NAB Group Economics

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China's economy at a glance

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Key points

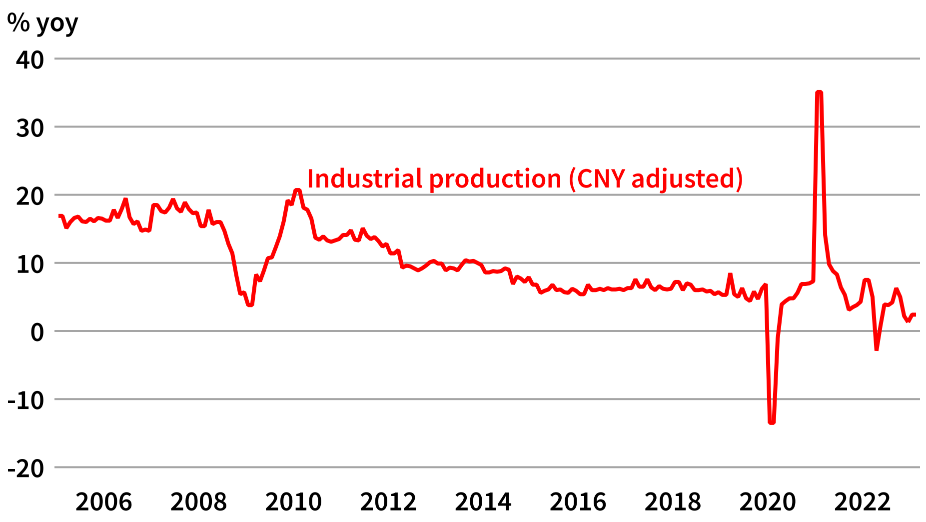
Modest reopening rebound in early 2023 with consumers yet to re-emerge

- Overall, data for China's economic performance at the start of 2023 are quite mixed. Despite the reopening (since China abandoned its zero-COVID policies in early December), there has not yet been a wave of "revenge spending". Given the likely weakness in demand for China's exports in 2023, authorities have identified consumption as the key driver of growth this year – yet the big driver in January and February was investment. Our forecasts are unchanged this month, with China's economy to grow by 5.4% in 2023 and 4.5% in 2024.
- Growth in China's industrial production was somewhat stronger in January and February – increasing by 2.4% yoy (compared with a 1.3% yoy increase in December). When compared with trends prior to the COVID-19 pandemic, this remains a weak rate of growth.
- In real terms, China's fixed asset investment rose by 4.4% yoy in January and February (compared with a 1.7% yoy increase in December). Nominal investment continues to be driven by state-owned enterprises (SOEs), a trend that has been evident since early 2022.
- China's trade surplus averaged US$58.4 billion per month across January and February, compared with US$78.0 billion in December. The average value of both exports and imports was lower – both compared with December and the same period in 2022 – highlighting the deteriorating global trade environment.
- China's real retail sales rose by an estimated 1.8% yoy in the first two months of 2023 (the largest increase since August 2022), following a 3.7% yoy fall in December. While the removal of zero-COVID restrictions allowed greater freedom of movement and activity, this increase was modest when compared with pre-pandemic growth rates – suggesting that we are yet to see any "revenge spending" rebound from the household sector.
- New credit issuance expanded rapidly in the first two months of 2023 – increasing by 23.7% yoy to RMB 9.1 trillion – the strongest rate of increase since the bond-fuelled surge of mid-to-late 2020. Bank lending was the key driver of the increase in credit issuance, increasing by 28.7% yoy to RMB 6.8 trillion. Reports suggest that mortgage lending was a key driver of this uptick, but it remains to be seen how sustainable the rebound in the property sector proves to be.
- The PBoC has held its main policy rate – the Loan Prime Rate – unchanged since August 2022. Instead, the PBoC has identified further cuts to the Reserve Requirement Ratio (RRR), which would free up further funds for bank lending. Although demand for credit appeared stronger in the first two months of 2023, supply has continued to outpace demand since early last year – meaning that it is unclear that a cut to the RRR would have a significantly stimulatory effect.

