NAB Group Economics

China's economy at a glance
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Key points

China beat its modest growth target in 2023, but this will be harder to achieve in 2024

- For the full year, China's economy expanded by 5.2% – in line with our forecasts for 2023. Given the positive base effects resulting from various COVID-19 lockdowns in 2022, this was a relatively weak outcome – highlighting the softness on the demand side of China's economy. While reports have suggested that authorities will maintain the same growth target (around 5%) for 2024, the lack of positive base effects this year, allied to the headwinds of ongoing softness in domestic demand, the property sector shakeout that appears to have some way to go, and weak global demand (negatively impacting China's manufacturing sector) will make this target harder to reach. We expect China to grow by 4.5% in 2024 and 4.8% in 2025.

- A broad range of indicators were inflated in December due to the base effects associated with the Omicron wave of COVID-19 and the abandonment of zero-COVID policies in late 2022. China's industrial production increased by 6.8% yoy, the strongest rate of growth since the first two months of 2022, while real fixed asset investment rose by 4.8% yoy and real retail sales by 7.4% yoy (albeit the latter slowed compared with November as this was when the base effects were largest).

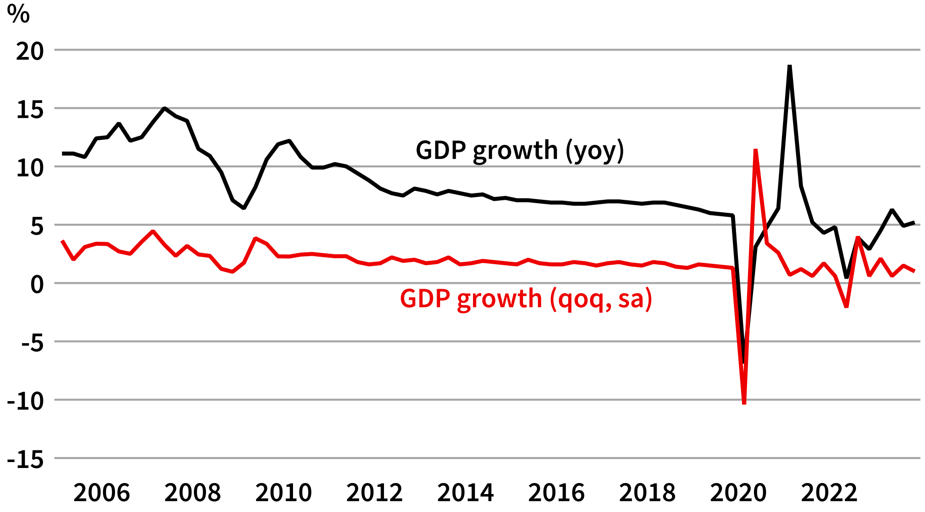
- China's trade surplus was wider once again in December – totalling US$75.3 billion (up from US$68.4 billion in November). The increased surplus reflected a stronger month-on-month increase in exports compared with imports. Exports to China's major trading partners declined once again in December – down by 3.6% yoy – as exports to other markets, most notably Russia, have expanded more rapidly (up by 21.6% yoy).

- The People's Bank of China (PBoC) kept its medium term lending facility (MLF) rate on hold again in January, but added additional liquidity to financial markets via this facility. Reports suggest that the central bank is debating whether to cut rates or reduce the reserve requirement ratio in coming months (the latter which would further boost funds available for lending). It is far from apparent that these supply side measures would provide a significant boost to China's economy. There has been little shortage of funds available for lending in recent months – instead loan demand has remained weak. This is likely to continue for as long as conditions in the real estate sector remain negative and domestic demand remains constrained

