China's weakest start to a year for investment growth since 2001 and unexpectedly slow industrial production add pressure for economic stimulus, just as Premier Li Keqiang signals he wants to avoid such a move.

Li, at his annual press briefing in Beijing yesterday, indicated he’s confident that economic goals for 2014 are within reach. Two hours later, data showed factory output rose in January and February from a year earlier by the last since the global financial crisis, while retail sales grew at the slowest rate for the period since 2004.

The figures increase chances that China will take steps to boost growth including the first cut in almost two years to lenders' reserve requirements, according to Societe Generale SA. Any threat to jobs, incomes and a 7.5 percent growth target could test the leadership’s resolve to curb pollution choking major cities, rein in shadow banking and control risks from a credit boom.

“They are serious about reforms and they are serious about protecting the growth target and particularly the employment part of that,” said Tim Condon, head of Asia research at ING Groep NV in Singapore, who previously worked for the World Bank. “We’re close to a decision point” on whether stimulus is needed, he said.

The Shanghai Composite Index (SHCOMP) fell 0.5 percent at the 11:30 a.m. local-time break. It’s down about 11 percent in the past 12 months through yesterday.
Interbank Rates

A weakening in the yuan this year and declining interbank interest rates indicate the government is already trying to help the economy, according to Bank of America Corp. Its Hong Kong-based economists yesterday cut their first-quarter growth forecast for China to 7.3 percent from 8 percent and their full-year estimate to 7.2 percent from 7.6 percent.

At least five other institutions including Nomura Holdings Inc., JPMorgan Chase & Co., UBS AG, Mizuho Securities Asia Ltd. and Daiwa Capital Markets trimmed their China expansion forecasts following yesterday’s data.

China was able to realize last year’s economic targets without using short-term stimulus measures, Li said yesterday. “Why will we be unable to do so this year?” he asked.

Ma Jiantang, head of the statistics bureau, said China’s economy is “off to a good start” for the year with major indexes at “relatively high levels,” according to an article in today’s People’s Daily, the Communist Party newspaper. He said he’s confident that China can achieve 2014 targets and that employment in the first two months was “good,” according to the paper.

‘Selective’ Response

“If there’s a policy response, the response will be selective and restrained, instead of an all-out stimulus,” said Qu Hongbin, chief China economist at HSBC Holdings Plc in Hong Kong. Possible measures including lowering barriers to private investment and speeding up spending on infrastructure such as subways, Qu said.

China Railway Group Ltd. (390), the country’s second-biggest builder of railways, said last month it won a 20 billion yuan ($3.3 billion) contract, equivalent to about 4 percent of its 2012 operating income, to construct part of the rail-transit system in the southwestern city of Chongqing.

The National Development and Reform Commission this year approved plans for five railway projects with planned investment totaling 142.4 billion yuan, according to statements posted on the agency’s website yesterday.

Key Concerns

Speaking after the annual meeting of the National People’s Congress, Li pledged to guard against financial risks and limit pollution. Talking of economic expansion, he said the government’s key concerns are jobs and livelihoods and that growth can be “a bit higher or a bit lower” than the target of “about” 7.5 percent.

He may have more than a bit of room. The nation could allow growth to sink closer to 6 percent without triggering a destabilizing jump in unemployment, given the country’s declining working-age population and a jump in jobs in labor-intensive service industries, a survey of economists by Bloomberg News showed in August.

The labor market is now undersupplied, according to a job-seekers ratio compiled by the government and based on urban employment markets run by local authorities, Nomura
Holdings Inc. economists led by Hong Kong-based Zhang Zhiwei wrote in a Feb. 25 report. There were 110 positions available for every 100 job seekers last quarter, they said.

Fixed-asset investment excluding rural households rose 17.9 percent in the first two months from a year earlier, compared with a 2013 full-year pace of 19.6 percent and 21.2 percent in the same period last year.

**Median Estimate**

Factory-production growth of 8.6 percent compared with the 9.5 percent median projection of analysts surveyed by Bloomberg News and a 9.7 percent advance in December. Retail sales rose 11.8 percent after increasing 13.6 percent in December.

“This is a very fast deceleration,” said Yao Wei, China economist at Societe Generale SA in Hong Kong, ranked the most accurate forecaster of China’s gross domestic product by Bloomberg. “This is really beyond the tolerance of the Chinese government. As a result, I think they will cut the required reserve ratio quite soon or do some easing.”

Such a reduction could happen “within a few days” if the government wants to achieve 7.5 percent expansion, Yao said.

While Mizuho also said a reserve-ratio cut is increasingly likely, ING’s Condon said a reduction would send a “significant signal to the rest of the world that things were much worse in China than we had thought.”

“I just have the sense that they would not want to do that again,” Condon said.

**Combined Data**

China combines data for industrial output, retail sales and fixed-asset investment for January and February, citing distortions from the weeklong Lunar New Year holiday, whose timing differs each year.

Previously released data for February showed exports unexpectedly plunged by the most since 2009, producer-price deflation deepened and credit growth trailed estimates.

In the past, when there have been signs of an economic slowdown early in the year, policy makers have often waited for data to confirm the trend before taking action, partly because of Lunar New Year distortions, Song Yu, a Beijing-based economist with Goldman Sachs Group Inc., wrote in a note yesterday.

“Even though the government seems very much interested in fighting against inefficiency and overcapacity, I think growth still remains the most important objective of economic policy,” said Louis Kuijs, chief China economist at Royal Bank of Scotland Group Plc, who formerly worked at the World Bank. “That will influence what the government would do.”

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