NAB Group Economics

China's economy at a glance
June 2024

Author: Gerard Burg, Senior Economist - International

Key points

How will China respond to the European tariffs on its electric vehicle exports?

- Trade tensions between China and other economies remain a key issue – given the rapid ramp up in China's export volumes since mid-2023. This culminated in the European Union announcing tariffs in Chinese electric vehicles in June. While the increase in tariffs was not as significant (in percentage terms) as those announced by the United States in May, the EU measures carry greater significance given that the region is a major importer of Chinese EVs (whereas US imports were negligible). The key question is how (and to what extent) China retaliates to these tariffs – given the potential for tit-for-tat measures that could result in a trade war similar to that between China and the United States starting in 2018. Overall, our forecasts for China's growth rate are unchanged – we see its economy expanding by 4.5% in 2024 and 4.8% in 2025.

- Growth in China's industrial production slowed a little in May, continuing the recent volatile track. Output rose by 5.6% yoy, down from 6.7% yoy in April. Trends within individual industries varied widely in May – with strong growth in electronics (up by 14.5% yoy), while cement manufacturing – closely tied to the construction sector – contracted by 8.2% yoy.

- China's real fixed asset investment grew at a slower pace in May – increasing by 3.2% yoy (down from 4.4% yoy in April). There has been a wide disparity between the nominal investment trends of state-owned enterprises (SOEs) and private sector firms since early 2022, albeit the gap narrowed slightly in May.

- China's trade surplus expanded once again in May – increasing to US$82.6 billion (from US$72.4 billion in April). The value of imports eased slightly month-on-month, while exports rose.

- China's real retail sales growth edged up in May, increasing by 3.4% yoy (compared with 2.0% yoy in April). Looking through the volatility of the COVID-19 pandemic, this remains a historically subdued rate of growth – pointing to the continued weakness in domestic demand.

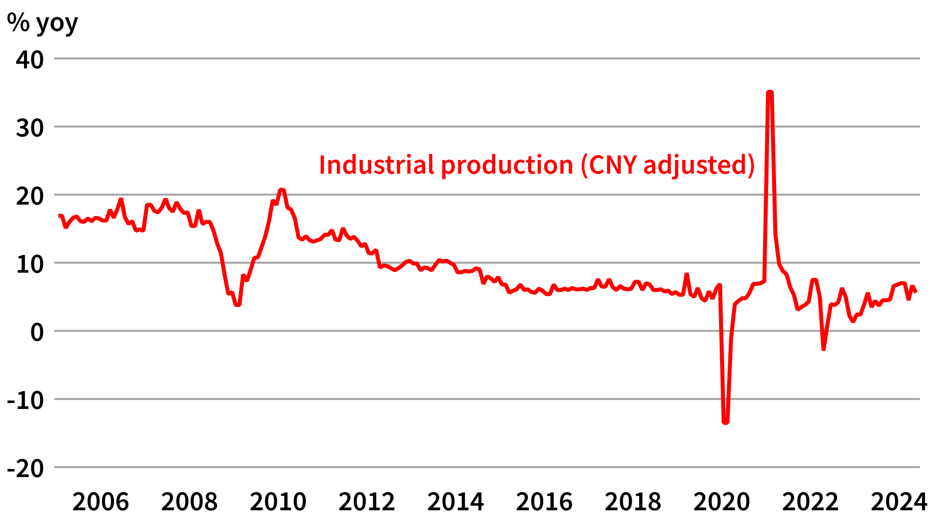
- China's new credit issuance contracted over the first five months of 2024 – down by 14.6% yoy to total RMB 14.8 trillion. That said, issuance grew relatively rapidly in May (driven primarily by government bonds), following on from extremely weak conditions in April.

- Since cutting the Reserve Requirement Ratio in early February (which boosted the funds available for banks to lend), the People's Bank of China (PBoC) has so far resisted further monetary easing. This is despite the weak loan demand – particularly from the household sector.

