NAB Group Economics

China's economy at a glance
October 2024

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Key points

Fiscal stimulus likely too late to boost 2024 growth, but may add some upside to 2025 forecasts

- China's economy expanded by 4.6% yoy in Q3 2024 – broadly in line with our expectations – marginally slower than at 4.7% yoy growth recorded in Q2. We have argued for some time that the full year target of "around 5%" would be difficult to reach – indeed it would take a sizeable acceleration in activity in Q4, something we consider unlikely given the lack of meaningful fiscal stimulus to date. Should such a program occur following the National People's Congress in late October, it likely implies more upside risk to our 2025 forecasts than 2024. Our growth forecasts are unchanged – we see an increase of 4.7% yoy in 2024, before easing to 4.6% in 2025, with the property sector and weak domestic demand remaining headwinds to growth

- Growth in China's industrial production was slightly stronger in September – increasing by 5.4% yoy (compared with 4.5% yoy in August), following four months in a row of softer growth. There remain highly divergent trends across China's industrial sector, with heavy industries associated with the construction sector continuing to contract.

- Stronger nominal growth and producer price deflation meant that real investment growth accelerated in September – up by 6.2% yoy in September, the strongest rate of increase since March 2024. There remain sizeable differences in investment by major industrial sectors, with manufacturing growing strongly, while real estate investment contracted for the 31st month in a row.

- Recent months have seen China's twelve month rolling trade surplus trend higher – rising to US$890.0 billion (from US$883.7 billion in August), the third highest level on record. This largely reflects the growth in export volumes, which expanded by 15.7% yoy in August. In contrast, export prices fell by 6.3% yoy.

- Real retail sales increased by 2.8% yoy in September (up from 1.5% yoy previously). It is worth noting that this growth rate remains modest by historical standards – particularly those of the pre-COVID-19 pandemic period – highlighting the ongoing weakness in domestic demand.

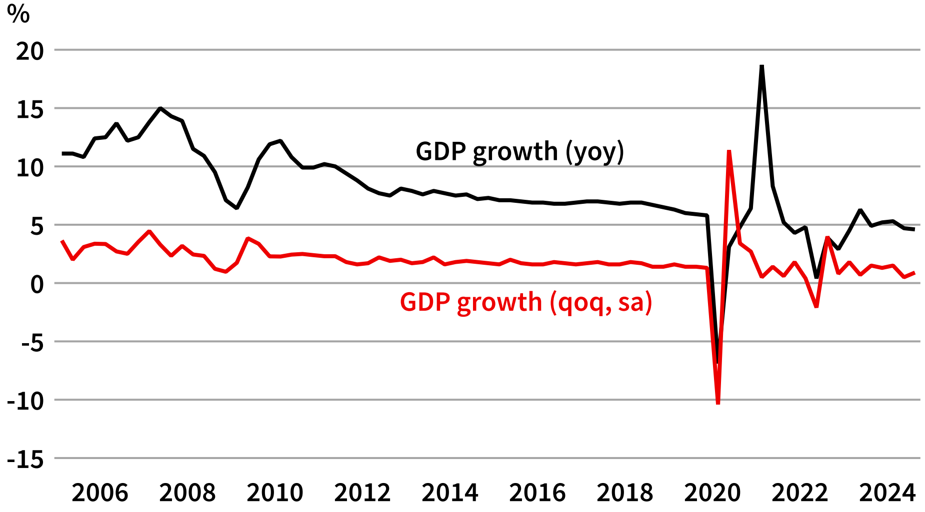
- Credit issuance trends remained weak across the first three quarters of 2024. New issuance totalled RMB 25.7 trillion over this period, a decrease of 12.5% yoy. Bank lending declined by 21.7% yoy, while non-bank lending rose by 5.2% yoy – entirely driven by government bond issuance.

- In isolation, China's monetary policy measures appear insufficient to stimulate significant growth in China's economy, reflecting the headwinds of the property downturn – which we expect will continue for some time – and weak domestic demand.

