NAB Group Economics

China's economy at a glance
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Key points

China likely to hit its growth target this year, but next year looks more challenging

- According to various media reports, this month's Central Economic Work Conference determined that China's 2024 growth target will remain unchanged at "around 5%" (although it will not be officially announced until the National People's Congress in March). While this target looks likely to be met this year – despite the softness in consumption growth since the brief reopening rebound that following the abandonment of zero-COVID policies in late 2022 – the lack of positive base effects and weaker global demand for its exports in 2024 will make it a more challenging target. Our forecasts are unchanged – we believe growth will slow in 2024 to 4.5% (from 5.2% in 2023) before a modest uptick to 4.8% in 2025.

- Various indicators looked stronger in November, however these upticks reflected base effects associated with the Omicron wave of COVID-19 in November 2022. This included both industrial production (IP) and real fixed asset investment – with IP up by 6.6% yoy – the strongest increase since January-February 2022.

- China's trade surplus was larger in November – totalling US$68.4 billion (up from US$56.5 billion previously). This reflected a larger uptick in the value of China's exports than in imports.

- Real retail sales growth accelerated in November – increasing by 10.7% yoy (from 7.8% yoy in October) – however real sales plunged in November 2022. Looking through the pandemic period, we continue to see no clear sign of a lift in consumer spending – real sales in November were 9.8% above those of the same period in 2019, compared with 12.7% in October and 10.8% in September.

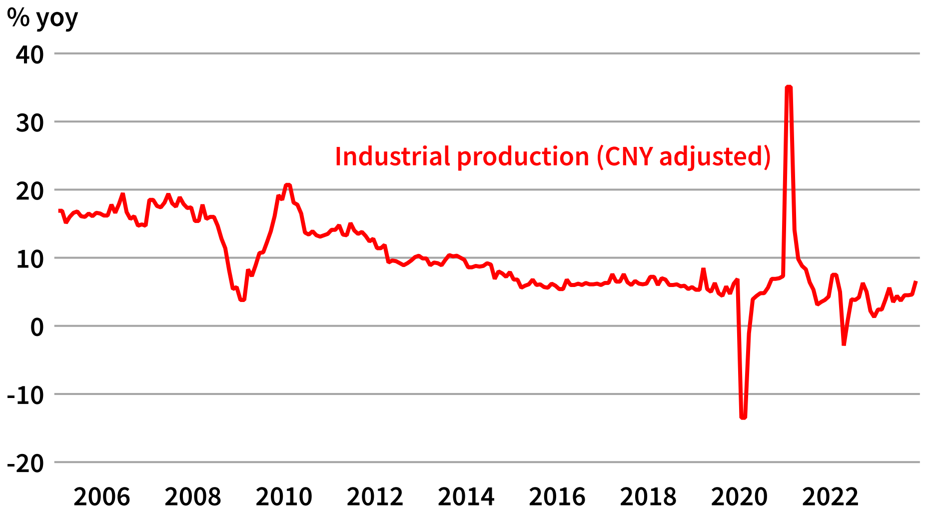
- After relatively modest growth in the first seven months of 2023, new credit issuance has accelerated in recent months. In the first eleven months of 2023, new credit issuance rose by 9.5% yoy to RMB 33.6 trillion. This has been driven by rapid growth in government bond issuance in the past four months (up by 193% yoy).

- The People's Bank of China (PBoC) has resisted cutting its policy rate in recent months, but has continued to add liquidity to financial markets, via increases through the medium term lending facility (MLF) and cuts to the Reserve Requirement Ratio (RRR) of major banks. These supply side measures do little to boost loan demand – which continues to look relatively weak.