Industrial production

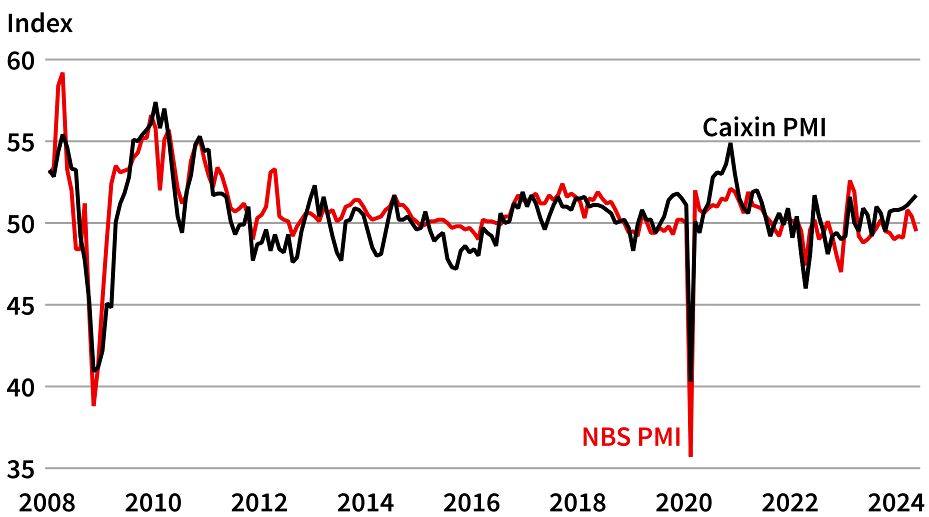
Industrial production growth

Slightly softer output growth as volatile trend continues



Manufacturing PMI surveys

Gap between PMIs widened further in May



Sources: Macrobond, NAB Economics

- Growth in China's industrial production slowed a little in May, continuing the recent volatile track. Output rose by 5.6% yoy, down from 6.7% yoy in April.

- Once again, trends within individual industries varied widely in May. There was strong growth in electronics, which increased by 14.5% yoy. Having declined each month between January and April, there was a surprising uptick in steel production in May – up by 2.7% yoy – while motor vehicle production rose by 1.3% yoy (having risen by 15.4% yoy in April). Cement manufacturing – closely tied to the construction sector – contracted by 8.2% yoy.

- Having briefly converged in March, China's major manufacturing surveys diverged further in May. The private sector Caixin PMI was stronger – moving up to 51.7 points (from 51.4 points in April) – the strongest reading since May 2021. In contrast, the official NBS PMI weakened – dropping back below the neutral level to 49.5 points in May (from 50.4 points previously).

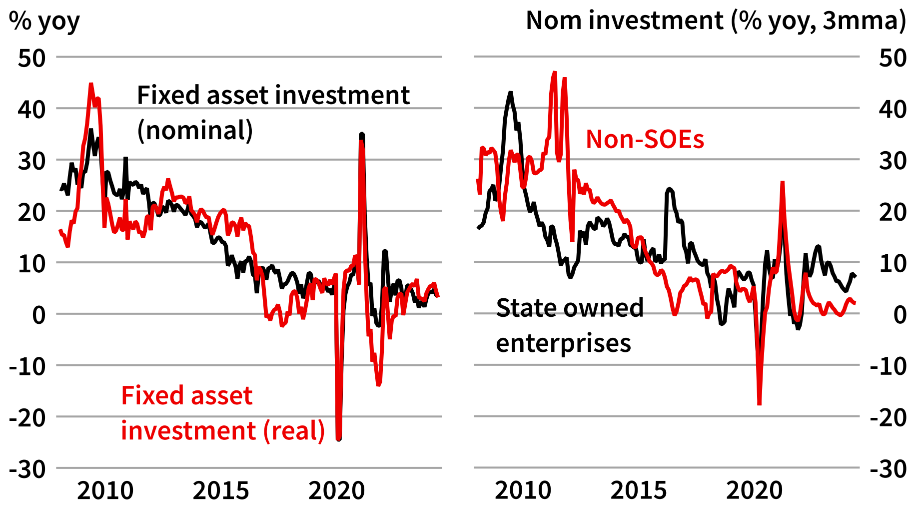
- It is understood that the NBS survey has a larger share of state-owned enterprises – likely more impacted by the property downturn and weak domestic conditions – while the Caixin survey has more private and export-oriented firms.

- This saw both production and new orders pick up in the Caixin survey, while these measures were less positive and negative in the NBS survey. Similarly, the two surveys report differing trends for new export orders – positive (albeit off recent peaks) levels in the Caixin survey, negative in the NBS PMI.

