NAB Group Economics

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China's economy at a glance

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Key points

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Economic planners flag more stimulus in the pipeline, but there may be a wait on the details

- China's Central Economic Work Conference occurred last week, signalling the prospect of further monetary easing and a larger fiscal deficit next year. Following the Politburo's announcement earlier in the week that it seeks to "vigorously boost consumption", the conference noted that the focus should be on households, albeit the release following the conference was light on detail – flagging an expansion of the consumer goods trade-in program (which has been of questionable success) and increases in pensions and medical insurance payouts. While the latter two measures are a positive step – a lack of an effective social safety net encourages a higher savings rate – there is a lack of detail (particularly around the level of coverage and scale), and there is no guarantee that extending these benefits will directly boost consumption – given weak confidence post pandemic. Greater clarity on these policies may not occur until the National People's Congress in March.

- Our forecasts for China's economy remain unchanged – we see growth at 4.7% in 2024 and 4.6% in 2025 before easing to 4.2% in 2026 – noting the ongoing uncertainty around these forecasts presented by US trade policy as well as any policy changes by Chinese authorities in its wake.

- China's industrial output grew marginally more rapidly in November – increasing by 5.4% yoy (up from 5.3% yoy in October). Motor vehicles and electronics are outpacing heavy industrial sectors.

- In real terms, China's fixed asset investment grew more slowly in November – down to 4.9% yoy (from 6.3% yoy previously). Nominal investment remains driven by state-owned enterprises (SOEs), with investment rising by 5.1% yoy in November. In contrast, private sector investment expanded by just 0.7% yoy.

- China's trade surplus edged higher in November, as a month-on-month increase in exports outpaced a modest pickup in imports. The trade surplus totalled US$97.4 billion – over taking last month's mark as the third largest on record.

- Real retail sales growth slowed in November (following the uptick in October) – up by 2.8% yoy (from 4.5% yoy in October) – the same rate of increase recorded in September and well below pre-pandemic trends, highlighting the ongoing weakness in China's domestic demand.

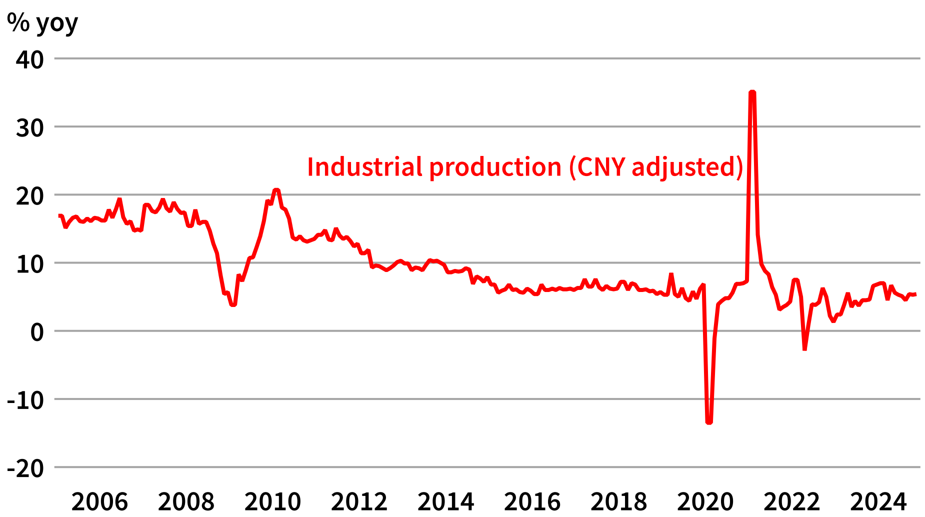
- China's new credit issuance totalled RMB 29.4 trillion in the first eleven months of 2024 – down around 12.6% yoy. The key driver of this downturn was a reduction bank lending – which fell by 24.2% yoy. In contrast, non-bank lending rose by 6.5% yoy over this period, primarily driven by government bond issuance.

- The effectiveness of monetary policy easing measures is questionable, given the environment of weak loan demand – which has been negatively impacted by the housing downturn, poor consumer confidence and regulatory pressure on various private sector firms (particularly in the technology industry). This highlights the importance of well-directed fiscal support to sustainably expand domestic demand.

