NAB Group Economics

China's economy at a glance

October 2023

Author: Gerard Burg, Senior Economist - International

Key points

China's third quarter growth beat expectations; 2023 forecast edges back above target

- China's headline economic growth slowed a little in Q3, up by 4.9% yoy in Q3 (from 6.3% yoy in Q2) – albeit growth in Q2 was inflated by base effects related to strict COVID-19 lockdowns that hit activity during the second quarter of 2022. Despite inconsistency with headline year-on-year data, quarterly growth rates point to an acceleration in activity, driven by growth in services. While the property sector and weak external demand remain headwinds to growth, we have reversed the downward revision we made to our forecast last month – lifting 2023 growth back to 5.2% (from 5.0% previously) – while our forecasts for 2024 and 2025 are unchanged. This better balances near-term upside and downside risk to China's growth.

- Growth in China's industrial production was unchanged in September – increasing by 4.5% yoy. This growth rate remains relatively subdued when compared with pre-pandemic trends.

- In real terms, China's fixed asset investment growth was also unchanged in September – increasing by 3.0% yoy. There continues to be a wide disparity in nominal investment between state-owned enterprises (SOEs) and private sector firms. SOE investment increased by 6.0% yoy in September (from 6.1% yoy in August), while private investment recorded no growth.

- China's trade surplus increased in September, totalling US$77.7 billion (up from US$68.2 billion previously). This pickup reflected a stronger month-on-month increase in exports than imports (albeit both fell significantly year-on-year). Exports to China's major trading partners fell more rapidly than the overall decline in September – down by 9.9% yoy – as China has continued to expand exports to other destinations, most notably Russia.

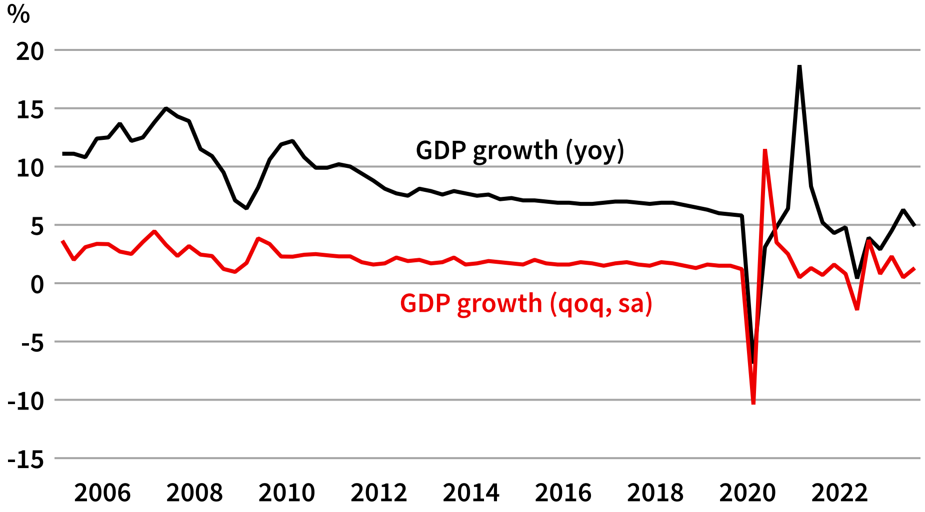
- Real retail sales growth ticked higher in September – increasing by 5.5% yoy (compared with 4.5% yoy in August). Extreme volatility in these data – related to the impact of China's zero-COVID measures in prior years – makes interpreting year-on-year growth rates in real sales difficult. Neither a comparison of growth through the pandemic, nor the NBS's seasonally adjusted monthly growth data, provide a clear indication of a rebound in consumption.

- The People's Bank of China (PBoC) rolled over expiring medium term lending facility loans in September – maintaining liquidity in financial markets – with the rate on these loans unchanged. There remains no shortage of funds available for lending. Rather, the weakness in the housing market and among private firms have continued to constrain loan demand.