Investment

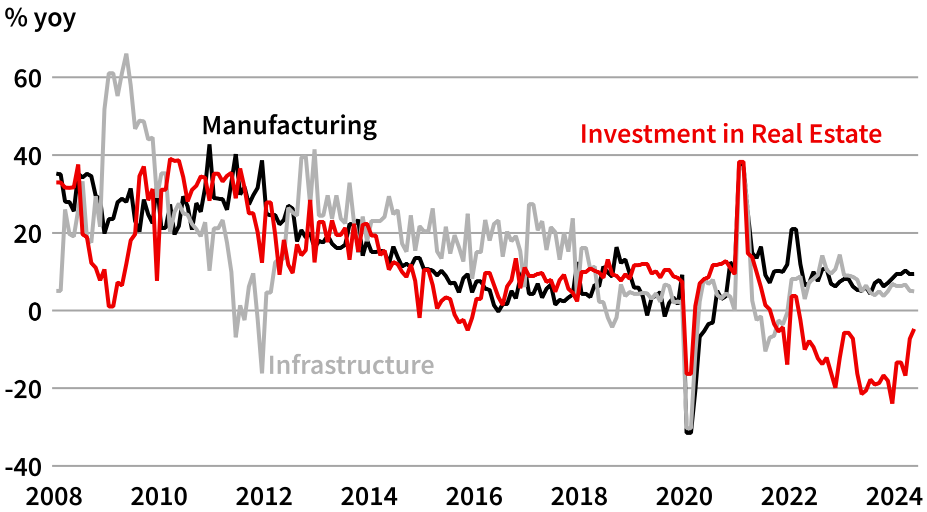
Fixed asset investment growth

Private investment marginally stronger in May but still subdued



Fixed asset investment by industry

Slowest decline in real estate investment since March 2022



Sources: Macrobond, NAB Economics

- China's nominal fixed asset investment grew at a marginally slower pace in May – increasing by 3.5% yoy (down from 3.6% yoy in April). Deflating this measure using the corporate goods price index (as a proxy for the discontinued investment goods index), we estimate that real investment growth slowed more rapidly – increasing by 3.2% yoy (from 4.4% yoy previously).

- There has been a wide disparity between the nominal investment trends of state-owned enterprises (SOEs) and private sector firms since early 2022, albeit the gap narrowed slightly in May. Investment by SOEs rose by 6.2% yoy (down from 6.7% yoy in April). In contrast, investment by private firms rose by 1.9% yoy (up from 1.6% yoy previously).

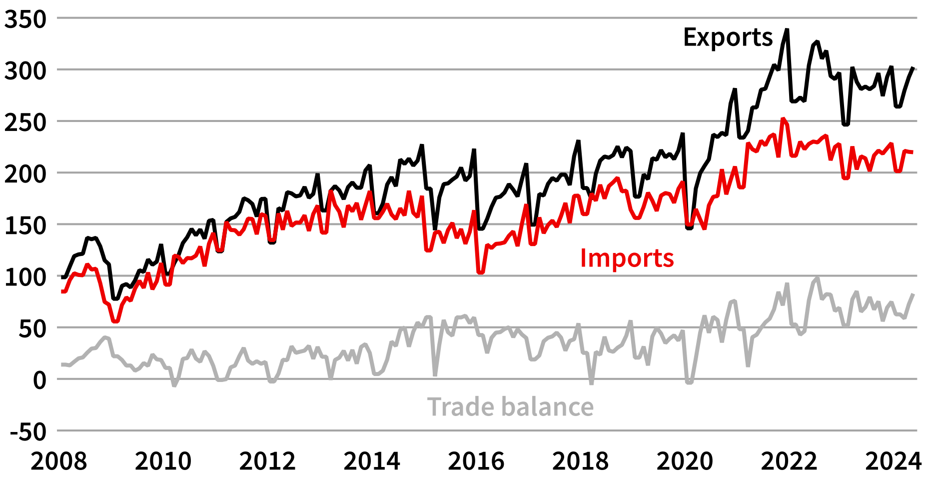
- Similarly, the divergence in investment trends by industry have persisted. Investment in manufacturing has continued to expand rapidly – up by 9.4% yoy in May – while investment in infrastructure continues to grow, despite some recent softening – up by 4.9% yoy, having slowed from 6.8% yoy in December 2023.

- In contrast, investment in real estate contracted in year-on-year terms for the 27th month in a row. That said, the decline was comparatively modest – down by 4.7% yoy – the slowest rate since March 2022. Conditions in the property sector remain extremely weak – with sales falling by 19.0% yoy and new construction starts down by 22.2% yoy. Policy measures announced in May to shore up the property sector are yet to show any significant impact.