Industrial production & investment

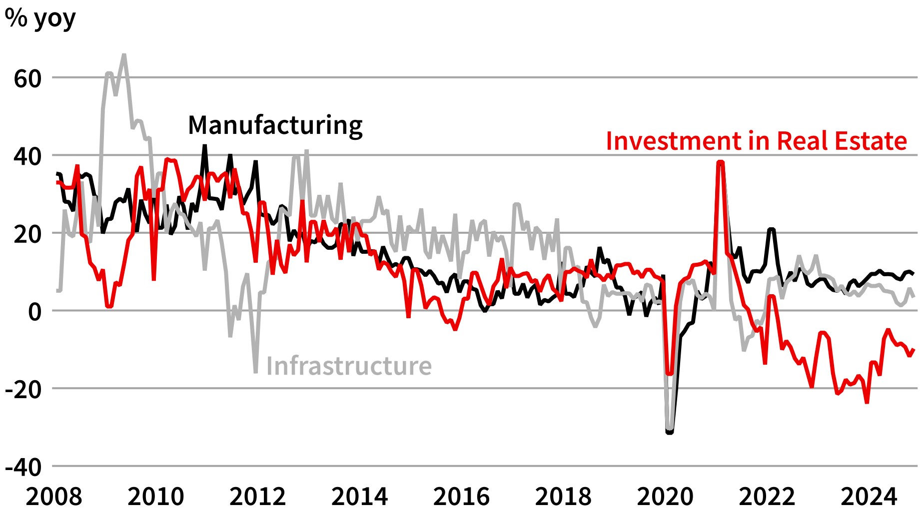
Industrial production growth

Output growth edged higher in November



Fixed asset investment growth

Ongoing property downturn a major drag on investment



Sources: Macrobond, NAB Economics

- China's industrial output grew marginally more rapidly in November – increasing by 5.4% yoy (up from 5.3% yoy in October).

- There have been diverging trends within China's industrial sectors for some time. Heavy industrial sectors – that have close ties to the construction sector – have generally performed more poorly, with cement manufacturing down 10.7% yoy, although steel output has increased in the past two months – up by 2.5% yoy in November. In contrast, motor vehicle output rose by 15.2% yoy and electronics production rose by 9.3% yoy.

- In nominal terms, China's fixed asset investment grew more slowly in November – down to 2.4% yoy (from 3.4% yoy in October). Producer price deflation was marginally weaker in November (and we use this measure as a proxy for the discontinued investment goods price index), meaning that the slowdown in real investment was slightly larger – down to 4.9% yoy (from 6.3% yoy previously).

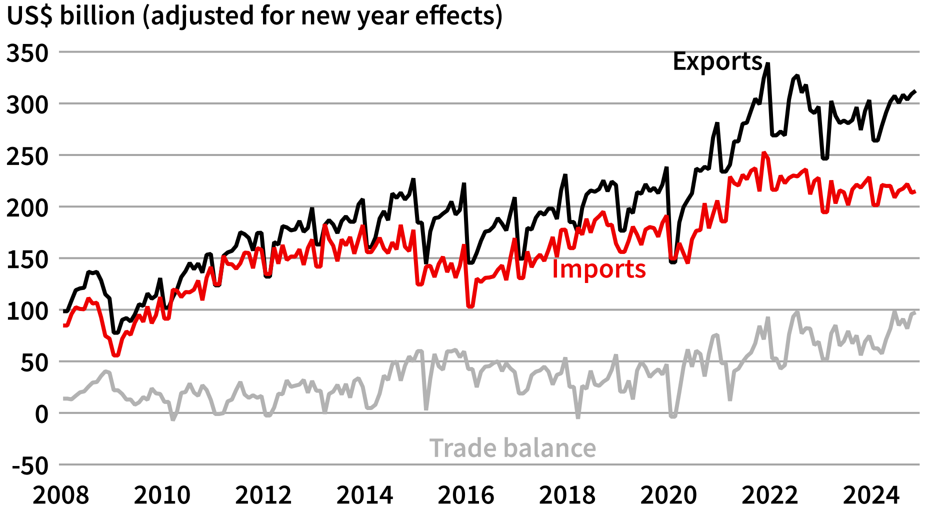
- Nominal investment remains driven by state-owned enterprises (SOEs), with investment rising by 5.1% yoy in November. In contrast, private sector investment expanded by just 0.7% yoy.

