

China rebalancing?

China has stated ambitions of moving away from an investment and export driven growth model to one driven by consumption and the services sector. The data suggests that industrial and construction activity is falling at a moderate pace. Key industrial commodities of coal, aluminium and steel are now trading at multi year lows. Industrial profits also remain under significant pressure.

The only near term hope for these sectors, dominated by excess capacity and fading demand, is the US\$1.1 trillion “silk road” project – which could provide material government funded stimulus.



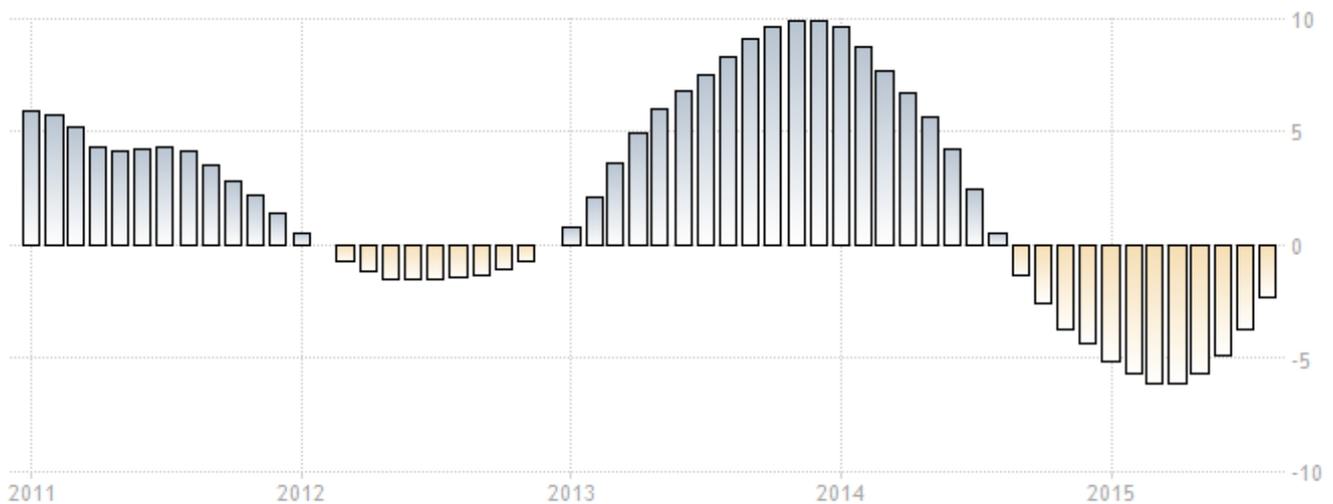
Coal consumption growth appears to have peaked in China. Given the significant social unease around air quality and pollution in China’s cities, the Government is pushing for a transition to renewable energy. For those watching China, there appears to be an improvement in Beijing air quality over the past year.

Annual change in Chinese coal consumption (2001-14)
percent change in energy content terms



The housing bear market that started mid 2014 also appears to be slowing.

