NAB Group Economics

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China's economy at a glance

May 2024

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Key points

Trade tensions continue to mount, with critics claiming that China is exporting its industrial overcapacity

- Trade tensions between China and partners such as the United States and the European Union have intensified in recent months – culminating in the Biden Administration announcing a range of tariff increases on Chinese imports. Critics suggest that China is failing to address industrial overcapacity – in part related to long running weakness in domestic consumption and a high savings rate – and is instead pushing its domestic imbalances into global markets. Comparatively strong growth in industrial production and weak retail sales data in April do little to counter this argument. Our forecasts for China's growth rate are unchanged – we see its economy expanding by 4.5% in 2024 and 4.8% in 2025.

- China's industrial production growth accelerated in April, following on from a dip in March. Output rose by 6.7% yoy, compared with 4.5% yoy in March and an average of 7.0% yoy across January and February. Production of electronics and motor vehicles continued to increase (with electric vehicles increasing by almost 36% yoy). In contrast, construction related heavy industry saw steep falls.

- Growth in China's real fixed asset investment slowed in April – with investment increasing by 4.6% yoy (down from 6.0% yoy in March). There continues to be a wide disparity in nominal investment growth between private sector firms and state-owned enterprises (SOEs) – with the former growing by 1.6% yoy in April, and the latter by 6.7% yoy.

- China's trade surplus increased in April, rising to US$72.4 billion (up from US$58.6 billion previously). This increase reflected a month-on-month acceleration in exports, while imports were marginally softer. This surplus was slightly above the average seen since late 2021. On a rolling twelve month basis, China's trade surplus eased slightly in April but remains around the typical levels seen since October 2023 and far above pre-pandemic levels – helping to fuel the trade tensions.

- Real retail sales growth slowed considerably in April – increasing by 2.0% yoy (compared with 3.0% yoy in March). With the volatility of late-2022 and early 2023, associated with the end of the zero-COVID policies, fading from growth calculations, this result points to weak domestic consumption persisting in April.

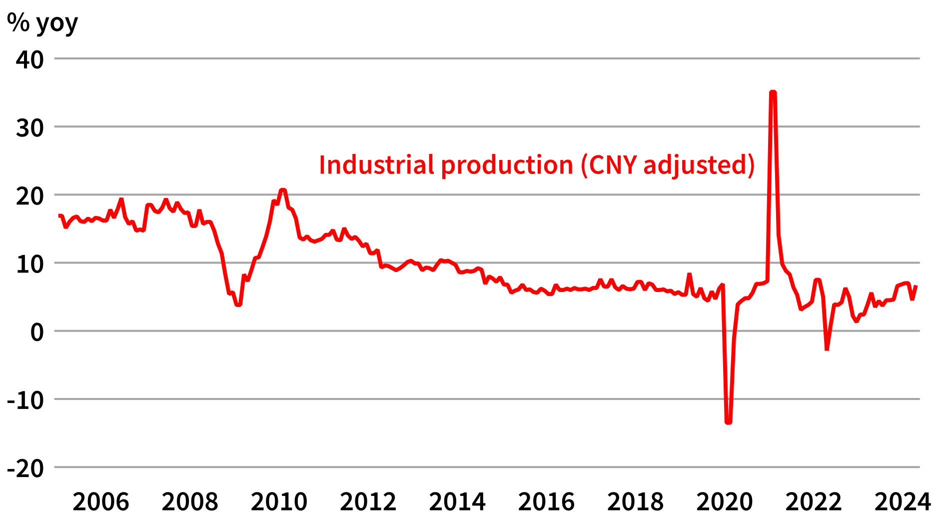
- New credit issuance was comparatively weak in the first four months of 2024, with issuance declining by 19.3% yoy to total RMB 12.7 trillion. It is worth noting that much of this decline was driven by new issuance contracting on a net basis in April – with lending pulling back by RMB 199 billion – as the stock of government bonds and banker's acceptance bills fell.