Industrial production

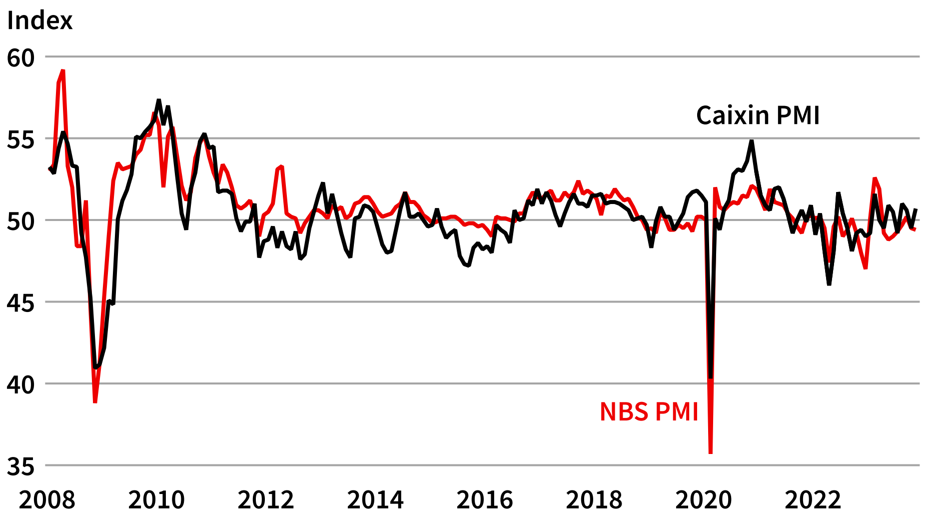
Industrial production growth

Stronger growth in November partly reflected base effects



Manufacturing PMI surveys

Volatility in Caixin survey saw the two PMIs diverge in November



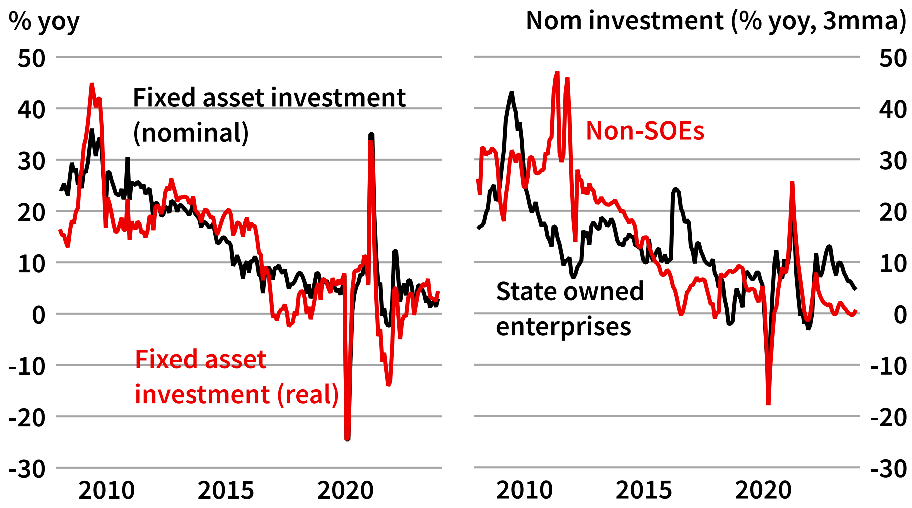
Sources: Macrobond, NAB Economics

- China's industrial production grew more strongly in November – up by 6.6% yoy (from 4.6% yoy previously) – the strongest increase since January-February 2022. It is worth noting that base effects contributed to the strength of this increase – given a slowing trend associated with the Omicron wave of COVID-19 in November 2022.
- Major industrial subsectors showed a substantial divergence in growth trends. The ongoing weakness in residential construction saw crude steel and cement increase by just 0.4% yoy and 1.6% yoy respectively. In contrast, automobile production and electronics output rose by 23.6% yoy and 10.6% yoy respectively.
- The recent volatility in the private sector Caixin PMI continued in November, leading to a divergence with the official NBS PMI. The Caixin manufacturing PMI moved back into positive territory – at 50.7 points (from a negative 49.5 points in October). In contrast, the official PMI edged lower – to 49.4 points (also from 49.5 points previously).
- The two surveys have differing composition of firms responding – with the Caixin measure having a larger share of private and SME firms than the official survey. Looking through the volatility of the Caixin measure, it has been close to neutral levels in the past six months, whereas the NBS survey has trended modestly negative over this period.
- A key difference between the two surveys has been domestic demand – with new orders remaining positive in the Caixin survey, while they were negative in the NBS one. Both surveys continued to see new export orders in negative territory – consistent with weaker global goods demand.