Gross domestic product

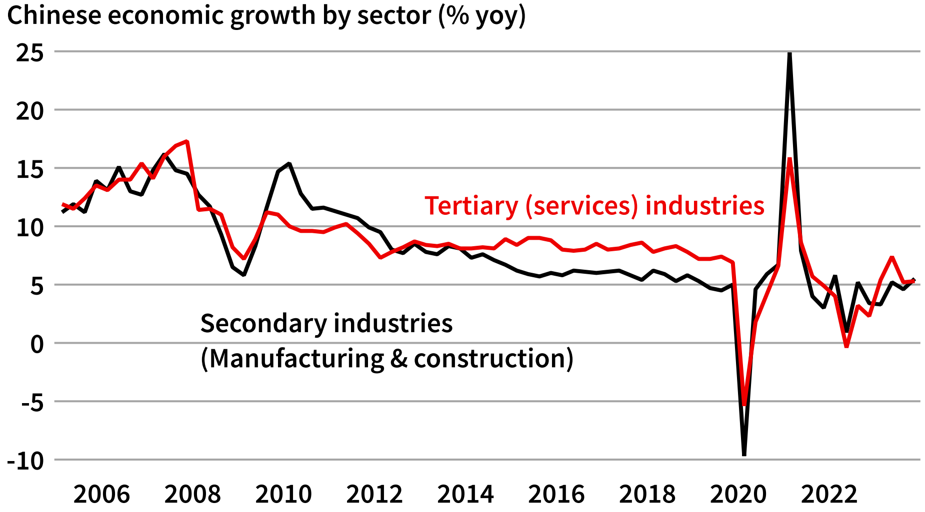
China's economic growth

Modest pickup in yoy growth in Q4 may reflect base effects



Economic growth by industry

"Old economy" marginally outpaced services in Q4



Sources: Macrobond, NAB Economics

- For the full year, China's economy expanded by 5.2% – in line with our forecasts for 2023. Given the positive base effects resulting from various COVID-19 lockdowns in 2022, this was a relatively weak outcome – highlighting the softness on the demand side of China's economy among other issues.
- Economic growth in Q4 was marginally faster in year-on-year terms – up by 5.2% (compared with 4.9% yoy in Q3) – but softer quarter-on-quarter (1.0% qoq compared to 1.5% qoq in Q3). This outcome may reflect stronger base effects in Q4, due to the Omicron wave of COVID-19 that hit in November 2022 and persisted into December.
- China's secondary sector (manufacturing and construction) marginally outpaced the services sector in Q4 – expanding by 5.5% yoy and 5.3% yoy respectively. In part, the strength of the former reflects policy efforts to support the supply side of the economy during the year.
- Our outlook for China's economy remains unchanged. While reports have suggested that authorities will maintain the same growth target (around 5%) for 2024, the lack of positive base effects this year, allied to the headwinds of ongoing softness in domestic demand, the property sector shakeout that appears to have some way to go, and weak global demand (negatively impacting China's manufacturing sector) will make this target harder to reach. We expect China to grow by 4.5% in 2024 and 4.8% in 2025.

