# CHINA'S ECONOMY AT A GLANCE

## SEPTEMBER 2022

## CONTACT


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# KEY POINTS

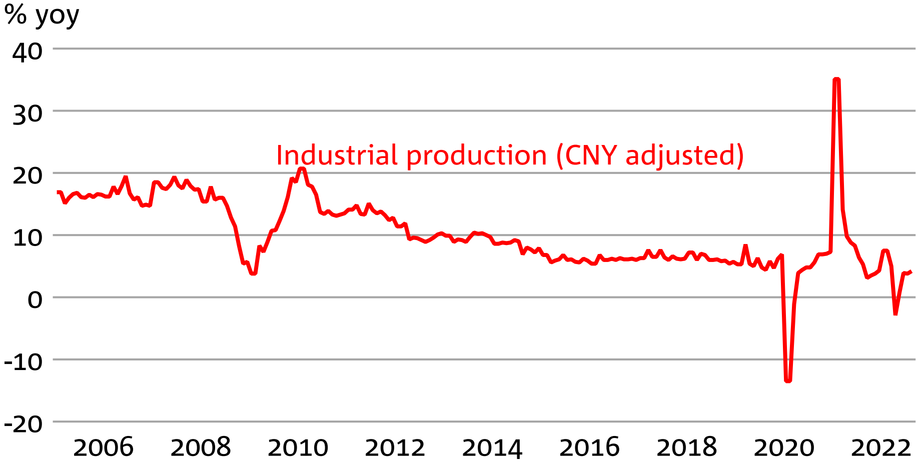
## Base effects flatter August's growth rates, as a fresh COVID-19 wave threatens outlook

- A fresh wave of COVID-19 is currently impacting China's economy. At the time of writing, Nikkei report that more than 20% of China's population are under some form of COVID-19 policy measure – ranging from movement restrictions to complete lockdown. Our earlier forecasts were predicated on stronger growth in the second half of 2022, however given these disruptions and our weaker global economic outlook, we revised our growth profile lower this month – with China's economy forecast to increase by 3.3% in 2022 (from 3.5% previously) and 5.0% in 2023 (from 5.4%).
- A number of indicators, most notably retail sales, recorded stronger year-on-year growth in August, however it is important to note that August 2021 was the peak of China's COVID-19 Delta wave, meaning that base effects from that downturn inflated these rates.
- China's industrial production grew slightly more rapidly in August – increasing by 4.2% yoy (up from 3.8% yoy previously), while there was a notable upturn in investment – with real investment rising by 4.2% yoy in August – compared with a 0.5% yoy contraction in July.
- China's trade surplus eased somewhat in August – retreating from record highs in July. The surplus totalled US$79.4 billion (compared with US$101.3 billion previously), a level that remains high by historical standards. A month-on-month decline in exports was the key contributor to this trend.
- A rebound in nominal sales (impacted by the Delta wave base effects) and a dip in retail price inflation saw China's real retail sales rise by 2.2% yoy (compared with a 0.8% yoy fall in July).
- In the first eight months of 2022, new credit issuance rose by 10.7% to RMB 24.2 trillion. Despite accounting for the largest share of total credit issuance – at almost 63% over the first eight months – bank lending contracted over this period, down by 0.9% yoy. In contrast, non-bank lending rose by 37.8% yoy over the first eight months. This increase was led by government bond issuance.
- Despite the PBoC cutting policy rates in August, the effectiveness of monetary easing at present is questionable. Weakness in interbank lending rates points to excess liquidity in the market and limited demand – in line with the deteriorating conditions in the property sector and general weakness in the private-sector economy. Continued monetary policy imbalance has already contributed to capital flight – with data from the Institute of International Finance showing outflows from China in recent months – and further deterioration in the exchange rate.

