

## Outlook for Moderating Growth in China Unchanged

Comments on *The Conference Board Leading Economic Index*<sup>®</sup> (LEI) for China

July 20, 2010 (May 2010 data)

*Exclusive for China Center Members – Not for External Distribution*

### What the Numbers Tell Us –

- The LEI and CEI for China (Chart 1) continue to suggest that economic growth will remain solid, but that the rate of growth is likely to moderate in the second half of 2010 (Chart 2).
- A year-on-year growth rate of GDP in the 8 to 9 percent range is likely in the second half of this year – close to our expectation of China's medium term achievable growth rate.
- Both indexes continue to move incrementally upwards, although about half of the LEI components have decreased over the last 6 months.
- Credit and real estate made the largest contributions to the LEI in May as measured by *Total Loans* and *Total Floor Space Started*. These two components, together with *Consumer Expectations*, have accounted for most of the increase in the LEI in the past six months.
- Current economic conditions as measured by the Coincident Economic Index (CEI) suggest that the economy continues to expand in a broad based way.

### Our Interpretation of the Numbers –

- All in all, the month's numbers suggest good near-term conditions for business in China.
- We continue to watch for knock-on effects of the current slowdown in real estate sales and the drop in real estate prices.
- China's large June trade surplus of USD\$20 billion is symptomatic of the real estate slowdown – import growth has lagged export growth over the last half-year, with imports growing 8 percent from January to June (seasonally and inflation adjusted) versus 17 percent growth in exports. Real estate and investment fuel commodity imports; as these sectors cool off, import growth is slowing as well.
- Weakening of global demand for China's exports is possible in the coming months, as we expect growth in the United States and Euro Area to slow later this year.
- According to China's National Bureau of Statistics (NBS), real GDP increased by 10.3 percent year-over-year in the second quarter of 2010, down from the 11.9 percent increase in the first quarter and the 10.7 percent increase in the fourth quarter of 2009. Earlier this month, NBS has also announced



its revision to real GDP growth, from the previously released 8.7 percent to a 9.1 percent for the year of 2009.

### Summary of *The Conference Board Leading Economic Index*® (LEI) for China

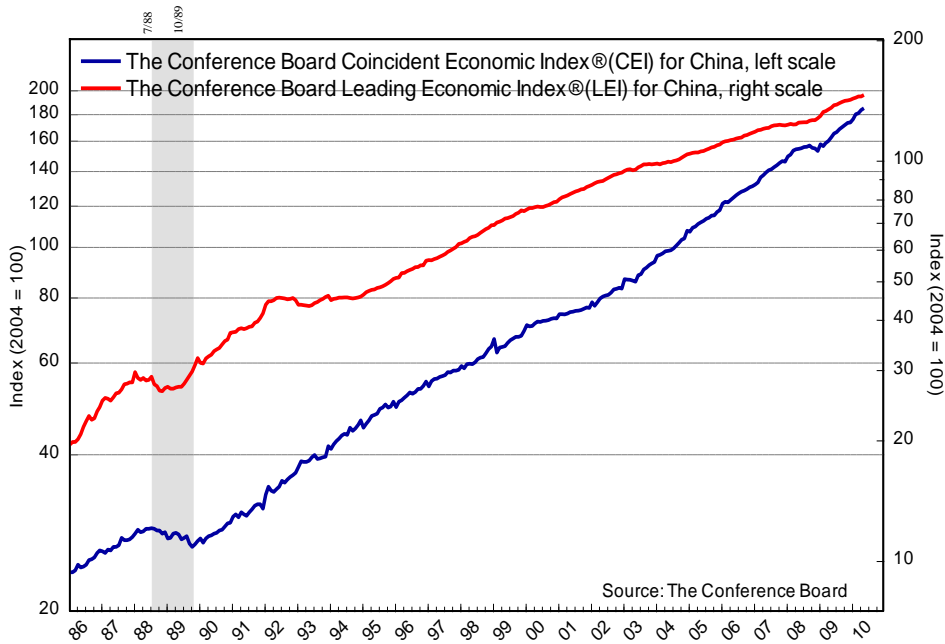
- *The Conference Board Leading Economic Index*® (LEI) for China increased 0.8 percent in May.
- The LEI's 6-month growth rate is noticeably slower than the preceding 6-month period of May – November 2009.
- This more moderate growth rate is in line with the average growth of the index in the 2000-2007 period (Chart 2). Moderation is a return to normal growth rates rather than a signal of a sharp slowdown unless the LEI slows down further in the coming months.
- Economic activity across the board continued to send positive signals in May, with 5 of the 6 LEI components increasing month over month.
- *PMI Manufacturing New Export Orders* and the (inverted) *PMI Manufacturing Supplier Deliveries* declined over the past 6 months, signaling the last 6 month's strong growth in the manufacturing sector is likely to see moderation in the near term.
- *Consumer Expectations* have held mostly steady over the last several months, recovering in May to their March level after a sharp decline in April.

