NAB Group Economics

China's economy at a glance

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Key points

Base effects inflate growth in April; still waiting on demand to recover

- While several key indicators accelerated in year-on-year terms in April, these measures were inflated by the impact of base effects – with April 2022 a particularly weak month given the COVID-19 lockdowns that severely impacted Shanghai and hit a range of other cities as well. When these were stripped away, the big picture is of an economy where domestic demand is still yet to fully recover. Overall, nothing in this month's data has us changing our views – we see China's economy expanding by 5.6% in 2023, 4.5% in 2024 and 4.8% in 2025.

- Growth in China's industrial production accelerated in April – increasing by 5.6% yoy (around pre-pandemic trend rates of growth) – compared with 3.9% yoy in March. The impact of base effects was highly evident in automobile output – which rose by almost 60% yoy – while other major categories recorded more modest increases.

- Real fixed asset investment grew by 5.4% yoy in April (compared with 5.2% yoy in March). By sector, growth in investment remains driven by state-owned enterprises – with nominal investment rising by 8.3% yoy in April, while investment by private sector firms rose by just 1.2% yoy.

- China's trade surplus was marginally larger in April, totalling US$90.2 billion (up from US$88.2 billion in March). This slight increase reflected a larger month-on-month easing in imports than exports. Import prices have shifted significantly in recent times – increasing strongly across much of 2022 but falling significantly in April.

- Real retail sales (deflated by consumer prices) soared in April – up by 18.3% yoy (from 9.8% yoy in March). However, these data were particularly impacted by base effects – real sales plunged almost 13% yoy in April last year. Consistent with weak inflation, this suggests that the long awaited return of the Chinese consumer still has a way to go.

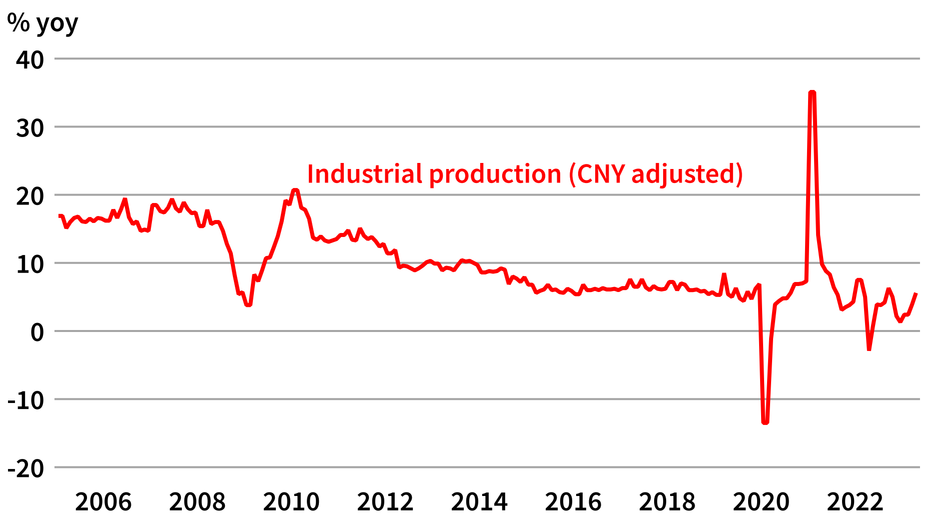
- New credit issuance rose strongly in the early months of 2023 – up by 21.3% yoy between January and April. Bank lending has been the key driver of this trend, increasing by 27.0% yoy to RMB 11.2 trillion. Growth in the outstanding stock of bank loans has primarily been driven by increased lending to households – reflecting mortgage lending that has underpinned the stabilisation of the property sector. However, it is worth noting that lending growth slowed substantially month-on-month in April. This continues to point to patchiness in China's economic recovery.

- Recent efforts to ease monetary policy have focussed on increasing the quantity of money rather than the price – with the People's Bank of China (PBoC) cutting the Reserve Requirement Ratio (RRR) in March, freeing up further funds for banks to lend. In contrast, the Loan Prime Rate – the main policy rate – has been stable since August 2022.