Gross domestic product

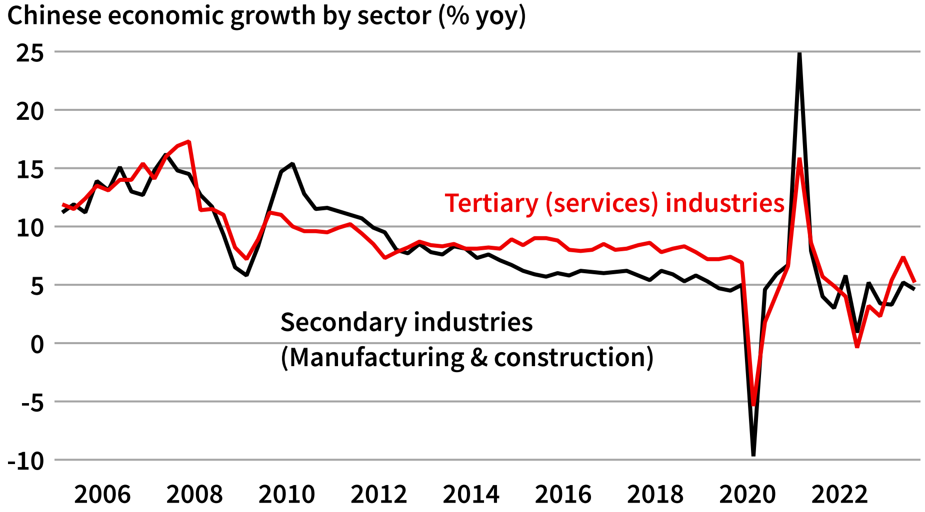
China’s economic growth

Quarter-on-quarter growth accelerated in Q3



Economic growth by industry

Services outperforming industrial sector



Sources: Macrobond, NAB Economics

- China’s economy grew by 4.9% yoy in Q3, down from 6.3% yoy in Q2 – albeit growth in Q2 was inflated by base effects (related to strict COVID-19 lockdowns that hit activity in Q2 2022).
- Quarter-on-quarter growth showed a pick up in Q3, up by 1.3% qoq, from a revised down 0.5% qoq in Q2 . Growth in Q2 was constrained by subdued household demand, and the headwinds of property sector weakness and slowing external demand. It is worth noting that despite historical revisions, this quarterly series is currently inconsistent with the headline year-on-year series, suggesting quite a different profile across Q2 and Q3.
- Growth in the services sector marginally outpaced the secondary sector (manufacturing and construction in Q3) – increasing by 5.2% yoy and 4.6% yoy respectively. The implied quarter-on-quarter growth in services showed a strong acceleration, which may imply stronger non-goods consumption being a key driver of growth.
- The pickup in economic activity in Q3 was stronger than anticipated – our expectation for headline Q3 growth was 4.5% yoy, and it was 4.4% yoy in the Reuters poll. This increases the likelihood that China can exceed its growth target for 2023 at 5.0%. Reflecting this, we are reversing the downward revision we made to our forecast last month – lifting 2023 growth back to 5.2% (from 5.0% previously) – while our forecasts for 2024 and 2025 are unchanged. This better balances near-term upside and downside risk to China’s growth.

