NAB Group Economics

China's economy at a glance

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Key points

national australia bank

No signs of change in July as policy emphasises supply, domestic demand is subdued

- There was nothing in China's latest data release to fundamentally change our views around its economy – authorities continue to prioritise the supply side of the economy, which, in the face of subdued domestic demand, is expanding export volumes and leading to growing trade tensions with other major economies. Our forecasts are unchanged – we see growth at 4.7% this year (below the full year target) and easing further to 4.6% in 2025 and 4.4% in 2026.

- Growth in industrial production has trended lower in recent months, down to 5.1% yoy in July (compared with 5.3% yoy in June and 6.7% yoy in April). While conditions in construction related sectors remains weak, output in the electronics sector remains comparatively strong.

- There was a noticeable slowing in real investment growth in July, down to 2.7% yoy (from 4.4% yoy previously) – the weakest rate of growth since November 2022. While investment by SOEs still outpaces private firms, there was a notable slowing in nominal SOE investment growth in July.

- China's trade surplus moved lower in July – down to US$84.6 billion (compared with a record high of US$99.0 billion in June). Despite the softening, this surplus was the sixth highest on record. The decline reflected a modest month-on-month easing in the value of exports and a similarly sized pickup in imports.

- There was a modest acceleration in real retail sales growth in July – up by 2.2% yoy (from 1.8% yoy previously). This is a low rate of growth when compared with the pre-pandemic period – pointing to subdued domestic demand.

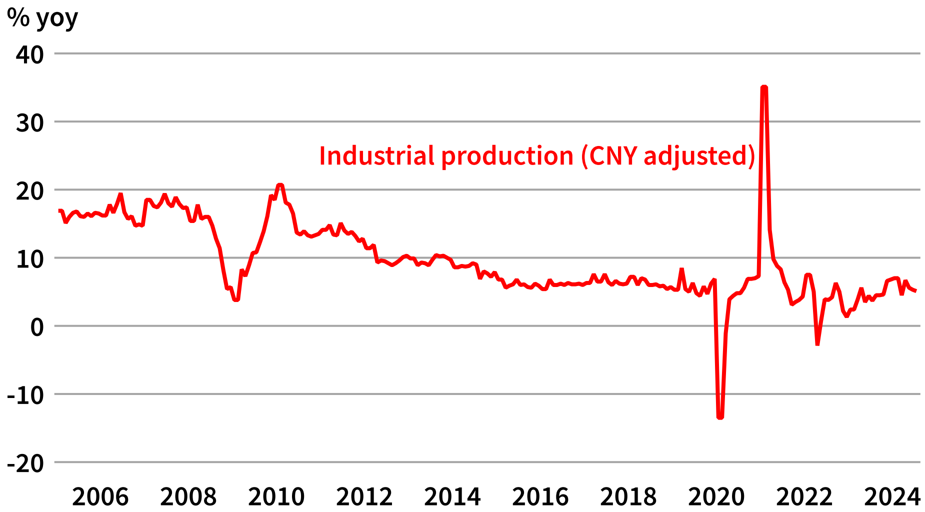
- China's new credit issuance totalled RMB 18.9 trillion in the first seven months of 2024, down 14.6% yoy. Bank loans, which account for the largest share of credit issuance, continued to fall more rapidly than the average, down by 21.2% yoy to RMB 12.3 trillion – with local currency bank loans contracting in July (in net terms) for the first time in 19 years.

- The People's Bank of China (PBoC) marginally eased monetary policy in July, with 10 basis point cuts to both the seven day reverse repo rate (to 1.7%) and the Loan Prime Rate (to 3.35%) in late July. The PBoC followed this with an out-of-schedule 20 basis point cut to the Medium Term Lending Facility (MLF) rate on 25 July. While the PBoC has been looking to ease monetary policy to provide some support to the broader economy, it appears that loan demand remains weak and that households and businesses are attempting to pay down debt more rapidly, meaning that modest cuts are unlikely to stimulate significant growth.

