

Ed Shann: Changing China's boom pierces the gloom

Ed Shann, Herald Sun

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AMID the gloom you may have missed that China is booming again.

That is really good news for Australia as, in addition to faster overall growth, China has been phasing out less efficient heavy industry and increasing resource imports.

We reap the rewards in higher export volumes and prices.

Chinese GDP is officially forecast to grow 6.5 per cent this year, but the best guide to current growth is production data.

Chinese electricity consumption grew 10 per cent in July on a year earlier, with services demand showing the fastest growth.

Freight traffic in July was 12.1 per cent higher than a year earlier.

Chinese exports in June were 11.3 per cent higher in value than a year earlier and import values were up 17.2 per cent.

The rapid import growth reflects the closure of high-cost inefficient producers to reduce pollution. Retail sales also grew rapidly by 10.4 per cent in July on a year earlier, while fixed-asset investment rose 8.3 per cent.

China is gradually changing the composition of its economy, while continuing to grow rapidly. This rapid Chinese growth has caused non-energy commodity prices to take off.

Australian bulk commodity prices of coal, iron ore and LNG rose 25 per cent in the last year.

Metal prices of aluminium, copper, nickel, lead and zinc are all up strongly.

The Baltic Dry index measures the cost of moving raw materials by sea. It is a good guide to traded raw materials demand and it is up 70 per cent on a year ago.

The other important change in the world economy is the end of the Trump trade, which saw the US dollar jump on Donald Trump's election as US president on expectations that tax cuts and higher infrastructure spending would boost US output growth.

With the realisation that Trump is struggling to implement his promises and continued rises in US interest rates that will slow growth, the US dollar has fallen back. The beneficiaries have been the non-oil emerging markets, Australia and Europe, which have seen capital inflows and rising exchange rates.



The US dollar jumped on Donald Trump's election as US President. Picture: AP

This is not going to result in a new resource investment boom in Australia any time soon, as there is still plenty of spare capacity in most commodities. However, it will help export volumes and prices and boost mining revenue.

The mining service industry is rising from the ashes as miners start spending money to increase production from existing mines.

Australia's federal Budget also benefits from higher mining profits as commodity prices are higher than forecast at Budget time.

The burst of Chinese growth may have been manufactured in the lead-up to the Chinese National Congress in October that will see the retirement of a majority of the top leaders. President Xi Jinping wants to consolidate his leadership position and a strong economy reinforces his power. It is thus possible that policy may be tightened again following the Congress.

However, the world economy looks healthier than for some time, with all major economies expanding and commodity prices rising. Debt risks remain, as well as worries about asset prices as central banks reduce monetary stimulus.

Still at least there is good news on resources.

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