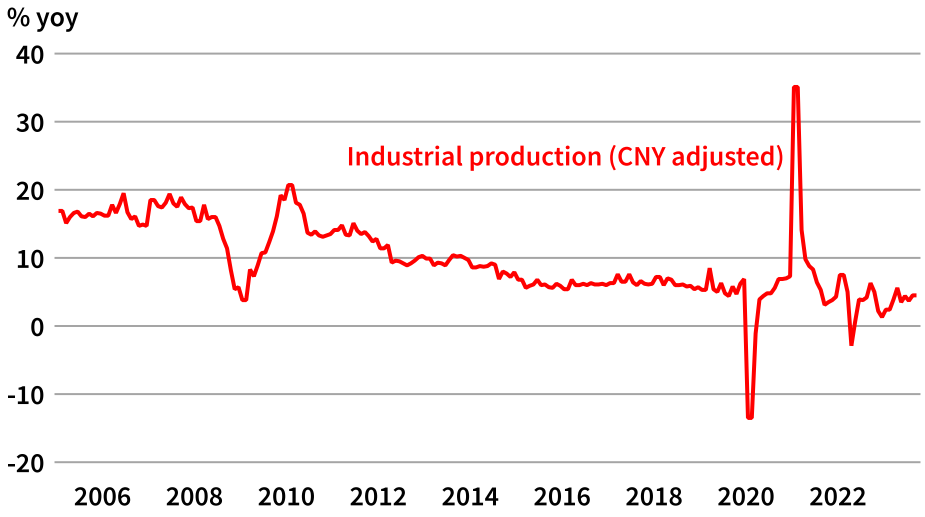
NAB China GDP forecasts

%	2022	2023	2024	2025
GDP	3.0	5.2	4.5	4.8

Industrial production

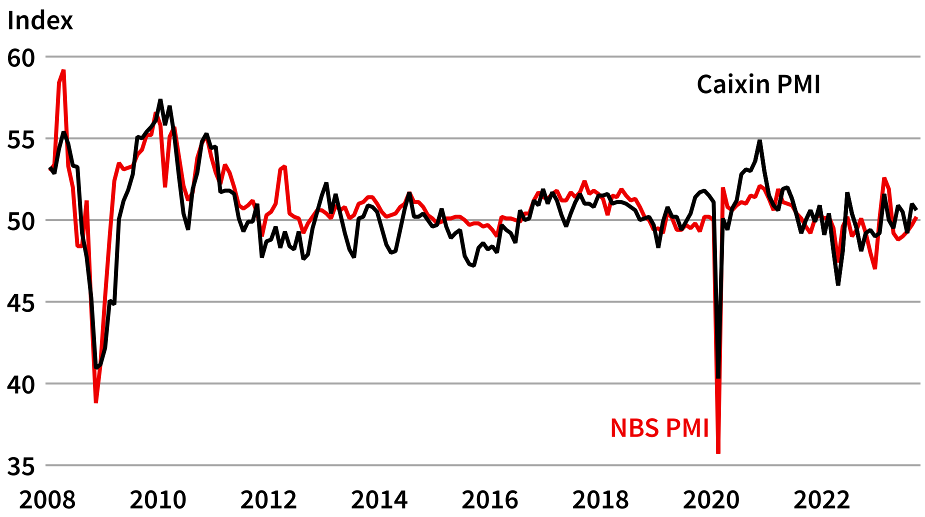
Industrial production growth

Stable (if relatively subdued) growth rate in September



Manufacturing PMI surveys

Trends between major surveys have diverged in recent months



Sources: Macrobond, NAB Economics

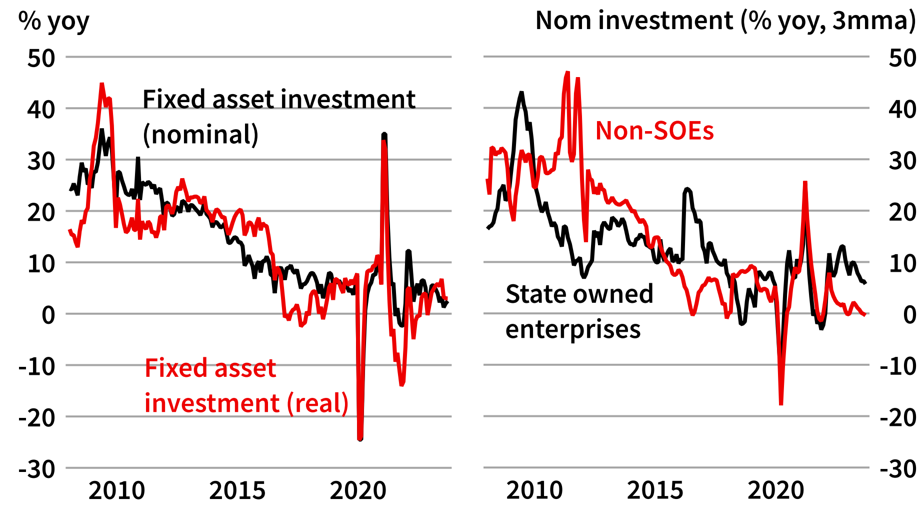
- Growth in China's industrial production was unchanged in September – increasing by 4.5% yoy. This growth rate remains relatively subdued when compared with pre-pandemic trends.
- Diverging conditions between individual industries may explain the comparatively softer growth rates. The ongoing weakness in residential construction likely contributed to falling output in cement (down 7.2% yoy) and crude steel (which fell by 5.6% yoy). In contrast, output of electronics rose by 4.5% yoy and motor vehicles increased by 3.4% yoy. Electricity production surged – up by 7.7% yoy.
- Trends in China's major manufacturing surveys have diverged somewhat in recent months – likely reflecting the differing composition and weights of firms in the two measures. The private sector Caixin PMI was slightly softer – down to 50.6 points (from 51.0 points in August). In contrast, the official NBS PMI edged back into marginally positive territory – at 50.2 points (from 49.7 points previously).
- Both surveys have highlighted differing trends in demand – with positive readings for new orders in the domestic market, while new export orders have remained negative (albeit both were less negative than in August).