Gross domestic product

China's economic growth

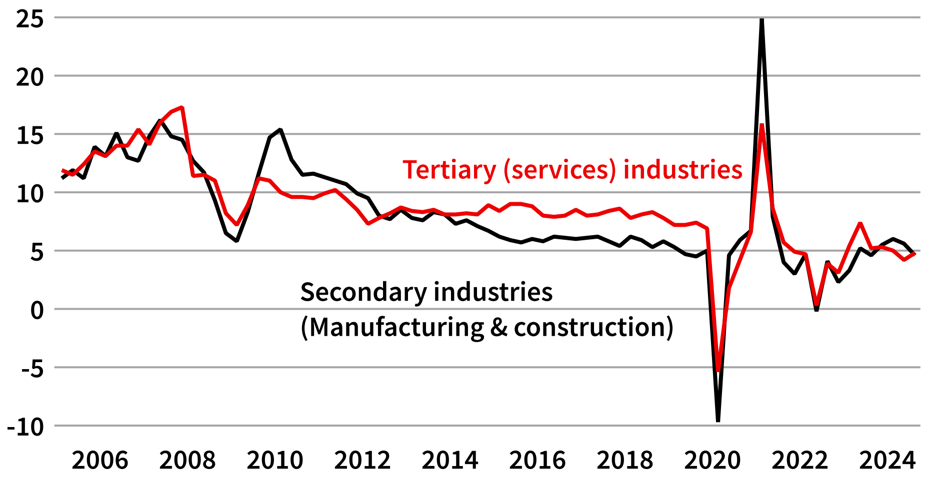
Modest easing of growth in Q3; 5% target looking hard to reach



Economic growth by industry

Slowdown in the secondary industries offset by services

Chinese economic growth by sector (% yoy)



Sources: Macrobond, NAB Economics

- China's latest national accounts data showed that its economy expanded by 4.6% yoy in Q3 2024 – broadly in line with our expectations – marginally slower than at 4.7% yoy growth recorded in Q2.
- Growth was slightly stronger quarter-on-quarter, with the seasonally adjusted series edging up to 0.9% (compared with a revised down 0.5% qoq in Q2). These data are often inconsistent with the headline series, with the quarterly data implying a steeper slowdown (to 4.3% yoy) in growth in Q3.
- Growth in broad industrial categories converged in Q3, following several quarters of manufacturing driven growth. The secondary sector (comprising manufacturing and construction) grew by 4.6% yoy in Q3 (down from 5.6% yoy previously). In contrast, there was a pickup in tertiary (services) growth, which increased by 4.8% yoy (from 4.2% yoy in Q2).
- We have argued for some time that the full year target of "around 5%" would be difficult to reach – indeed it would take a sizeable acceleration in activity in Q4, something we consider unlikely given the lack of meaningful fiscal stimulus to date. Should such a program occur following the National People's Congress in late October, it likely implies more upside risk to our 2025 forecasts than 2024.
- Our growth forecasts are unchanged – we see an increase of 4.7% yoy in 2024, before easing to 4.6% in 2025, with the property sector and weak domestic demand remaining headwinds to growth .