Investment

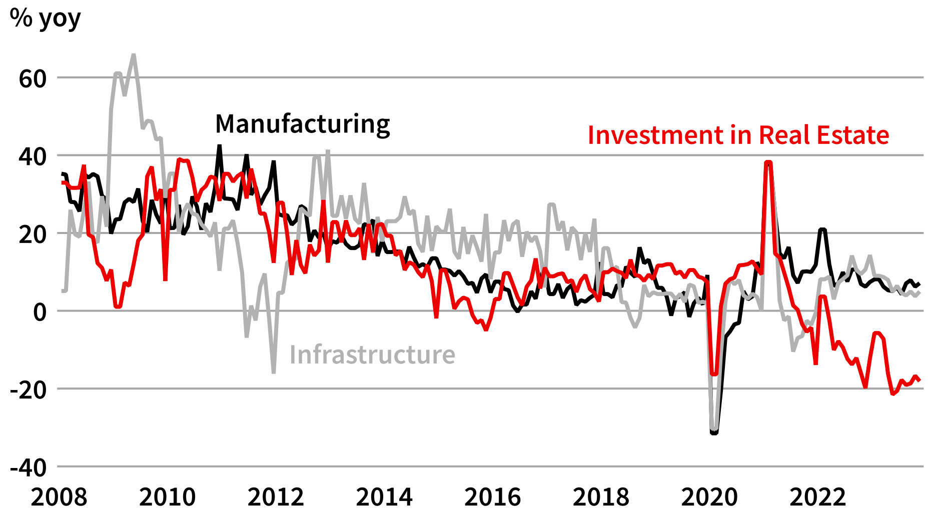
Fixed asset investment growth

Jump in real investment growth inflated by base effects



Fixed asset investment by industry

Real estate remains a drag on overall fixed asset investment



Sources: Macrobond, NAB Economics

- The was an acceleration in the growth of nominal fixed asset investment in November – increasing by 2.9% yoy (from 1.3% yoy in October). Continuing declines in producer prices – which flow through into the cost of investment goods – means that growth in real investment was stronger in November – up by 4.4% yoy (from 2.4% yoy previously).

- As with a range of other indicators, base effects contributed to the acceleration in investment growth. Last year's Omicron wave saw real investment contract by 0.3% yoy in November 2022 (compared with a 3.9% yoy increase in October 2022).

- There remains a sizeable disparity between the nominal growth for state-owned enterprises (SOEs) and private sector firms – albeit the trend has gradually narrowed across the course of 2023. SOE investment rose by 4.6% yoy in November (down from 3.1% yoy previously), while private investment increased by 1.9% yoy (from 0.1% yoy in October).

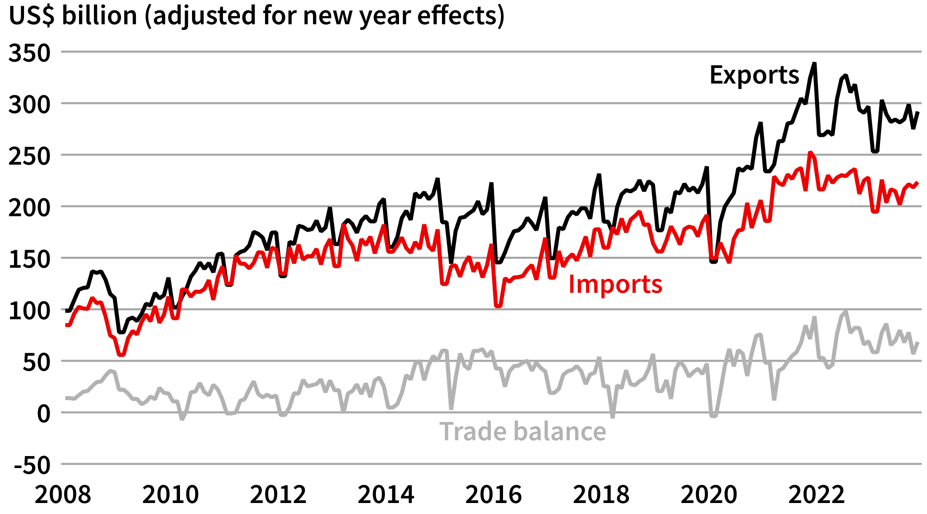
- The real estate sector remains a drag on investment – contracting by 18.1% yoy in November – with challenges persisting. New residential construction starts increased in November – up by 4.8% yoy, the first growth recorded since March 2021, but it is far too early to suggest that this represents a turn around in the sector, particularly as sales continued to contract – down 23.5% yoy.