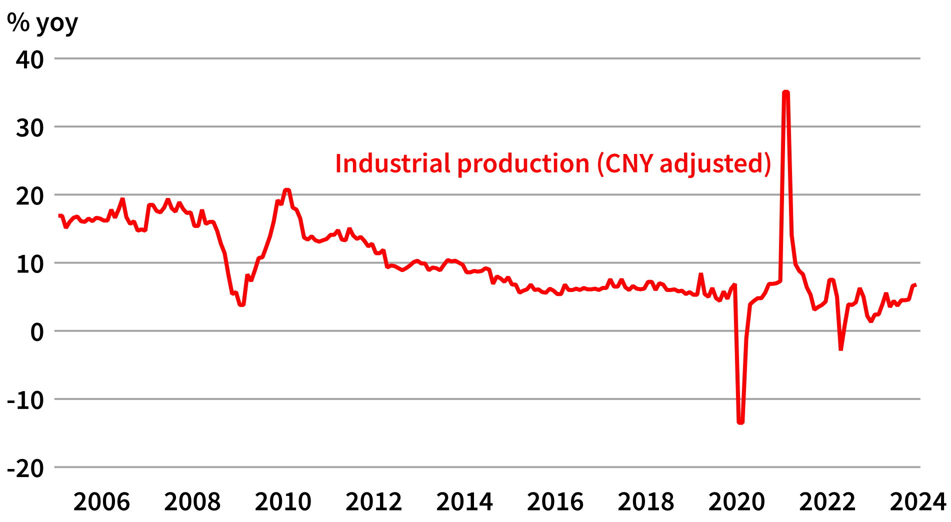
NAB China GDP forecasts

%	2022	2023	2024	2025
GDP	3.0	5.2	4.5	4.8

Industrial production

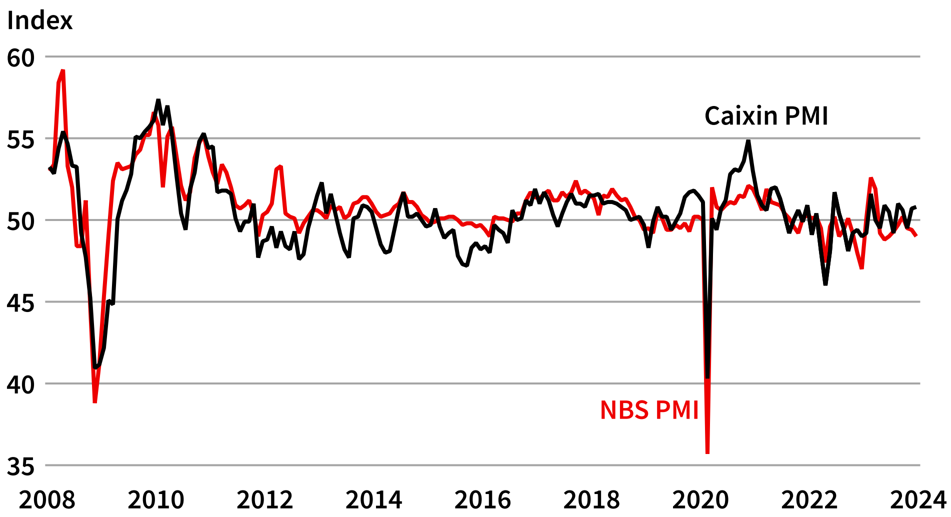
Industrial production growth

Base effects boosted industrial growth in December



Manufacturing PMI surveys

Divergence between the two major surveys persisted in December



Sources: Macrobond, NAB Economics

- China's industrial production growth edged higher in December – increasing by 6.8% yoy (compared with 6.6% yoy in November), representing the strongest rate of growth since the first two months of 2022. That said, this increase was inflated by base effects – given the disruptions in late 2022 triggered by the Omicron wave and the abandoning of zero-COVID policies.

- There remain large scale divergences in trends by individual industrial subsectors – with automobile production surging by 24.5% yoy along with strong growth in electronics (up 9.6% yoy). In contrast, ongoing weakness in the residential construction sector saw steel output fall by 14.9% yoy and cement by 0.9% yoy.

- The wide disparity between China's two major manufacturing surveys persisted in December. The private sector Caixin PMI remained in positive territory – at 50.4 points (from 50.2 points in November). In contrast, the official PMI softened further, down to 49.0 points (from 49.4 points previously).

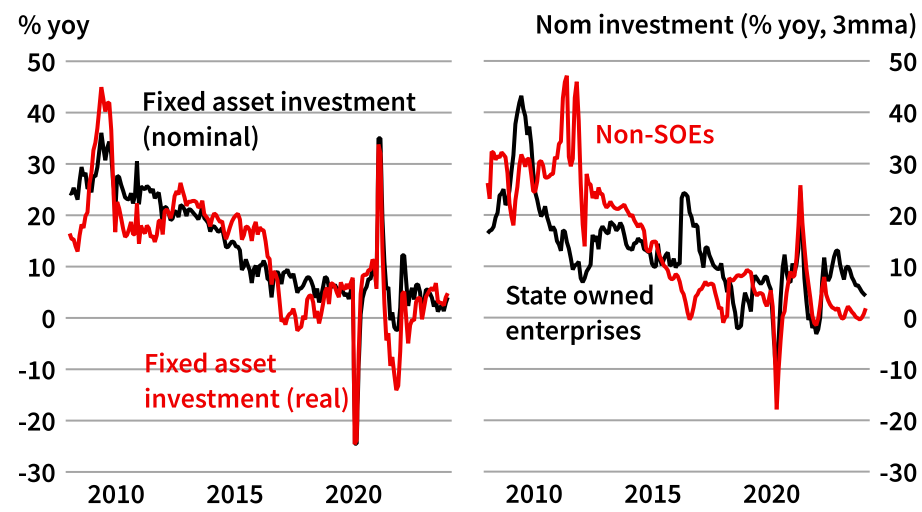
- The composition of firms in each survey differ somewhat – it is understood that the Caixin survey has a larger share of private and SME firms than the NBS measure.

- A key area of difference between the two surveys was domestic demand – with a positive reading for new orders in the Caixin survey, while it remained negative in the official survey. Both surveys pointed to weakness in new export orders, which remains consistent with our global economic picture.