Industrial production

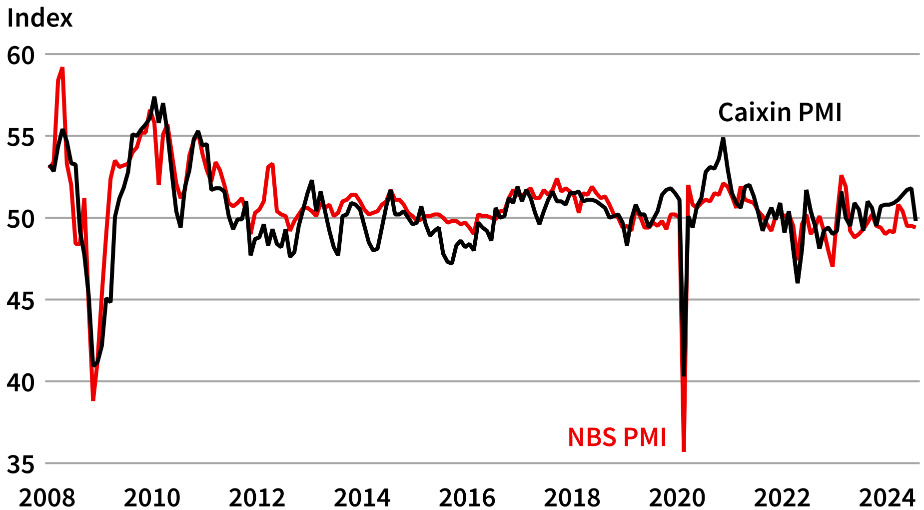
Industrial production growth

Growth has continued to trend lower since April



Manufacturing PMI surveys

Sharp fall in Caixin survey narrowed the gap between China's PMIs



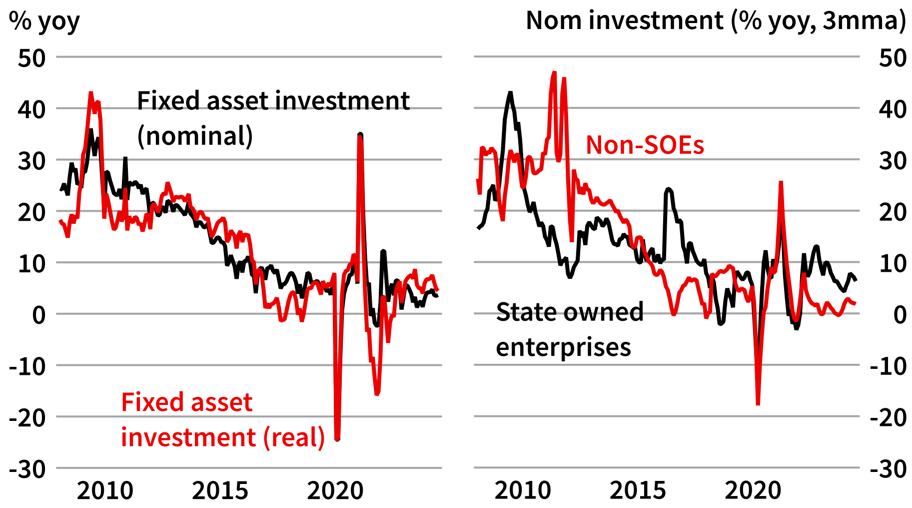
Sources: Macrobond, NAB Economics

- Growth in industrial production has trended lower in recent months, down to 5.1% yoy in July (compared with 5.3% yoy in June and 6.7% yoy in April).
- We continue to see diverging trends in output in individual industrial sectors. Heavy industries commonly associated with construction – such as cement and crude steel – saw further contractions in July, down by 12.4% yoy and 9.0% yoy respectively. Motor vehicle production also contracted, falling by 2.4% yoy (having grown at double digit rates as recently as April). Electronics production remained strong – rising by 14.3% yoy.
- The wide gap that had developed between China's major manufacturing surveys in recent months narrowed substantially in July. The Caixin PMI fell sharply – down to a slightly negative 49.8 points (from 51.8 points previously). In contrast, the official NBS manufacturing PMI edged slightly lower, down to 49.4 points (from 49.5 points in both May and June).
- Key to the decline in the Caixin survey was a steep drop in the output measure – which rose at its lowest pace in nine months – and a dip in new orders. In both cases, these measures came much closer to the levels recorded in the official PMI.