- The weakness in credit issuance in April has raised expectations of further monetary policy easing in coming months. That said, it has been apparent for some time that loan demand is weak, and relatively minor adjustments to monetary policy are unlikely to have a meaningful effect alter this situation.

Industrial production

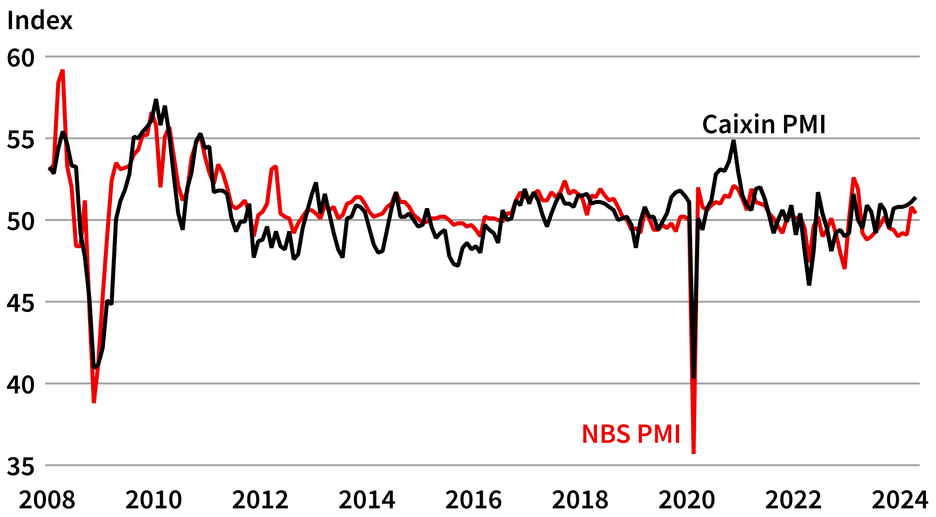
Industrial production growth

Output growth rebounded in April; mixed trends among subsectors



Manufacturing PMI surveys

Differing demand trends see surveys start to diverge again



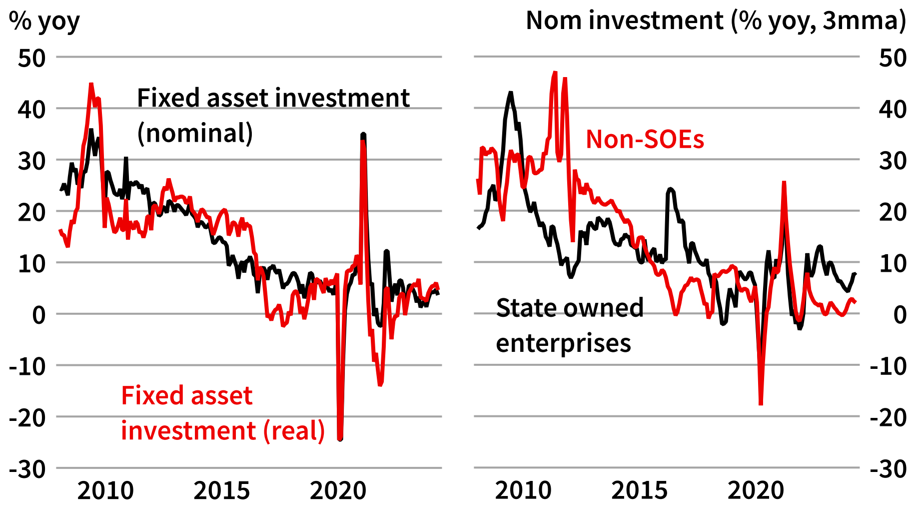
- China's industrial production growth accelerated in April, following on from a dip in March. Output rose by 6.7% yoy, compared with 4.5% yoy in March and an average of 7.0% yoy across January and February.
- There has been considerable disparity in output trends by different industrial subsectors in recent times. Production of electronics continued to increase strongly – up by 15.6% yoy – while motor vehicle output rose by 15.4% yoy (with electric vehicles increasing by almost 36% yoy). In contrast, construction related heavy industry saw steep falls, with cement manufacturing down by 8.6% yoy and crude steel output falling by 7.2% yoy).
- China's major manufacturing surveys converged in March (following several months featuring sizeable gaps between the two measures), but diverged again in April, if only modestly. The official NBS PMI dipped slightly lower – down to 50.4 points (from 50.8 points in March). In contrast, the Caixin PMI was marginally stronger, at 51.4 points (from 51.1 points previously).
- There were contrasting performances in key measures within the two surveys, particularly around new orders. New orders in the Caixin survey strengthened, to be at its highest level in over a year, while the new export orders measure recorded its strongest reading in almost three and half years (at the initial wave of pandemic goods demand). In contrast, these measures in the NBS survey softened in April, while still remaining in positive territory.