Industrial production

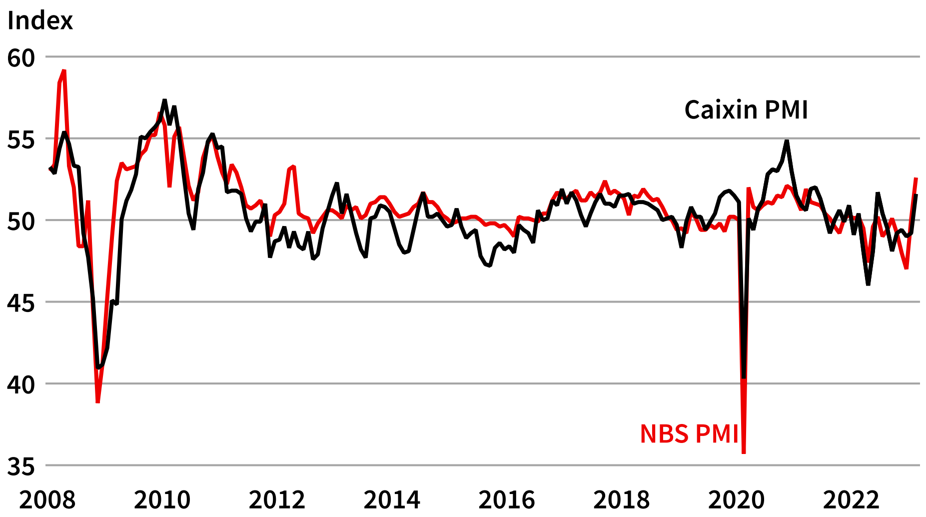
Industrial production

Marginally stronger growth in early '23, but weaker than pre-COVID



Manufacturing PMI surveys

Both major surveys rebounded in February



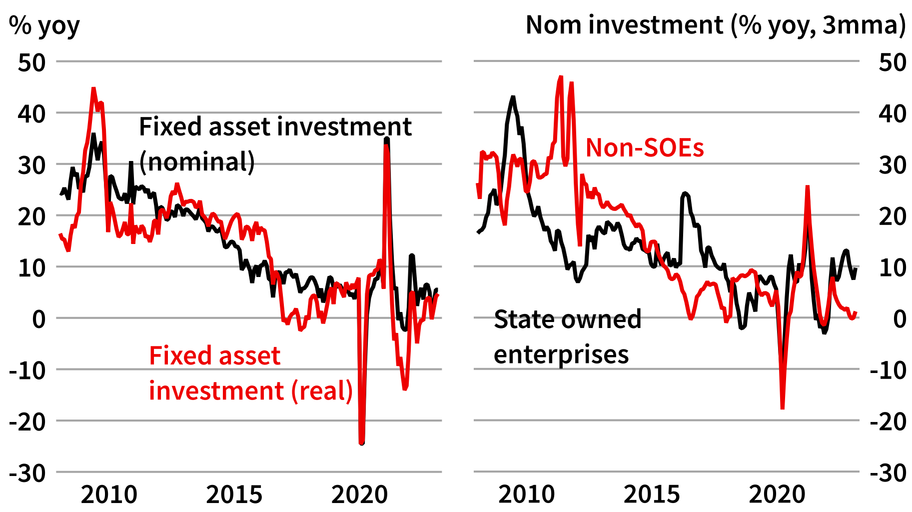
Sources: Macrobond, NAB Economics

- Growth in China's industrial production was somewhat stronger in January and February – increasing by 2.4% yoy (compared with a 1.3% yoy increase in December). When compared with trends prior to the COVID-19 pandemic, this remains a weak rate of growth.
- Trends were highly mixed within individual industrial categories. Production of motor vehicles fell by 14.0% yoy in the first two months, while output of consumer electronics and cement fell by 2.6% yoy and 0.6% yoy respectively. In contrast, output of crude steel rose by 5.6% yoy and electricity production increased by 2.3% yoy.
- Both of China's major manufacturing surveys rebounded strongly in February – reflecting improved trends (compared with late 2022 and January 2023) for the sector. The official NBS PMI survey pushed up to 52.6 points (compared with 50.1 points in January and 47.0 points in December). The private sector Caixin PMI saw a slightly more modest rebound – up to 51.6 points (from 49.2 points in January and 49.0 points in December).
- Both surveys showed a strong recovery in production measures – likely reflecting the easing in COVID-19 restrictions and the earlier timing of Chinese New Year in 2023. Similarly, new orders measures were significantly improved – including in export markets despite the weak export data for the first two months.