International trade – trade balance and imports

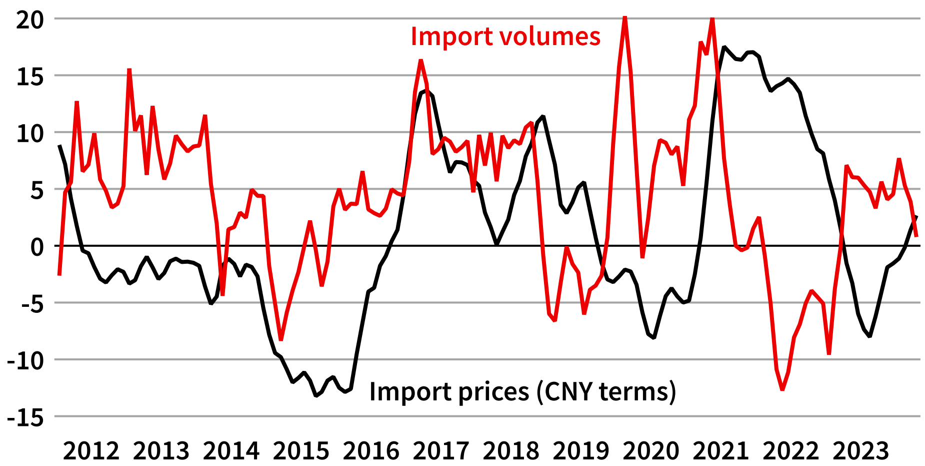
China's trade balance

Trade surplus expanded further in May as exports accelerated



China's import prices and volumes

Imports slowing as prices have started to rise once again



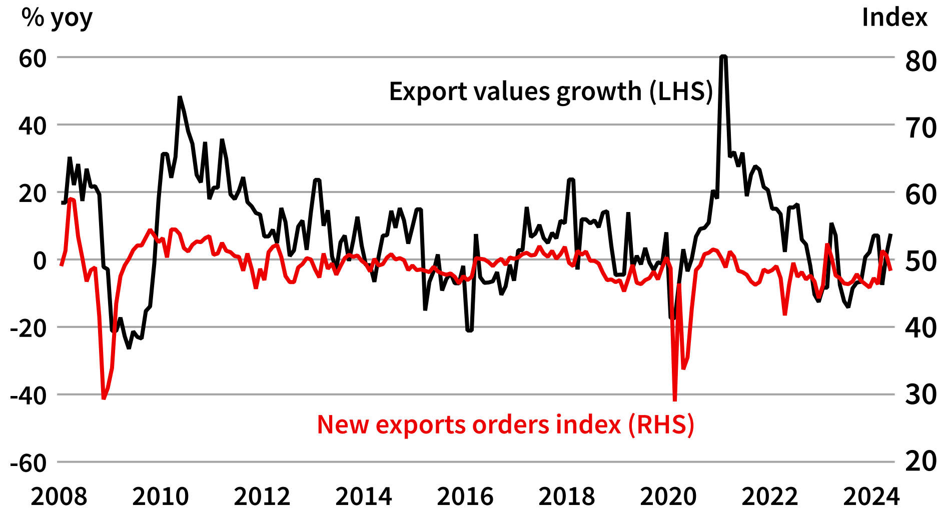
Sources: Macrobond, NAB Economics

- China's trade surplus expanded once again in May – increasing to US$82.6 billion (from US$72.4 billion in April). The value of imports eased slightly month-on-month, while exports rose.
- China's rolling twelve-month trade surplus edged up to US$829 billion in May, remaining around the range evident since October 2023 and far above pre-pandemic levels. This has fuelled trade tensions with various countries in recent months, culminating in the European Union announcing tariffs on electric vehicles this month. It remains to be seen to what extent China retaliates to these measures, but it could trigger a trade war similar to that with the United States that commenced in 2018.
- China's import values edged down in May – totalling US$219.7 billion (down from US$220.1 billion previously). In year-on-year terms, imports rose by 1.8% (compared with an 8.4% yoy increase in April).
- Import volumes expanded relatively strongly across most of 2023, supported in part by falling prices over much of the period, particularly for energy commodities. However, import prices have started to trend marginally higher in year-on-year terms in recent months, and growth in import volumes has become more volatile.
- There have been highly divergent trends in prices and volumes of individual import categories. For example, prices rose considerably year-on-year for LCD displays, copper products, rubber products and crude oil. In contrast, prices fell steeply for fertiliser, grains, coal and soybeans.