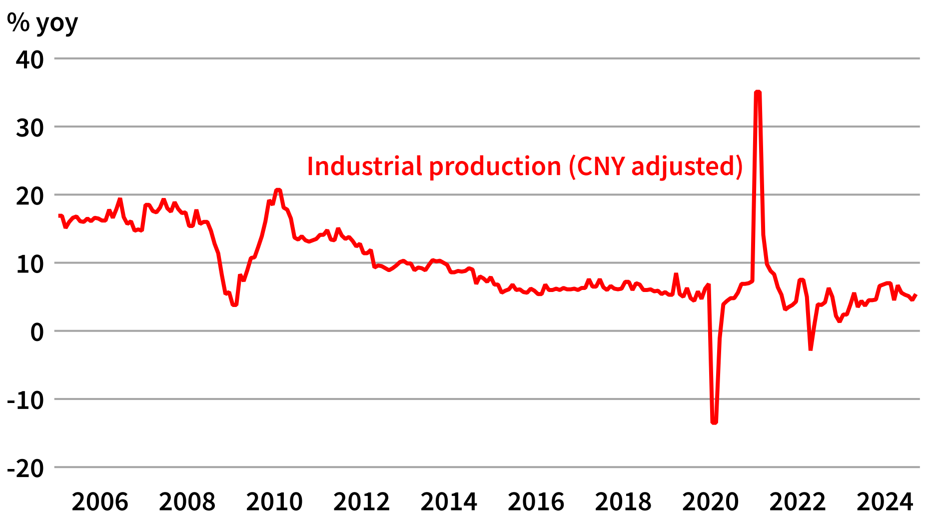
NAB China GDP forecasts

%	2023	2024	2025	2026
GDP	5.2	4.7	4.6	4.4

Industrial production

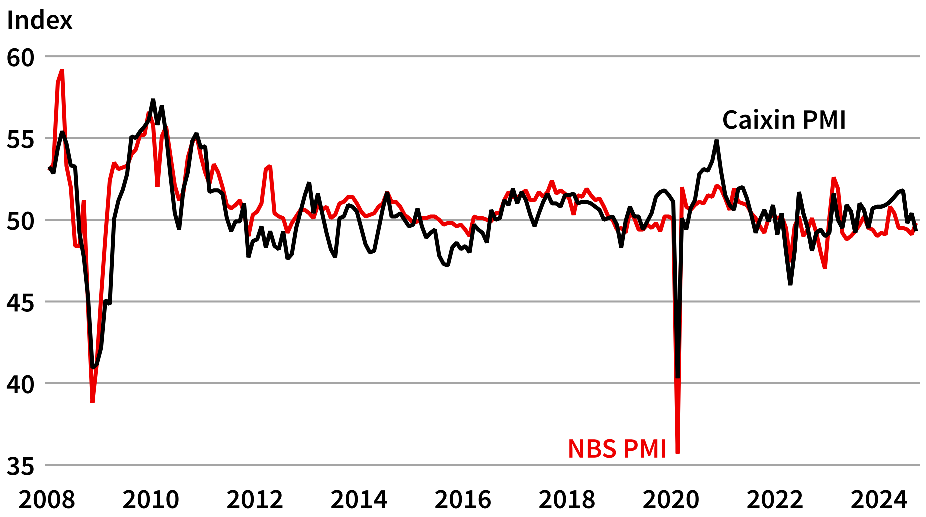
Industrial production growth

Slight uptick in industrial growth in September



Manufacturing PMI surveys

Both surveys converged in negative territory in September



Sources: Macrobond, NAB Economics

- Growth in China's industrial production was slightly stronger in September – increasing by 5.4% yoy (compared with 4.5% yoy in August), following four months in a row of softer growth.

- There remain highly divergent trends across China's industrial sector. Heavy industries associated with the construction sector have continued to contract – with cement and crude steel production falling by 10.3% yoy and 6.1% yoy respectively. Motor vehicle production has also been relatively weak – with output down by 1.0% yoy in September. In contrast, electronics manufacturing rose by 10.6% yoy.

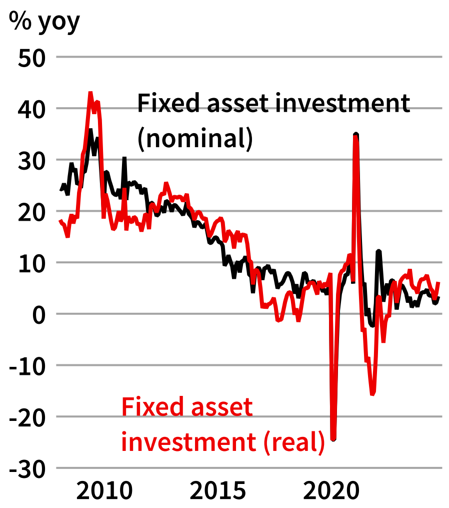
- China's major manufacturing surveys converged once again in September – having come together in July following several months of disparity. The private sector Caixin PMI fell into negative territory – down to 49.3 points (from 50.4 points previously). In contrast, the official NBS manufacturing PMI was a little stronger – moving up to 49.8 points (from 49.1 points in August).

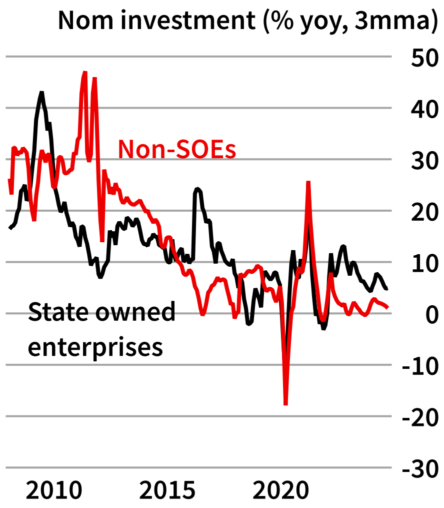
- The decline in the Caixin measure was driven by a downturn in new orders, while production levels were able to be maintained as manufacturers worked through their backlogs. New export orders moved further into negative territory in both surveys.