Industrial production

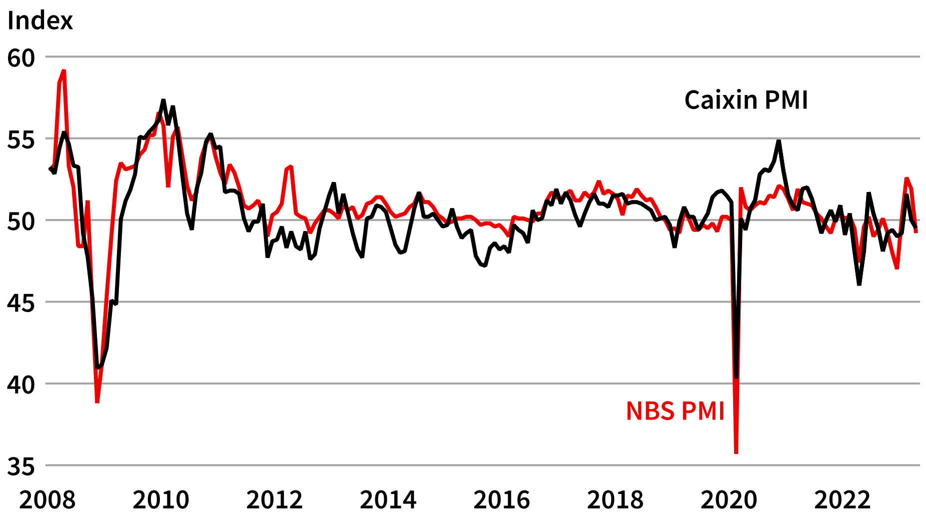
Industrial production

Base effects from last year's lockdown drove growth higher in April



Manufacturing PMI surveys

Both measures dropped back into negative territory in April



- Growth in China's industrial production accelerated in April – increasing by 5.6% yoy (around pre-pandemic trend rates of growth) – compared with 3.9% yoy in March. It is important to note that this acceleration reflects the impact of base effects – with industrial production falling by 2.9% yoy in April 2022 as COVID-19 lockdowns prominently impacted Shanghai (along with a range of other cities).

- The impact of base effects was highly evident in automobile output – which rose by almost 60% yoy (following a 43.5% fall in April 2022). In contrast, electronics output rose by just 1.8% yoy, cement production by 1.4% yoy, while crude steel fell by 1.5% yoy.

- China's major manufacturing surveys were weaker in April – with both measures dropping back into negative territory. The Caixin PMI fell to 49.5 points (from 50.0 points in March), while the official NBS PMI saw steeper declines – down to 49.2 points (compared with 51.9 points previously).

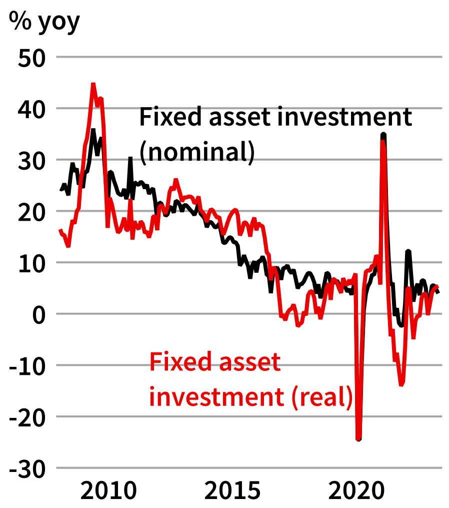
- The key driver of the downturn in the official measure was new orders – which had remained strongly positive across February and March, before turning negative in April. Export demand in both surveys remains weak – reflecting the impact of tightening monetary policy and the rebalancing in consumption towards services in advanced economies.