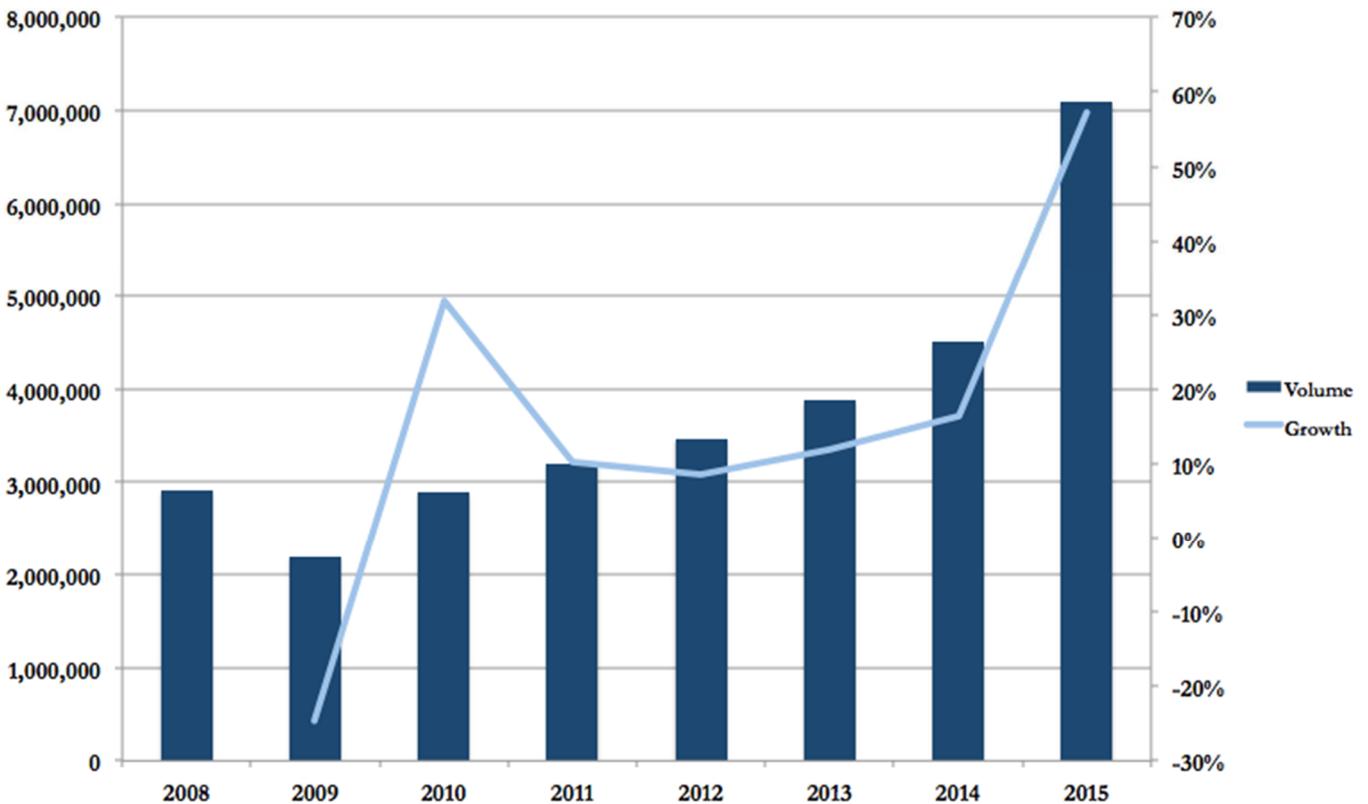
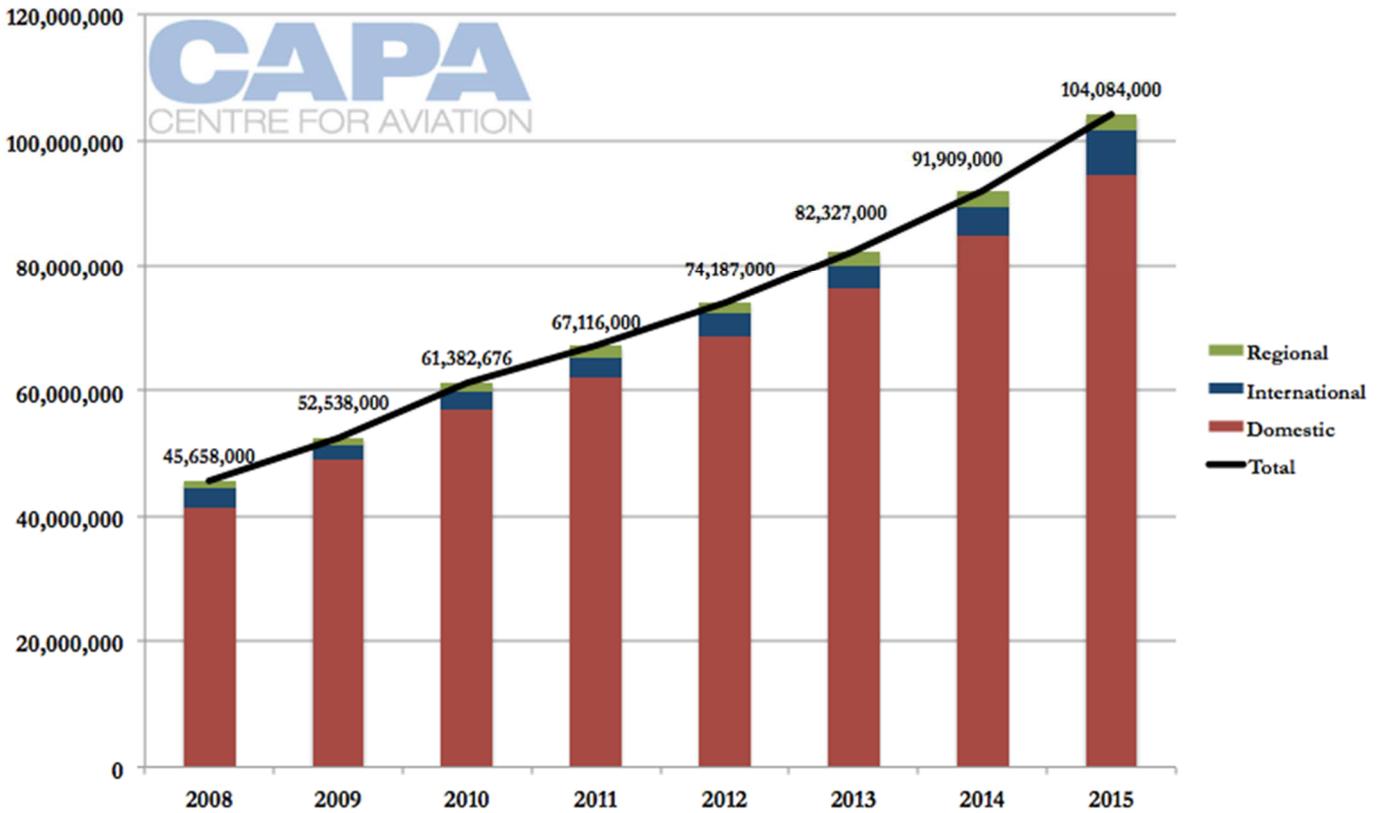
CHINA NEWLY BUILT HOUSE PRICES YOY CHANGE