Investment

national australia bank

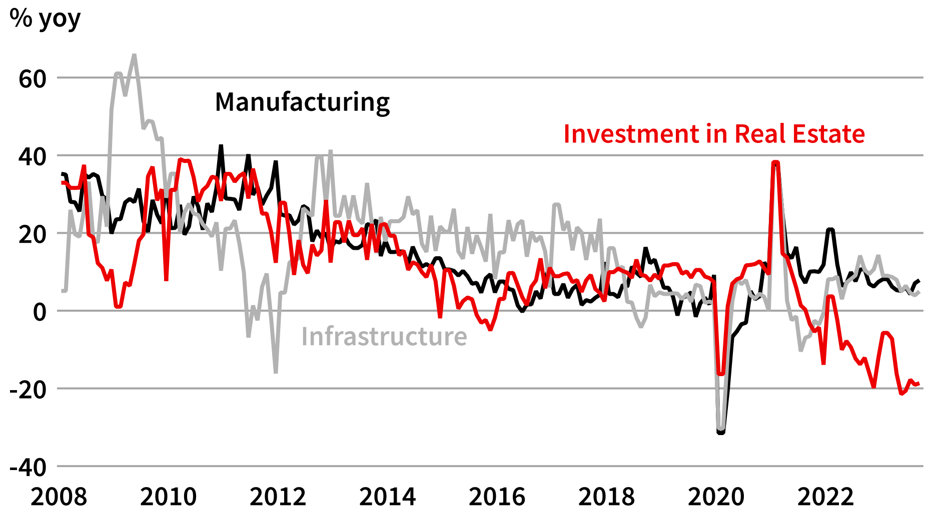
Fixed asset investment growth

Real investment growth stable; private sector remains weak



Fixed asset investment by industry

Real estate remains a drag on nominal investment



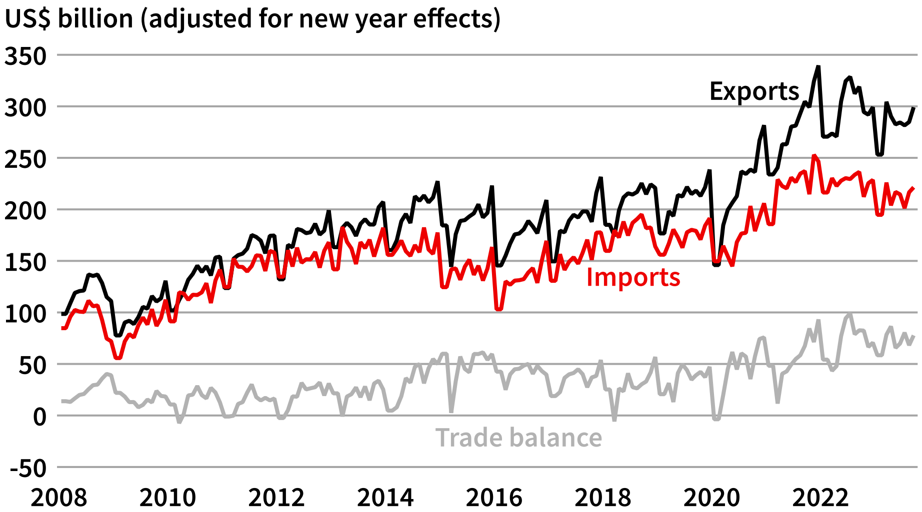
Sources: Macrobond, NAB Economics

- In nominal terms, China's fixed asset investment was somewhat stronger in September – increasing by 2.5% yoy (up from 2.0% yoy in August). That said, the decline in producer prices – which flow through into the cost of investment goods – was less significant in September, meaning that our estimate of real investment growth was unchanged at 3.0% yoy.
- There continues to be a wide disparity in nominal investment between state-owned enterprises (SOEs) and private sector firms. SOE investment increased by 6.0% yoy in September (from 6.1% yoy in August), while private investment recorded no growth.
- Weakness in the real estate sector continues to negatively impact investment – particularly from the private sector. Real estate investment contracted by 18.7% yoy in September. Residential property sales and new residential construction starts were stronger month-on-month in September, however it is too early to determine if this represents a cyclical turnaround – particularly given that they remain weak in year-on-year terms (falling by 21.1% yoy and 16.9% yoy respectively in September).
- In contrast, nominal investment in manufacturing and infrastructure continued to expand – increasing by 7.9% yoy and 5.0% yoy respectively in September.