Investment

Fixed asset investment growth

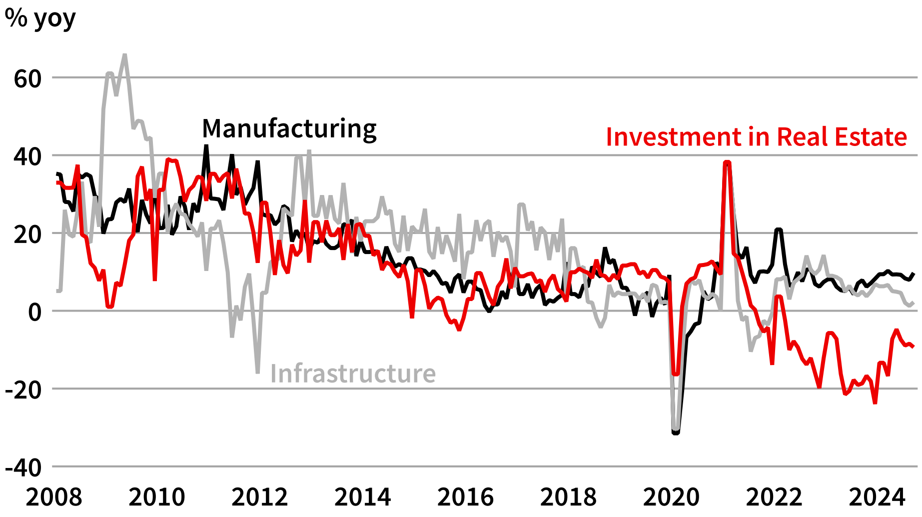
SOEs continue to drive investment growth, with private weak





Fixed asset investment by industry

Manufacturing powering ahead despite weak domestic demand



Sources: Macrobond, NAB Economics

- China's nominal fixed asset investment grew more rapidly in September – increasing by 3.4% yoy (up from 2.2% yoy previously). Deflating this measure using the producer price index (as a proxy for the cost of investment goods) implies that real investment rose by 6.2% yoy in September, the strongest rate of increase since March 2024.

- Nominal investment by state-owned enterprises has outpaced that of private sector firms since early 2022. SOE investment rose by 6.7% yoy in September (up from 4.0% yoy in August). In contrast, private investment growth was marginally softer, up by 1.0% yoy (from 1.1% yoy previously).

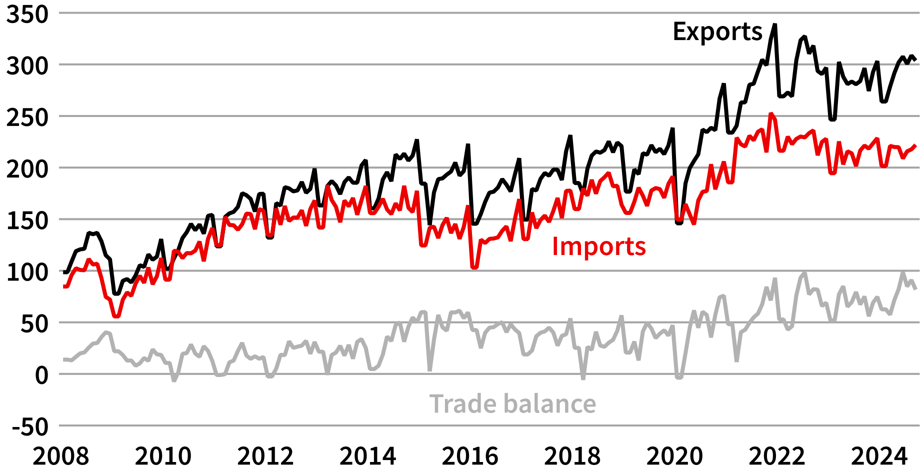
- There remain sizeable differences in investment by major industrial sectors. Investment in manufacturing continues to expand strongly – rising by 9.7% yoy – despite the weakness in domestic demand. Investment in infrastructure has slowed considerably when compared with the first half of 2024, increasing by just 2.2% yoy in September.

- Investment in real estate contracted by 9.4% yoy in September, with this being the 31st month in a row of year-on-year falls. Despite the Politburo's stated goal of stabilising the property sector, activity continues to contract – and we expect this to continue. Residential construction starts fell by 17.7% yoy in September and new sales fell by 11.0% yoy, while house prices fell by 5.8% yoy (the steepest decline since early 2015).