SOURCE: WWW.TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

Are Chinese consumers picking up the slack?

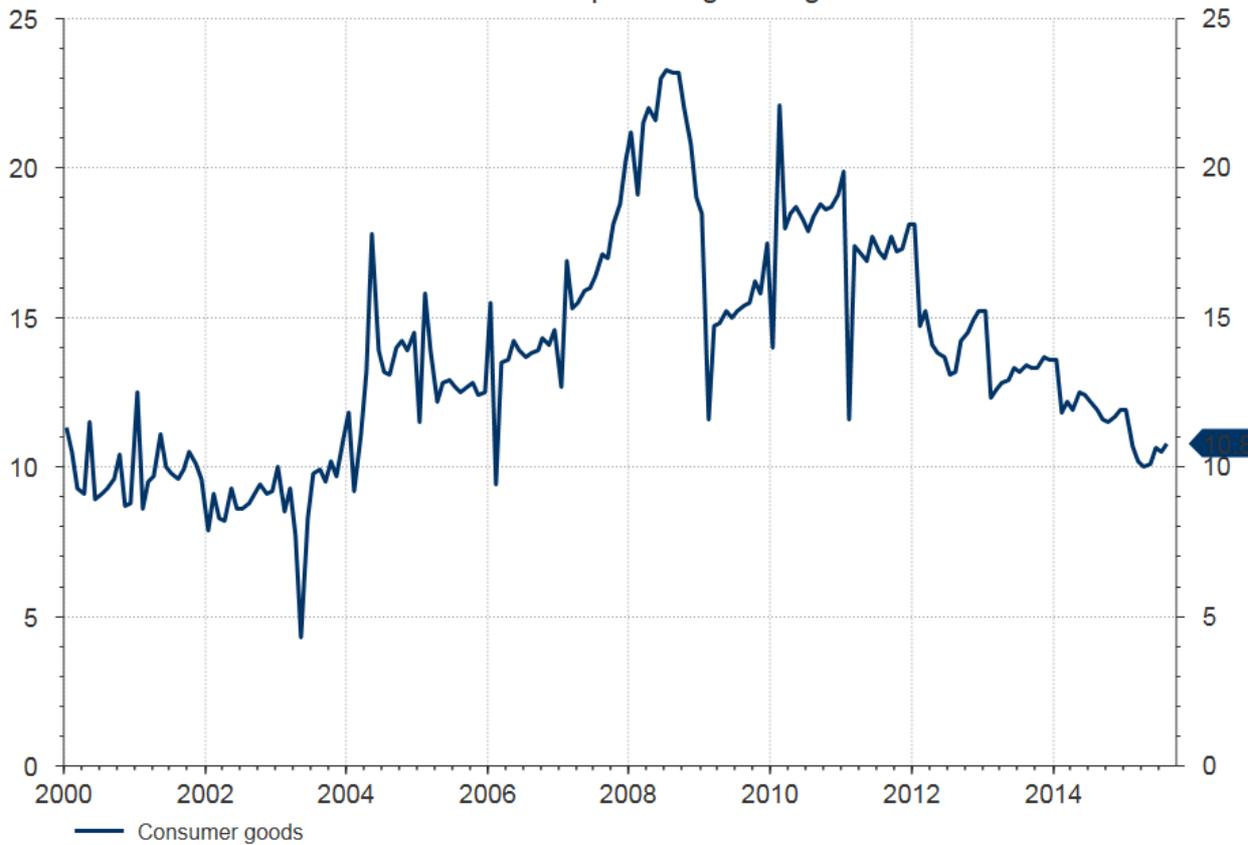
Chinese air traffic continues to grow at 10%+ growth rates in 2015. International flights are a small component of sales for Chinese airlines, rising from 4.5% from 2009 to 7% of in 2015. The chart below shows passenger numbers for Q1 2015. In the first quarter of 2015 there was a 57% increase in international passenger travel to 7.1 million passengers. That is the equivalent of 64 more A380 flights per day in Q1 2015!