# INDUSTRIAL PRODUCTION

## INDUSTRIAL PRODUCTION

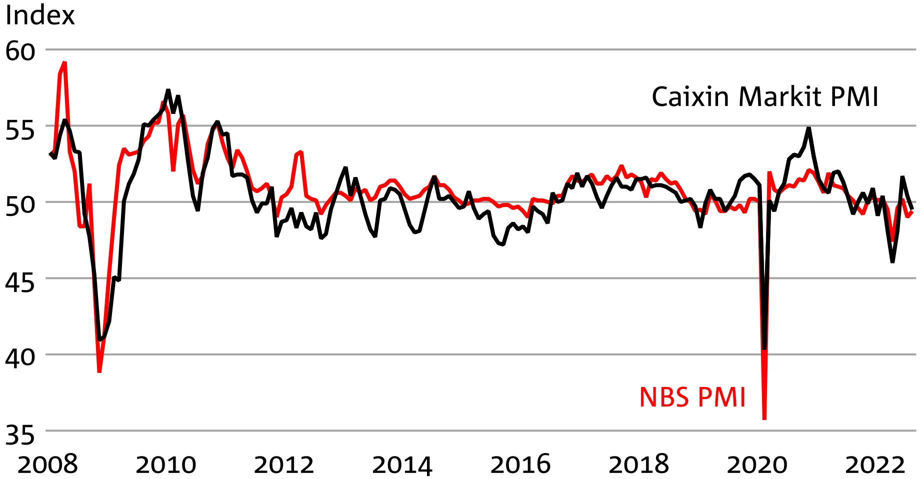
Marginal uptick in output growth in August




Source: Macrobond, NAB Economics

## MANUFACTURING PMIS CONVERGED IN AUGUST

Weak demand trends result in both measures being negative



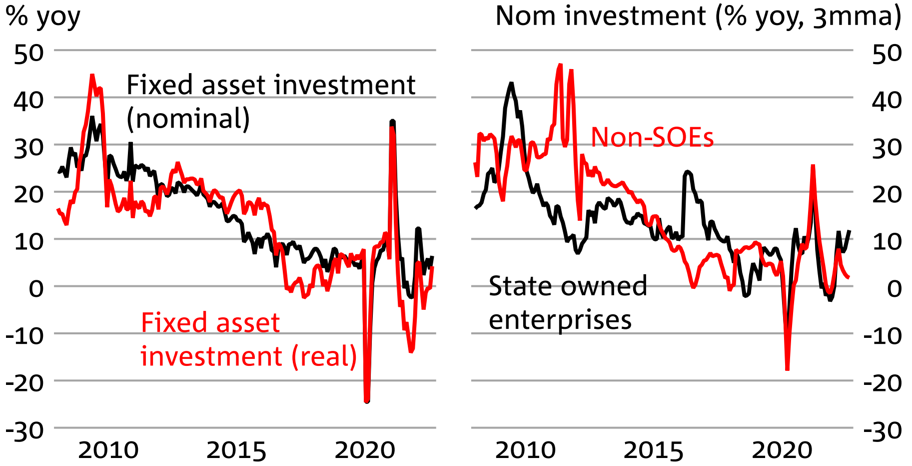

Source: Macrobond, NAB Economics

- China's industrial production grew slightly more rapidly in August – increasing by 4.2% yoy (up from 3.8% yoy previously). It is worth noting that this increase remained below the pre-COVID-19 norms.
- Trends within the industrial sector have been highly divergent for some time. Given the weakness in China's construction sector, it is unsurprising that cement manufacturing has remained weak – down by 13.1% yoy in August – although crude steel output rose by 0.5% yoy (the first year-on-year increase since June 2021).
- In contrast, manufacturing of motor vehicles surged – up by 39.0% yoy – while electronics manufacturing rose by 5.5% yoy. Heatwave conditions likely contributed to the increase in electricity output – which rose by 9.9% yoy.
- China's manufacturing PMIs converged in negative territory in August. The official NBS PMI was slightly less negative – at 49.4 points (compared with 49.0 points in July), while the Caixin Markit PMI dropped to 49.5 points (from 50.4 points previously).
- Respondents to the Caixin survey noted the impact of temporary factors – such as the heatwave and related power shortages during the month, however both surveys continue to point towards weak domestic and export demand trends, which are likely to impact manufacturers in coming months.