- We continue to see diverging trends in investment by major industrial sectors. There continues to be strong growth in manufacturing investment – up by 9.3% yoy in November. Growth in infrastructure investment has trended slightly lower – up by 3.3% yoy, following an uptick in October. Real estate investment continues to contract – down by 9.8% yoy in November.

International trade

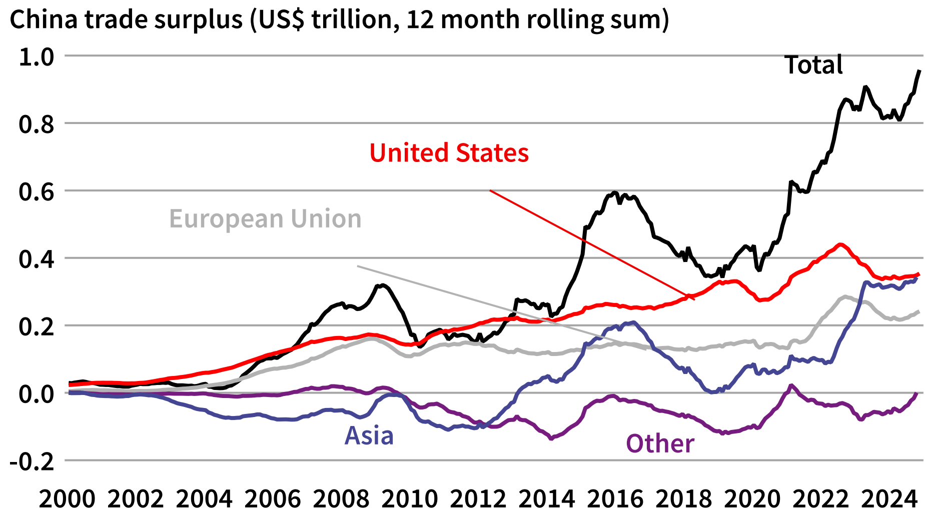
China's trade balance

China's trade surplus close to all-time high



Rolling trade surplus

Asia, EU and Latin America drive record rolling surplus



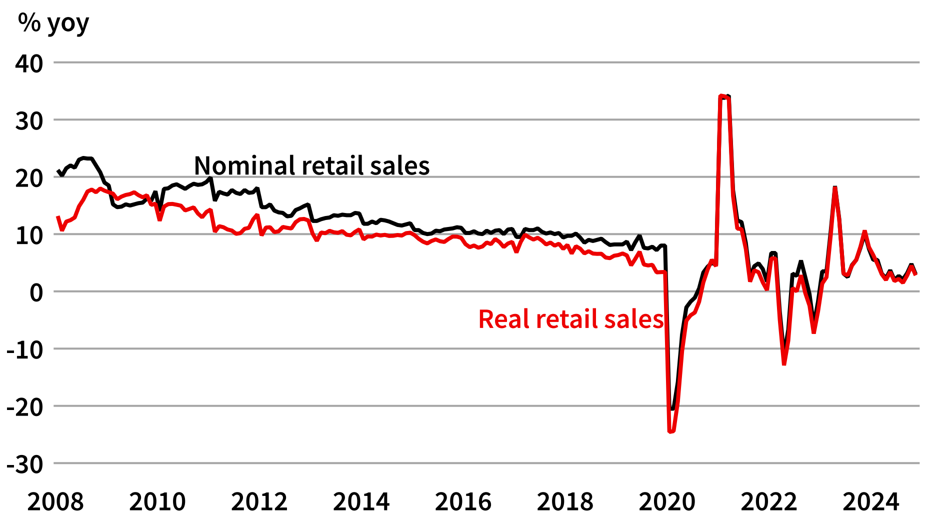
Sources: Macrobond, NAB Economics

- China's trade surplus edged higher in November, as a month-on-month increase in exports outpaced a modest pickup in imports. The trade surplus totalled US$97.4 billion – over taking last month's mark as the third largest on record.
- On a rolling twelve-month basis, China's trade surplus climbed to another record high of US$957.4 billion. From the recent cycle trough of April 2024, the acceleration of the surplus has been driven by an increase in net exports to Asia and the European Union, while the previous trade deficit with "other" economies has essentially evaporated – on increased net exports to Latin America.
- The value of China's exports rose to US$312.3 billion in November (compared with US$309.1 billion previously). In year-on-year terms, this represented an increase of 6.7%. Imports totalled US$214.9 billion (up from US$213.3 billion in October), with the value falling by 3.9% yoy.
- China's export volumes have generally expanded since mid-2023, with rapid growth across most of 2024. Volumes rose by 17.3% yoy in October, and (with the exception of September) have risen at double digit rates since May. The strong growth in export volumes reflects the imbalances between the supply and demand sides of China's economy and have contributed to the growing trade tensions with a broad range of other countries.
- Near term prospects for Chinese exporters may receive a boost from the potential for US importers to stockpile goods ahead of the incoming Trump Administration's tariffs – given that the timing of these measures remains uncertain.

