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China: Soft-Landing or Recession-bound? (III)

While recent data (particularly both industry and services PMIs) have supported the notion that the Chinese economy could be approaching a soft-landing, i.e., stabilizing at a rate of real GDP growth probably close to the government's target of 7.5%, just-released trade data bring to the fore the very significant risks that stain DE's cautious optimism.

The reduction of export growth to single-digits is no surprise. Numbers have been trending down for the past year, and the European recession makes the export outlook gloomy at best. However, the stalling of imports (growth of only 0.4% year-on-year in April) is a far worse outcome than anticipated, well below market consensus (and DE's own estimate).

From a fundamental perspective, the question is whether the result is indicative of a qualitative down-shift into recession territory by the domestic economy. Perhaps that is not the case, particularly considering other recent indicators already available, plus the fact that April had slightly fewer working days this year. We will soon obtain additional data to check whether the cooling of growth has entered a more dangerous phase.



Nonetheless, the inescapable implication of the trade statistics is that the domestic sectors of the economy are not at this time particularly dynamic, that they may still be weakening, which in view of the visible softening of exports translates into the strong likelihood that real-GDP growth is still slowing, i.e., no soft-landing yet, even if one could still occur in coming months.

As regards policy, the data suggest that some easing will probably be required to stabilize growth and minimize the risk of a hard-landing. The policy change would have to include a measure of easing on the monetary side, which recent data suggest has just begun to occur, but only at a very modest pace.