Investment

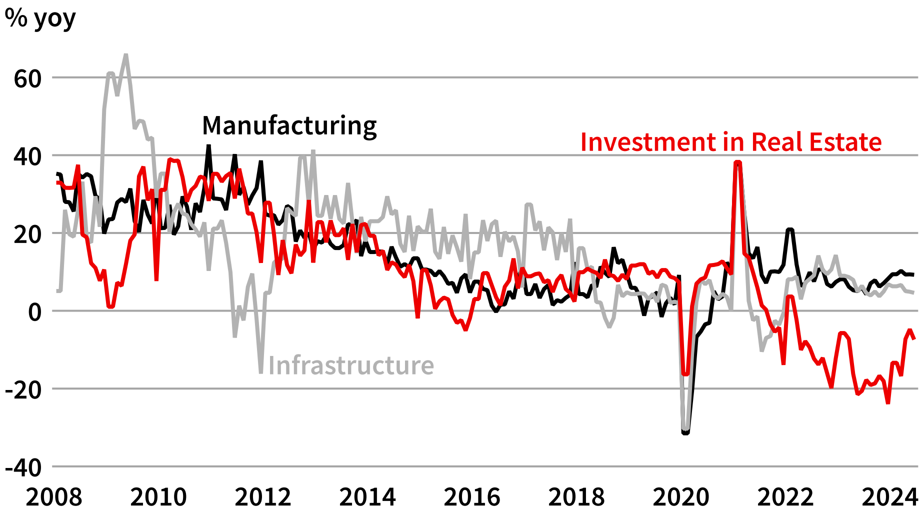
Fixed asset investment growth

Real investment trended lower in July



Fixed asset investment by industry

Real estate investment continues to contract



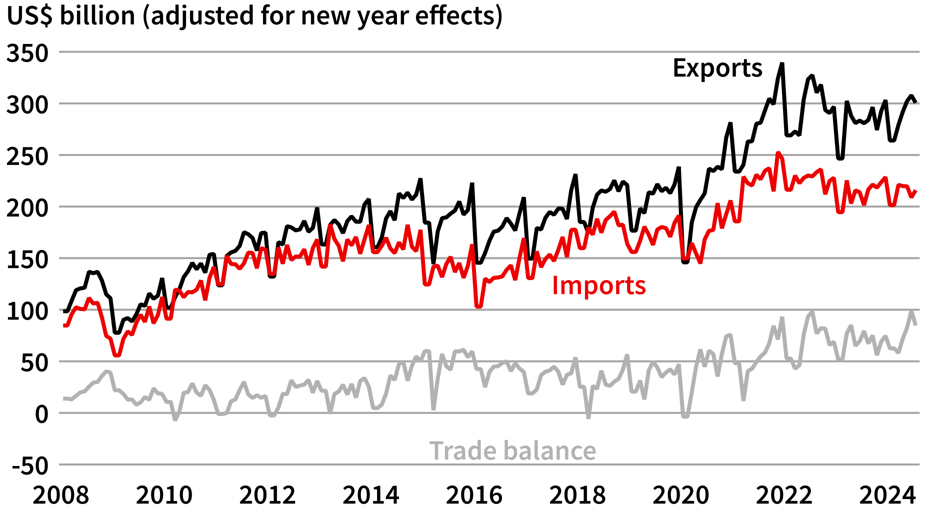
Sources: Macrobond, NAB Economics

- Nominal fixed asset investment growth slowed considerably in July – down to 1.9% yoy (from 3.6% yoy in June). Deflating this measure using the producer price index (as a proxy for the cost of investment goods) implies that real investment growth slowed to 2.7% yoy (from 4.4% yoy previously) – the weakest rate of growth since November 2022.
- Nominal investment by China's state-owned enterprises (SOEs) continues to outpace that of private sector firms. That said, there was a substantial slowing in SOE growth in July – to 3.5% yoy (compared with 6.1% yoy in June). Private sector investment rose by 0.9% yoy, down from 1.9% yoy previously.
- Similarly, there remain divergent trends in investment in different industrial sectors. Manufacturing investment has remained comparatively strong – increasing by 8.3% yoy in July – while the softening trend in infrastructure has continued, with growth of 2.0% yoy in July (compared with 4.6% yoy previously).
- Investment in real estate continues to contract in year-on-year terms – the 29th month in a row of declines. This measure fell by 8.9% yoy in July (compared with 7.4% yoy previously). The downturn in China's residential property sector continues unabated, with new construction starts falling by 24.4% yoy and sales down by 12.3% yoy.