Retail sales and inflation

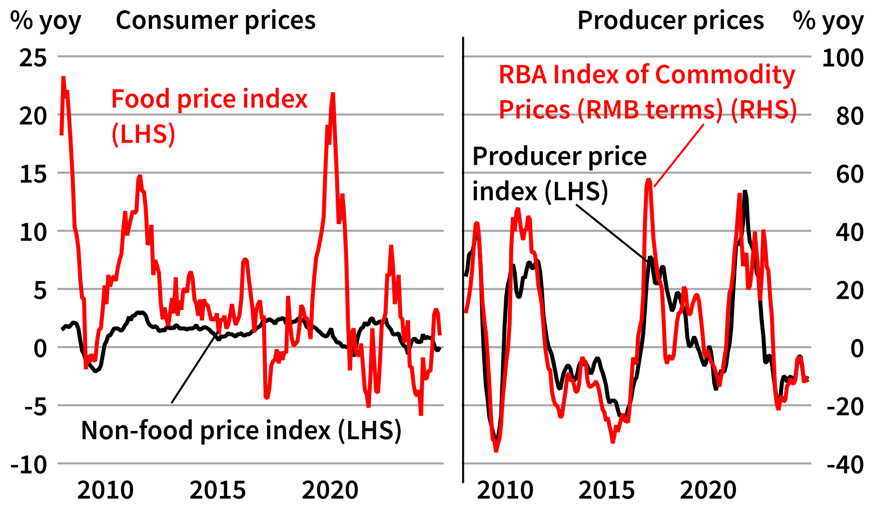
Retail sales growth

Real sales growth back to September's rates, from October jump



Consumer and producer prices

Low inflation persists, pointing to ongoing weakness in demand



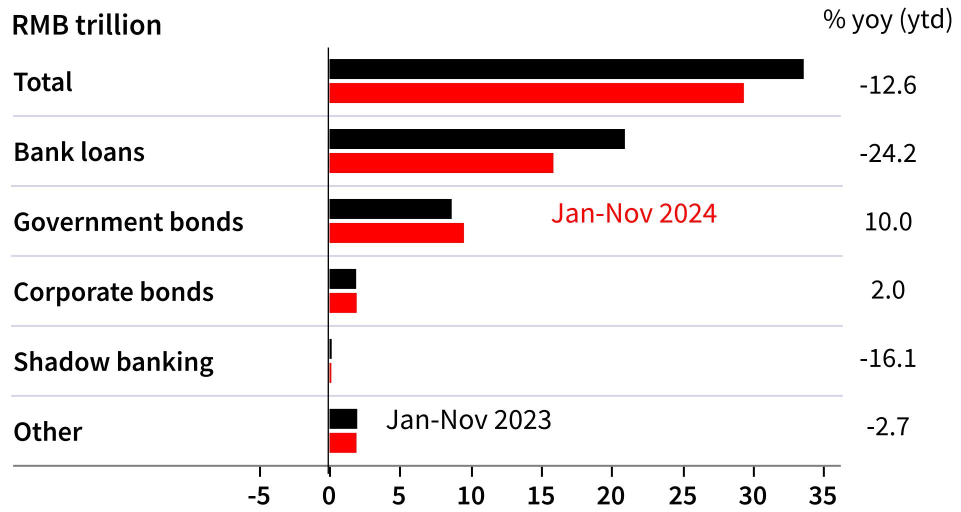
Sources: Macrobond, NAB Economics

- Retail sales growth slowed in November (following the uptick in October) – with nominal sales rising by 3.0% yoy (down from 4.8% yoy previously). When deflated using the consumer price index, real sales growth slowed to 2.8% yoy (from 4.5% yoy in October) – the same rate of increase recorded in September and well below pre-pandemic trends, highlighting the ongoing weakness in China's domestic demand.
- Growth in China's consumer prices was marginally softer in November, with the headline consumer price index up by 0.2% yoy (from 0.3% yoy previously).
- The main driver of this easing was the food price index – where prices rose by 1.0% yoy (down from 2.9% yoy in October). Key to this decline was lower price growth for fresh vegetables (at 10% yoy – compared with a 21.6% yoy increase in October) and fresh fruits (which fell 0.3% yoy in November, from a 4.7% yoy increase previously). Pork price growth remains relatively elevated – rising by 13.7% yoy in November.
- Non-food prices were unchanged year-on-year in November (compared with a 0.3% fall in October). There was less downward pressure from vehicle fuel prices in November – which fell by 8.1% yoy (compared with a 10.5% yoy fall in October).
- China's producer prices have continued to fall – with November the twenty sixth straight month of declines. Prices fell by 2.5% yoy (compared with -2.9% yoy in October). There remains downward pressure from input costs – with the RBA Index of Commodity Prices (converted into RMB terms) falling by 12.1% yoy – however this deflation also points to weak domestic demand.