Investment

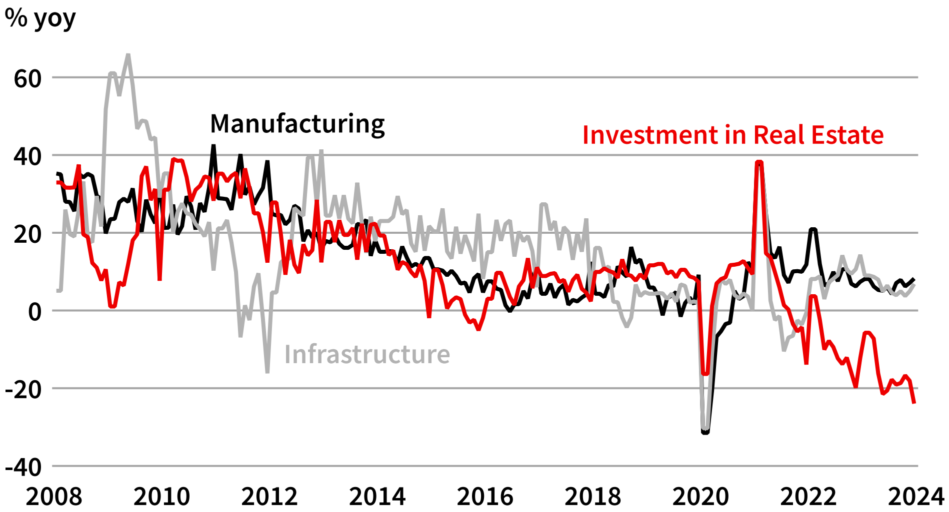
Fixed asset investment growth

Base effects boost growth across November & December



Fixed asset investment by industry

Real estate remains a substantial headwind to China's economy



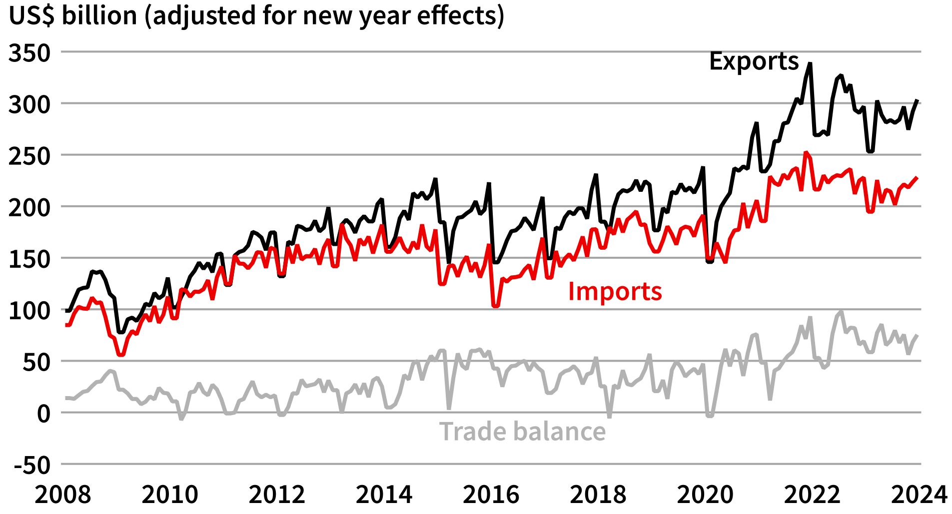
Sources: Macrobond, NAB Economics

- Nominal fixed asset investment accelerated further in December – increasing by 4.0% yoy (from 2.9% yoy in November). Declines in producer prices flow through into the cost of investment goods, meaning that real investment growth has been stronger than nominal growth for most of 2023 – with real investment up by 4.8% yoy in December (from 4.0% yoy previously).
- As with a broad range of indicators across November and December, these increases have been inflated by base effects related to last year's Omicron COVID-19 wave and the abandonment of zero-COVID policies.
- Nominal investment growth by private sector firms has substantially lagged that of state-owned enterprises (SOEs) since early 2022, however the gap narrowed in December. Private investment rose by 3.3% yoy (the fastest pace of growth since May 2022) – up from 1.9% yoy in November. In contrast, SOE investment rose by 5.3% yoy (up from 4.6% yoy previously).
- Investment trends continue to diverge by sector, with the real estate sector remaining a major drag. Investment in real estate fell by 24.0% yoy in December – the twenty-second month in a row of year-on-year declines. Sales of residential property fell by 25.8% yoy in December, while new construction starts fell by 13.4% yoy (following a surprise increase in November that likely reflected base effects).
- In contrast, investment growth in manufacturing and infrastructure remained comparatively strong – up by 8.2% yoy and 6.8% yoy respectively in December.