Sources: Macrobond, NAB Economics

Investment

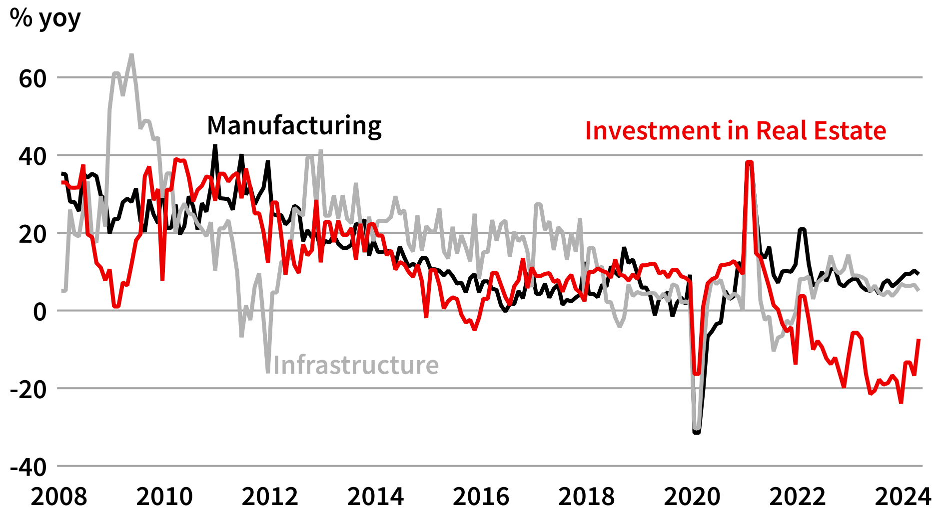
Fixed asset investment growth

Private sector investment continues to lag that of SOEs



Fixed asset investment by industry

Real estate remains a headwind to investment growth



Sources: Macrobond, NAB Economics

- Growth in China's nominal fixed asset investment slowed in April – with investment increasing by 3.6% yoy (down from 4.7% yoy in March). Factory gate prices continue to fall, and this flows through into lower prices for investment goods. As a result, our estimate of real investment is a little stronger than the nominal rate – at 4.6% yoy – albeit this was down from 6.0% yoy in March.

- There continues to be a wide disparity in nominal investment growth between private sector firms and state-owned enterprises (SOEs). Private sector investment rose by just 1.6% yoy in April (from a relatively subdued 2.4% yoy in March). SOE investment was also slower – but considerably stronger than private sector growth – rising by 6.7% yoy (from 8.2% yoy previously).

