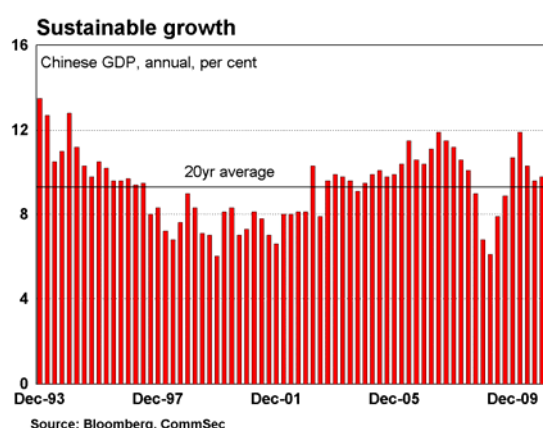


China: Robust growth and inflation moderates Chinese economic data

- Chinese economic activity picked up pace in the last three months of the year. The Chinese economy grew at a 9.8 per cent annual rate in the December quarter (consensus 9.2 per cent) up from 9.6 per cent in the previous quarter. China's industrial production also strengthened in December while the pace of retail sales activity rose to 25-month highs.
- The annual rate of consumer price inflation eased from the 28-month high of 5.1 per cent in November to 4.6 per cent in December. Food prices rose by 9.6 per cent over the year while non-food prices rose by just 2.1 per cent.
- Chinese authorities are continuing to achieve a degree of success in controlling property prices.

What does it all mean?

- Chinese authorities can certainly give themselves a well deserved pat on the back. Tighter lending restrictions, more prudent regulation and the removal of stimulus have all had the desired effect of ensuring that inflation is not spiralling out of control at a time when economic growth continues to rebound.
- Inflation eased from 28-month highs of 5.1 per cent to 4.6 per cent in December. And while it's only early days, the initial signs are encouraging, especially given that the real problem has been rising food inflation. And more importantly inflation has the potential to moderate as the measures put in place by Chinese authorities over the last couple of months to cap food prices have the desired effect. Releasing state food reserves, and boosting efforts to increase production of an array of crops has result in food inflation moderating (albeit modestly) to a 9.6 per cent annual rate while non-food inflation was still relatively tame at 2.1 per cent compared with a year ago.
- The Chinese economic growth story certainly points to picture of sustainability. Overall growth picked up pace in the latest reading, with industrial production once again lifting and retail sales growth rising to the highest level in 25-month.
- Concerns about an overheating Chinese property sector continue to be talked about in some circles. However month by month those fears seem to be subsiding. Property price growth has continued to moderate since peaking at a 12.8 per cent annual rate in April and currently stands at 6.4 per cent.
- The trade data would no doubt reassure global investors. Not only has export growth remained robust over the



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past few months, but the pickup in imports bodes well for the Asian region. China is clearly the stalwart for growth in the region, and for the likes of Australia the health of China is central to the domestic growth story. Interestingly even despite the recent surge in imports, the monthly trade surplus is holding at a healthy level of US\$13 billion – modestly ahead of the decade average at US\$11 billion.

- Apart from inflation, Chinese authorities have also got a challenge in ensuring an asset bubbles does not occur in equity and property markets. This is especially the case given that the revaluation of the Yuan will be a feature of the Chinese landscape over the coming year and add to “hot money” and speculators taking bets on the Chinese currency. However it is unlikely that the added pressure from the US will prompt Chinese policymakers to expedite the revaluation of the Yuan, rather it is likely to continue at a sedate pace.