International trade – trade balance and imports

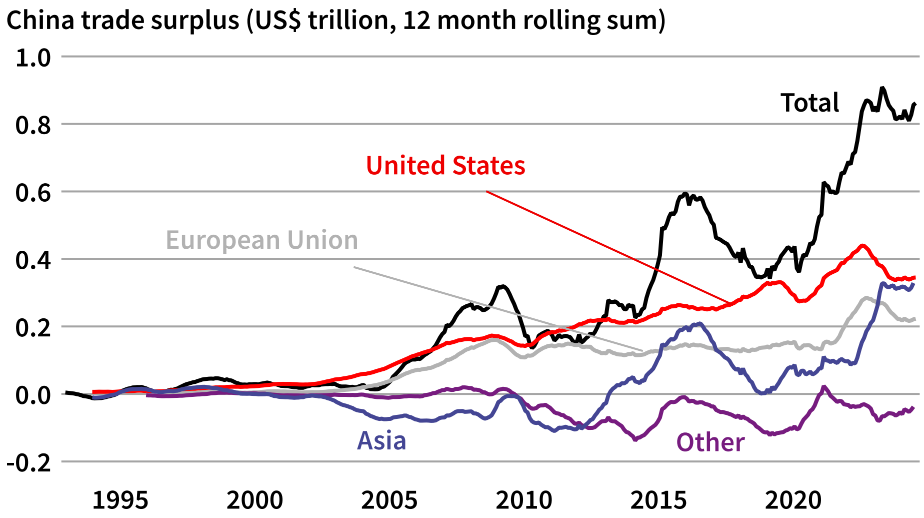
China's trade balance

Trade surplus eased back from June's record high



China's rolling trade surplus

Surplus edges higher as deficit to "other" countries trends down



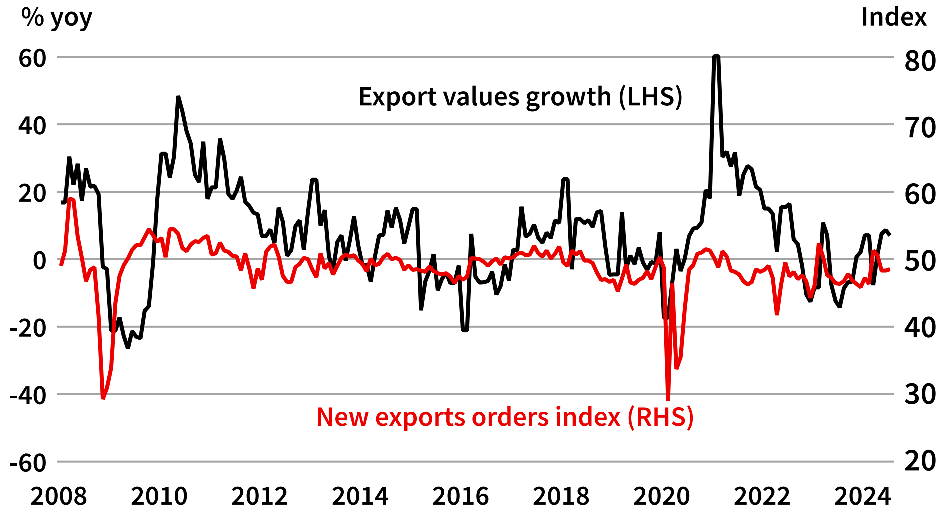
Sources: Macrobond, NAB Economics

- China's trade surplus moved lower in July – down to US$84.6 billion (compared with a record high of US$99.0 billion in June). Despite the softening, this surplus was the sixth highest on record. The decline reflected a modest month-on-month easing in the value of exports and a similarly sized pickup in imports.
- On a rolling twelve-month basis, China's trade surplus rose in July – increasing to US$861.6 billion (up from US$857.6 billion in June). The main contributor to the increase in the rolling surplus since the start of the COVID-19 pandemic has been increased exports to Asia, albeit this surplus has plateaued since April 2023. More recently, the modest uptick in the rolling surplus has reflected a decrease in China's net trade deficit with other countries – as exports to Africa and Latin America have picked up.
- In US dollar terms, China's imports edged up in July – totalling US$215.9 billion (from US$208.8 billion in June). In year-on-year terms, imports rose by 7.2%.
- Import volumes rose relatively strongly between early 2023 and early 2024, however subsequent months have been much more volatile, with the three-month moving average trend pointing to weaker growth, particularly as import prices began to rise again from February 2024 onwards.
- That said, there has been substantial divergence in import price and volume trends within major import categories. Prices fell year-on-year for machine tools, grains, soybeans and pharmaceuticals in July. In contrast, prices increased substantially for aircraft, semi-conductors, refined petroleum products and rubber products.