International trade – exports

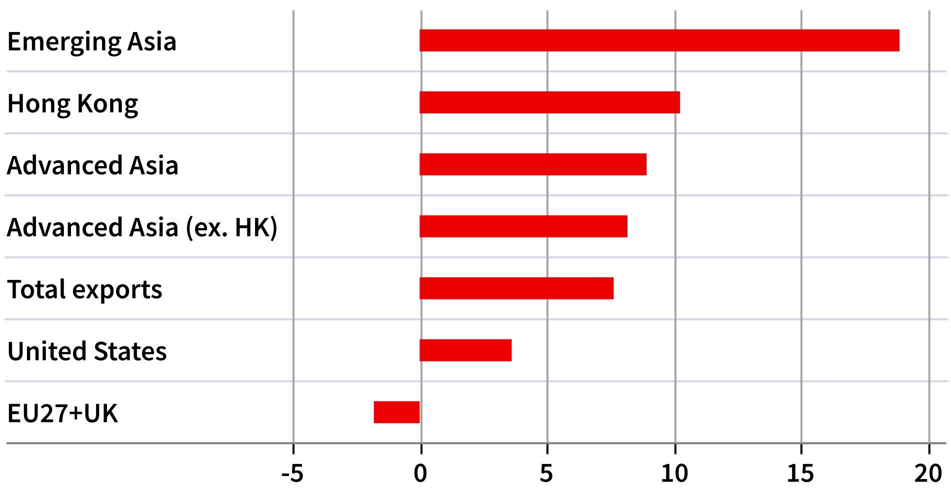
Export value and new export orders

Rapid growth in export values in May



Exports to major trading partners

Asia the key driver of growth in exports in May



Sources: Macrobond, NAB Economics

- The value of China's exports rose again in May – up to US$302.3 billion (compared with US$292.5 billion in April). In year-on-year terms, exports increased by 7.6%, having modestly increased in April and contracted steeply in March. The new export orders measure in the NBS manufacturing PMI returned to negative territory in May – albeit as noted above, the equivalent measure in the Caixin survey remained positive.

- A key driver of recent growth in export values has been the surge in volumes since mid-2023. On a three-month moving average basis, export volumes rose by 9.4% yoy in April (down from 13.0% yoy in March) – although this reflected a sharp downturn in the month of March that was quickly reversed in April.

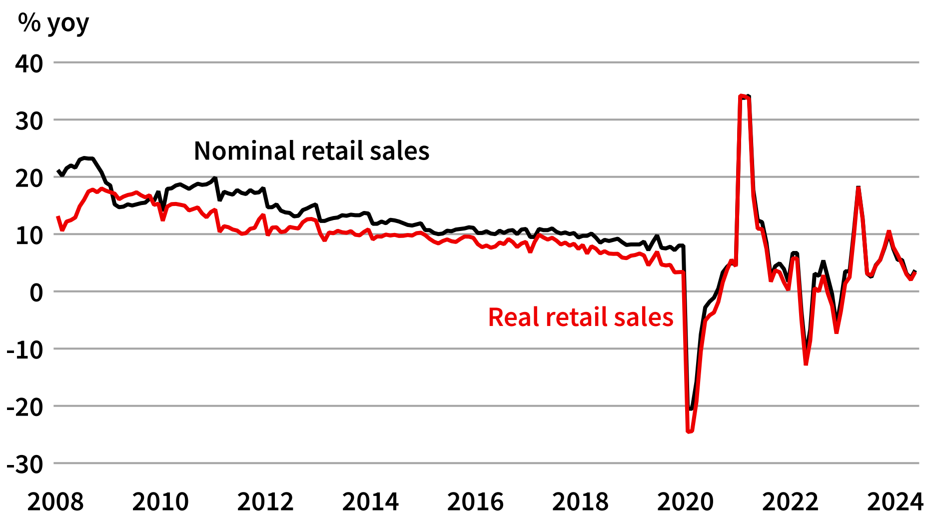
- There remains considerably divergence in exports to China's major trading partners. There was rapid growth in exports to emerging Asia in May, increasing by 18.9% yoy. This increase was driven by rapid growth in Vietnam, Malaysia and Thailand. Exports to advanced Asia also grew strongly, up by 8.9% yoy, led by Taiwan and Singapore.

