

The Week Ahead

20–24 April 2009

ECONOMIC ALERT

HOT ISSUE – Green shoots of recovery in China?

- China's annual economic growth rate eased again in March quarter 2009 to a rate of 6.1%. This performance was the weakest in more than ten years and was the seventh consecutive quarter of weaker annual growth. It was however, better than analysts' expectations.
- Though China does not release higher frequency data than annual estimates, judging from the partial indicators the better than expected annual growth outcome largely reflected a sharp rebound in economic activity in March following the sharp plunge in January-February (notably in trade where exports fell over 21% in January/February 2009 compared to the same time last year).
- As a guide to the quarterly growth outcome, on a seasonally adjusted basis, Morgan Stanley economists estimate that the economy staged a 5% rebound in March quarter 2009, following a quarter-on-quarter contraction of -0.5% in the December quarter of 2008 the first such contraction in almost eight years.
- It is likely that the massive economic stimulus flowing into China's economy from lower official interest rates and government spending is boosting growth.
- By way of example of the positive impact of aggressive monetary policy, annual monetary and credit growth rose to record highs in March, up 25.5% and 29.8%, respectively. New loans made in March quarter 2009 were almost 3.5 times the amount in the same period last year, and 93% of 2008's total lending.
- A number of partial indicators suggest improvement in China's growth outlook.
 - A lift in fixed asset investment, up at an annual rate of 30.3% in March compared to 26.5% in January February.
 - A solid rise in the real value of consumption. Annual retail sales growth strengthened in real terms in March to 16.4%, up from 15.7% in January/February.
- This, in turn, has helped underpin a rise in value-added industrial output growth, to 8.3% in March from 3.8% in the first two months of 2009. China's Performance of Manufacturing Index rose to 52.4 in March, the first expansion in activity following five months of contraction.
- While these are some tentative signs that China's economy is turning around due to strong policy stimulus there are still significant risks. One particularly important risk is that the markets on which Chinese exports depend, the US, Japan and Europe, may deteriorate further. Gross exports make up over 40% of Chinese output and further deterioration in export demand would strongly constrain the strength of and/or delay the recovery.

Key Economic Events

- Ai Group's *Prospering in Tough Times* seminars continue this week, in Geelong and Keilor, Victoria.
- ABS consumer price inflation data for March quarter 2009 is released on 22 April.
- On 21 April, the Reserve Bank releases minutes of its April 2009 Board meeting detailing the reasons for its 25 basis points cut in the official cash rate. RBA Governor Glenn Stevens speaks to the Australian Institute of Company Directors on 21 April.
- The Department of Employment, Education and Workplace Relations releases its April survey of skilled vacancies.