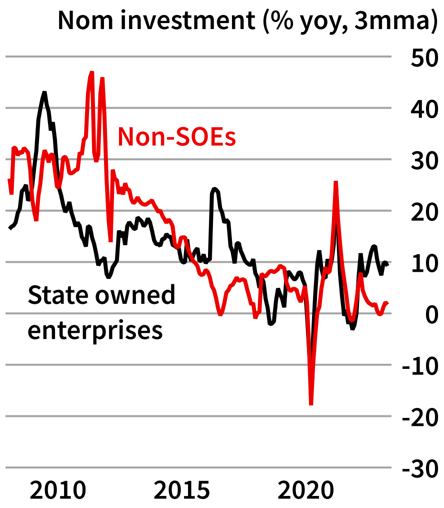
Sources: Macrobond, NAB Economics

Investment

Fixed asset investment growth

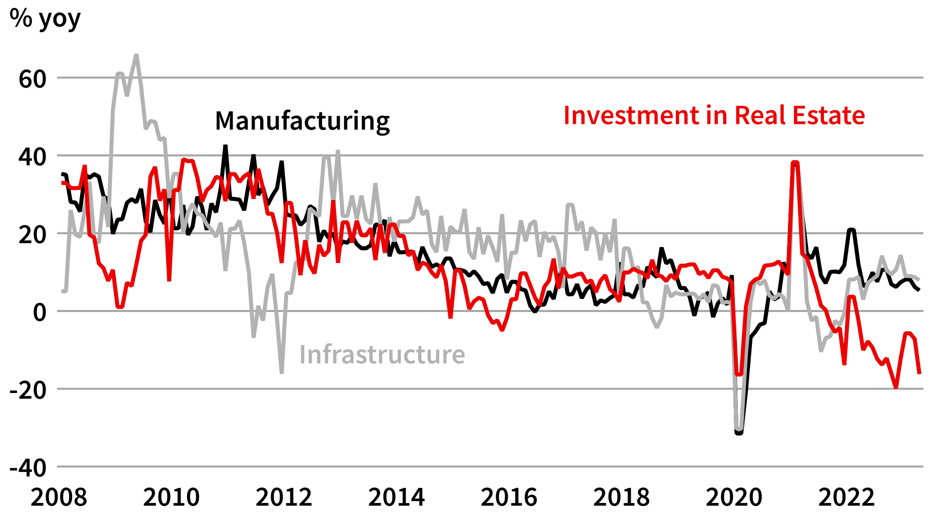
Modest growth in real investment in April





Fixed asset investment by industry

Real estate investment remains particularly weak



Sources: Macrobond, NAB Economics

- In nominal terms, China's fixed asset investment rose by just 3.9% yoy in April (compared with 4.8% yoy in March). Continued declines in producer prices – which flow through to the cost of investment goods – mean that our estimate of real investment grew by 5.4% yoy in April (compared with 5.2% yoy in March).
- By sector, growth in investment remains driven by state-owned enterprises – with nominal investment rising by 8.3% yoy in April (down from 9.6% yoy previously). In contrast, investment by private sector firms rose by just 1.2% yoy in April.
- By industry, a divergence remains between categories. Investment in infrastructure and manufacturing continue to increase strongly – up by 7.9% yoy and 5.3% yoy respectively in April.
- In contrast, investment in real estate has continued to contract – down 16.2% yoy in April. While there have been some signs of a stabilising in property markets – with an 8.1% yoy increase in residential property sales (in square metres) in April, this increase was minimal compared with a fall of almost 52% in April 2022. Residential construction starts also remain weak – falling by 29% yoy in April.

International trade – trade balance and imports

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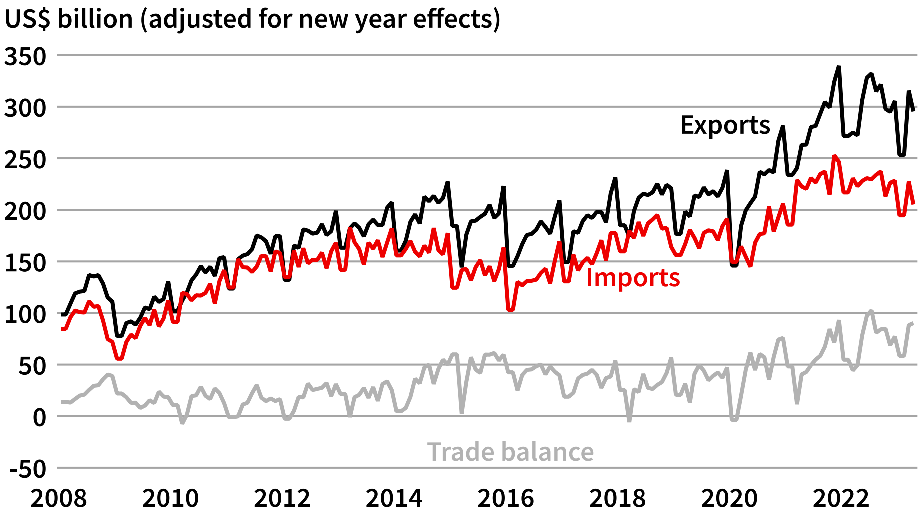
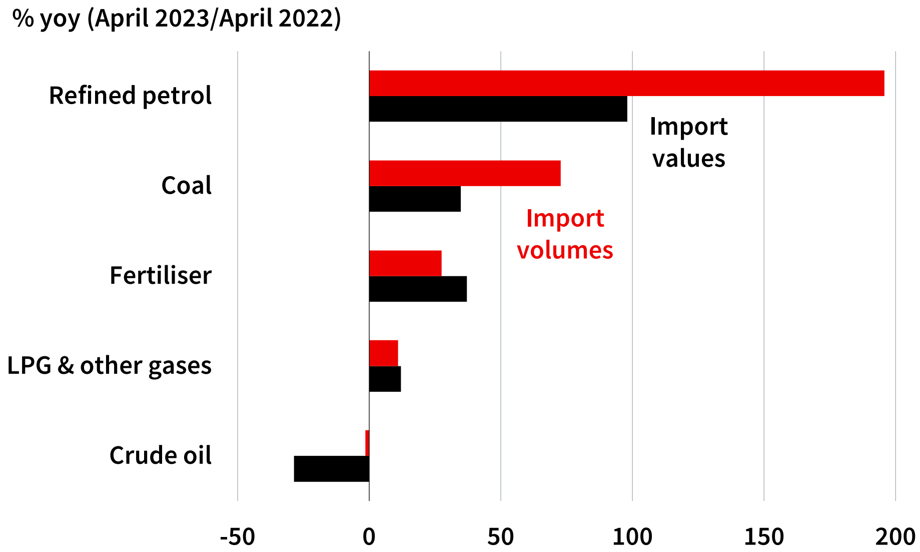
China's trade balance