Investment

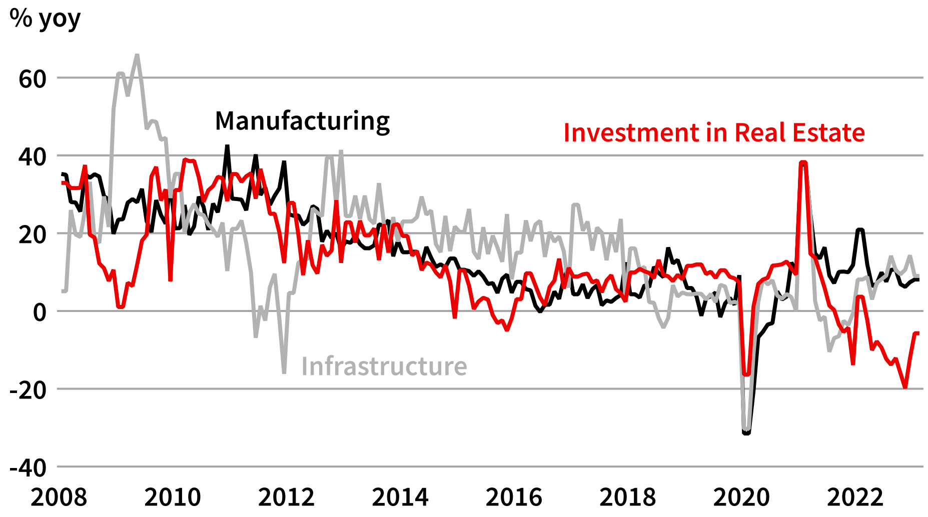
Fixed asset investment growth

Rebound in investment led by SOEs



Fixed asset investment by industry

Real estate investment continued to contract in early 2023



Sources: Macrobond, NAB Economics

- In nominal terms, China's fixed asset investment rose by 5.5% yoy in the first two months of 2023, compared with a 3.1% yoy increase in December. Reflecting the weakness in producer prices in recent months, the cost of investment goods has also been comparatively modest. As a result, we estimate that real investment rose by 4.4% yoy in January and February (compared with a 1.7% yoy increase in December).

- Nominal investment continues to be driven by state-owned enterprises (SOEs), a trend that has been evident since early 2022. Investment by SOEs rose by 10.5% yoy in the first two months (up from 9.0% yoy in December). In contrast, private sector investment rose by just 2.6% yoy (up from 0.1% yoy previously).

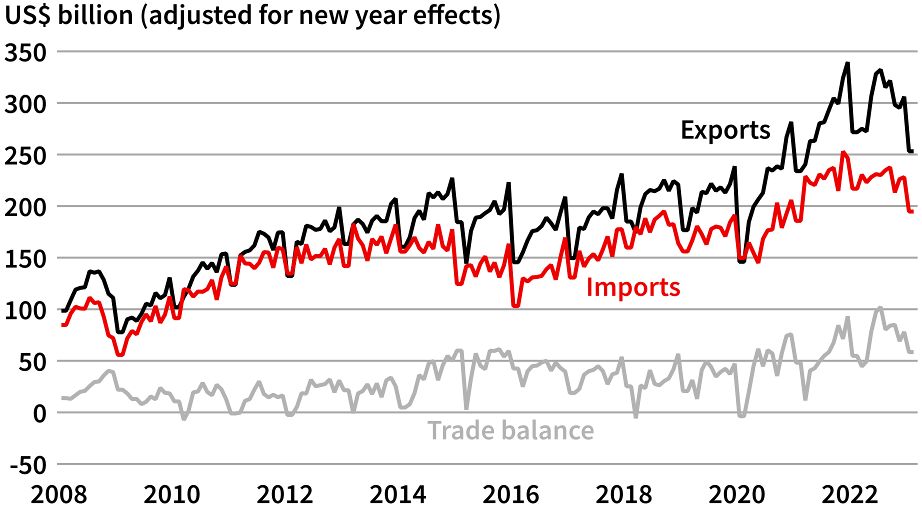
- There remain divergent trends in investment by major sectors. Investment in infrastructure and manufacturing continued to increase comparatively strongly – up by 9.0% yoy and 8.1% yoy respectively.

- In contrast, investment in real estate contracted again – down 5.7% yoy in January and February. There is some evidence to suggest that the property sector may be starting to turn – as a range of policy measures (such as down payment requirements and mortgage policies) have been eased – any recovery is coming from a very weak base. Both house sales and new construction starts contracted in year-on-year terms in January and February, albeit these falls were smaller than those seen in late 2022.