# INVESTMENT

## FIXED ASSET INVESTMENT

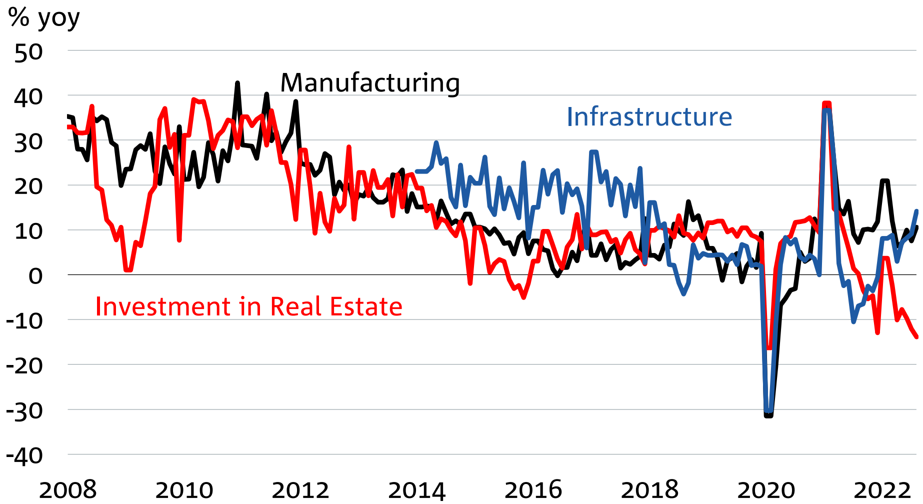
SOEs remain the driving force of investment growth




Source: Macrobond, NAB Economics

## FIXED ASSET INVESTMENT BY INDUSTRY

Downturn in construction impacting aggregate investment




Source: Macrobond, NAB Economics

- There was a notable acceleration in China's nominal fixed asset investment in August – increasing by 6.4% yoy (up from 3.6% yoy in July) – although there has been considerably volatility in year-on-year growth rates in recent months.

- Weaker producer prices have flowed through to the cost of investment goods, providing an additional boost to real investment growth. Our estimate is that real investment rose by 4.2% yoy in August – compared with a 0.5% yoy contraction in July.

- Continuing a recent trend, it was state-owned enterprises (SOEs) that led the increase in nominal investment in August – increasing by 13.5% yoy. In contrast, investment by private sector firms rose by just 3.0% yoy (albeit this was compared with a 0.9% yoy decline recorded in July).

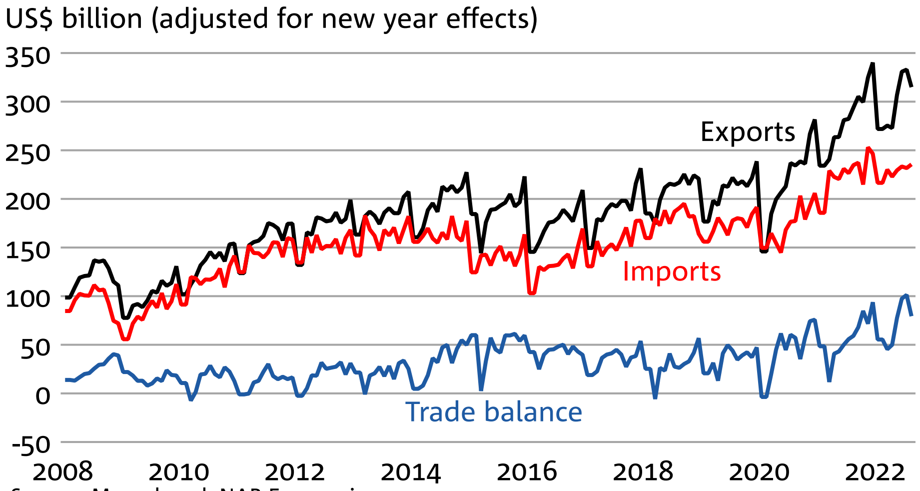
- Investment trends in individual industry sectors remain divergent. There were strong increases in infrastructure and manufacturing – where nominal investment rose by 14.2% yoy and 10.6% yoy respectively. Chinese authorities have been attempting to boost infrastructure spending to provide economic stimulus in recent months.

- In contrast, investment in real estate continued to contract – down by 13.8% yoy in August. Residential construction starts fell by over 47% yoy in August as a steep correction continues in the sector.

# INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

## CHINA'S TRADE BALANCE

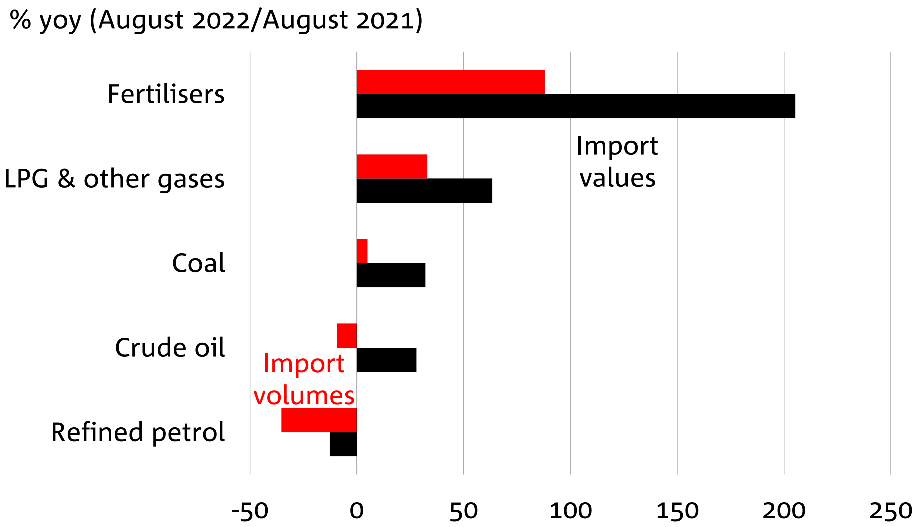
Surplus eased back from July's all time record




Source: Macrobond, NAB Economics

## ENERGY RELATED IMPORT VALUES AND VOLUMES

Impact of higher yoy energy prices is evident in key commodities



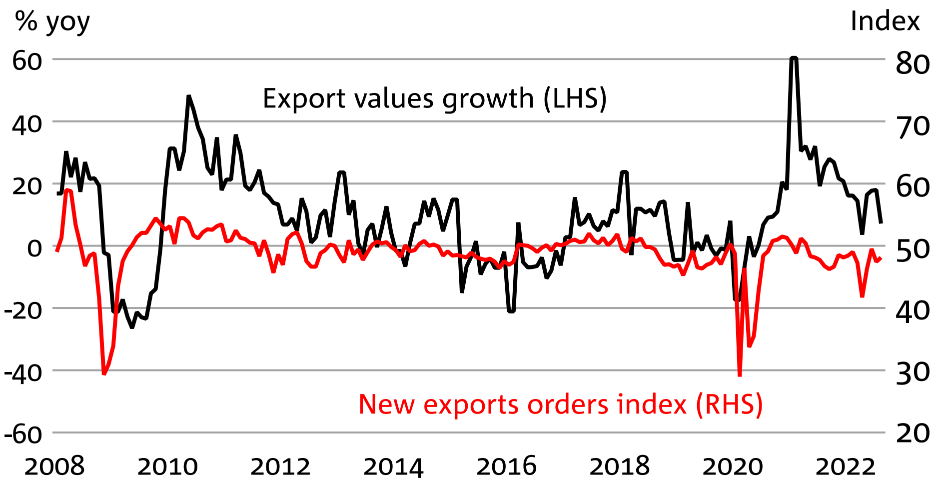

Source: Datastream, NAB Economics

- China's trade surplus eased somewhat in August – retreating from record highs in July. The surplus totalled US$79.4 billion (compared with US$101.3 billion previously), a level that remains high by historical standards. A month-on-month decline in exports was the key contributor to this trend.
- China's rolling twelve month trade surplus with the United States dipped marginally in August, down to US$438.8 billion (from an all time high of US$439.7 billion in July). Tensions between the two countries have increased in recent months, particularly following US House Speaker Nancy Pelosi's visit to Taiwan.
- China's imports totalled US$235.5 billion in August (up from US$231.7 billion previously). This represented a marginal increase in year-on-year terms, up by just 0.3%.
- In recent months, surging prices have been the key driver of increases in the overall value of imports. Official data show sizeable year-on-year declines in import volumes between February and July, and the marginal increase in import values when compared with a much larger increase in commodity prices would suggest another fall in August.
- Import value and volume data is available for a selection of key commodities. These data highlight the impact of increases in energy prices (in year-on-year terms). Most notable is the large increase in the value of fertiliser imports (in excess of 200% yoy) – with prices impacted by energy costs and shortages related to the Russia-Ukraine conflict – while import volumes were considerably softer.