International trade – exports

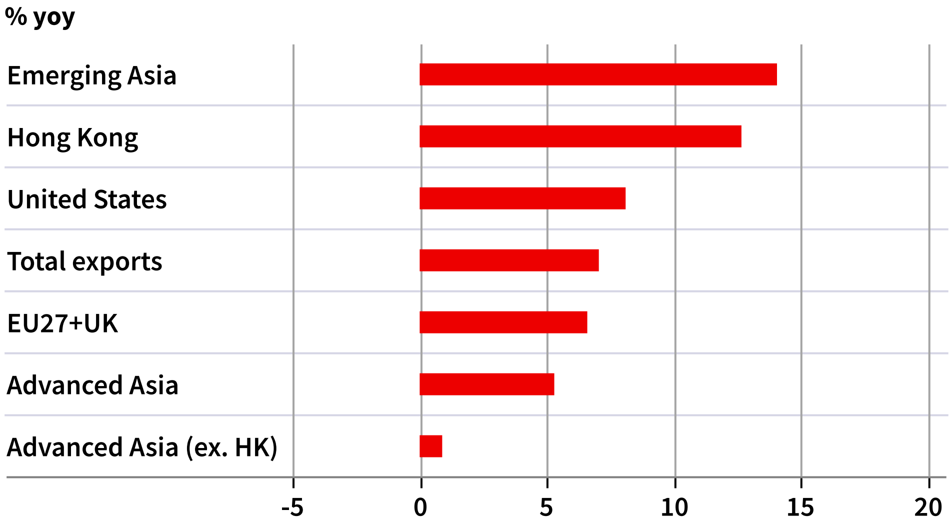
Export value and new export orders

Growth in exports remains driven by surging volumes



Exports to major trading partners

Emerging Asia led the increases in export values in July



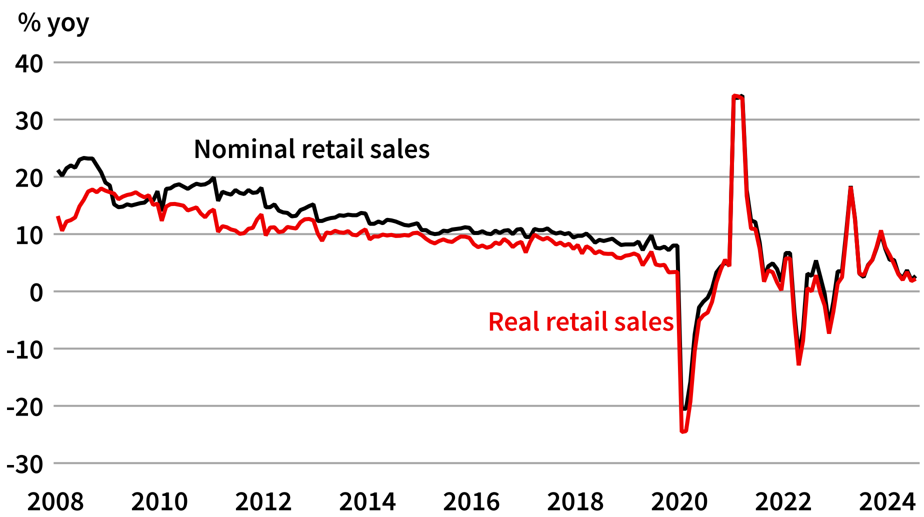
Sources: Macrobond, NAB Economics

- The value of China's exports dipped in July, moving down to US$300.6 billion (compared with US$307.9 billion previously). In year-on-year terms, exports rose by 7.0% (albeit July 2023 was a relatively weak base for comparison, with exports in this period having fallen by 14.3% yoy).
- New export orders in the NBS manufacturing PMI survey remained negative, at 48.5 points, while the equivalent measure in the Caixin survey remained marginally positive.
- As we have observed in recent months, the key driver of the increase in export values has been a surge in volumes, while export prices have fallen. These data lag behind the headline trade data by one month, and show export volumes rising by 16.7% yoy in June, while prices fell by 5.2% yoy.
- There remains some divergence in terms of exports to major trading partners. The most rapid growth was to emerging Asia economies – where exports rose by 14.0% yoy. Exports to Vietnam, Indonesia and Malaysia led the increases.
- Exports to the United States and European Union-27 + the United Kingdom rose by 8.1% yoy and 6.6% yoy respectively, while advanced Asia rose by 5.3%, or just 0.9% yoy if Hong Kong is excluded from this category.