International trade – trade balance and imports

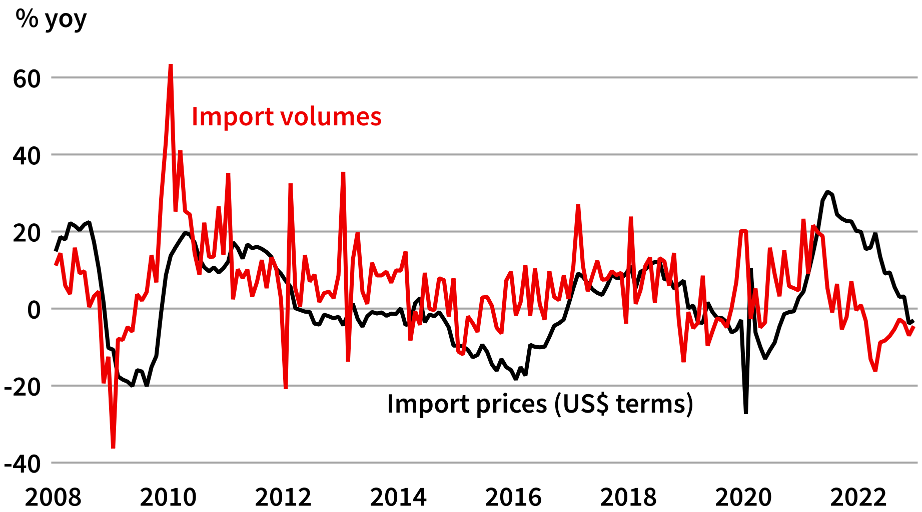
China's trade balance

Trade surplus weaker in early 2023 as activity slowed



Import volumes and prices

Import volumes fell across the majority of 2022



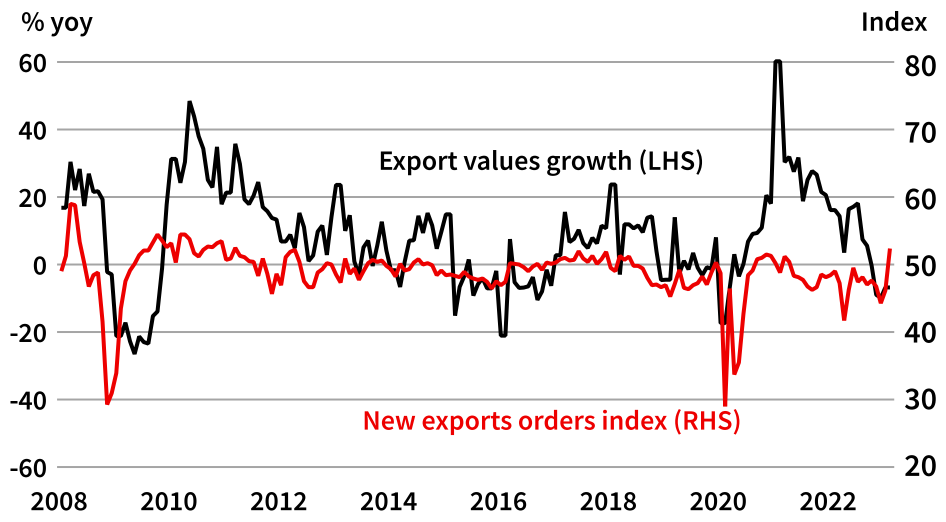
Sources: Macrobond, NAB Economics

- China's trade surplus averaged US$58.4 billion per month across January and February, compared with US$78.0 billion in December. The average value of both exports and imports was lower – both compared with December and the same period in 2022 – highlighting the deteriorating global trade environment.
- China's rolling twelve month trade surplus with the United States peaked in July 2022 (at US$439.7 billion) and has declined since – as tighter monetary policy has constrained demand and consumption has rebalanced towards services. In February, the rolling surplus totalled US$385.4 billion – which while off its peak, remains higher than the pre-trade war levels.
- China's imports averaged US$194.7 billion in January and February – down from US$228.1 billion in December – the lowest value since the same period in 2021. In year-on-year terms, this represented a decline of 10.2%.
- Strong growth in prices was a major driver of the increases in import values across much of 2022 – albeit growth in US dollar denominated import prices slowed from a peak in April and prices actually fell in both November and December. Import volumes fell in year-on-year terms from February 2022 onwards – down by 4.6% yoy in December.
- Import price trends differed considerably among key commodities in the first two months of 2023. The value of fertiliser imports – which have been impacted by the Russia-Ukraine war – rose by 153% yoy, while volumes rose by just 8.3% yoy. Similarly, the value of LCD display imports rose by 27.8% yoy, while volumes fell by 17.8% yoy.