International trade – trade balance and imports

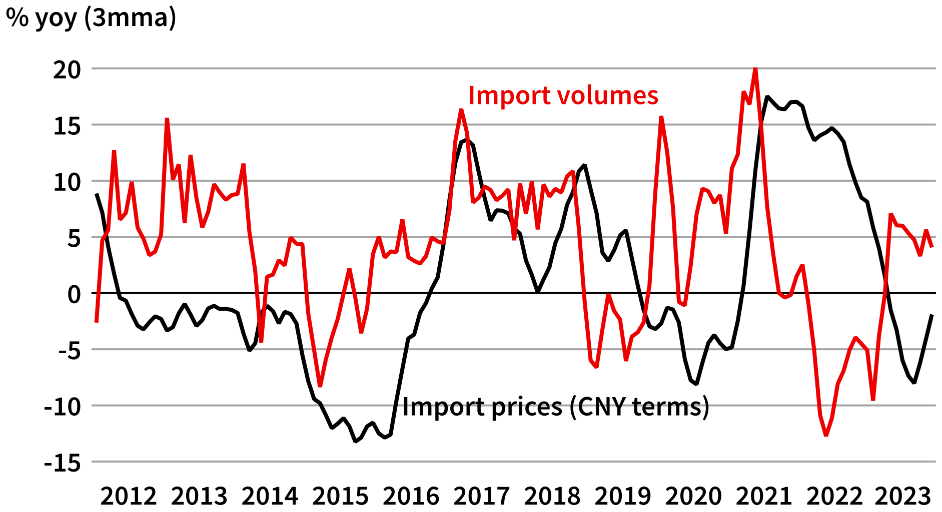
China's trade balance

Sharper mom increase in exports drove surplus wider in December



Import volumes and prices

Falls in imports driven by declining prices



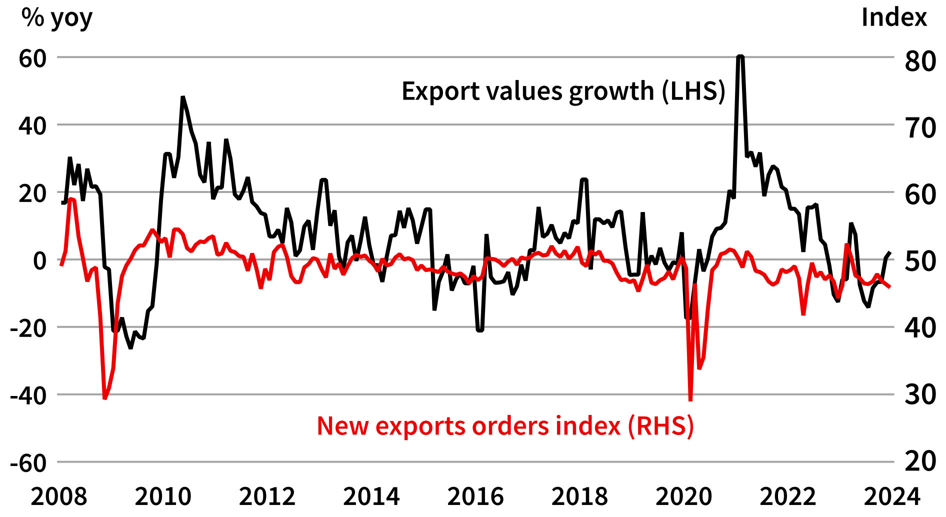
Sources: Macrobond, NAB Economics

- China's trade surplus was wider once again in December – totalling US$75.3 billion (up from US$68.4 billion in November). The increased surplus reflected a stronger month-on-month increase in exports compared with imports.
- The rolling twelve month trade surplus with the United States edged marginally lower again in December (with November having been the first month since July 2022 that the surplus did not contract) – totalling US$339.9 billion (compared with the all time peak of US$439.7 billion in July 2022). While the rolling surplus is well off this peak, it remains a little above the pre-US-China trade war peaks.
- China's imports totalled U$228.3 billion in December (up from US$223.5 billion previously). In year-on-year terms, this represented an increase of 0.2% – only the second monthly increase recorded since August 2022.
- The key driver of declining import values across much of 2023 has been falling import prices, with volumes increasing relatively strongly over this period. In part, this reflects declines in commodity prices – the RBA Index of Commodity Prices fell by 8.2% yoy (in RMB terms) in December, likely indicating a continuation of the price-volume trend in the month.
- That said, there have been highly divergent trends between individual commodities. For example, the value of iron ore imports rose by almost 49% yoy in December, while volumes moved up just 11% – reflecting a sharp lift in iron ore prices (largely on expectations of Chinese stimulus). In contrast, coal volumes rose by 53% yoy, while the value was just 23.4% yoy higher, with prices easing substantially.