# INTERNATIONAL TRADE – EXPORTS

## EXPORT VALUE AND NEW EXPORT ORDERS

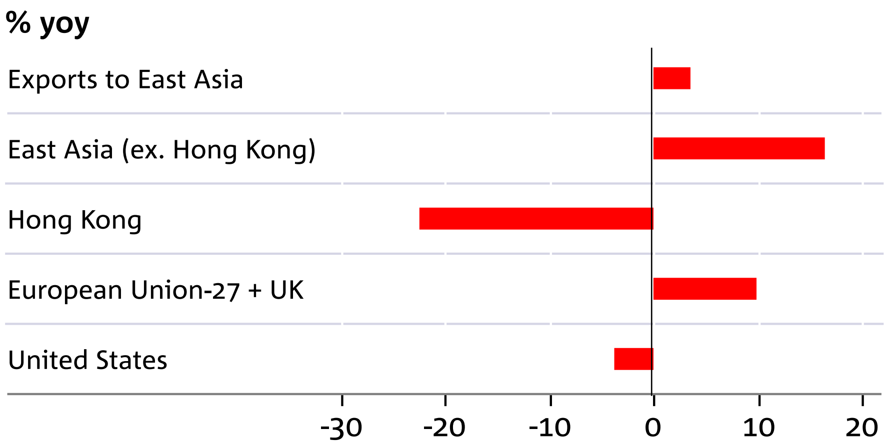
Export growth slowed in August, new orders remain weak




Source: Macrobond, NAB Economics

## EXPORTS TO MAJOR TRADING PARTNERS

Exports to the US contracted in August



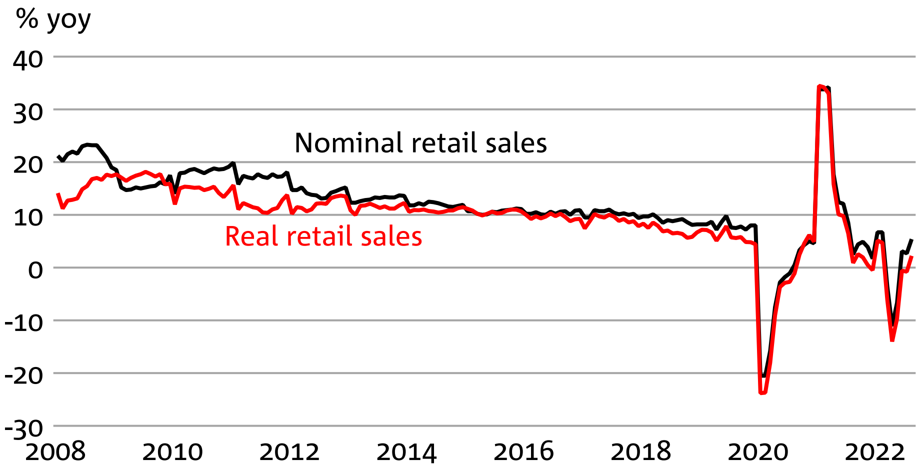

Source: Macrobond, NAB Economics

- The value of China's exports dipped in August – down to US$314.9 billion (compared with US$333.0 billion in July). Despite the month-on-month decline, this remains a historically strong outcome, being the sixth highest monthly total on record. In year-on-year terms, exports rose by 7.1%.
- A sizeable proportion of the recent growth in exports has been price driven. In July, export prices rose by 14.4% yoy, compared with an increase of 18.0% yoy in value terms – pointing to a more modest increase in export volumes.
- The new export orders measure in the NBS manufacturing PMI survey has been in negative territory since May 2021. This measure was marginally improved in August – at 48.1 points (from 47.4 points previously). Slowing growth in advanced economies is likely to constrain export growth potential in coming months.
- Export trends to China's major trading partners were highly mixed in August. Exports to the European Union-27 + the United Kingdom rose comparatively strongly – up by 9.9% yoy – while exports to East Asia rose by 3.6% yoy. In contrast, exports to the United States contracted by 3.8% yoy – perhaps reflecting the re-building of US inventories that has occurred since late 2021.
- It is worth noting that China's official data show a steep fall in shipments to Hong Kong (down 22.5% yoy). Excluding Hong Kong, exports to East Asia rose by 16.5% yoy – with sizeable increases in shipments to Singapore, Malaysia, Indonesia and Vietnam.