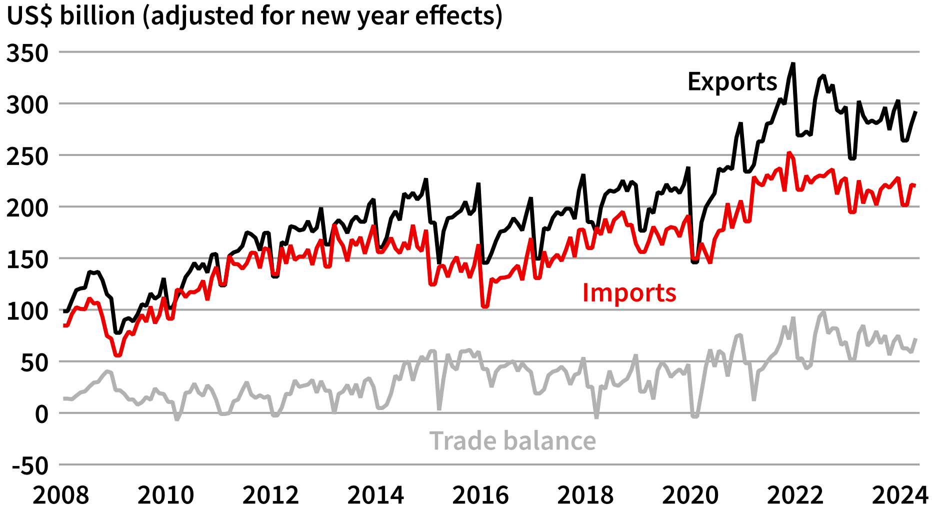
- The diverging trends in investment by industry have persisted. The Three Red Lines policy had a substantial impact on investment in real estate – which fell by 7.3% yoy in April – marking the 26th straight month of year-on-year falls (albeit this was the smallest rate of decline since January-February 2023). Residential construction starts fell by 13.7% yoy, while sales fell by 17.1% yoy. Reports this month suggest that local governments may be permitted to purchase unsold houses to try and restore confidence to the sector.

- Investment growth in manufacturing and infrastructure remain comparatively strong – increasing by 9.3% yoy and 5.1% yoy respectively in April.