International trade – exports

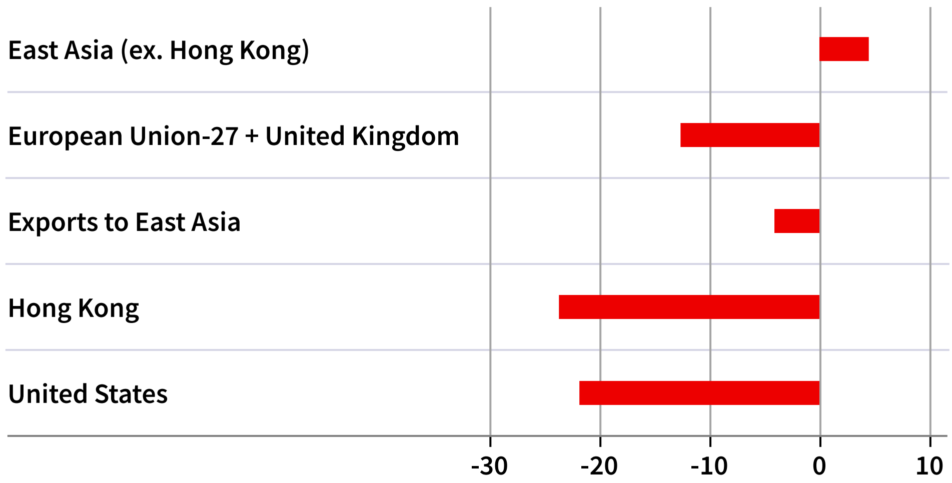
Export value and new export orders

Exports contracted in early 2023 but new export orders rebounded



Exports to major trading partners

Exports fell sharply to major advanced economies



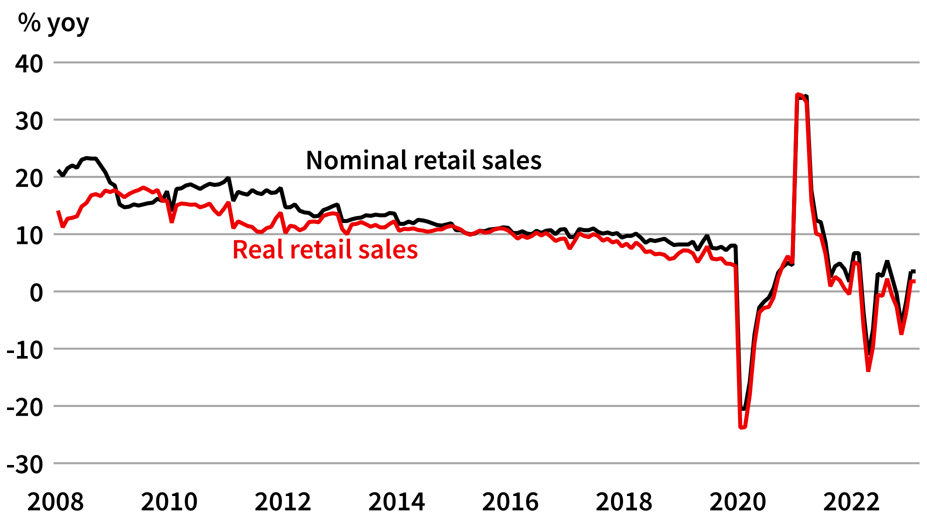
Sources: Macrobond, NAB Economics

- The average value of China's exports across January and February totalled US$253.2 billion (down from US$306.1 billion in December). It is worth noting that export demand is typically high in December – given the Christmas period in most advanced economies – however the year-on-year fall in exports was sizeable – down by 6.8%.
- Demand conditions in advanced economies have deteriorated over the past year – as monetary policy has tightened significantly in most countries. That said, there was a sharp upturn in the new export orders measure in the NBS PMI survey in February – which rose to 52.4 points (compared with 44.2 points in December).
- In a similar trend to imports, growth in export values across 2022 was largely driven by prices. Export volumes fell in year-on-year terms from August onwards, while US dollar export price growth slowed from double digit rates in the first half of the year to just 2.4% yoy in December.
- There were large declines in exports to a range of China's major trading partners in the first two months of 2023. Exports to the United States fell by 21.8% yoy, while exports to the European Union-27 and the United Kingdom fell by 12.6% yoy.
- Exports to East Asia fell comparatively modestly – down by 4.1% yoy. However, this fall was driven by a steep plunge in exports to Hong Kong (which were 23.7% yoy lower in the first two months). Excluding Hong Kong, exports to East Asia rose by 4.5% yoy – led by Singapore and (to a lesser extent) the Philippines, while deliveries to Taiwan, Vietnam and Indonesia declined.