Trade surplus rises as imports fall faster than exports in April



Energy related import volumes and prices

Impact of lower energy prices evident in import data



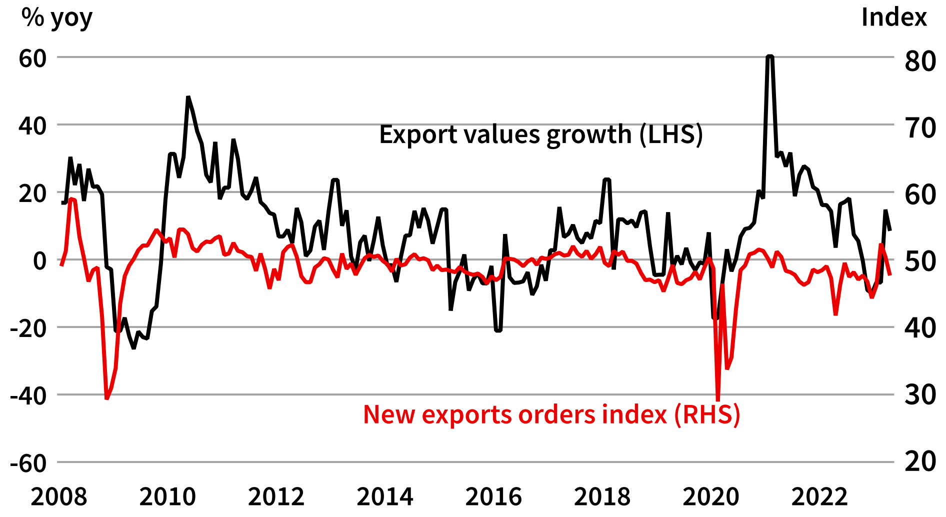
Sources: Macrobond, NAB Economics

- China's trade surplus was marginally larger in April, totalling US$90.2 billion (up from US$88.2 billion in March). This slight increase reflected a larger month-on-month easing in imports than exports.
- China's rolling twelve month trade surplus with the United States has continued to decline – as demand trends soften from tighter US financial conditions and the rebalancing in consumption towards services. The rolling surplus fell to US$378.4 billion in April – down from the peak of US$439.7 billion in July 2022, but still well above pre-trade war levels.
- China's imports totalled US$205.2 billion in April (down from US$227.4 billion previously). In year-on-year terms, imports fell by 7.9%.
- In recent times, there has been a shift in trends around import prices and volumes. Across much of 2022, strong growth in import prices – in part reflecting rising energy costs – were contrasted by falling volumes (which reflected the impact of zero-COVID policies on demand). More recently, import prices have been falling – with the RBA Index of Commodity Prices falling by 14.6% yoy in CNY terms in April. We estimate that import volumes rose by 4.1% yoy in April (down from 6.6% yoy in March).
- The impact of lower energy prices (when compared with the inflated levels in the aftermath of Russia's invasion of Ukraine) is evident in the import data of energy-related commodities. China imported almost three times as many refined petroleum products in April 2023, while the value of these imports was a little less than double. There was a similar trend in coal, while the value of crude oil imports fell by 29% yoy butvolumes eased just 1.4% yoy.

