

When China sneezes, does Australia need to catch a cold?

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Abstract

Australia's macroeconomic dialogue is replete with references to the economy's fortunes being crucially linked to China. While previous studies have investigated the extent to which Australia's business cycle is synchronized with those of other countries, notably the US and Japan, none have considered China, despite this being a matter of policy importance. This paper seeks to address this gap in the literature. The main finding is that while there is evidence of increased business cycle synchronization between Australia and China during the 2000s, perspective is called for because the period of investigation is limited in duration and measures of synchronization remain lower than what has been recorded previously vis-à-vis other countries, especially the US. The paper concludes by briefly discussing the likelihood that Australia's business cycle will become increasingly synchronized with China's in the future.

JEL classifications – E32, F15

Keywords: Australia, China, Business Cycle synchronization

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