

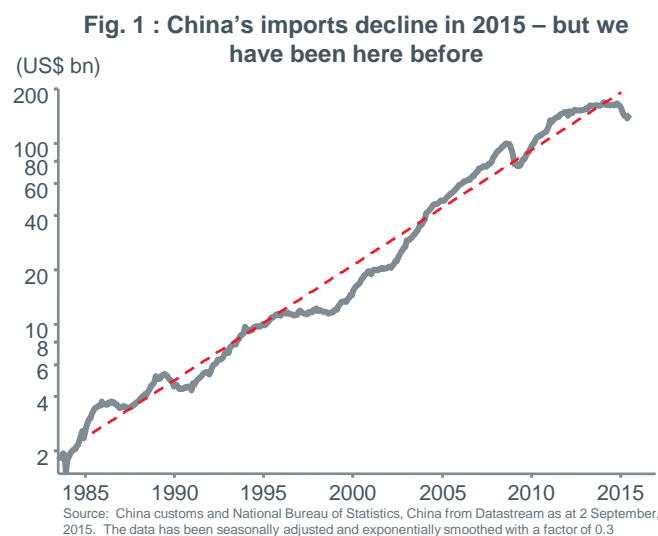
CHINA'S SLOWER GROWTH FEARS LOOK EXAGGERATED

CHINA: SLOWER - BUT STILL GROWING

Articles suggesting that China's slowing growth will have a dire impact on world, and Asian, growth are dominating the headlines

China's consensus growth forecast still anticipates 6.9% this year (having been steadily downgraded from 7.3%) and a slightly lower 6.7% next year.

Even if growth were calculated on the basis of the Li Keqiang measures (electricity output, industrial production, freight shipments and passenger travel), growth would still be circa 4%¹; this is roughly equivalent to China's economy growing by twice the size of Singapore's economy in a year. Not bad!



It is the ripple effect that seems to concern investors most especially in relation to Asia's economies; these are presented (by the press at least) to be highly dependent on China growth.

These fears have been fuelled by a late 2014, early 2015 fall in China's imports, which fell some 14½% per annum over the first seven months of 2015. While this seems large (it is sub- trend), it is not out of line with the past declines as Fig. 1. shows. China's imports fell 24% between September 2014 and February 2015. Since then, they have rebounded 15% (as at end July).

WHICH ECONOMIES ARE BEARING THE BURDEN?

Slowing China imports will impact various economies. The questions are, "Which economies?" and "By how much?"

More to the point, "Is the fear that this slowing has engendered, justified?", and "Has the press extrapolated one fact to present it as the whole picture?"

The calculations shown in Fig. 2. below, suggest that the overall impact on Asia is rather more restrained than the wilder bouts of sentiment would allow.

The bulk of the fall in China's imports was over by March (it is possible that it could resume of course, which implies that the 14.6% fall could be light). But overall, it seems reasonable to assume that the declines in Asian 2015 growth forecasts seen this year already capture China's slower growth.

We note that (a) Asian growth is still forecast to well exceed that in the developed economies and (b) 2015 US growth forecasts have fallen since the start of the year without similar headlines.

While slower China growth will impact, we reiterate our view that China is slowing, not stalling. There's a world of difference.

Fig. 2: Impact on China's suppliers based on a 14.6% fall in China's imports in 2015²

	India	Indonesia	Korea	Malaysia	Philippines	Singapore	Thailand
Fall in exports (\$bn):	-3.76	-6.64	-13.88	-2.11	-0.78	-2.16	-1.38
Lost income as % GDP	-0.2%	-0.7%	-1.0%	-0.6%	-0.3%	-0.7%	-0.4%
2015 growth forecast ³ at:							
December 2014	6.3%	5.4%	3.5%	5.0%	6.1%	3.2%	3.9%
August 2015	7.7%	4.8%	2.6%	4.8%	5.8%	2.3%	2.9%
2016 GDP forecast ³	8.0%	5.2%	3.3%	5.0%	6.0%	2.8%	3.6%
	France	Germany	Italy	Netherland	Russia	UK	
Fall in exports (\$bn):	-2.45	-14.17	-1.98	-0.58	-8.66	-3.61	
Lost income as % GDP	-0.1%	-0.4%	-0.1%	-0.1%	-0.5%	-0.1%	
2015 growth forecast ³ at:							
December 2014	0.8%	1.3%	0.4%	1.3%	n.a.	2.6%	
August 2015	1.2%	1.9%	0.7%	2.1%	-3.5%	2.6%	
2016 GDP forecast ³	1.6%	2.0%	1.2%	1.8%	0.4%	2.5%	
	Australia	Japan	NZ	US	Brazil		
Fall in exports (\$bn):	-25.2	-18.08	-3.54	-11.99	-12.2		
Lost income as % GDP	-1.7%	-0.4%	-1.9%	-0.10%	-0.50%		
2015 growth forecast ³ at:							
December 2014	2.8%	1.2%	3.0%	3.0%	n.a		
August 2015	2.4%	0.8%	2.5%	2.3%	-1.6%		Downgrade
2016 GDP forecast ³	2.9%	1.7%	2.5%	2.7%	0.6%		Upgrade

Source: Data is that presented in The Guardian (UK) as at 1 September 2015 based on official data. ¹ Capital Economics, August 2015. ² The data is calculated on the assumption that the 14.6% year on year fall in the seven months to July extends to the whole of 2015. It allows for the fact that different economies are impacted differently. Australia, for example, has seen its exports (mostly minerals) to China fall some 26%. ³ Consensus Economics as at 10 August, 2015.

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