International trade – trade balance and imports

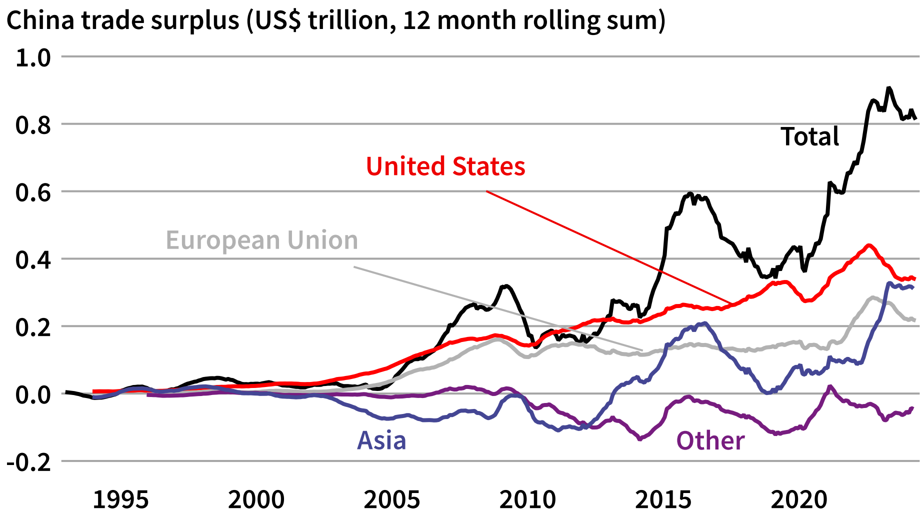
China's trade balance

Trade surplus rises in April, just above the trend since late 2021



China's rolling trade surplus

Ramp up in exports to Asia drove growth in surplus since early '22



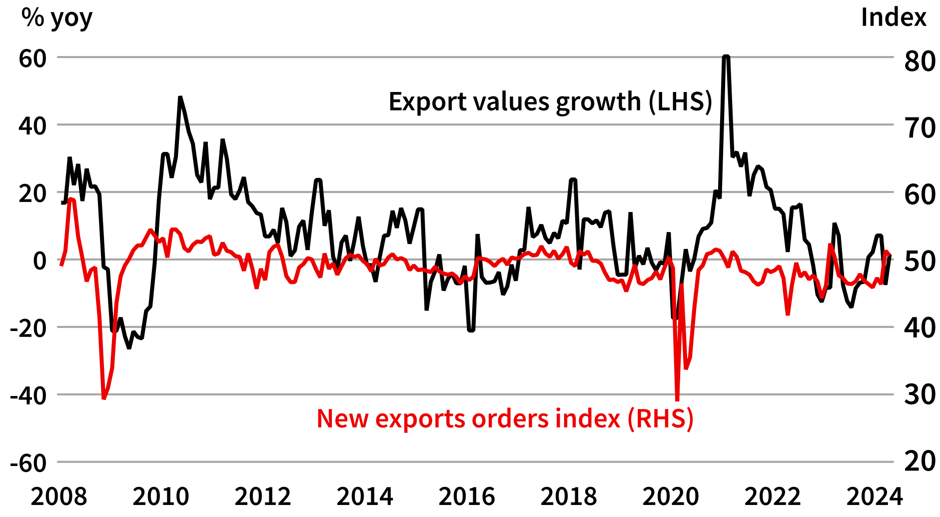
Sources: Macrobond, NAB Economics

- China's trade surplus increased in April, rising to US$72.4 billion (up from US$58.6 billion previously). This increase reflected a month-on-month acceleration in exports, while imports were marginally softer. This surplus was slightly above the average seen since late 2021.
- On a rolling twelve-month basis, China's trade surplus eased slightly in April – down to US$813 billion (from US$825.3 billion in March). That said, this remains around the typical levels seen since October 2023 and far above pre-pandemic levels – helping to fuel the trade tensions. The key driver of the increase since early 2020 has been a growing surplus with other economies in Asia.
- This surplus has increased trade tensions in recent times, with various countries accusing China of addressing its industrial overcapacity by dumping goods into global markets. Both the United States and European Union are reportedly set to increase tariffs on imports of Chinese electric vehicles, while the US also intends to place measures on solar panels as well.
- China's imports dipped marginally in April – totalling US$220.1 billion (down from US$221.1 billion in March). That said, this represented a large increase in year-on-year terms – up by 8.4%.
- Across much of 2023, China's import volumes trended higher as the price of imports generally fell, however this trend reversed in February and March, as import volumes fell and prices rose. This was despite a fall in the commodity prices (as measured by the RBA Index of Commodity Prices) – albeit there was substantial divergence between individual commodities. For example, prices for fertilisers, grains, coal and iron ore were lower year-on-year, while LCD displays, machine tools and crude oil rose substantially.