Retail sales and inflation

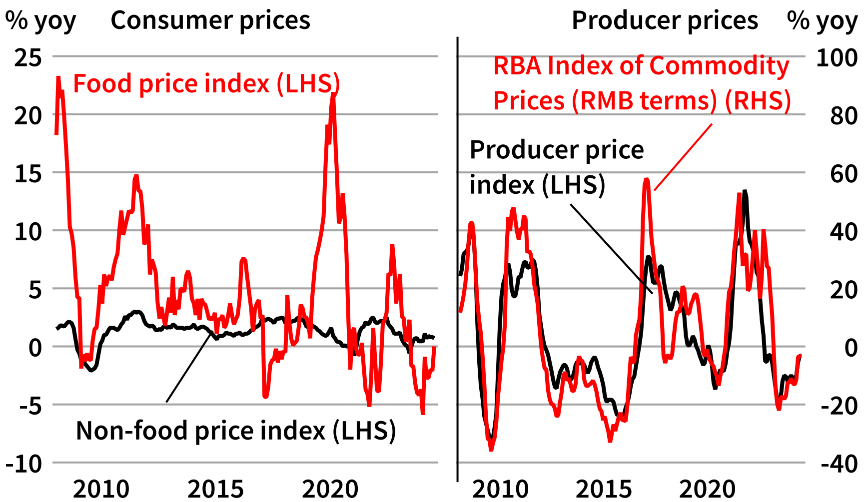
Retail sales growth

Slight uptick in real growth, but remaining relatively weak



Consumer and producer prices

Factory gate prices still falling, down for the 22nd straight month



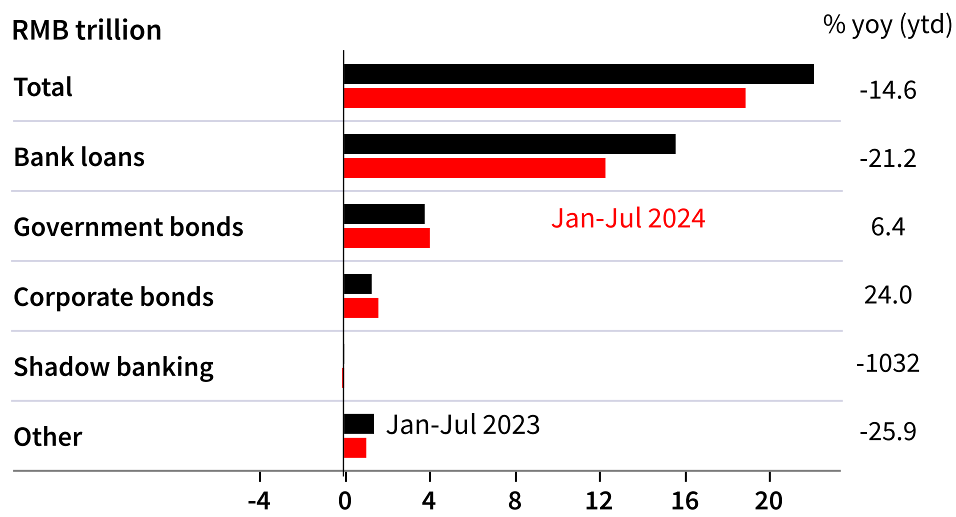
Sources: Macrobond, NAB Economics

- China's nominal retail sales grew slightly more rapidly in July – increasing by 2.7% yoy (up from 2.0% yoy in June). With inflation picking up slightly in July, the acceleration in real retail sales growth was more modest – up by 2.2% yoy (from 1.8% yoy previously). When compared with the pre-pandemic period, growth remains weak – pointing to subdued domestic demand.
- Inflation ticked marginally higher in July, with consumer prices increasing by 0.5% yoy (up from 0.2% yoy previously). The relative weakness in China's inflation – when compared with soaring rates in advanced economies in the past three years – highlights the ongoing weakness in domestic demand.
- Food prices were unchanged in year-on-year terms in July, the first month since June 2023 that prices have not declined. Pork was a key driver of deflationary pressure over much of this period, however pork prices have risen since April 2024 – increasing by 20.4% yoy in July. Fresh vegetables also rose – up by 3.3% yoy – while fresh fruit fell by 4.2% yoy and dairy products by 1.9% yoy.
- Non-food prices rose by 0.7% yoy in July, edging down from 0.8% yoy in both May and June. Vehicle fuel has a major contribution to this category, with prices up by 5.1% yoy (down from 5.6% yoy in June).
- China's producer prices fell by 0.8% yoy – the same rate of decline as June – continuing the streak of falls since October 2022. In part this reflects input costs – the RBA Index of Commodity Prices (converted to RMB terms) fell by 3.5% yoy in July – but also subdued demand at home and potentially in overseas markets.

Credit conditions