International trade – trade balance and imports

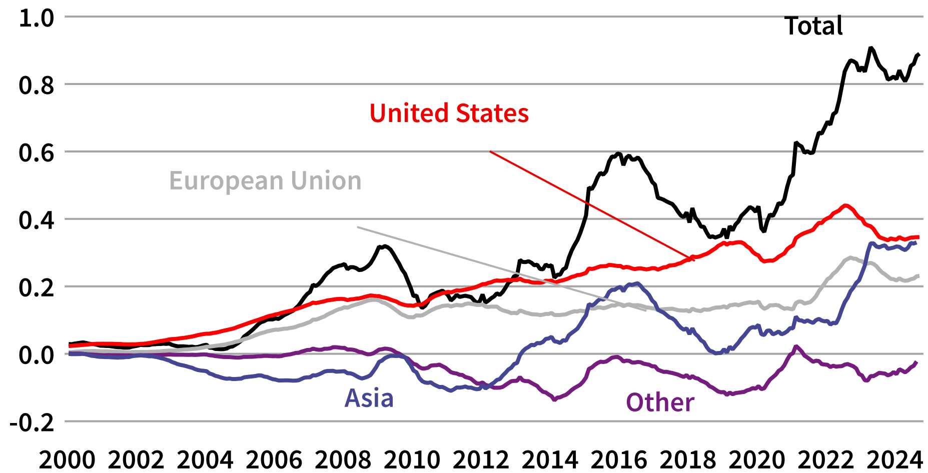
China's trade balance

Smaller – but still high – surplus in September



Rolling trade surplus

Upward trend in China's surplus since April



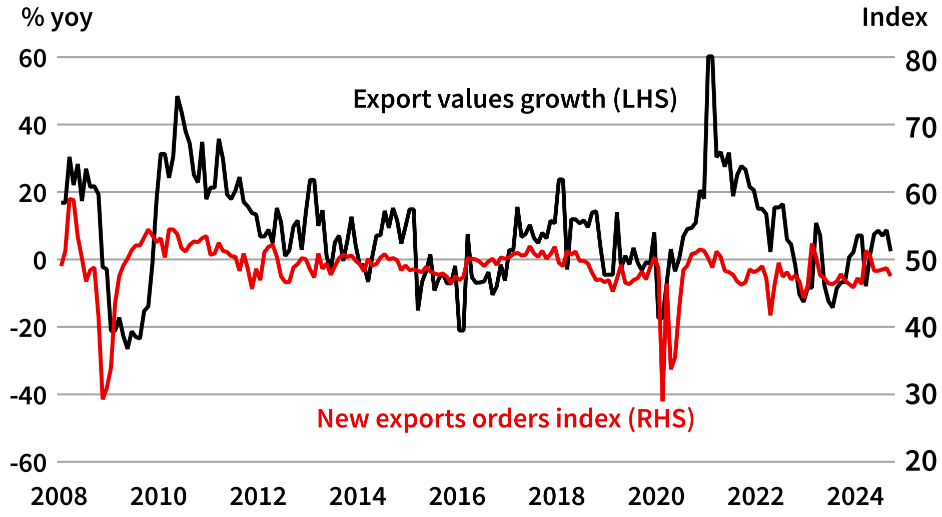
- China's trade surplus was slightly weaker in September – moving down to US$81.7 billion (from US$91.0 billion previously) – largely reflecting an increase in the value of imports. Despite this, the trade surplus remains high by historical standards.
- Recent months have seen China's twelve month rolling trade surplus trend higher – rising to US$890.0 billion (from US$883.7 billion in August), the third highest level on record. From comparatively lows of April 2024, most of the increase in this surplus has come from a declining net trade deficit with "other" economies – where there has been a larger surplus with Latin America and smaller deficit with Oceania and non-EU Europe.
- China's imports totalled US$222.0 billion in September – up from US$217.6 billion previously). In year-on-year terms, this represented an increase of just 0.3%.
- While import values have been tracking broadly sideways since early 2022, import prices have been trending higher since February 2024 – having fallen across the majority of 2023 – meaning that there has been a downward trend in import volumes – from a 5.3% yoy (3mma) increase in January 2024 to a 0.6% yoy (3mma) fall in August.
- There has been a notable divergence in price and volume trends between major import categories. There were steep year-on-year falls in prices for machine tools, pharmaceuticals, soybeans and semi-conductors in September, while prices for rubber products, paper pulp, nuts and copper ore rose.