International trade – exports

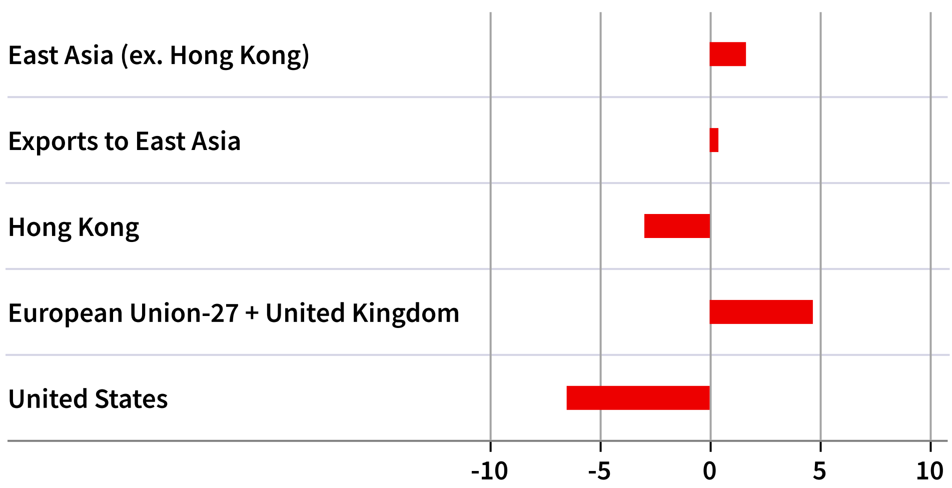
Export value and new export orders

Base effects inflated growth in April; new orders softening



Exports to major trading partners

Exports to the US contracted in April



Sources: Macrobond, NAB Economics

- China's exports eased somewhat in April, totalling US$294.8 billion (compared with US$315.6 billion in March). In year-on-year terms, exports rose by 8.5%. It is worth noting that this relatively strong growth rate was inflated by base effects – with export volumes falling substantially in April 2022 as a result of COVID-19 lockdowns, particularly in Shanghai.

- New export orders in the NBS PMI survey dipped back into negative territory in April – down to 47.6 points (from 50.4 points previously). Demand prospects in advanced economies remains weak – reflecting the impact of tightening financial conditions and the rebalancing of consumption towards services.

- The trends in exports to major trading partners remained highly divergent in March. Exports to the United States fell strongly – down by 6.5% yoy. In contrast, there was comparatively strong growth in exports to the European Union-27 and the United Kingdom – which increased by 4.7% yoy – while exports to East Asia rose by 0.4% yoy.

- The relatively modest growth in East Asian exports largely reflected a contraction in reported exports to Hong Kong – down 3.0% yoy. Historically there has been substantial divergences in reported trade activity between China and Hong Kong according to the respective customs agencies, with some of this disparity reflecting capital flows being disguised as trade activity – leading to large swings in China's reported exports.

- Overall, export growth was far stronger outside the major trade partners – up by around 25% yoy – including strong growth to Russia (up 153% yoy) and Kazakhstan (up 104% yoy).