Credit conditions

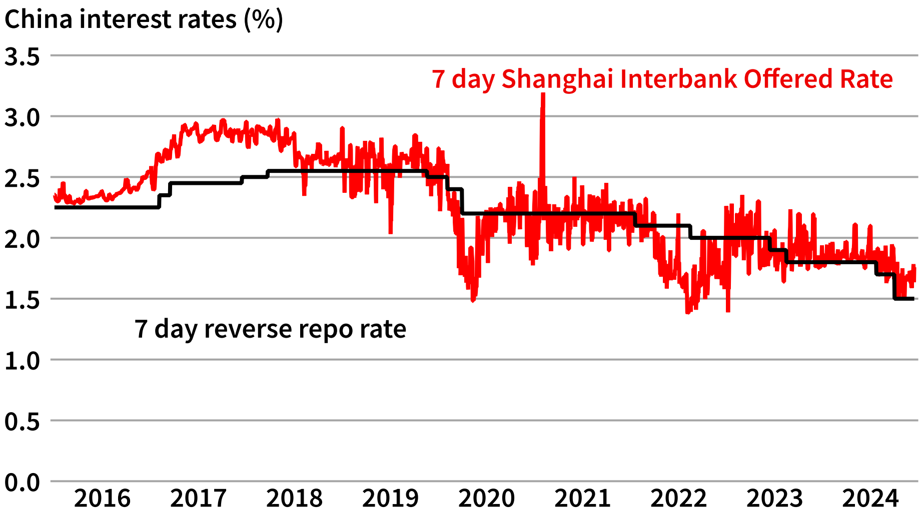
New credit issuance

Lagging bank lending dragged down credit issuance in 2024



Policy rates

PBoC has guided rates lower but loan demand remains weak



Sources: Macrobond, NAB Economics

- China's new credit issuance totalled RMB 29.4 trillion in the first eleven months of 2024 – down around 12.6% yoy.
- The key driver of this downturn was a reduction in bank lending – which fell by 24.2% yoy to RMB 15.9 trillion. Despite efforts to provide monetary stimulus – via interest rate cuts and expanded liquidity for banks – loan demand remains weak.
- In contrast, non-bank lending rose by 6.5% yoy in the first eleven months. This has primarily been driven by government bond issuance – which rose by 10.0% yoy over this period, while corporate bond issuance rose by 2.0% yoy.
- The People's Bank of China has eased monetary policy across 2024, initially with cuts to the Reserve Requirement Ratio (that increased the funds that banks were able to lend) before cutting the 7 day reverse repo rate – which is now China's main policy rate – that guided short term market rates lower. Further monetary easing is expected in 2025 – flagged at the Central Economic Work Conference. That said, the effectiveness of these measures is questionable, given the environment of weak loan demand – which has been negatively impacted by the housing downturn, poor consumer confidence and regulatory pressure on various private sector firms (particularly in the technology industry). This highlights the importance of well-directed fiscal support to sustainably expand domestic demand.

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