Sources: Macrobond, NAB Economics

International trade – exports

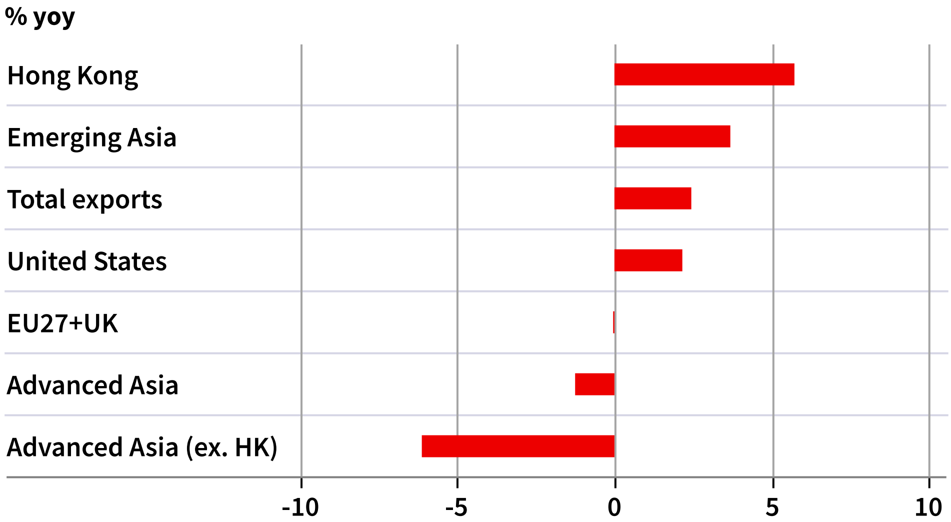
Export value and new export orders

Slower growth in exports as base effects faded



Exports to major trading partners

Mixed trends with emerging Asia growth, advanced Asia declines



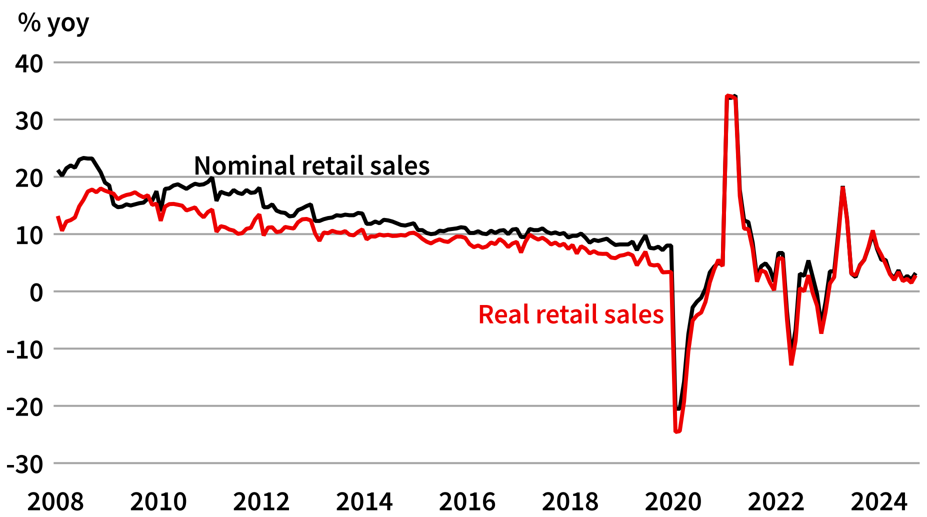
Sources: Macrobond, NAB Economics

- The value of China's exports edged down in September – totalling US$303.7 billion (from US$308.6 billion in August). Year-on-year growth slowed in September – with exports up by 2.4% yoy (compared with 8.7% previously) – although it is worth noting that base effects boosted the growth rate between May and August.
- The new export orders measure in the NBS manufacturing PMI dipped further into negative territory in September – down to 47.5 points (from 48.7 points previously).
- The key factor driving growth in export values has been the surge in volumes since mid-2023. China's trade index has a one month lag compared with other trade data, but showed that export volumes rose by 15.7% yoy in August. In contrast, export prices fell by 6.3% yoy.
- There was considerable divergence in growth trends between China's major trading partners in September. There was comparatively strong growth in exports to emerging Asian economies – which rose by 3.7% yoy – while exports to the United States also rose (albeit slightly slower than the total) by 2.2% yoy.
- In contrast, exports to the European Union-27 + the United Kingdom were virtually unchanged year-on-year, while exports to advanced Asian economies fell by 1.3% yoy. This decline increases to 6.1% yoy if Hong Kong is excluded – because of historical distortions in these data as a result of capital flows being disguised as trade activity.