- In contrast, exports to the United States grew relatively modestly – up by 3.6% yoy – while exports to the European Union-27 and the United Kingdom contracted by 1.8% yoy. Interestingly, the Russian Federation – which saw incredible growth in exports in 2023 – recorded a 2.0% contraction in May – although it is worth noting that there was strong growth in exports to other former Soviet Union countries in April (with data not yet available for May).

Retail sales and inflation

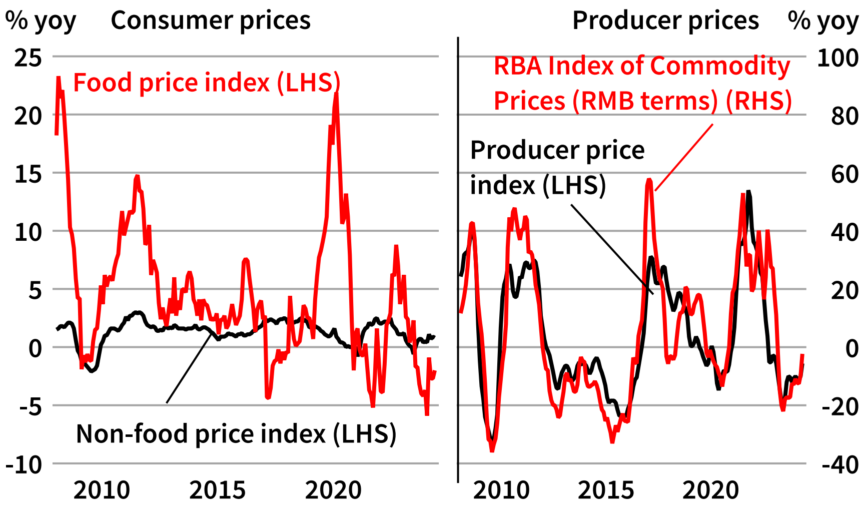
Retail sales growth

Real sales growth moved slightly higher, but historically subdued



Consumer and producer prices

Inflation trends remain subdued on weak domestic demand



Sources: Macrobond, NAB Economics

- In nominal terms, China's retail sales growth edged up in May, increasing by 3.7% yoy (compared with 2.3% yoy in April). Adjusting this measure for inflation, our estimate of real retail sales growth was 3.4% yoy (from 2.0% yoy previously). Looking through the volatility of the COVID-19 pandemic, this remains a historically subdued rate of growth – pointing to the continued weakness in domestic demand.

- Growth in China's consumer prices was unchanged in May, with the consumer price index increasing by 0.3% yoy. The stark contrast in inflation trends in China and most advanced economies – with CPI growth remaining above target in the latter – continues to point to weakness in China's domestic demand.

- Food prices have consistently fallen year-on-year since mid-2023, with this trend continuing in May, with prices down by 2.0% yoy (compared with a 2.7% yoy fall in April and March). For much of this period, falling prices for pork – a key staple – have driven the food price deflation, however it has risen year-on-year in the past two months, and was up by 4.6% yoy in May. In contrast, prices for eggs, fresh fruits, other meat and dairy products all fell.

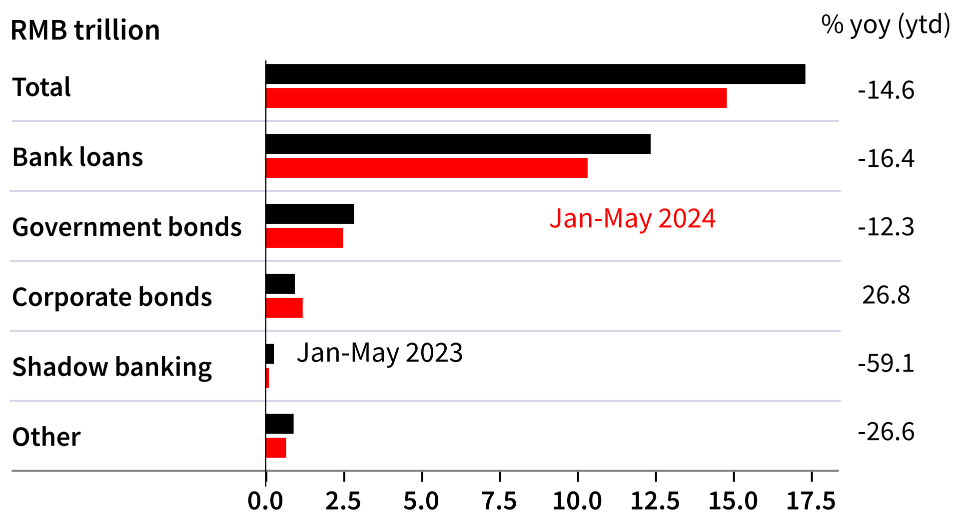
- Growth in non-food prices eased marginally in May – up by 0.8% yoy (from 0.9% yoy in April). There has been a close relationship between this aggregate measure and vehicle fuel prices – with the latter increasing by 6.3% yoy in May (down from 6.9% yoy in April).