International trade – exports

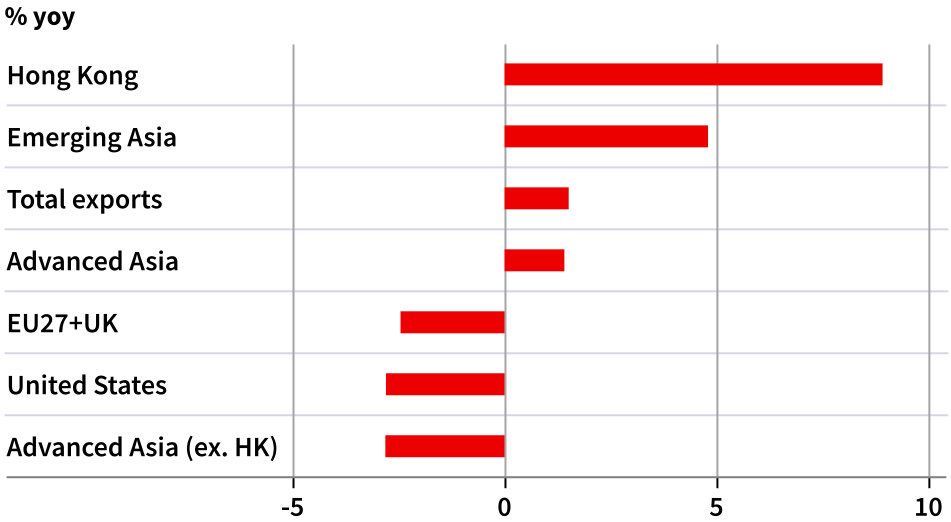
Export value and new export orders

New orders comparatively strong versus H2 2023



Exports to major trading partners

Emerging Asia drove the growth in Indonesia and Vietnam



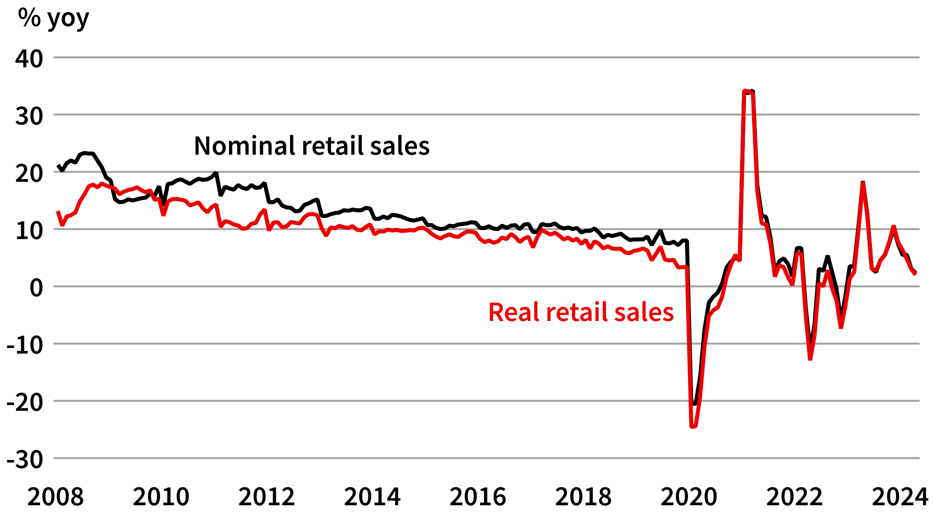
Sources: Macrobond, NAB Economics

- China's exports totalled US$292.5 billion in April, rising from USUS279.7 billion in March. In year-on-year terms, this represented a modest 1.5% increase (albeit this was compared with a 7.5% fall in March). The new export orders measure in the NBS manufacturing PMI survey was slightly weaker in April – edging down to 50.6 points (compared with 51.3 points in March).
- Since the latter months of 2023, China's export volumes have risen rapidly – up by 13% yoy (3mma) in March 2024 according to official data. This surge has corresponded with a drop in export prices (down 6.3% yoy 3mma). The increase in volumes has led to growing trade tensions with a range of trade partners – claiming industrial overcapacity and dumping.
- Export trends for China's major trading partners was highly divergent in April. Notably the value of exports fell to the advanced economy groupings – with deliveries to advanced Asian economies (excluding Hong Kong) and the United States both down by 2.8% yoy, while exports to the European Union-27 + the United Kingdom declined by 2.5% yoy.
- Exports to Hong Kong grew strongly – however it is worth noting that there have been long running inconsistencies between China Customs and Hong Kong Customs data regarding trade, with capital flows disguised as trade activity distorting data in the past.
- Exports to emerging markets in Asia also grew comparatively strongly – up by 4.8% yoy. This was driven by large increases in exports to Indonesia, Vietnam and (to a lesser extent) Malaysia, while exports to India declined by 6.2% yoy.
- A key source of export growth in 2023 was Russia, however the value of exports fell by 13.6% yoy in April, following a 15.7% yoy fall in March.