International trade – trade balance and imports

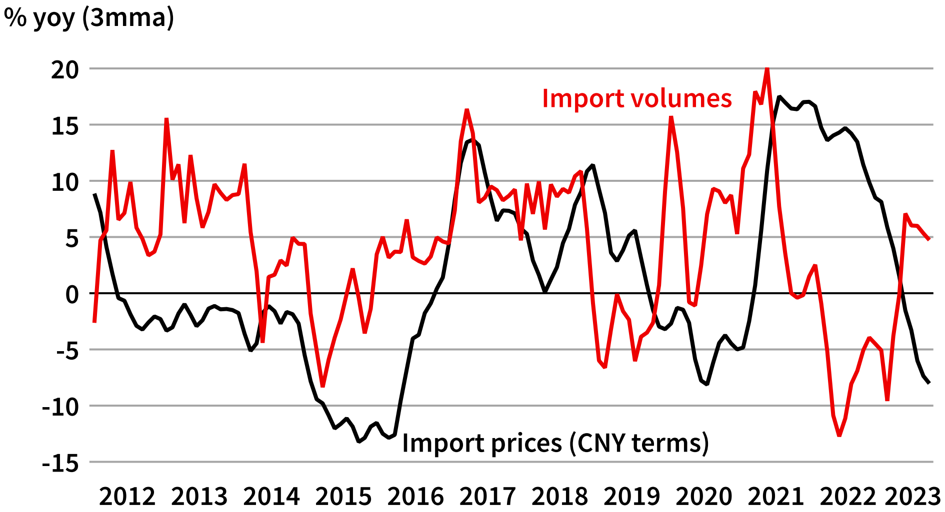
China's trade balance

Trade surplus moved higher as export uptick outpaced imports



Import volumes and prices

Falling import prices the key driver of lower values in 2023



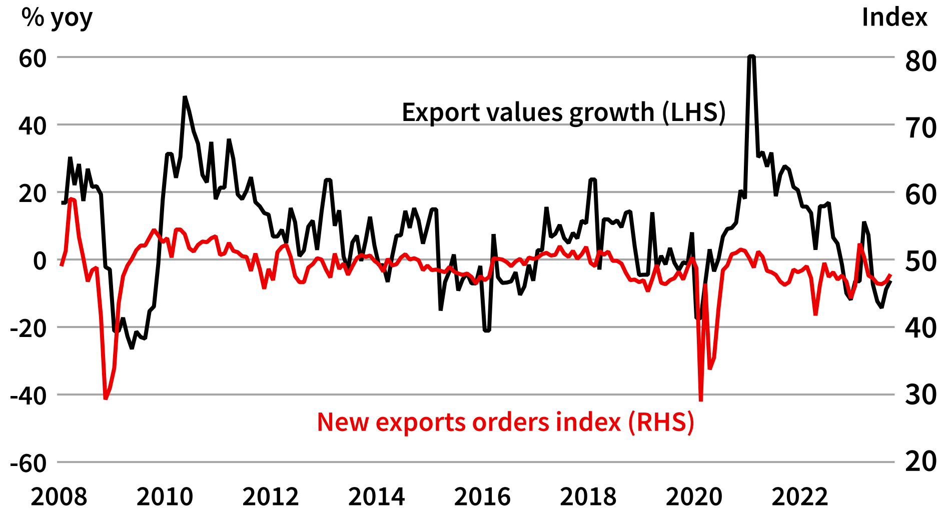
- China's trade surplus increased in September, totalling US$77.7 billion (up from US$68.2 billion previously). This pickup reflected a stronger month-on-month increase in exports than imports.
- China's rolling twelve month trade surplus with the United States has continued to trend down. In the twelve months to September, the surplus totalled US$340 billion, having eased from a peak of US$439.7 billion in July 2022. This level remains around US$10 billion above the pre-US-China trade war peak.
- China's imports totalled US$221.4 billion in September, edging up from US$216.6 billion previously. Import values have trended down in year-on-year terms since mid-2022, falling by 6.3% yoy in September.
- The key driver of the decline in import values in recent months has been falling prices, with import volumes rising in year-on-year terms from February 2023 through August 2023 (the most recent available data point). Global commodity prices provide a reasonable proxy for China's import prices, and the 17.2% yoy fall in the RBA Index of Commodity Prices (converted into RMB terms) suggests a further rise in import volumes in September (around 5% yoy).
- Falling energy prices in 2023 have been a major contributor to the decline in China's import prices. This is clearly evident in trade data for various energy commodities – the volume of refined petroleum imports increased by almost 85% yoy in September, while the value rose by 66%. Similarly, crude oil volumes rose by 13.7% yoy, while the value was essentially unchanged and the volume of LPG and other gases were unchanged while the value fell by 33.8% yoy.