- China's producer prices fell year-on-year for the twentieth month in a row in May – down by 1.4% yoy (compared with a 2.5% yoy fall in April). In part, this may reflect input cost trends, with commodity prices less negative in May. The RBA Index of Commodity Prices (converted to RMB terms) fell by 2.3% yoy in May, compared with a 9.7% yoy fall in April.

Credit conditions

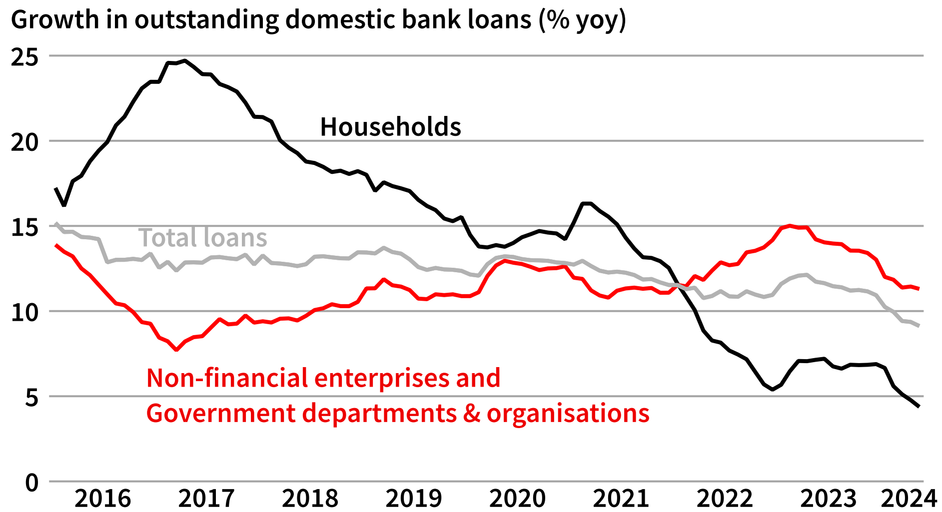
New credit issuance

Weaker issuance in the first five months



Bank lending

Weak loan demand, particularly in the household sector



Sources: Macrobond, NAB Economics

- China's new credit issuance contracted over the first five months of 2024 – down by 14.6% yoy to total RMB 14.8 trillion. That said, issuance grew relatively rapidly in May (driven primarily by government bonds), following on from extremely weak conditions in April.
- Bank lending accounts for the largest share of new credit issuance. That said, it has contracted more rapidly than total credit in the first five months, down by 16.4% yoy to RMB 10.3 billion.
- In contrast, the decline in non-bank lending was relatively modest, down by 10.1% yoy to RMB 4.5 trillion. Trends in this category were considerably different in May to the rest of the year – with a surge in government bond issuance during the month almost doubling the total issuance between January and April.
- Since cutting the Reserve Requirement Ratio in early February (which boosted the funds available for banks to lend), the People's Bank of China (PBoC) has so far resisted further monetary easing. This is despite the weak loan demand – particularly from the household sector.
- The PBoC has held its main policy rate stable since mid-2023, and the bank's Q1 monetary policy report suggests that the organisation views its policy implementation as balanced and effective – with nothing in the statement to signal an imminent rate cut.

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
Head of Australian Economics
+(61 0) 436 606 175

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

Lea Jurkovic
Economist – Agribusiness
+(61 0) 452 090 770

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

Thao Nguyen
Economist – Data & Analytics
+(61 0) 451 203 008

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 Research
Markets, Corporate & Institutional Banking
+(61 2) 9295 1196