- Investment growth has remained robust in manufacturing and infrastructure – increasing by 7.1% yoy and 5.0% yoy respectively in November.

International trade – trade balance and imports

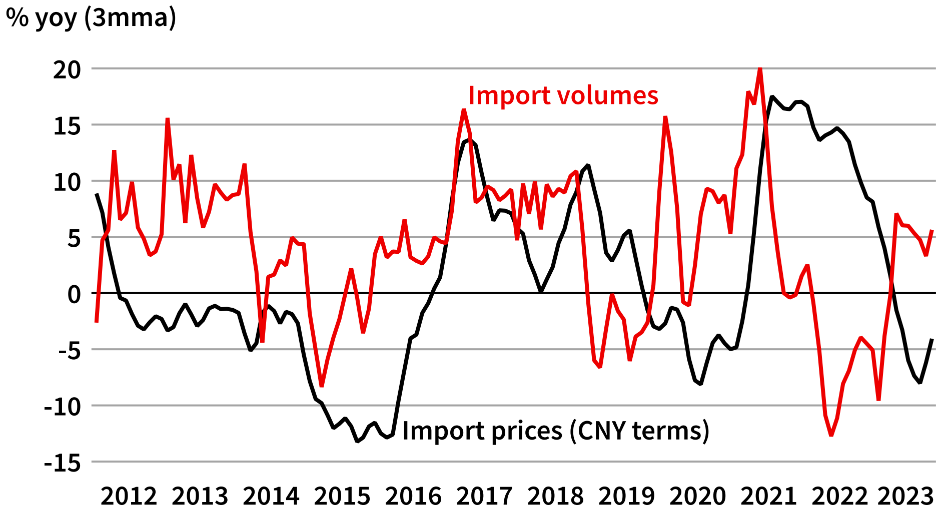
China's trade balance

Uptick in exports drove the increase in China's trade surplus



Import volumes and prices

Import prices have continued to fall, with energy a major driver



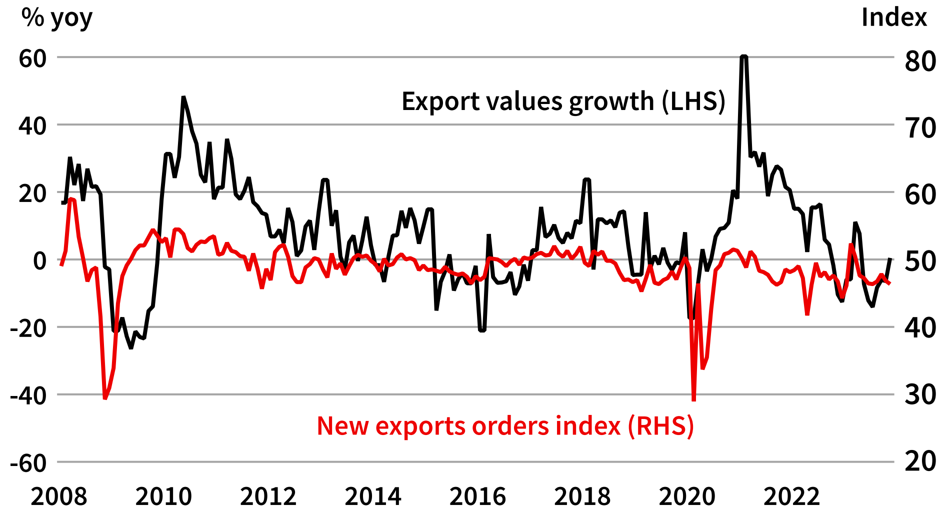
- China's trade surplus was larger in November – totalling US$68.4 billion (up from US$56.5 billion previously). This reflected a larger uptick in the value of China's exports than in imports.
- The rolling twelve month trade surplus with the United States moved higher in November, for the first time since July 2022. This measure totalled US$342.1 billion (from US$336.6 billion in the twelve months to October), reflecting an increase in exports to the US in November.
- China's imports totalled US$223.5 billion in November, up from US$218.3 billion previously. In year-on-year terms, imports were around 0.6% lower (compared with a 3.0% yoy increase in October – the first increase since July 2022).
- Import volumes have been increasing year-on-year each month since February. This means that the falls in import values has been driven by larger falls in import prices. The RBA Index of Commodity Prices (converted to RMB terms) fell by 8.3% yoy in November – indicating another fall in China's import prices and increase in import volumes in November is likely.
- A major contributor to the divergence between import volumes and values in 2023 has been energy prices. In November, this was most evident in coal – where import values rose by just 4.7% yoy, while the volume rose by 34.6% yoy. Similarly, the value of LPG & other gas imports fell by 20.8% yoy, while the volume increased by 6.1% yoy.