Retail sales and inflation

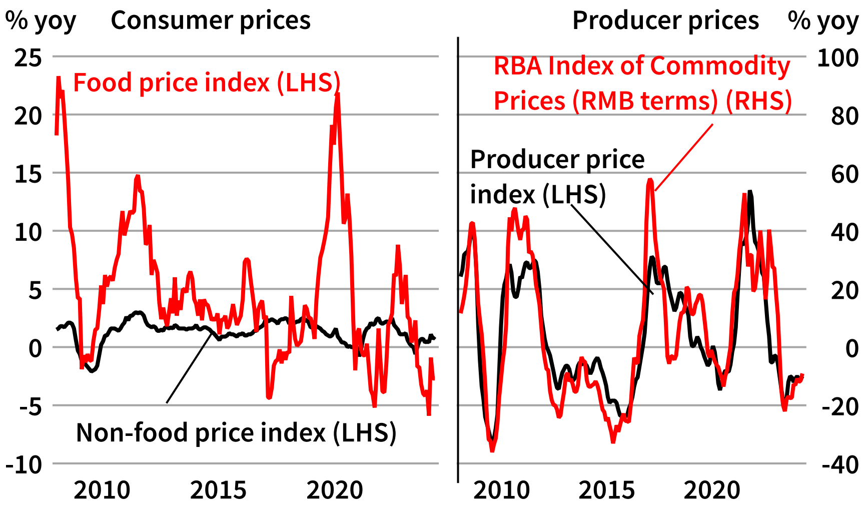
Retail sales growth

Slowing sales growth highlights weak consumption



Consumer and producer prices

CPI edges up, while producer prices continue to contract



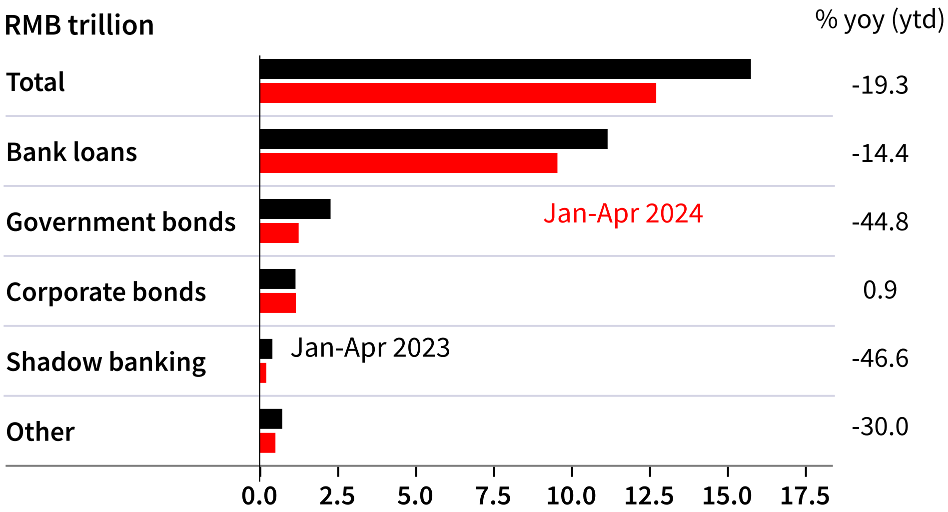
Sources: Macrobond, NAB Economics

- Nominal growth in China's retail sales slowed considerably in April – increasing by 2.3% yoy (compared with 3.1% yoy in March). Deflating this measure using the consumer price index pushes our estimate of real retail sales growth down to 2.0% yoy (compared with 3.0% yoy previously). With the volatility of late-2022 and early 2023, associated with the end of the zero-COVID policies, fading from growth calculations, this result points to weak domestic consumption persisting in April.
- China's consumer price growth edged higher in April – with the consumer price index increasing by 0.3% yoy (up from 0.1% yoy in March). Persistently low inflation in China remains in stark contrast to persistently above target rates in most advanced economies.
- Food prices continued to contract in April – a trend that has been evident since mid-2023 – down by 2.7% yoy (unchanged from March). For much of this period, declining pork prices have been a key driver of the food price trend, however pork prices rose by 1.4% yoy in April. This increase was offset by steep falls in eggs and fresh fruit prices along with weaker trends in dairy and aquatic products.
- Non-food prices increased slightly more rapidly in April – up by 0.9% yoy (from 0.7% yoy in March). Vehicle fuel prices have a sizeable influence on this measure – with prices up by 6.9% yoy (from 2.2% yoy in March) – largely in line with global trends in oil markets.
- China's producer prices fell again in April – the nineteenth month in a row that prices have fallen. Input costs likely contributed to this – after converting to RMB terms, the RBA Index of Commodity Prices fell by 9.1% yoy in April (albeit there have been highly divergent trends of late, with base metals prices soaring). However, this weakness also likely highlights soft domestic demand.