Retail sales and inflation

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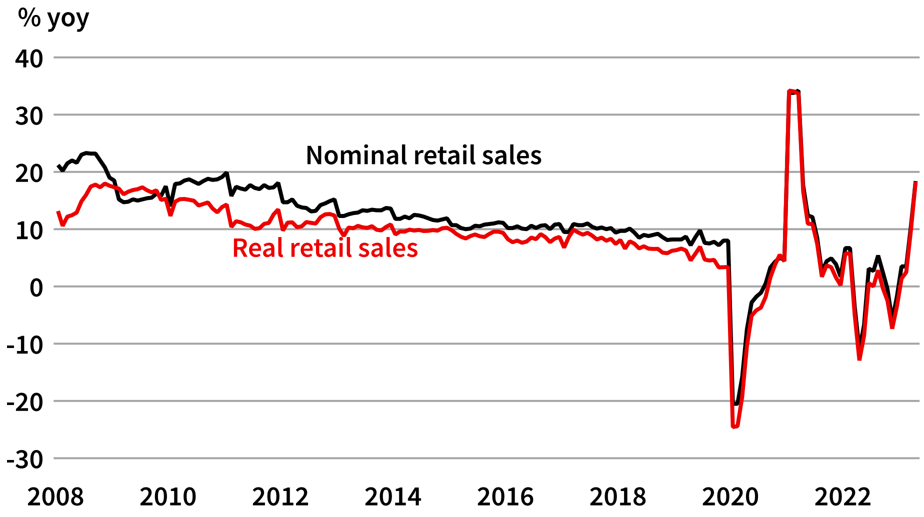
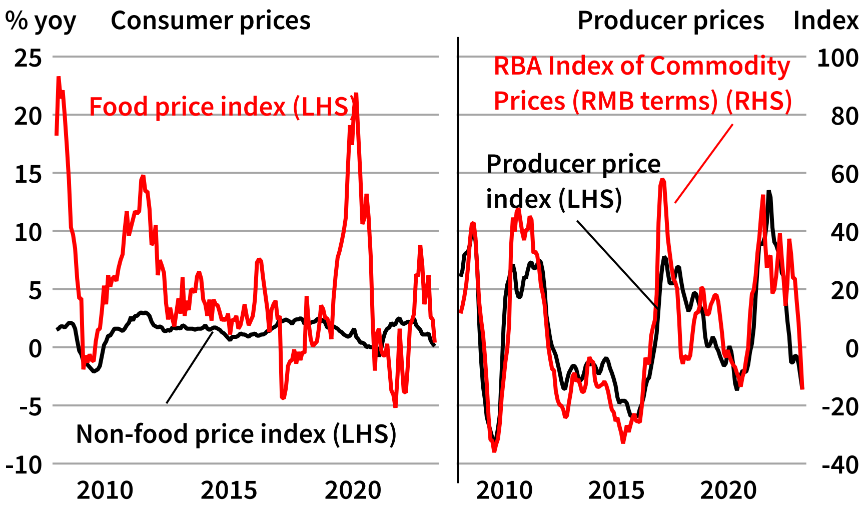
Retail sales growth