Sources: Macrobond, NAB Economics

International trade – exports

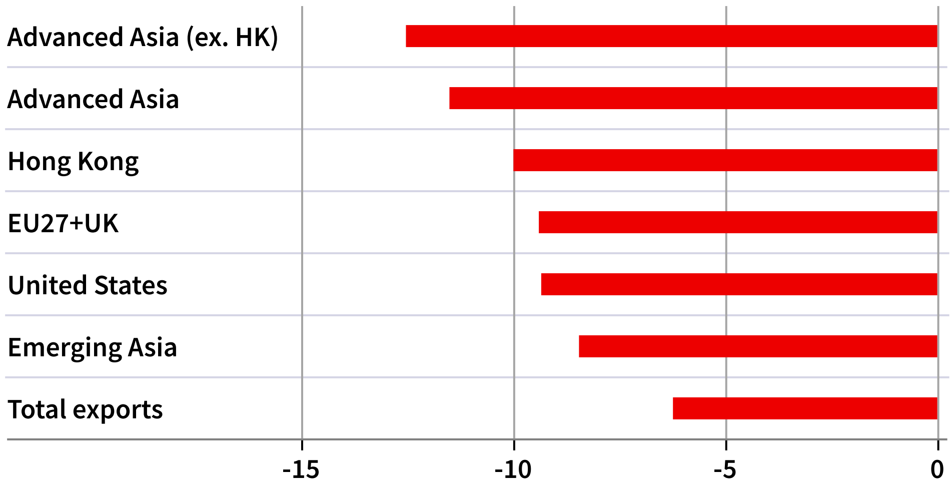
Export value and new export orders

Export values continue to fall on weak external demand



Exports to major trading partners

Exports to major trading partners fell more rapidly than the total



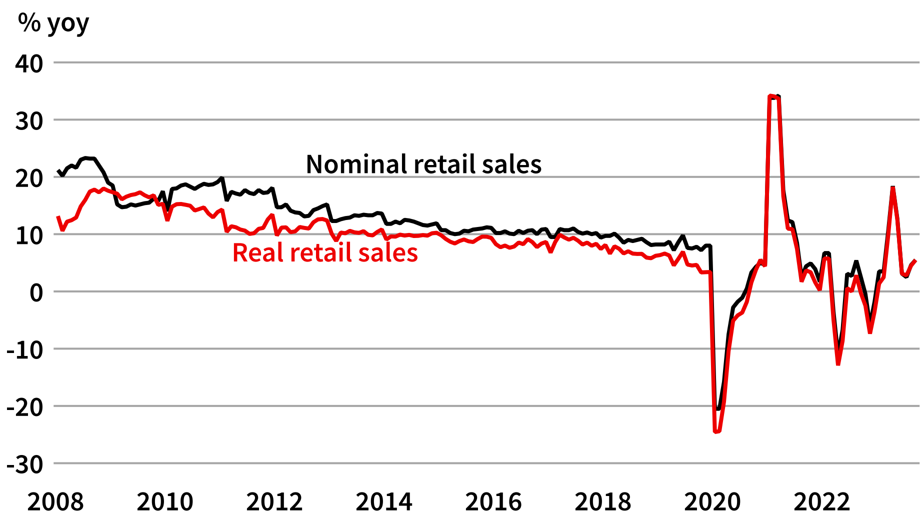
Sources: Macrobond, NAB Economics

- The value of China's exports rose in September – up to US$299.1 billion, from US$284.8 billion previously. This was the largest monthly value seen since March 2023, however it represented a decline of 6.2% yoy.
- New export orders in the NBS PMI survey remain in negative territory – at 47.8 points in September, compared with 46.7 points in August. With the exception of two positive readings in February and March, new export orders have been negative since April 2021.
- Exports to China's major trading partners fell more rapidly than the overall decline in September – down by 9.9% yoy – as China has continued to expand exports to other destinations, most notably Russia (up by 20.6% yoy).
- The steepest decline in export values was to advanced Asian economies – down by 11.5% yoy. This fall was larger if Hong Kong is excluded – down by 12.5% yoy. There have been considerable distortions in China's trade data with Hong Kong in the past (albeit the decline in exports to Hong Kong in September was also sizeable). In contrast, the decline in emerging Asian exports was relatively modest, at 8.4% yoy.
- Exports to the European Union-27 + the United Kingdom declined by 9.4% yoy in September, while exports to the United States fell by 9.3% yoy.