Sources: Macrobond, NAB Economics

International trade - exports

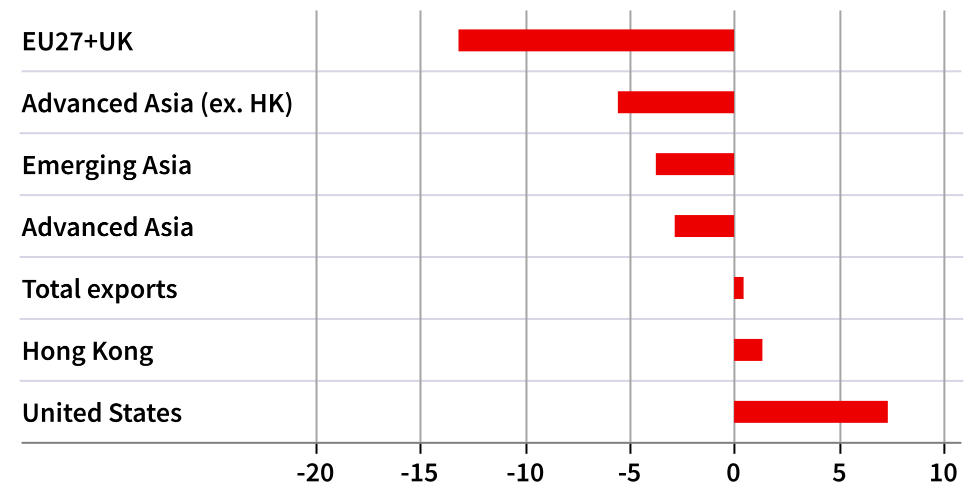
Export value and new export orders

Values continue to fall; new export orders still weak



Exports to major trading partners

Wide divergence in growth rates for major partners in November



Sources: Macrobond, NAB Economics

- The value of China's exports rose considerably in November – moving up to US$291.9 billion (compared with US$274.8 billion in October). In year-on-year terms, exports rose by 0.5% - the first increase since April. New export orders were negative in both manufacturing PMI surveys in November, with the NBS survey at a deeply negative 46.3 points (form 46.8 points in October).

- A growing trend in recent months has been a sharp year-on-year decline in export prices – typically larger than the increase export volumes over the same period. In October, export prices fell by 9.7% yoy in RMB terms, compared with a 7.4% yoy increase in volumes. The modest increase in export values in November indicates that volume growth more than offset price declines for the month.

- Exports to major trading partners continued to decline in November – down by 3.6% yoy. In part this reflects the increasing shift in trade towards other markets – most notably Russia, where exports rose by 33.6% yoy.

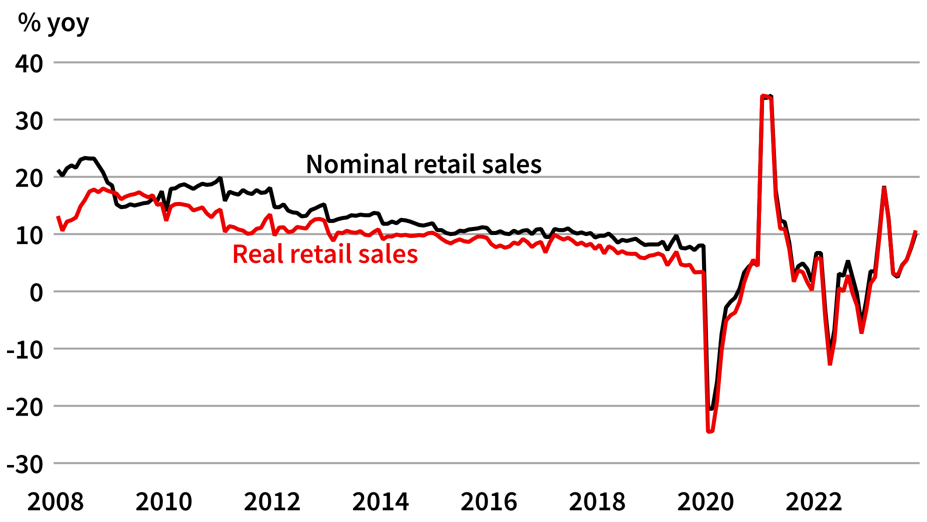
- There was a wide divergence in growth rates among China's major trading partners in November. Exports to the United States and Hong Kong increased in year-on-year terms – up by 7.3% yoy and 1.4% yoy respectively.