International trade – exports

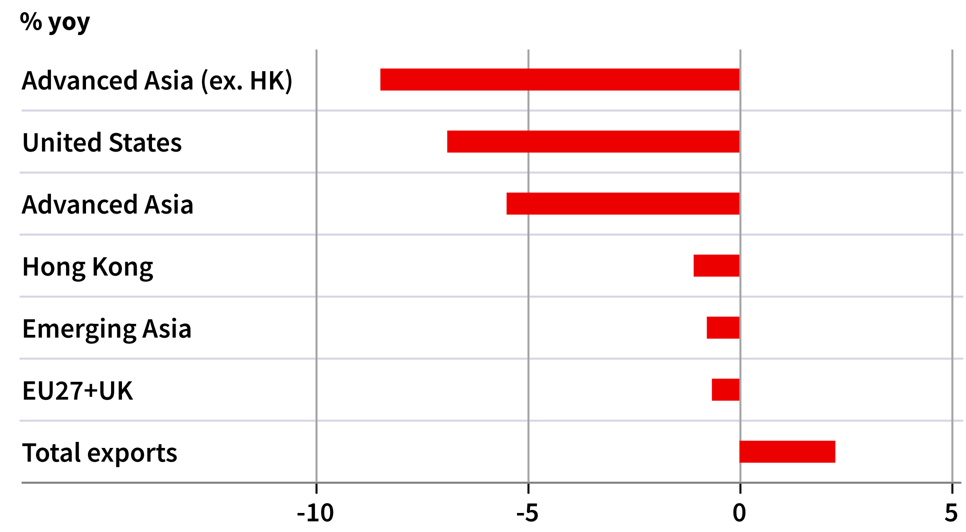
Export value and new export orders

Values grew modestly in December, but new orders remain weak



Exports to major trading partners

United States and advanced Asia saw larger falls in exports



Sources: Macrobond, NAB Economics

- China's exports totalled US$303.6 billion in December (up from US$291.9 billion previously). This was an increase of 2.3% year-on-year, in stark contrast to the steep declines recorded between May and October 2023. New export orders in both major manufacturing PMIs remained negative in December, with the NBS PMI measure at 45.8 points (from 46.3 points in November).

- The key driver of weak export values across much of 2023 has been falling export prices (in a similar pattern to import trends). Export prices fell by 9.2% yoy in November (in RMB terms), while export volumes rose by 12.0% yoy.

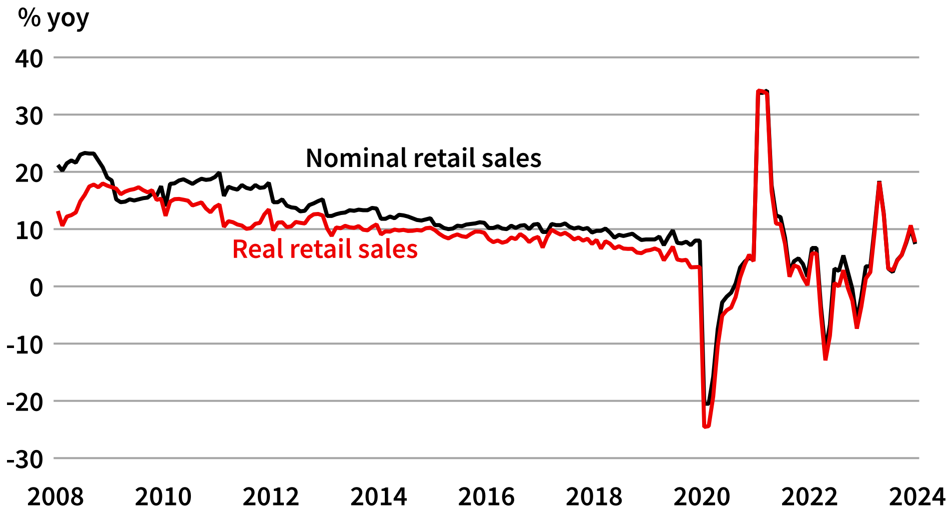
- Exports to China's major trading partners declined once again in December – down by 3.6% yoy – as exports to other markets, most notably Russia, have expanded more rapidly (up by 21.6% yoy).