Retail sales and inflation

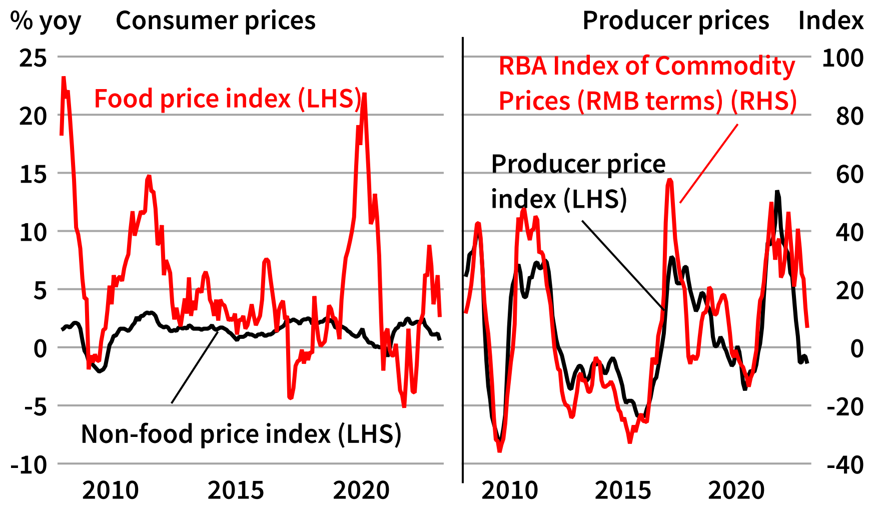
Retail sales growth

Sales turn positive but remained historically weak in early 2023



Consumer and producer prices

Price growth relatively soft in early 2023



Sources: Macrobond, NAB Economics

- China's nominal retail sales rose by 3.5% yoy in the first two months of 2023 (the largest increase since August 2022), following a 1.5% yoy fall in December. While the removal of zero-COVID restrictions allowed greater freedom of movement and activity, this increase was modest when compared with pre-pandemic growth rates – suggesting that we are yet to see any "revenge spending" rebound from the household sector.

- Retail prices were not available at the time of writing, however applying consumer price trends to retail sales suggests that real retail sales increased by around 1.8% yoy in January and February (compared with a 3.7% yoy fall previously).

- On average, China's consumer price growth slowed marginally across January and February, down to 1.5% yoy (compared with 1.8% yoy in December). This suggests that, so far, there has been little impact from China's reopening, however inflation may strengthen as consumers return to the market.

- Overall, food prices eased in the first two months of 2023 – up by 4.4% yoy (compared with 4.8% yoy in December). A key contributor to this slowing trend was pork prices – which increased by 7.9% yoy in the first two months, down from 22.3% yoy in December. Similarly, there was slower growth in the prices of fresh fruit, fresh vegetables and seafood.