- In contrast, there was a steep fall in exports to the European Union-27 and the United Kingdom – down by 13.2% yoy. Exports to Asia also fell, with exports to Advanced Asia (excluding Hong Kong) down by 5.6% yoy, while shipments to Emerging Asia dropped by 3.8% yoy.

Retail sales and inflation

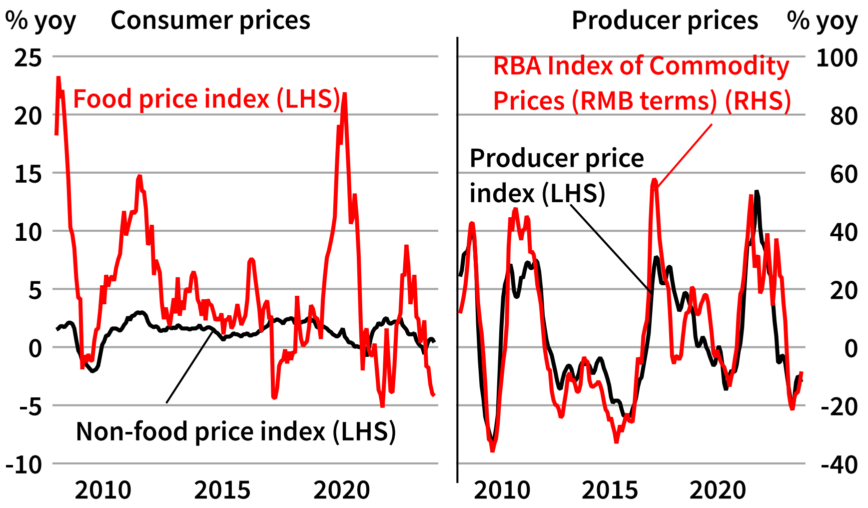
Retail sales growth

Base effects drove surge in real sales in November



Consumer and producer prices

Deflation in consumer & producer prices continued in November



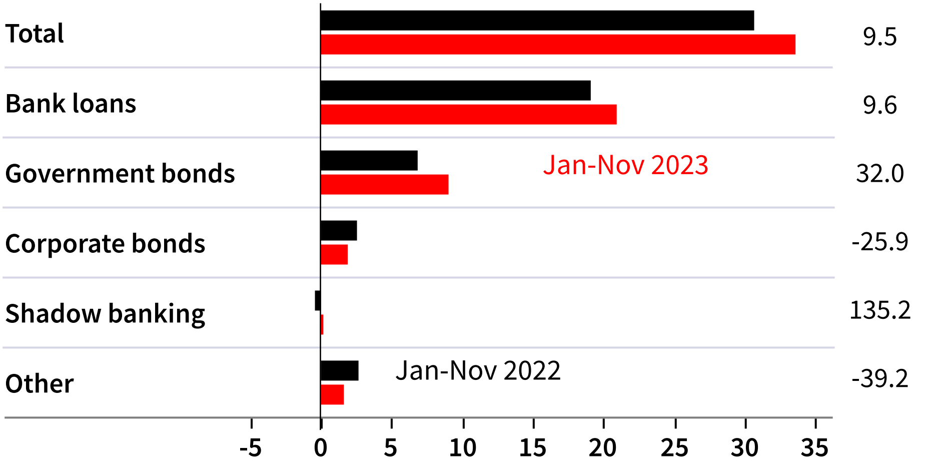
Sources: Macrobond, NAB Economics

- Nominal retail sales growth accelerated in November – increasing by 10.1% yoy (from 7.6% yoy previously). Consumer prices contracted year-on-year in November, meaning that there was a strong pickup in real terms – up by 10.7% yoy (from 7.8% yoy in October).
- It should be noted that there was a sizeable base effect in this pickup – with retail sales plunging in November 2022 (down 7.4% yoy) in response to the Omicron wave of COVID-19 as zero-COVID policies remained in place. Looking through the pandemic period, we continue to see no clear sign of a lift in consumer spending – real sales in November were 9.8% above those of the same period in 2019, compared with 12.7% in October and 10.8% in September.
- China's consumer prices continued to fall in November, with the headline consumer price index contracting by 0.5% yoy. Food prices remain the key driver of this trend – falling by 4.2% yoy (compared with a 4.0% yoy drop in October). Within the food index, pork has had an outsized influence on overall price movements in recent years, with pork prices falling by 31.8% yoy in November. In contrast, prices for fresh fruits and fresh vegetables rose by 2.7% yoy and 0.6% yoy respectively.
- Growth in non-food prices was marginally softer in November – rising by 0.4% yoy (compared with 0.7% yoy previously). Vehicle fuel has been a significant driver of these trends, with prices falling by 2.9% yoy (compared with a 1.8% yoy increase in October) – reflecting the retreat in global oil prices.
