

China – Risk of Slowdown?

Amid the global financial crisis, China's economy, the biggest contributor to global growth, expanded at the slowest pace in five years as the financial crisis cut demand for exports, according to Bloomberg. Gross domestic product rose 9% in the third quarter from a year earlier. That was less than any of the 12 estimates in a Bloomberg News survey and the 10.1% gain in the previous three months. The fifth quarter of slowing growth may exacerbate declines this year in iron ore, copper and oil prices and undermine demand for exports within Asia, where economies are already contracting. The recent announcement from the cabinet also emphasized to increase infrastructure spending and tax cuts for exporters and the central bank may be poised to cut interest rates for the third time this year. On the price front, inflation cooled to 4.6% in September, the slowest pace since June 2007, on easing commodity prices. As the big

consumer, the US, became sick, global slowdown was unavoidable. The subprime crisis that broke out last year in the US is spreading and deepening. In the US, with home and stock prices declining and credit hard to come by, consumers who have fallen out of the savings habit are being forced to curb borrowing and rein in spending. Growth is slowing across Asia, where Japan's economy shrank in the second quarter and Singapore has tumbled into a recession. In fact, financial market turmoil and a global slowdown have started to have a negative impact on China's economy. China's expansion was the weakest since the severe acute respiratory syndrome, or SARS, epidemic slashed growth in the second quarter of 2003. Sector wise, the contribution of trade to growth halved to 1.2 percentage points in the first nine months from a year

earlier. In case the current financial turmoil does not recede, China's export growth may slow substantially. On the other hand, industrial production rose 11.4% in September, the slowest pace in more than six years excluding seasonal distortions, on weaker export orders and factory closures to clear the air for the Olympic Games. About half of China's toymakers have shut down this year, with 7,000 workers losing their jobs when Smart Union Group Holdings Ltd. closed factories in Guangdong province this month, state media say. A quarter of 70,000 Hong Kong-owned businesses in the Pearl River Delta may go bust, the Federation of Hong Kong Industries estimated. Due to the economic risk, monetary policy is expected to ease further. **E**



Microscope

Besides the darkening outlook for exports, weakness in the property market is a threat to the economy. Home sales by volume plunged 55.5% and 38.5% in Beijing and Shanghai in the first eight months from a year earlier, according to the official Xinhua News Agency. The State Council said that it would increase the supply of low-cost housing and reduce property transaction fees. Nevertheless, China's economic growth remains the fastest of the world's 20 biggest economies and shows remarkable resilience. Retail sales rose 23.2% in September, close to the fastest pace in at least nine years. Rural cash incomes climbed 19.6 percent to 3,971 yuan. A fiscal surplus and a world record \$1.9 trillion of currency reserves allow the government to step up spending. The IMF estimated this month that China's economy may expand 9.3% next year compared with growth of 0.1% in the US, 0.2% in the euro area, and 0.5% in Japan. Easing inflation cleared the way for two interest-rate reductions in a month, the latest on October 8, when the US Federal Reserve and five other central banks also made cuts in an emergency bid to thaw credit markets. **E**

MARKET BRIEFING

YTD % (local curr)

US DJ	8,852 (-33.3%)
Nasdaq	1,711 (-35.5%)
Euro Stoxx 50	2,532 (-42.4%)
HSI	14,554 (-47.7%)
Japan NK225	8,693 (-43.2%)
China Shanghai Composite	1,930 (-63.3%)
Singapore	1,878 (-45.8%)
India BSE30	9,975 (-50.8%)
Brazil BOVESPA	36,399 (-43%)
Aus All Ord	3,944 (-38.6%)
US-10yr Bond	Yield 3.9%

As at 17/10/08

Insight: “Retirement Planning Pitfalls”

Someone says managing your financial life is simple. Spend less than you make and regularly sock away some money for the future. Or, you may have heard that you should save 10% of your income, like our MPF. That's a fine rule of thumb, but it ignores an important question: What are you saving for? If the answer is “I'm saving so I can retire at age 50 on my own beachfront property,” 10% may not be enough - especially if you start saving late. If you think you are too old to save, or that the market is just too risky for your long-term stash, we ask you to reconsider. Perhaps you think it's too late to really make a

difference in your golden years. Sure, the earlier you start, the better off you are. In fact, it is “better late than never.” Beside we should save for living expenses, retirement planning now also necessitates health-

care planning. Failing to factor in health costs can cripple your retirement. The cost of health care in HK has been increasing at a double-digit pace in recent years. These rising costs should be disconcerting to every Hongkonger, but it is an especially important topic to retirees. Last but not the least, to truly stay on track with your retirement planning, it is essential to think long-term. If you aren't retiring for another 20 years and the stock market just tanked, take comfort in knowing you have plenty of time to make up the losses. Often the best reaction to market volatility is no reaction. **E**

A-Z Financial Tools

Debt-to-equity ratio is an indicator of financial leverage of a company. The ratio can compare assets provided by creditors to assets provided by shareholders. It is usually derived by dividing long-term debt by common stockholder equity. The higher the ratio, the more financial risk the company will have, especially during the current credit crunch. **E**



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