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THE AUSTRALIAN FINANCIAL REVIEW

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China defies slowdown

Angus Grigg
AFR correspondent

Shanghai | | China's "old economy" is roaring back to life, helped by an injection of credit and fiscal stimulus from the government that delivered a sharp rebound in the country's trade last month.

Amid a pick-up in commodity prices, manufacturing activity and the housing market, China's imports and exports for March beat expectations by a wide margin.

Exports rose at an annual pace of 18.7 per cent, when measured in yuan terms, compared to a decline of 20.6 per cent in February.

Imports were also far stronger than expected, falling at an annual pace of 1.7 per cent in March, compared to a decline of 8 per cent in the previous month.

China's strong economic performance raised expectations that prices of iron ore and other commodity prices would rise, which sent the dollar above US77c and its highest price in nine months.

It helped underpin a rally for mining companies on the Australian Securities Exchange. Fortescue Metals Group jumped 8 per cent to $3.19.

The overall rebound in the Chinese economy in the early part of this year is expected to see Beijing report growth of 6.7 per cent in the first quarter, when figures are released on Friday morning.

The pick-up was evident in Wednesday's electricity consumption figures, which rose by 5.6 per cent in March, compared to a fall of 0.3 per cent during 2015.

Power consumption is seen as a key gauge of activity at steel mills, glass manufacturers and cement plants, which all form part of China's old industrial economy.

This surge in activity lifted China's iron ore imports by 6.5 per cent over the first quarter. China's increased demand for iron ore has pushed the price towards $US60 a tonne, up 55 per cent since mid-December.

"The contraction in imports narrowed more than expected, partly due to higher commodity prices, but also thanks to stabilising domestic demand and accelerating property and infrastructure investment," said Li Jing, an economist at HSBC.

Ms Li also noted the March trade figures were helped by weak numbers in the corresponding month last year.

The pick-up in activity has prompted the International Monetary Fund to upgrade its 2016 China growth forecast to 6.5 per cent from 6.3 per cent, even as it clipped it forecast for global economic growth from 3.4 per cent to 3.2 per cent.

The rebound China's economy this year is being underpinned by a surge in credit, according to independent economist Jonathan Anderson, a former IMF chief representative in Beijing.

He believes China is disguising the amount of lending being pumped into the economy through the use of debt-like instruments.

"This is still an economy in the throes on an extraordinary and massive credit bubble," he wrote in a report earlier this year. "During the past calendar year China has added just as much debt relative to underlying activity than it did during its 'massive' post-crisis 2009 stimulus boom."

Another economist, who asked not to be named, confirmed Mr Anderson's finding for *The Australian Financial Review*. His data show total credit growth increasing at an annual pace of 21 per cent, compared to the reported rate of about 14 per cent.

PHOTO: DANIEL MUNOZ

Health check | Ramsay Health failed last month. Now, Healthe Care's Steve Atkins believes he can crack China's medical market under a Chinese owner, Luye Medical, whose CFO is Charles Wang, by transferring Australian techniques for managing finances, procurement, risk and clinical control to Chinese health practitioners.
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Trade frictions

The rapid expansion of popular e-commerce sites has left Chinese authorities responding to the increasing complaints from regular retailers about unfair competition.
Jennifer Hewett p2

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Treasury could tell ASIC to probe banks

Speculation has emerged that a political solution for the government over concerns about banks' behaviour might be to get the Treasury to instruct the Australian Securities and Investments Commission to conduct a general inquiry into the industry.

Treasurer Scott Morrison yesterday met ASIC chairman Greg Medcraft as part of a series of meetings with corporate regulators, also including APRA, about what the government can do to respond to community concerns about bad behaviour by the banks. Mr Morrison acknowledged funding cuts to ASIC at the meeting but didn't raise specific questions about ASIC's powers.
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Senate leans towards ending trucker body

The Coalition is close to securing enough Senate votes to kill the controversial Road Safety Remuneration Tribunal, which critics say will be used by trucking companies and the Transport Workers Union to squeeze out independent truckers.

Senator John Madigan said he was leaning towards supporting a bill to scrap the tribunal, which could give the Coalition the support of six of the eight crossbenchers needed.

Labor frontbencher Brendan O'Connor said the Labor opposition was open to delaying any new pay rates for truck drivers until 2017.
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Fishburners sets net for school of start-ups

Australia's largest start-up offices, Fishburners, plans a fourfold expansion that will cement Sydney's CBD as the start-up hub of Australia. The not-for-profit group will move from Ultimo to premises four times larger in the Sydney CBD. It will mean that some of the country's best start-up co-working spaces will be within 10 minutes' walk of each. These include BlueChilli, Stone & Chalk, Tank Stream Labs and Tyro Fintech Hub. Since it was established five years ago, Fishburners has been the launching pad for 621 start-ups.
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Budget cuts needed for AAA: JPMorgan

Jacob Greber
Economics correspondent

Tougher decisions involving extra spending cuts will be needed in next month's budget to preserve Australia's AAA credit rating because rising household debt has made the banking system more vulnerable to a shock, a major investment bank warns.

As the International Monetary Fund pointed to growing risks across the global financial markets that Australian banks rely on for the bulk of their mortgage funding, JPMorgan interest-rate strategist Sally Auld said key reasons for Australia's top ranking had deteriorated to levels last seen during the 1980s when treasurer Paul Keating warned that the current account deficit was unsustainable and coined the term "banana republic". The deficit-locked federal budget, a debt forecast to hit $346 billion before the end of the decade, and the widening current account deficit, look similar to 1986 when Australia's credit rating was last cut, she said.

Ms Auld nominated Australians' growing indebtedness, and by extension, the exposure of banks that have increased their reliance on offshore funding, as reasons the federal government's budget repair efforts needed to
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Tax fight

Business groups criticised an economic analysis by Victoria University economist Janine Dixon showing a company tax cut would reduce domestic income and not be in the national interest as being highly theoretical.
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Woolies rewards program flops

Woolworths may have to redirect hundreds of millions of dollars into cutting prices due to the the poor response to a loyalty program it launched last year.

Analysts believe an underwhelming response from customers and suppliers to the program may be contributing to weak sales growth.

Suppliers have been reluctant to support the Woolworths Rewards loyalty program because they do not receive the same increases in sales volumes as they would by temporarily cutting prices, analysts said.

At the same time, consumers earn far less than they did under the previous scheme because rewards only accrue on a select number of products and on special offers rather than on every dollar spent above $30.

An analysis suggests the average earn rate is about 0.5 per cent – less than half Woolworths' 1.25 per cent target. One customer who spent $1279 at Woolworths supermarkets during the past four months received $4 of Woolworths Dollars, representing an average earn rate of 0.3 per cent. The value of savings through specials was $100.96.

Woolworths' new chief executive, Brad Banducci, conceded in February that the orange tickets were hard to find and vowed to broaden the Woolworths Rewards range.
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