Requirement Ratio (RRR) for banks – which will increase the funds available for them to lend to customers – is one likely measure. The People's Bank of China cut the RRR for all banks by 25 basis points in mid-April, with potential for further cuts in coming months.
- The PBoC cut its main policy rate – the Loan Prime Rate – by 10 basis points in January to 3.7%. While the PBoC may consider further rate cuts, these would come with considerable risk – particularly given the increasingly hawkish outlook for other major central banks, most notably the US Federal Reserve. In early April, the yield on 10 year US Treasuries exceeded China's 10 year government bond for the first time since 2011, and a prolonged monetary policy imbalance could risk capital outflows that could destabilise China's financial sector.

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