# RETAIL SALES AND INFLATION

## RETAIL SALES GROWTH

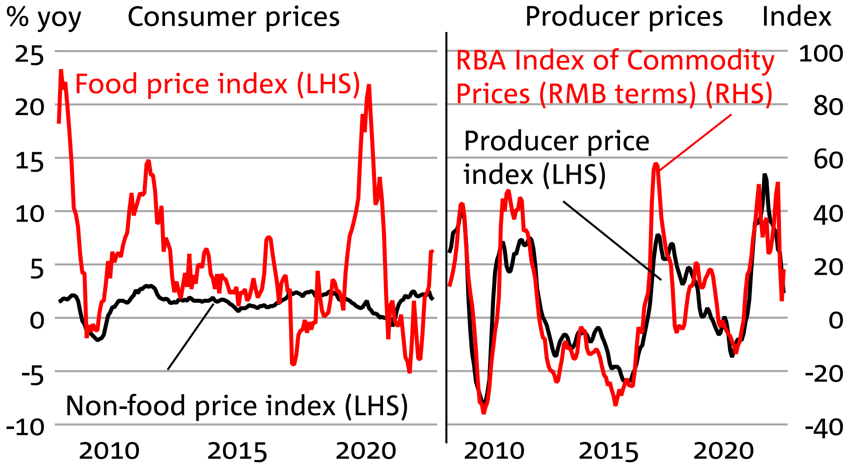
Real sales turn positive for the first time since Jan-Feb 2022




Source: Macrobond, NAB Economics

## CONSUMER AND PRODUCER PRICES

Producer prices continue to trend lower




Source: Macrobond, NAB Economics

- Nominal retail sales grew more rapidly in August – increasing by 5.4% yoy (up from 2.7% yoy in July). Although this was the fastest rate of increase since January-February 2022, it remained below the pre-COVID-19 trend. It is worth noting that August 2021 was the peak of China's Delta wave of COVID-19 – meaning that this increase was inflated by base effects.

- China's retail price index grew somewhat more slowly in August, meaning that real retail sales rose by 2.2% yoy (compared with a 0.8% yoy fall in July).

- Growth in China's consumer price index was marginally weaker in August – increasing by 2.5% yoy (down from 2.7% yoy in July). Compared with surging inflation in many other countries, China's inflationary pressure remains modest – in part reflecting the ongoing weakness in domestic demand.

- Food prices increased at a marginally slower rate in August – increasing by 6.1% yoy (down from 6.3% yoy previously). Until recently, falling pork prices have placed downward pressure on China's food prices – reflecting the recovery of pork supply following the African swine fever outbreak that commenced in 2018. However, pork prices rose by 22.4% yoy in August (following on from a 20.2% yoy increase in July), adding upward pressure. Fresh fruit prices also rose strongly – up by 16.3% yoy.

- Non-food price growth continued to slow from the recent peaks in June – with the index up by 1.7% yoy (down from 1.9% yoy in July). Vehicle fuel prices have been increasing less rapidly in recent months – up by 19.9% yoy in August (compared with 24.2% yoy in July).

