China's Factory Output Rises In Sign Of Recovery

Joe McDonald, AP Business Writer

BEIJING (AP) — China's auto sales, consumer spending and factory output improved in October in a new sign of economic recovery as the Communist Party prepared to install a new generation of leaders.

Growth in factory output accelerated to 9.6 percent over a year earlier from the previous month's 9.2 percent, the government reported Friday. Retail sales rose 14.5 percent, up from September's 14.2 percent.

Also in October, inflation eased further, giving Beijing more room to cut interest rates or launch new stimulus measures to speed a recovery with less danger of igniting politically dangerous price rises.

The data are welcome news for the ruling party, which is meeting in Beijing for a once-a-decade handover of power to younger leaders. Coming off the past year's steady declines in economic activity, a rebound might allow the new leaders to benefit from improving public sentiment.

"A modest recovery is under way," said UBS economist Tao Wang in a report.

Investment growth strengthened, rising 25.2 percent over a year earlier, up from the previous month's 25.1 percent.

Auto sales rose 6.4 percent to 1.3 million vehicles, rebounding from September's 0.3 percent contraction, a state-sanctioned industry group, the China Association of Automobile Manufacturers, reported.

The improvement comes as communist leaders are expected to install Vice President Xi Jinping as party leader and China's next president.

The new leadership faces challenges including slowing growth that the World Bank and Chinese analysts say will require a drastic change in the country's economic strategy. They say Beijing must reduce the dominance of state companies in industries from finance to energy to banking and nurture free-market competition to keep incomes rising.

Economic growth fell to a three and a half year low of 7.4 percent in the quarter ending in September but investment, retail sales and other indicators improved from the previous quarter. The government said last month it saw "steady economic growth," suggesting there was no need for further major stimulus.

The slowdown was due largely to government efforts to crush inflation and prevent economic overheating after the huge stimulus in response to the 2008 global crisis fueled sharp price rises. Beijing reversed course late last year after global demand

for Chinese goods plunged, slamming exporters and raising the danger of job losses and unrest.

The abrupt slowdown added to complications for communist leaders as they tried to enforce calm ahead of the leadership change.

Forecasters expect growth to rebound this quarter or early in 2013. They say any recovery is likely to be gradual and too weak to drive global growth without improvement in the United States and Europe.

Beijing launched a mini-stimulus early this year, cutting interest rates twice in June and July and stepping up investment by state companies and spending on building airports and other public works. But authorities avoided bigger measures after their huge spending in response to the 2008 global crisis fueled inflation and a wasteful building boom.

In October, consumer prices rose 1.7 percent, down from the previous month's 1.9 percent. That was driven by a 1.8 percent gain in food prices, which are unusually sensitive in a society where the poorest families spend up to half their incomes to eat, down from September's 2.5 percent.

Auto sales have been hurt both by the slowing economy and by a dispute between Beijing and Tokyo over a group of islands in the East China Sea. Buyers have avoided showrooms of Japanese brands, possibly for fear of being targeted by protesters.

Sales growth might improve in coming months as China's economy starts to pull out of a deep slump and automakers put pressure on dealers to sell a backlog of inventory, said Jia Xinguang, an independent auto industry analyst in Beijing.

"The last two months of this year could be better," Jai said. Next year's sales "might be a bit better than this year" because the economy is improving, he said.

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