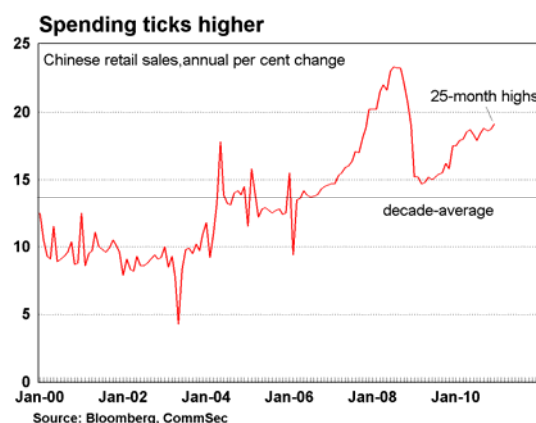
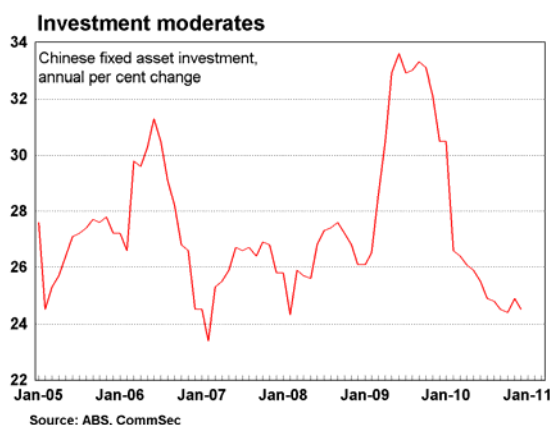


What do the figures show?

- **The Chinese economy grew** at a 9.8 per cent annual rate in the December quarter (consensus 9.2 per cent) up from 9.6 per cent in the previous quarter. Over the year the Chinese economy grew by 10.3 per cent.
- **The annual rate of consumer price inflation** eased from the 28-month high of 5.1 per cent in November to 4.6 per cent in December. Food prices rose by 9.6 per cent over the year while non-food prices rose by just 2.1 per cent.
- **The annual rate of producer price inflation** eased from 6.1 per cent to 5.9 per cent in December.
- **Industrial output** expanded at a 13.5 per cent annual pace in December, up from 13.3 per cent in November. Production is still well off the highs of 20.7 per cent annual growth in January/February.
- China's **urban fixed asset investment**, such as spending on roads and power plants, grew at a 24.5 per cent annual pace in the year to December, and down from 24.9 per cent over the 11 months to November.
- **Retail sales** grew at a 19.1 per cent annual rate in December, up from the 18.7 per cent annual pace in the year to November.

Data released earlier in the month showed

- **Chinese passenger car sales** rose by 18.6 per cent in December compared with a year earlier. A total of 1.3 million vehicles were sold in the month.
- In the 2010 calendar year passenger vehicle sales rose 33.2 per cent compared with the prior year. A total of 13.76 million vehicles were sold.
- **The Chinese trade surplus** eased as imports surged. China recorded a trade surplus of US\$13.1 billion in December – below forecasts centred on a result near US\$20.0 billion. Exports were up 17.9 per cent on a year ago (consensus +22.5 per cent) and imports were up 25.6 per cent (consensus +24.5 per cent).
- **Broad money supply (M2)** rose at a 19.7 per cent annual rate in December, the fastest pace in seven months.
- **Chinese property prices** slowed again in December. Urban property prices rose by 6.4 per cent in the year to December, down from 7.7 per cent in the year to October, and the 12.8 per cent peak in April.



- In December alone, property prices rose by 0.3 per cent after a similar 0.3 per cent lift in November.
- For the 2010 year, new property sales were up 10.1 per cent, up from 9.8 per cent in the first 11 months of the year.

What is the importance of the economic data?

- **China's National Bureau of Statistics** releases its monthly economic statistics around the middle of each month. Quarterly GDP data is released around the 16th of January, April, July and October. China is Australia's largest trading partner and changes in the Chinese economic have major implications for the Aussie economy.

What are the implications for interest rates and investors?

- The Chinese economy continues to expand at a firm clip with healthy growth rates across an array of sectors. China is both Australia's largest trading partner and top export destination, so solid, sustainable growth is very much in our interests.
- Clearly the main concern for investors is inflation. However higher food prices are a temporary situation and is likely to moderate as increases in food supply and policy measures take effect. It is likely that non food inflation will continue to rise modestly over 2011 and authorities will in turn need to tighten policy to ensure that inflationary expectations remain in check.

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