China Strength Defies Hard Landing Scenario

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China’s record imports and a rebound in lending signaled strength in demand that offers a bright spot in a global economy contending with Europe’s debt crisis and weakening U.S. job gains.

Shipments from abroad jumped 30 percent and new local-currency loans were a more-than-forecast 548.5 billion yuan ($86 billion), government reports in the past two days showed. At the same time, August figures released Sept. 9 indicated that policy makers have made progress in stemming inflation, which eased from a three year high, to a 6.2 percent year-on-year pace.

The data may bolster confidence that the world’s second-largest economy is weathering both Premier Wen Jiabao’s campaign to defuse price pressures and financial turmoil abroad. Group of Seven finance chiefs vowed “a concerted effort” to support expansion on Sept. 9 as Europe’s debt woes and zero job growth in the U.S. increase the risks of a renewed recession.

“This all points to a robust economy, and a hard landing looks an increasingly distant scenario,” said Liu Li-gang, a Hong Kong-based economist with Australia & New Zealand Banking Group Ltd. who previously worked for the World Bank. “China is less reliant on external demand and more dependent on investment and consumption, so the deteriorating global outlook will have less of an impact than during the previous financial crisis.”

Stocks Slide

Asian stocks sank today on speculation that Greece may be edging closer to a default. Hong Kong’s Hang Seng Index fell 3.4 percent as of 11:54 a.m. local time. China’s stock markets are closed for a holiday.

New local-currency loans rebounded in August from July, central bank data showed yesterday. At the same time, M2, the broadest measure of money supply, expanded only 13.5 percent, the least in almost seven years.

The central bank said today that M2 is underestimating money-supply growth because of financial innovations such as off-balance-sheet products developed by lenders this year. The monetary authority described liquidity as “appropriate” and said it is studying the use of a broader version of M2.

China’s Contribution

China, the biggest contributor to world growth last year according to the International Monetary Fund, may expand more than five times faster than the U.S. and 16-nation euro zone this year, according to forecasts from Citigroup Inc. and HSBC Holdings Plc.

Citigroup estimates China will grow 9 percent this year and next year after a 10.4 percent pace in 2010, as Wen’s campaign to rein in consumer prices takes effect and export growth slows.

August’s inflation rate declined for the first time in four months as gains in food costs eased to 13.4 percent, the statistics bureau said on Sept. 9. Industrial output growth moderated to 13.5 percent and expansion in fixed-asset investment in the first eight months of the year slowed to 25 percent.

The data “fell short of signaling any acute economic difficulties while inflation showed only modest improvement,” said Yao Wei, a Hong Kong-based economist with Societe Generale SA. “The authorities are most likely to wait and see for another month at least before making any clear shifts in policy direction.”

Import Gains

Wen reiterated last month that stabilizing prices remains the top priority and that the government won’t alter the direction of economic policies after a global stocks rout and fears that developed nations will sink into recession triggered speculation he may start to unwind monetary tightening.
Growth in August imports, which topped the estimates of all 29 economists in a Bloomberg survey, adds to evidence tightening measures aren’t choking expansion.

Purchases of crude oil rose to a three-month high, copper climbed to the highest since January and iron-ore purchases were the largest since March, the customs bureau said on Sept. 10.

Exports in August jumped a more-than-estimated 24.5 percent to $173.3 billion, near the previous month’s record.

“There’s a huge amount of resilience in the economy, which is supporting higher imports,” said Alastair Thornton, a Beijing-based economist with IHS Global Insight. “But it’s inevitable that weakness in the U.S. and euro zone economies will slow export growth.”

**Borrowing Costs**

The People’s Bank of China has raised interest rates five times over the past year and curbed lending by boosting banks’ reserve requirements nine times to a record 21.5 percent for the biggest institutions. The benchmark one-year lending rate is 6.56 percent and the one-year deposit rate is 3.5 percent.

Domestic loans used to fund fixed-asset investment grew only 9 percent in the first eight months of the year while so-called “self-raised funds” jumped 29.4 percent, according to statistics bureau data.

Some companies are taking advantage of tighter credit conditions to lend at higher interest rates using banks as intermediaries. Time Publishing and Media Co. made an entrusted loan of 60 million yuan through the Bank of Communications at an annual interest rate of 25.4 percent, according to an Aug. 29 statement to the Shanghai stock exchange.

Time is among 35 listed companies that made a combined 16.9 billion yuan of entrusted loans at rates higher than the benchmark in the first eight months of the year, the official People’s Daily reported on its website on Sept. 5. Many of the borrowers were property developers, the newspaper said.


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