China's Growth Rebounds But Still Vulnerable

Joe McDonald, AP Business Writer

BEIJING (AP) — China's economy is finally rebounding from its deepest slump since the 2008 global crisis but the shaky recovery could be vulnerable to a new downturn in global trade.

Growth rose to 7.9 percent in the three months ending in December, up from the previous quarter's 7.4 percent data showed Friday. For the year, the economy grew by 7.8 percent, which was China's weakest annual performance since the 1990s.

Retail spending and factory output rose, but analysts say China could suffer a setback if exports weaken or the government fails to maintain investment spending that is propping up a recovery.

"The rebound by itself looks quite shaky," said IHS Global Insight analyst Xianfang Ren in a report. "While domestic demand looks to be coming back, it looks to be a rather anemic rebound."

Forecasters expected a rebound in early 2012 but pushed that back after demand for China's exports was hurt by the sluggish U.S. recovery and Europe's debt problems.

Many expect the latest rebound to peak in coming months before settling back to deliver growth of about 8 percent for the year, well below double-digit rates of the past decade.

"Growth of 8 percent or so is about normal now for China," said Mark Williams of Capital Economics. "There's scope for a lot of people to be disappointed, because many still have an inflated sense of how fast China should be growing."

The slowdown was due largely to government controls imposed to cool a real estate boom and surging inflation fueled by Beijing's massive stimulus in response to the 2008 crisis. But it worsened as demand for Chinese exports dropped unexpectedly, raising the risk of job losses and unrest.

This week, the World Bank cut this year's growth forecast for China from 8.6 percent to a still-rapid 8.4 percent.

Growth could suffer a setback if China's high investment rates slacken or global trade weakens, the bank said. It said a 5 percent decline in investment could knock 1.4 percent off this year's growth and 6 percent off imports.

Chinese leaders are trying to reduce reliance on exports and investment by nurturing self-sustaining growth driven by domestic consumption but consumer spending growth is slower than they want. That forces the government to fill the gap by pumping money into the economy through higher spending on building subways and other public works.

The gradual recovery comes as new Communist Party leaders under General Secretary Xi Jinping take power in a once-a-decade political transition that began in October.

They are under pressure to keep incomes rising, which will require sweeping change to make the economy more efficient and productive. The World Bank and other advisers have urged them to curb the dominance of state industry and promote private business, changes that face opposition from politically favored companies and their allies in the ruling party.

"Implementation has been problematic but I think the government is trying to make some progress," said Barclays Capital economist Yiping Huang.

A renewed setback for China could send out global shock waves. It would hurt demand for U.S. and European technology and consumer goods, industrial components from Asian neighbors and iron ore, copper, oil and other commodities from Australia, Brazil and Africa.

Societe Generale warned this month that China still faces a small chance of a "hard landing" with growth dropping below 6 percent — a dangerously low level. Possible triggers: A 2008-style drop in trade or a financial shock if Beijing responds to public frustration with high housing costs by over tightening controls meant to cool surging prices.

"The room for error and the likelihood of nasty unintended consequences is not negligible," said Societe General economist Wei Yao in a report.

Stronger quarterly growth was widely expected after earlier data showed retail sales, factory output and other indicators rising.

In December, retail sales growth accelerated to 15.2 percent over a year earlier, up from the previous month's 14.9 percent, the National Bureau of Statistics reported. Factory output growth rose to 10.3 percent from November's 10.1 percent.

Manufacturing grew for a third month in December but at a slow pace, an industry group, the China Federation for Logistics and Purchasing, reported earlier. New orders overall grew but export orders dropped slightly.

Consumer inflation also has ticked up, possibly complicating moves to sustain a recovery if necessary with interest rate cuts or higher spending.

Inflation spiked to a six-month high of 2.5 percent in December after a freezing winter pushed up vegetable prices by nearly 50 percent in some areas. Officials say inflation so far is limited to vegetables but analysts say pressure for other prices to rise is increasing.

Higher inflation could hamper Beijing's ability to support a recovery with interest rate cuts or more spending for fear of fueling a politically dangerous price spiral. Consumer prices are especially sensitive in a society where the poorest families spend up to half their monthly incomes on food.