



ET2C International Inc

Affiliated Logistics Partner



Terra Firma: The Green Shoots of Recovery?

The recent economic data continues to paint a confusing picture of the world economy and the impact that this may have on global supply chains. However, it appears that there are finally some green shoots in amongst the muddy water.

Green Shoots and Muddy Water

US Q1 GDP decreased at an annual rate of 6.1% (inflation-adjusted). However, firms drew down inventories at the fastest rate since the start of the decade and consumer spending increased. Excluding the drop in inventories, ultimate demand in the economy fell at an annual rate of 3.4%, compared with 6.2% in the fourth quarter. \$103.7 billion was removed from inventory levels which should feed through to new orders being placed and the US consumer continues to be surprisingly resilient in the longest recession (16 months) since the Great Depression.

Given the polarised relationship from a trade perspective of the US and China on the macroeconomic stage, it is appropriate that China Q1 GDP increased by 6.1%. This is the slowest quarterly growth in the past 10 years and is 0.7% percentage points from the previous quarter. GDP reached 6.5745 trillion Yuan (\$939 billion) in the first quarter. However, Industrial Output increased in Q1 by 5.1% (and 8.3% alone in March). In April the CLSA PMI increased for the 5th straight month to 50.1%, the first time that the index has been above the 50 mark since August 2008.

Chinese Exports decreased 22.6% in April after a 17.1% fall in March. Although the annual drop in exports accelerated the month-on-month figure actually increased by 2% which most economists argue indicates that the external environment is beginning to stabilise. Some economists also argue that the steep export drop by the result of the lingering effects of Chinese New Year though it is difficult to argue this point conclusively. We continue to tell our clients that it is more important than ever to have people on the ground at source ensuring that your current Vendors are not reducing quality to meet the cash shortfall. Now is also not the time to rely on a long distance relationship with one Vendor.

COMPANY NEWS

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China's Compost

Wen Jiabao's confidence on 5 March 2009 that the initial 4 trillion Yuan (\$585 billion) stimulus plan alone was sufficient to boost the economy is showing signs of being justified given the recent upward revisions of China's GDP for 2009 to 8%. Unlike the US stimulus plan – part of which was handed to the treasury with few conditions and the rest distributed to various industries and social agenda – which is expected to create 2 million jobs by the end of 2010, the Chinese have poured 80% of the money into infrastructure and this is expected to create 25 million new jobs!

Trying to digest the above economic indicators and to interpret the impact upon your supply chain is confusing. What is clear from this continued macroeconomic uncertainty is that China is growing stronger roots to become the "true" Low Cost Country. China's huge trade surplus enables it to increase its export rebates (textiles, garments to 16%, hardware, steel products to 9% - for further information please visit our resource section of our website at www.et2c.com/resources/html) and the continued labour rate arbitrage with the West, its increased efficiency and the sheer scale of China's labour force ensure that it can provide its clients with better quality and more competitive pricing than other (U)LCCs. Although rare, there are instances in which Ultra Low Cost Countries are proving to be competitive. An example is that Vietnam will become the sole supplier of Nike's shoes by the end of 2009.

In addition, the removal of quotas in January 2009 in accordance with China's accession to the WTO will have an impact on the apparel industry. Historically, on the products from which quotas have been removed, there has been a decrease in cost price of around 20% and an increase in China's market share to 70% after 3 years. Countries such as Indonesia, Bangladesh, Cambodia and Pakistan owe most of their export growth to restricted product categories and the subsequent removal will be a challenge for them.

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If you have any questions or concerns in relation to the above, please do not hesitate to contact one of our team. ET2C International continues to ensure that our clients receive the best service, quality and pricing and thereby benefit from the real opportunities that this period of uncertainty brings. We have also recently re-launched our ET2C website where you will now find some case studies and other resources. Please also sign up to our live RSS Feed as well as Twitter (if you have a Twitter account) to ensure that you are up to date with the news that is pertinent to your supply chain.

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