Special Bulletin

A Japanese Perspective on the International Energy Landscape (84) April 13, 2012

Chinese Economic Growth Slowdown and Its Impact on Energy Markets

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

Slowdown of Chinese economic growth has attracted global attention. In its China Quarterly Update, the World Bank revised its Chinese economic growth projection downward from the previous forecast of 8.4% to 8.2% for 2012. Behind the downward revision are a consumption growth slowdown and investment deceleration, the World Bank stated, based on the realities of the Chinese economy since early this year.

China’s export and import statistics in the first quarter of this year indicate interesting developments. Exports’ year-on-year growth in the quarter stood at 7.6%, far slower than 20.3% for the whole of 2011. Exports failed to grow smoothly due to such factors as the European debt crisis. Import growth also decelerated to 6.9% in the first quarter or to 5.3% in March alone. The import growth slowdown indicates that raw material imports failed to increase smoothly due to low production levels. Slack production levels have been mirrored by electricity consumption. Manufacturers’ electricity consumption in January and February fell 0.5% from a year earlier to 383.7 billion kilowatt-hours.

The Chinese government for its part has begun to indicate its stable growth approach on its economic outlook. At the fifth session of the 11th National People's Congress on March 5, Premier Wen Jiabao said that the government would lower its economic growth target for 2012 to 7.5% from 8.0% for the previous year. It is the first time in eight years since 2004 for the economic growth target to slip below 8%. On the reduction of the economic growth target, Premier Wen explained that the government would give priority to structural economic adjustments including the correction of income gaps and emphasize the quality of economic development irrespective of whether the real economy would be decelerating growth.

At the 18th Communist Party Congress this autumn, a new general secretary will be elected to replace Hu Jintao. The new general secretary will become president next year. Vice President Xi Jinping is expected to become the next top leader of China. In the year when the top leader is replaced, economic, social and political stability are more important than any other thing. In this respect, some attention-attracting political developments have come in China, including the dismissal of Communist Party Chongqing Committee Secretary Bo Xilai who had been expected to join the next leadership represented by the party's Politburo Standing Committee. Since economic stability is significant for social stability, measures that the Chinese government could take to address the economic growth slowdown will attract great attention.

Meanwhile, the Chinese economy, decelerating growth now, is significant for anticipating the future course of international energy markets. This is because China with its large domestic and import demand for energy (and resources) has the greatest influence on the demand side of world energy, resources and commodity markets. For example, the March 2012 issue of the International Energy Agency's Monthly Oil Market Report stated that China would account for 370,000 barrels per day or 45% of a global oil demand increase projected at 820,000 bpd for 2012. Whether China's oil demand growth would accelerate or decelerate may thus have a great impact on the energy market supply/demand balance if all other conditions remain unchanged.

This is the same case with any other energy source. The degree of China's buying can greatly affect the supply/demand environment for international markets for natural gas, LNG, coal, iron ore and other resources.

In this respect, China's energy demand projection has been revised downward. The abovementioned IEA report for March lowered China's oil demand expansion estimate for 2012 by 150,000 bpd from 520,000 bpd as projected in December 2011. Energy market players in the world are keeping close watch on how China's oil demand or its overall energy demand would be affected by actual economic conditions in and after April and by the abovementioned reduction of China's economic growth projection.

As a matter of course, China's supply/demand conditions may have great influences on markets and prices. Britain's April 7-8 Financial Times indicated that concern on China's demand might have been one of the factors behind commodity price trends' recent deviation from stock market trends. While global stock prices soared some 11% in the first quarter of this year, the Reuters/Jefferies CRB (Commodity Research Bureau) index leveled off. The newspaper indicated that decelerating demand in China as the most important commodity consuming/importing country in the world might have been behind the deviation. However, various factors are working to influence the relationship between stock and commodity prices. Particularly, crude oil prices are affected by geopolitical risks. It is not easy to clarify the correlation between stock and commodity prices.

Nevertheless, China is dominantly important as a demand-side country. Uncertainties have grown about the future course of the world economy as well as China itself. Unexpectedly sluggish jobs data have triggered economic uncertainty again in the United States, while debt crisis fears are resurging in Europe on a government bond yield upsurge caused by slack Spanish government bond auction results. We may have to keep attention on world economy problems that could become a feedback loop to affect China. Economic problems in China and in the world will grow more important for analyzing the supply/demand balance and price changes in international energy markets.

Contact: report@tky.ieej.or.jp

The back issues are available at the following URL

http://eneken.ieej.or.jp/en/whatsnew/JPOIEL.html