### Summary of *The Conference Board Coincident Economic Index*® (CEI) for China

- *The Conference Board Coincident Economic Index*® (CEI) for China increased 0.9 percent in May. Its six-month growth rate of 6.7 percent in the six months ending in May 2010 was unchanged from the previous six-month period (May – November 2009). Strengths among the coincident indicators have remained very widespread in recent months.
- 4 of 5 CEI components made positive contributions to the index in May, with a small negative contribution from only the *Volume of Passenger Traffic* component.

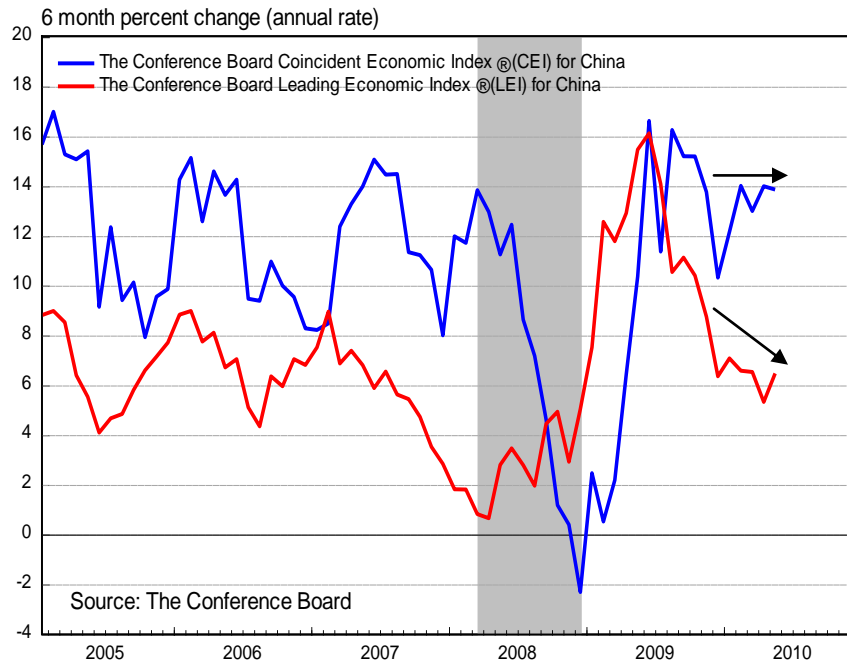
NOTE: This release incorporates a technical adjustment to *The Conference Board Leading Economic Index*® (LEI) for China. The PMI Manufacturing Supplier Delivery component is now inverted for inclusion in the LEI; it previously was included in its as-published form. This adjustment has a small impact on the index back to 2005, when the component first became available; the prior history is only marginally affected. It does not impact the LEI's historical trend or *The Conference Board Coincident Economic Index*® (CEI) for China. For further details, please refer to the technical notes online: <http://www.conference-board.org/data/bci.cfm>, or contact us at: [william.adams@conference-board.org](mailto:william.adams@conference-board.org)

**Chart 1: *The Conference Board Leading Economic Index®* (LEI) for China continues its moderately rising trend in May**



Note: Shaded area represents recession in China determined by The Conference Board CEI for China

**Chart 2: While growth in CEI for China holds fairly steady in the last six months, growth in LEI for China has moderated considerably**



Note: Shaded area represents growth cycle in China determined by The Conference Board CEI for China



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