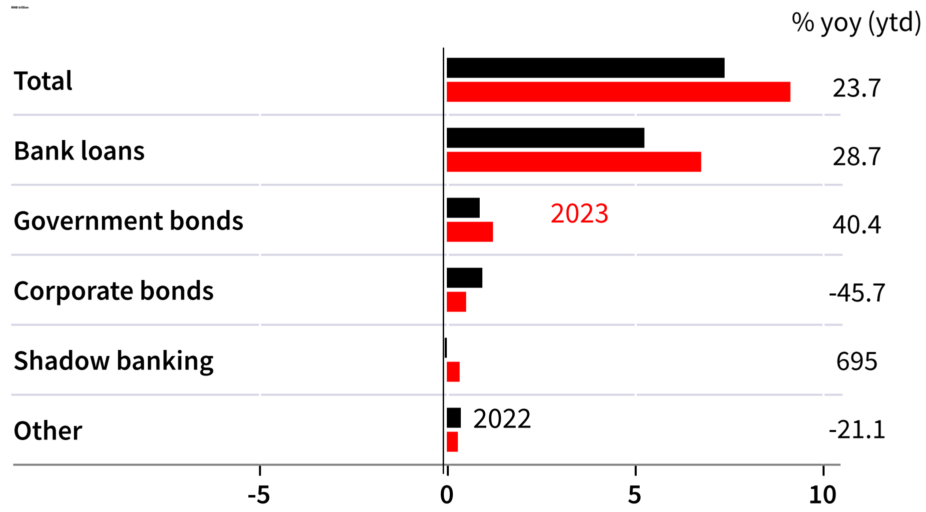
- Growth in non-food prices continued to drift lower (from recent cycle peaks in June 2022) – increasing by 0.9% yoy across January and February (from 1.1% yoy in December). Vehicle fuel prices rose by 2.9% yoy over this period, compared with a 10.4% yoy increase in December 2022.

- Producer prices contracted in year-on-year terms across January and February – down by 1.1% yoy – albeit prices were unchanged month-on-month in February. It is too early to know if this marks a turning point for producer prices – having fallen year-on-year since October 2022.

Credit conditions

New credit issuance

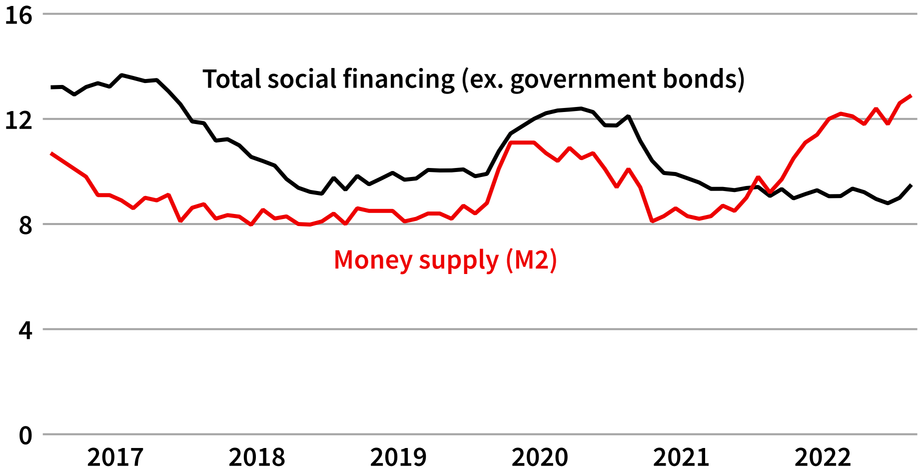
Surge in bank lending in early 2023



Monetary policy

Growth in money supply has outpaced lending demand

Growth in stock of lending and money supply (% yoy)



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- New credit issuance expanded rapidly in the first two months of 2023 – increasing by 23.7% yoy to RMB 9.1 trillion – the strongest rate of increase since the bond-fuelled surge of mid-to-late 2020.
- Bank lending was the key driver of the increase in credit issuance, increasing by 28.7% yoy to RMB 6.8 trillion. Reports suggest that mortgage lending was a key driver of this uptick, but it remains to be seen how sustainable the rebound in the property sector proves to be.
- In contrast, non-bank lending rose by just 11.2% yoy, where increases in government bond issuance and shadow banking lending were partially offset by a pullback in corporate bond issuance.
- Ahead of the National People's Congress in March, the People's Bank of China (PBoC) indicated that it would adjust monetary policy in a timely and appropriate manner to support the economic recovery. We have noted for some time that the rapid tightening in policy rates in most advanced economies constrained the capacity of the PBoC to cut its rates – given the risk of capital flight that could destabilise China's financial sector.
- The PBoC has held its main policy rate – the Loan Prime Rate – unchanged since August 2022. Instead, the PBoC has identified further cuts to the Reserve Requirement Ratio (RRR), which would free up further funds for bank lending. Although demand for credit appeared stronger in the first two months of 2023, supply has continued to outpace demand since early last year – meaning that it is unclear that a cut to the RRR would have a significantly stimulatory effect.

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