Retail sales and inflation

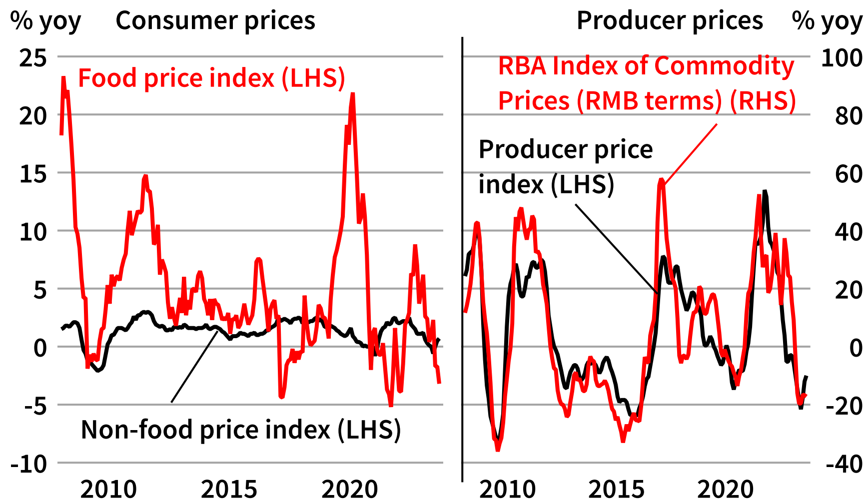
Retail sales growth

Real sales higher in September but still lacking a clear signal



Consumer and producer prices

Inflationary pressures remain subdued in September



Sources: Macrobond, NAB Economics

- China's nominal retail sales growth ticked higher in September – increasing by 5.5% yoy (compared with 4.6% yoy in August). With no change in consumer prices in September, real sales growth also rose by 5.5% yoy (up from 4.5% yoy previously).

- Extreme volatility in these data – related to the impact of China's zero-COVID measures in prior years – makes interpreting year-on-year growth rates in real sales difficult. Looking through the pandemic period, real sales in September were 10.8% higher than September 2019, a pick up from 6.4% in July and 7.3% in August from the same periods in 2019, but below the 12.7% increase in March. Neither these data, nor the NBS's seasonally adjusted monthly growth data, provide a clear indication of a rebound in consumption.

- Headline inflation in China softened again in September, with the consumer price index unchanged in year-on-year terms, compared with a 0.1% yoy increase in August. The deflation in food prices intensified in September, with prices down by 3.2% yoy. Pork prices have been a major driver of food price trends in recent years, and pork prices fell by 22.0% yoy in September. Fresh vegetable prices were also lower – down 6.4% yoy – while fresh fruit edged down 0.3% yoy.

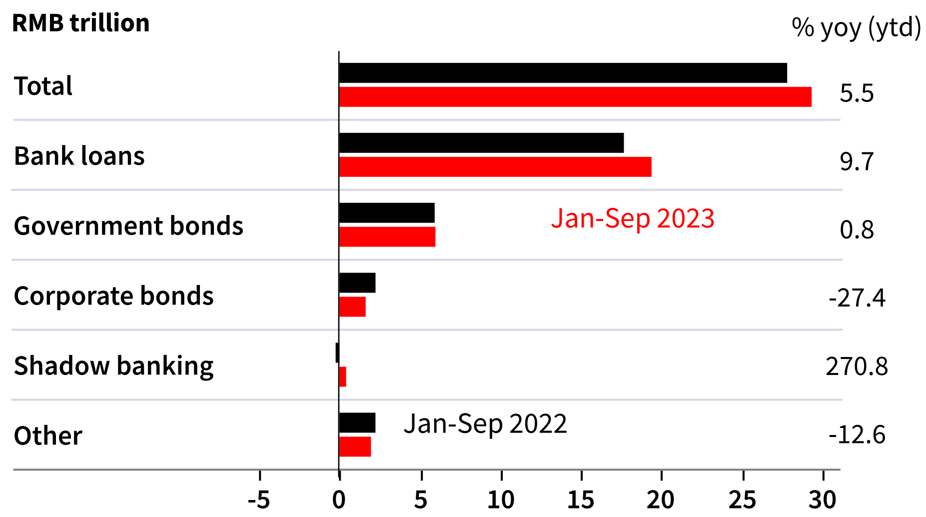
- Declines in food prices were offset by an uptick in non-food prices – which rose by 0.7% yoy (up from 0.5% yoy in August). Vehicle fuel prices have had a major influence on non-food prices in recent years, with fuel prices down by 1.1% yoy in September, compared with -4.5% yoy in August and -13.2% yoy in July – reflecting the recent upward trend in global oil prices.