Retail sales and inflation

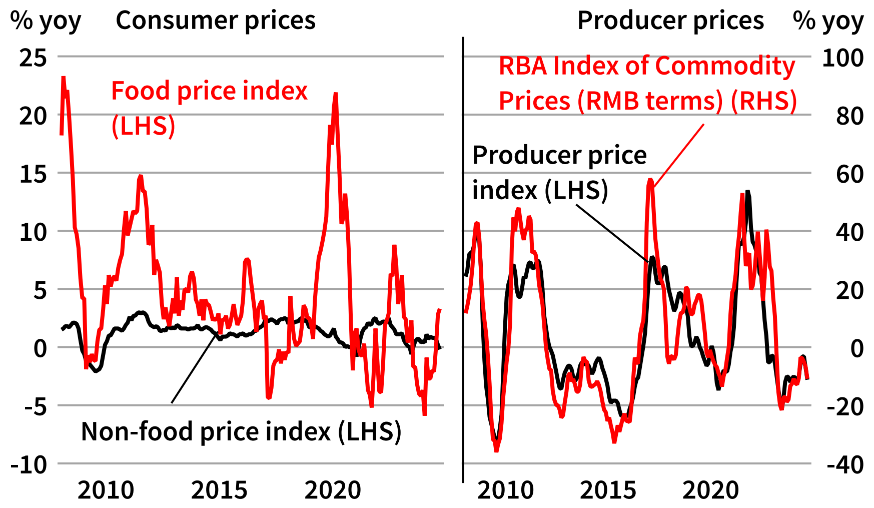
Retail sales growth

Modest uptick in real sales, but still weak by historical standards



Consumer and producer prices

CPI growth weaker, as PPI records two straight years of falls



Sources: Macrobond, NAB Economics

- In nominal terms, China saw stronger retail sales growth in September – rising by 3.2% yoy (up from 2.1% yoy in August). Weaker inflation trends meant that the uptick was stronger in real terms, with real retail sales increasing by 2.8% yoy in September (up from 1.5% yoy previously). It is worth noting that this growth rate remains modest by historical standards – particularly those of the pre-COVID-19 pandemic period – highlighting the ongoing weakness in domestic demand.

- Growth in China's consumer prices was softer in September, with the headline consumer price index rising by 0.4% yoy (down from 0.6% yoy previously).

- Food price growth accelerated further in September, with prices increasing by 3.3% yoy, having been a driver of deflationary pressure as recently as June. Pork has an outsized influence on food price inflation; prices fell sharply across much of 2023 but they rose by 16.2% yoy in September. Fresh vegetable prices rose by 22.9% yoy and fresh fruit by 6.7% yoy – with these trends influenced by extreme weather events in recent months.

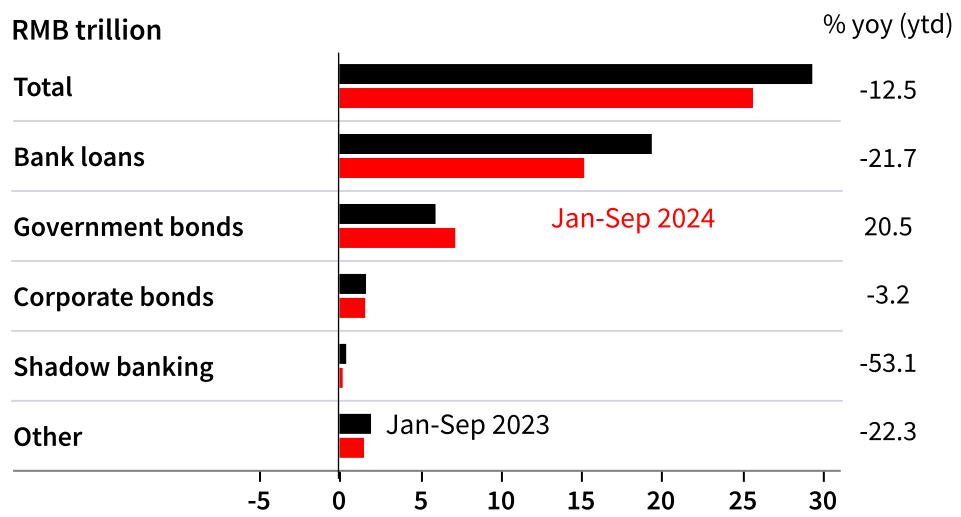
- Non-food prices contracted in September – falling by 0.2% yoy (compared with a 0.2% yoy increase in August). Vehicle fuel prices have a major influence – with prices down by 7.6% yoy.