On the other hand, the official data suggests retail sales are growing at a slowing rate and decreasing as a share of GDP. Not a good sign if consumption is meant to pick up the baton of economic growth.

China retail sales

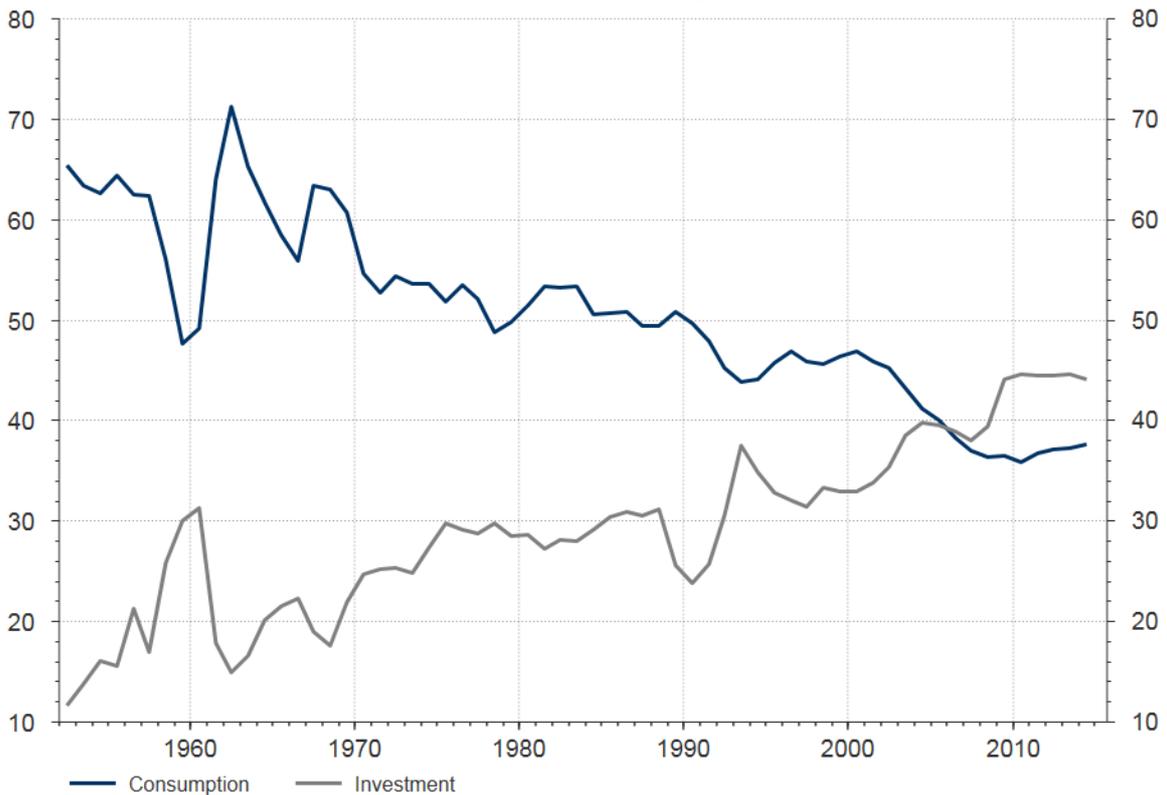
Twelve-month percentage change



Source: Thomson Reuters Datastream

China nominal consumption and investment

Per cent of nominal GDP



Source: Thomson Reuters Datastream

What does this all mean? The transition in China is happening. Growth in industrial and investment dominated sectors, which have been the destination of much of Australia's commodity exports, is slowing. Whether consumption and services will pick up the slack remains to be seen. There are some positive signs – but history suggests that these great shifts in growth are rarely smooth.