- Producer prices fell in year-on-year terms for the fourteenth month in a row, with prices down by 3.0% yoy (compared with 2.6% yoy in October). In part this reflects trends in global commodity prices, with the RBA Index of Commodity Prices falling by 8.3% yoy in November (when converted into RMB terms). That said, it may also reflect comparatively weak demand in both domestic and export markets – with export prices sharply lower in recent months.

Credit conditions

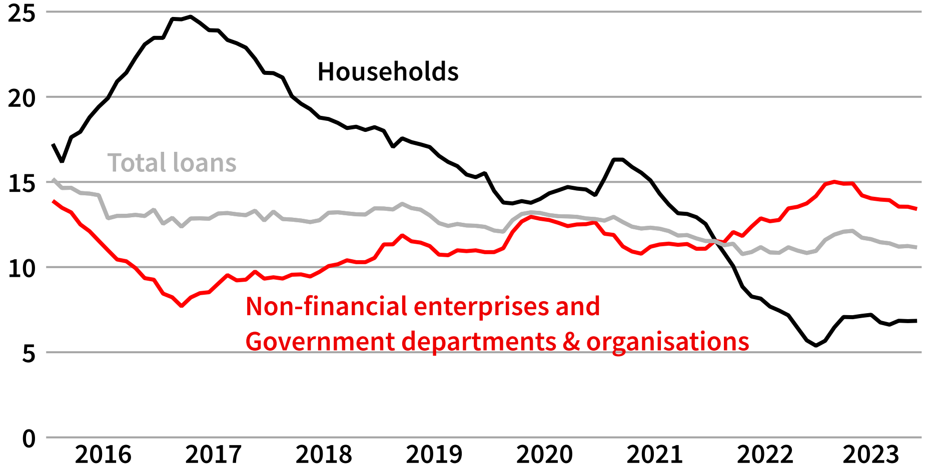
New credit issuance

Acceleration in credit issuance driven by government bonds



Bank lending

Weak demand for funds has seen loan growth stall



Sources: Macrobond, NAB Economics

- After relatively modest growth in the first seven months of 2023, new credit issuance has accelerated in recent months. In the first eleven months of 2023, new credit issuance rose by 9.5% yoy to RMB 33.6 trillion.
- Bank lending continues to account for the largest share of new credit – at around 62% between January and November – with bank loans increasing by 9.6% yoy to RMB 21.0 trillion. However, this growth rate has slowed materially in recent months.
- In contrast, non-bank lending rose by 9.4% yoy in the first eleven months – driven by the rapid growth in government bond issuance in the past four months. In the first seven months of 2023, government bond issuance contracted by 25.0% yoy, in stark contrast to the 193% yoy surge in issuance over the past four months.
- Recent statements from China's Politburo have stated the need for "proactive" fiscal policy and "prudent" monetary policy to support growth in 2024. The People's Bank of China (PBoC) has resisted cutting its policy rate in recent months, but has continued to add liquidity to financial markets, via increases through the medium term lending facility (MLF) and cuts to the Reserve Requirement Ratio (RRR) of major banks.
- These supply side measures do little to boost loan demand – which continues to look relatively weak. The growth in outstanding loans to businesses has slowed since April, while the "reopening" rebound in household lending commenced in January but has largely plateaued since March.

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