- There was a wide divergence in growth rates for China's major trading partners in December. Exports to the United States and advanced Asian economies fell the largest (down by 6.7% yoy and 5.5% yoy respectively – albeit the latter fell further if Hong Kong is excluded). In contrast, exports to emerging Asia and the European Union-27 + the United Kingdom fell by just 0.8% yoy and 0.6% yoy respectively.

Retail sales and inflation

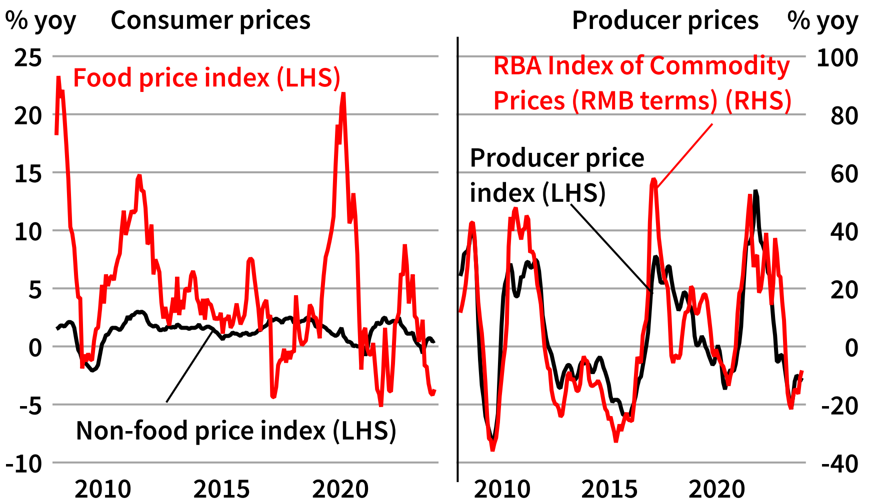
Retail sales growth

Weaker growth in December as base effects faded



Consumer and producer prices

Food prices remain negative; factory prices down for 15th month



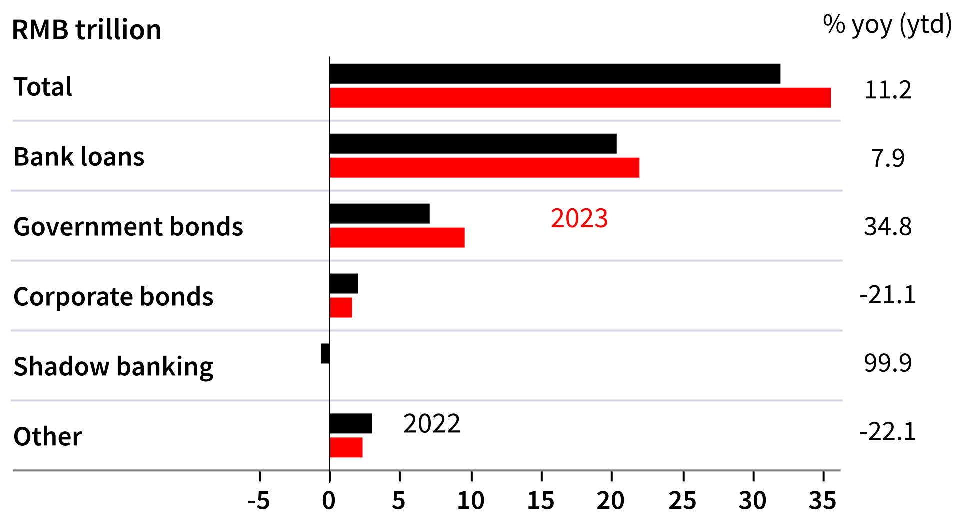
Sources: Macrobond, NAB Economics

- Nominal retail sales growth slowed in December – with sales up by 7.4% yoy (from 10.1% yoy in November) – however much of this slowdown reflected base effects related to the COVID-19 wave at the end of 2022. Deflating this measure using consumer prices, sales rose by 7.7% yoy in real terms (from 10.7% yoy previously).
- Looking through the volatility of the pandemic period, we are yet to see a substantial recovery in consumer demand exhibited in real retail sales. Sales in December were around 8.7% above the corresponding month in 2019, compared with 9.8% in November and 12.7% in October. This suggests that domestic demand has remained relatively subdued.
- China's consumer prices continued to contract in December, with the headline consumer price index down by 0.3% yoy (compared with 0.5% yoy previously). Food prices have been the key driver of recent deflationary pressures – falling by 3.7% yoy (from 4.2% yoy in November). Pork has an outsized influence on the food price index, with pork prices down by 26.1% yoy in December. In contrast, fresh fruit prices fell by just 0.3% yoy, while fresh vegetables rose by 0.5% yoy.
- Compared to the volatility in food prices, non-food price movements have been relatively subdued, increasing by 0.5% yoy (from 0.4% yoy in November). Vehicle fuel prices have been a major contributor to the overall trend – falling by 1.4% yoy in December.