Credit conditions

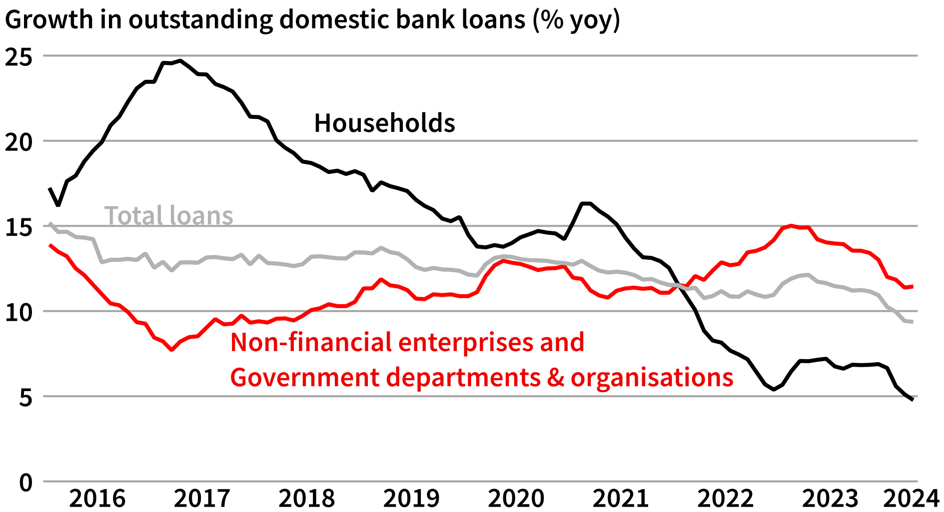
New credit issuance

Weak conditions in April sees steep ytd falls in credit issuance



Bank lending

Weak loan demand sees slower growth in outstanding loans



Sources: Macrobond, NAB Economics

- New credit issuance has remained comparatively weak in the first four months of 2024, with issuance declining by 19.3% yoy to total RMB 12.7 trillion. It is worth noting that much of this decline was driven by new issuance contracting on a net basis in April – with lending pulling back by RMB 199 billion – as the stock of government bonds and banker's acceptance bills fell.
- While bank lending continues to account for the largest share of new credit issuance, it fell considerably in the first four months – down 14.4% yoy to RMB 9.6 trillion.
- Non-bank lending contracted by 31.1% yoy in the first four months of the year, with government bond issuance falling by 44.8% yoy and shadow banking down by 46.6% yoy (with the former representing a bigger decline in RMB terms due to its larger size). It is worth noting that while government bond issuance has been weak in early 2024, there was considerable issuance of special purpose bonds in late 2023 that may be distorting typical government funding patterns and may mean that these data are somewhat overstating the overall credit weakness.
- The weakness in credit issuance in April has raised expectations of further monetary policy easing in coming months. The People's Bank of China (PBoC) has kept its main policy rate unchanged since mid-2023, while it cut the Reserve Requirement Ratio for banks (boosting the funds available for lending) in February 2024.
- That said, it has been apparent for some time that loan demand is weak, and relatively minor adjustments to monetary policy are unlikely to have a meaningful effect alter this situation.

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