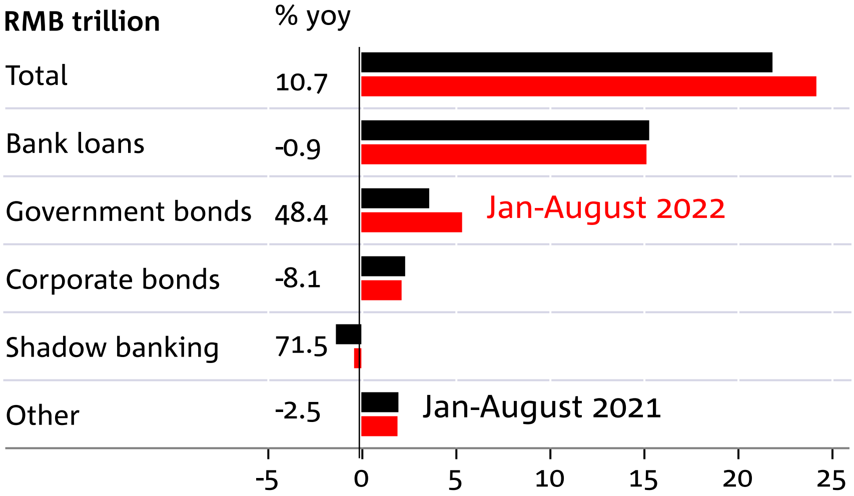
- Growth in producer prices has continued to slow from double digit rates recorded in late 2021. Producer prices rose by just 2.3% yoy (from 4.2% yoy in July). This was despite an uptick in commodity prices – with the RBA Index of Commodity Prices (converted into RMB terms) increasing by 18.1% yoy. This may reflect the weakness in both domestic and export markets.

National Australia Bank

# CREDIT CONDITIONS

## NEW CREDIT ISSUANCE

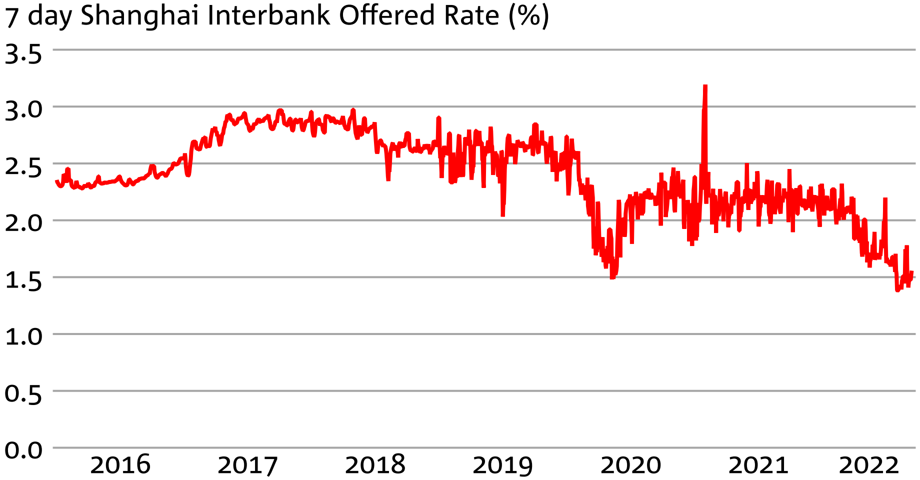
Government bonds led the increase in issuance




Source: Macrobond, NAB Economics

## INTERBANK INTEREST RATES

Low rates point to weak demand for lending




Source: Macrobond, NAB Economics

- Although new credit issuance rebounded month-on-month in August – following weakness in July – it has historically been a stronger month for issuance. Total new issuance was RMB 2.4 trillion (compared with RMB 0.8 trillion in July), with bank lending accounting for around half of this increase.

- In the first eight months of 2022, new credit issuance rose by 10.7% to RMB 24.2 trillion. Despite accounting for the largest share of total credit issuance – at almost 63% over the first eight months – bank lending contracted over this period, down by 0.9% yoy.

- In contrast, non-bank lending rose by 37.8% yoy over the first eight months. This increase was led by government bond issuance – which rose by 48.4% yoy over this period. A smaller decline in shadow bank lending also supported non-bank growth.

- In August, the People's Bank of China cut the Medium Term Lending Facility (MTF) rate by 10 basis points. China's main policy rate is the Loan Prime Rate (LPR) – which is based on the rates commercial banks lend to their best customers, expressed as a premium above the MTF rate. Following the MTF rate cut in August, the one year LPR was cut by 5 basis points, while the five year LPR (linked more closely to mortgage lending) was cut by 15 basis points.

- The effectiveness of monetary easing at present is questionable. Weakness in interbank lending rates points to excess liquidity in the market and limited demand – in line with the deteriorating conditions in the property sector and general weakness in the private-sector economy. Continued monetary policy imbalance has already contributed to capital flight – with data from the Institute of International Finance showing outflows from China in recent months – and further deterioration in the exchange rate.

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