- Producer price deflation was a little softer in December – with prices down by 2.7% yoy (compared with 3.0% yoy in November). This was the fifteenth month in a row that prices fell. The close relationship between producer prices and global commodity prices persists – with the RBA Index of Commodity Prices down by around 8.2% yoy in December (in RMB terms) – with weak export demand limiting the capacity of producers to maintain export prices.

Credit conditions

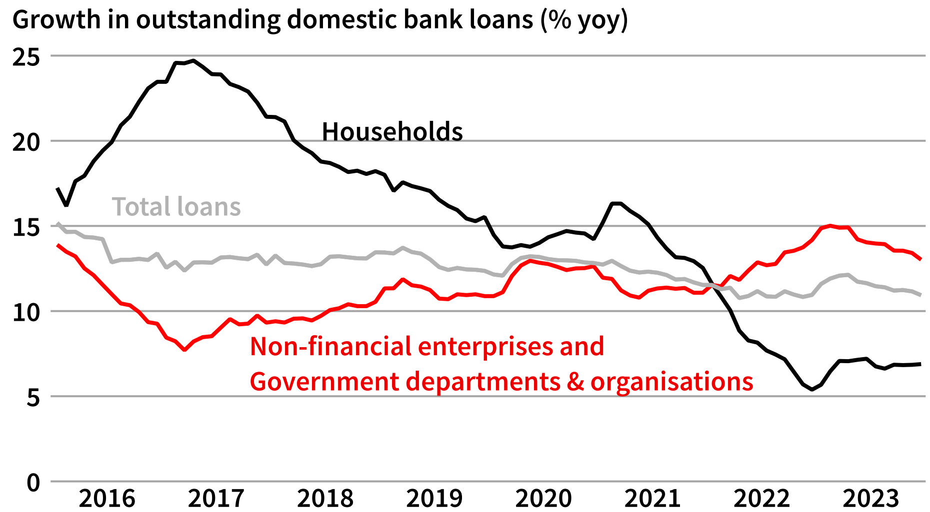
New credit issuance

Rapid acceleration in government bonds across H2 2023



Bank lending

Demand side of financial markets remains constrained



- China's new credit issuance expanded by 11.2% to RMB 35.6 trillion in 2023. Although bank lending remained the largest share of this total – at RMB 22.0 trillion – it expanded by just 7.9% in 2023. In contrast, non-bank lending grew by 16.9% in 2023 – led by a 34.8% increase in government bond issuance.

- That said, there was a substantial shift in credit issuance across the course of 2023. Bank lending grew rapidly in the first half of 2023 (up 14.4% yoy), while government bonds contracted by 27.4% yoy over this period. In contrast, in the second half of 2023, bank lending slowed (contracting by 5.1% yoy), while government bond issuance surged (up by 152% yoy).

- The People's Bank of China (PBoC) kept its medium term lending facility (MLF) rate on hold again in January, but added additional liquidity to financial markets via this facility. Reports suggest that the central bank is debating whether to cut rates or reduce the reserve requirement ratio in coming months (the latter which would further boost funds available for lending).

- It is far from apparent that these supply side measures would provide a significant boost to China's economy. There has been little shortage of funds available for lending in recent months – instead loan demand has remained weak. This is likely to continue for as long as conditions in the real estate sector remain negative and domestic demand remains constrained.

Sources: Macrobond, NAB Economics

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