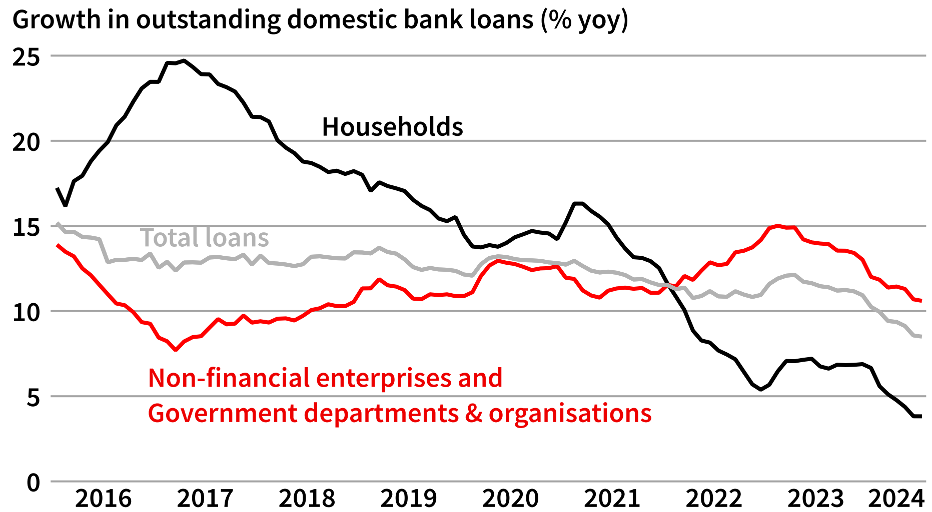
New credit issuance

Bank lending driving declines in credit issuance



Bank lending

Slowing in outstanding loan growth highlights weak loan demand



Sources: Macrobond, NAB Economics

- China's new credit issuance totalled RMB 18.9 trillion in the first seven months of 2024, down 14.6% yoy. Bank loans, which account for the largest share of credit issuance, continued to fall more rapidly than the average, down by 21.2% yoy to RMB 12.3 trillion – with local currency bank loans contracting in July (in net terms) for the first time in 19 years.
- In contrast, non-bank lending increased slightly in the first seven months, up by 1.3% yoy to RMB 6.6 trillion. Government bond issuance accounted for the largest share of this total and has increased by 6.4% yoy over this period (despite plunging in the first quarter of the year). Corporate bond issuance increased by 24% yoy.
- As we noted last month, the People's Bank of China (PBoC) intends to transition its monetary policy management towards the seven day reverse repo rate (and away from the Loan Prime Rate) to allow for a more rapid policy transmission – however the length of time to make this transition is unclear.
- Following the introduction of new open market operation tools in July that provide a corridor for short term rates around the new policy rate, the PBoC made 10 basis point cuts to both the seven day reverse repo rate (to 1.7%) and the Loan Prime Rate (to 3.35%) in late July. The PBoC followed this with an out-of-schedule 20 basis point cut to the Medium Term Lending Facility (MLF) rate on 25 July.
- While the PBoC has been looking to ease monetary policy to provide some support to the broader economy, it appears that loan demand remains weak and that households and businesses are attempting to pay down debt more rapidly, meaning that modest cuts are unlikely to stimulate significant growth.

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