China Slowdown Deepens

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China’s economic slowdown deepened with unexpected decelerations in industrial output, investment and retail sales, testing policy makers’ reluctance to step up monetary stimulus.

Factory production rose 8.7 percent in April from a year earlier, the National Bureau of Statistics said today in Beijing, compared with the 8.9 percent median estimate of analysts surveyed by Bloomberg News. Fixed-asset investment increased 17.3 percent in the first four months of the year, and retail sales advanced 11.9 percent in April.

The figures signal risks are increasing that China will miss the year’s expansion goal of about 7.5 percent, as the government’s efforts to counter the slowdown, including tax breaks and spending on railways and housing, have yet to gain traction. Leaders are trying to rein in a credit boom and curb pollution, and President Xi Jinping said last week that the nation needs to adapt to a “new normal” of slower growth.

“The economy is still slowing,” Wang Tao, chief China economist at UBS AG in Hong Kong, said in an e-mail. The government’s “mini-stimulus has not yet turned around the growth momentum,” and the government may ease credit by loosening restrictions on lending to homebuyers and local-government financing vehicles, Wang said.

The Shanghai Composite Index fell 0.3 percent as of 2:05 p.m. local time. The yuan weakened 0.05 percent to 6.2407 per dollar.

Factroy-production growth compared with an 8.8 percent increase in March. The advance in retail sales compared with the 12.2 percent median projection of analysts, and the same gain in March.

Investment Estimate

The median estimate for January-to-April expansion in fixed-asset investment excluding rural households was 17.7 percent, after a 17.6 percent rise in the first three months of this year.

China’s growth fundamentals haven’t changed and the country is still in a “significant period of strategic opportunity,” President Xi said in a Xinhua News Agency report published May 10. At the same time, the government must prevent risks and take “timely countermeasures to reduce potential negative effects,” he said.

The government in early April rolled out tax breaks and sped up spending on infrastructure and social housing to sustain growth. Analysts forecast expansion of 7.3 percent in 2014, which would be the
slowest in 24 years, based on the median estimate in a Bloomberg survey last month.

Premier Li Keqiang said last week in a speech in Nigeria that China has the confidence and capability to achieve this year’s economic-growth goal and maintain medium- to high-speed expansion in the long run.

**Target Range**

“For now, people are concerned about the data in the second quarter,” Chen Yulu, an academic adviser to the People’s Bank of China, said today in Beijing before the data release. The first quarter’s 7.4 percent growth was within China’s target range of about 7.5 percent, and “if the second quarter data are also within the target range, then there is no big problem,” Chen said.

A property-market slump, including a 22 percent drop in new building construction in the first four months of the year, threatens to intensify the economic slowdown and add challenges for the government in achieving its expansion goal.

The most important figures today are the ones showing a “continued decline in property sales and new starts,” UBS’s Wang said. “The latest data are indeed worrisome.”

China’s broadest measure of new credit fell in April as authorities extended their campaign to tame financial risks, central bank data showed yesterday. Statistics-bureau data showed last week that consumer inflation moderated to an 18-month low in April and the producer-price index (SHCOMP) extended the longest stretch of declines since a 31-month slide that began in 1997, giving authorities more room to ease credit if needed.

Not all manufacturers’ difficulties are related to the economic slowdown. Shares of Chinese carmaker Great Wall Motor Co. (2333) fell 17 percent in Hong Kong on May 9, the biggest drop since October 2008, after suspending sales of a new model following customer complaints of unusual transmission noises.

To contact Bloomberg News staff for this story: Xiaoqing Pi in Beijing at xpi1@bloomberg.net

To contact the editors responsible for this story: Arran Scott at ascott101@bloomberg.net Scott Lanman, Andy Sharp

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