- Producer prices have now fallen year-on-year for the past twelve months – down by 2.5% yoy in September, compared with a 3.0% yoy fall in August. Lower input costs remain a factor – with the RBA Index of Commodity Prices (converted to RMB terms) falling by 17.2% yoy in September – however it also remains indicative of softness in domestic and export demand.

Credit conditions

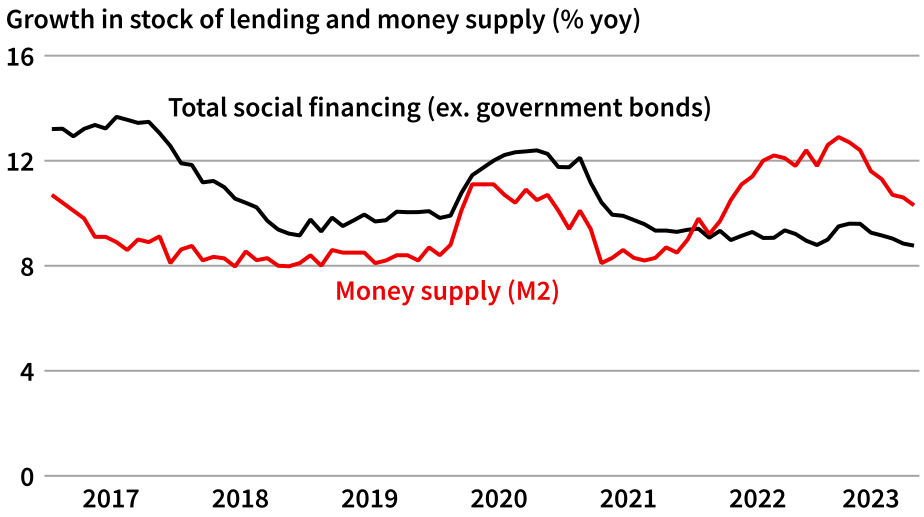
New credit issuance

Recent acceleration in credit growth driven by gov't bonds



Monetary policy

Loan demand remains subdued despite ready supply



Sources: Macrobond, NAB Economics

- Recent months have seen an acceleration in China's new credit issuance – rising from 1.3% yoy in the first seven months of the year to 5.5% yoy in the first nine months. Key to this pickup has been government bond issuance. Government bonds contracted by 25% yoy in the first seven months, but a fresh wave of these bonds in August and September saw them increase by 0.8% yoy over the nine months to September.

- For the first three quarters of 2023, bank lending accounted for the largest share – around two-thirds – of total new credit issuance rising by 9.7% yoy to total RMB 19.4 trillion. However year-to-date growth in bank lending peaked in April and has slowed every month since.

- Non-bank lending contracted by around 1.9% yoy over the first nine months. Aside from the modest growth in government bond issuance over this period, corporate bond issuance contracted by 27.4% yoy , while there was an expansion in shadow bank lending (in contrast with overall contraction over the same period in 2022).

- The People's Bank of China (PBoC) rolled over expiring medium term lending facility loans in September – maintaining liquidity in financial markets – with the rate on these loans unchanged. There remains no shortage of funds available for lending. Rather, the weakness in the housing market and among private firms have continued to constrain loan demand.

Group Economics

Alan Oster
Group Chief Economist
+(61 0) 414 444 652

Jacqui Brand
Personal Assistant
+(61 0) 477 716 540

Dean Pearson
Head of Behavioural & Industry Economics
+(61 0) 457 517 342

Australian Economics and Commodities
Gareth Spence
Senior Economist – Australia
+(61 0) 436 606 175

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

Behavioural & Industry Economics
Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 0) 477 723 769

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 0) 455 052 520

International Economics
Tony Kelly
Senior Economist
+61 (0) 477 746 237

Gerard Burg
Senior Economist – International
+(61 0) 477 723 768

Global Markets Research

Skye Masters
Head of Markets Strategy
Markets, Corporate & Institutional Banking
+(61 2) 9295 1196