- China's producer prices have fallen in year-on-year terms for the past two years – with the index down by 2.8% yoy in September (from -1.8% yoy in August). While lower input costs may have contributed to this trend – when converted to RMB terms, the RBA Index of Commodity Prices fell by 10.9% yoy last month, it is also likely that manufacturers have limited pricing power given weak domestic and global demand.

Credit conditions

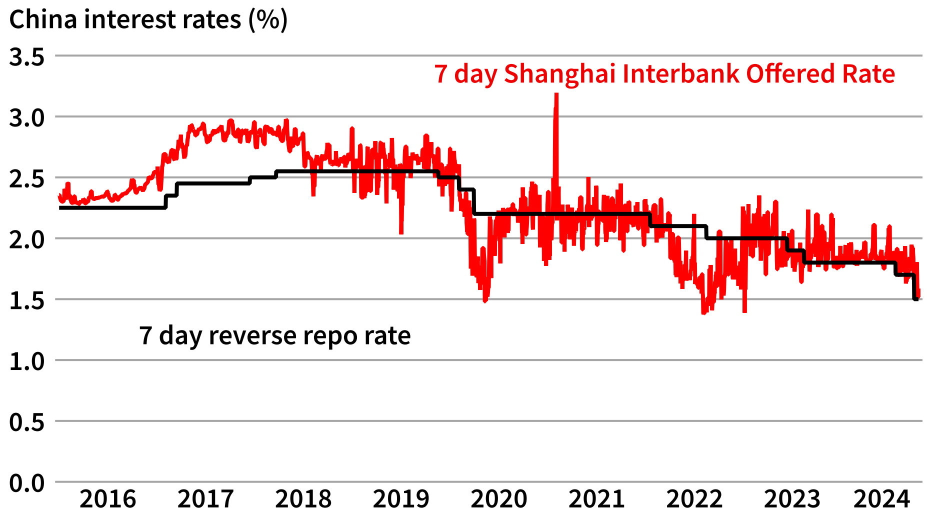
New credit issuance

Government bonds the only source of growth in first 9 months



Policy rates

PBoC has been guiding rates lower but loan demand remains weak



Sources: Macrobond, NAB Economics

- Credit issuance trends remained weak across the first three quarters of 2024. New issuance totalled RMB 25.7 trillion over this period, a decrease of 12.5% yoy.

- Bank lending – which accounts for the largest share of total credit issuance – declined more sharply over the first three quarters – down by 21.7% yoy to RMB 15.2 trillion.

- In contrast, non-bank lending rose by 5.2% yoy in the first three quarters. This growth was entirely driven by government bond issuance – which rose by 20.5% yoy to RMB 7.2 trillion. This growth has been stronger between May and September, with government bond issuance contracting year-on-year in each of the first four months of the year.

- The People's Bank of China (PBoC) announced a range of measures to ease monetary policy in September. These included another 50 bps cut to the Reserve Requirement Ratio – thereby boosting liquidity available for banks to lend – along with a 20 bps cut to the 7 day reverse repo (now the main policy rate) and 50 bps cut to rates on existing mortgages. There was also targeted support for the property sector and equity markets.

- As we noted in our detailed assessment, there have been increasing doubts around the effectiveness of monetary policy measures in recent times, in a large part due to the weakness in loan demand. In isolation, these measures appear insufficient to stimulate significant growth in China's economy, reflecting the headwinds of the property downturn – which we expect will continue for some time – and weak domestic demand. Despite expectations of a sizeable fiscal stimulus package to support the monetary response, we may not see anything significant until the National People's Congress in late October.

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