Sales surge driven by base effects, not unleashed consumers



Consumer and producer prices

Consumer prices continue to soften as factory prices contract



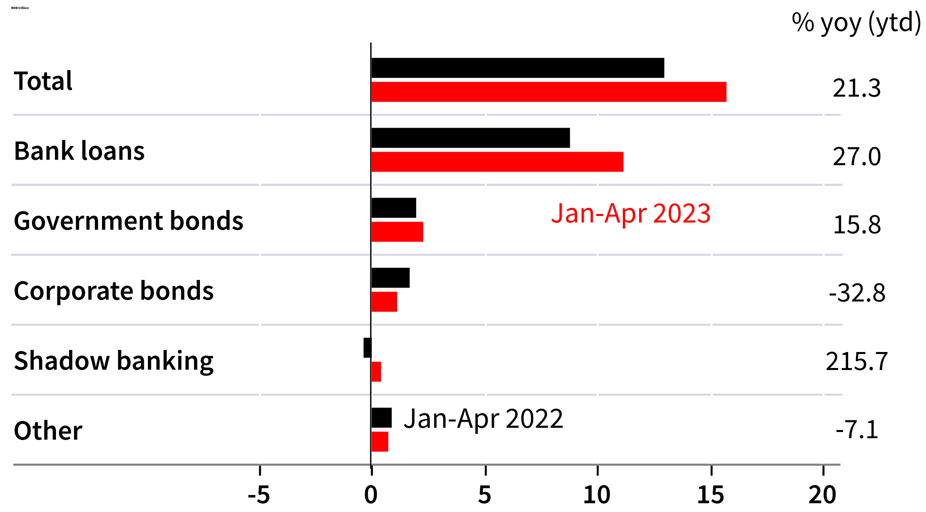
Sources: Macrobond, NAB Economics

- China's nominal retail sales grew rapidly in April – up by 18.4% yoy (from 10.6% yoy in March). However, this surge was inflated by base effects – given that nominal sales fell by 11.1% yoy in April 2022 as COVID-19 lockdowns became stricter. We are now deflating retail sales using the consumer price index (as Chinese authorities have not released any retail price index data in 2023). In real terms, retail sales rose by 18.3% yoy (from 9.8% yoy previously).
- To highlight that the surge in retail sales in April is not yet the long awaited return of China's consumers, when compared with the same month in 2019, real sales were 7.6% higher in April 2023, compared with 12.7% higher in March. This is consistent with the weakness in inflation data.
- Consumer price growth was negligible in April – increasing by just 0.1% yoy, down from 0.7% yoy in March. These price trends remain in stark contrast with the still rapid inflation in much of the rest of the world, highlighting the incomplete recovery in demand in China following the end of zero-COVID.
- Food price growth was substantially weaker in April – rising by 0.4% yoy (compared with 2.4% yoy previously). Pork prices – which have had a major influence on food prices in recent years – rose by around 4.0% yoy, down from 9.6% yoy in March, while fresh vegetable prices fell by 13.5% yoy.
- Non-food prices also grew more modestly – up by 0.1% yoy (from 0.3% yoy in March). Vehicle fuel prices have softened in recent months – reflecting global energy market trends – down by 10.4% yoy (compared with a 6.4% yoy fall previously).
- Producer prices continued to fall in April – down by 3.6% yoy (from 2.5% yoy in March). Historically, there has been a close correlation between these prices and global commodity prices – with the RBA Index of Commodity Prices (converted into RMB terms) falling by around 14.6% yoy in April.

Credit conditions

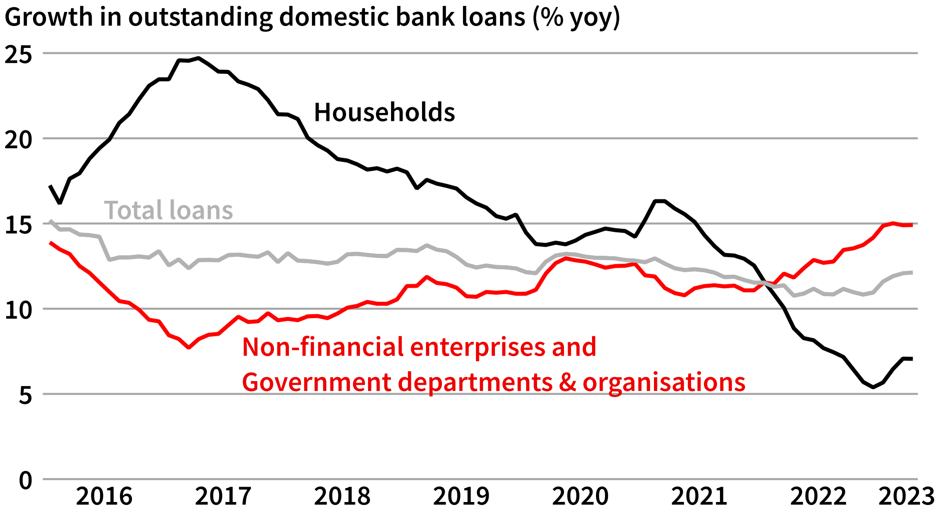
New credit issuance

Bank lending has been the key driver of credit growth in 2023



Bank lending

Upturn in household loans driving growth in bank lending



Sources: Macrobond, NAB Economics

- New credit issuance rose strongly in the early months of 2023 – up by 21.3% yoy between January and April. Bank lending has been the key driver of this trend, increasing by 27.0% yoy to RMB 11.2 trillion. Growth in the outstanding stock of bank loans has primarily been driven by increased lending to households – reflecting mortgage lending that has underpinned the stabilisation of the property sector.

- In contrast, growth in non-bank lending has been comparatively modest – rising by 9.2% yoy. This increase reflects a modest increase in shadow bank lending (compared with a small contraction during the same period in 2022) and growth in government bond issuance (up by 15.8% yoy). This was partially offset by a contraction in corporate bond issuance.

- However, it is worth noting that lending growth slowed substantially month-on-month in April. This continues to point to patchiness in China's economic recovery.

- Recent efforts to ease monetary policy have focussed on increasing the quantity of money rather than the price – with the People's Bank of China (PBoC) cutting the Reserve Requirement Ratio (RRR) in March, freeing up further funds for banks to lend. In contrast, the Loan Prime Rate – the main policy rate – has been stable since August 2022.

- In its latest monetary policy report (released this month), the PBoC argue that there has been a delay in the recovery of demand, leading to the modest rate of inflation. The PBoC anticipate a gradual rebound in inflation in the second half of the year, as consumers gain confidence and begin to spend their precautionary accumulated savings.

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