China's economy expanded at the slowest pace in 10 quarters as Europe’s debt crisis curbed export demand and the property market weakened, sustaining pressure on Premier Wen Jiabao to ease monetary policy.

Gross domestic product rose 8.9 percent in the fourth quarter from a year earlier, the statistics bureau said in Beijing today. Growth exceeded the 8.7 percent median of 26 estimates in a Bloomberg survey, staying above the 8 percent that signals a “soft landing” for China, according to SinoPac Financial Holdings Co., which correctly predicted the GDP number.

Asian stocks rose on speculation policy makers will cut banks’ reserve ratios further and increase fiscal spending to bolster the world’s second-biggest economy. Liang Wengen, China’s richest man and chairman of Sany Heavy Industry Co., told Wen this month that construction-machinery demand is weak and called for more infrastructure investment.

“Decelerating GDP growth will provide more room for policy makers to shift towards a pro-growth bias after an extended tightening cycle,” Jing Ulrich, chairman of global markets for China at JPMorgan Chase & Co., said in a note after the data. “At this juncture, the challenge for policy makers is to implement measures that boost domestic demand without setting back progress made in curbing inflation.”

The Shanghai Composite Index (SHCOMP) climbed 3.9 percent at 2:12 p.m. local time, the most since October 2009, on expectations for more monetary easing and on speculation the government will support equities. The MSCI Asia Pacific Index gained 1.7 percent at 3:14 p.m. in Tokyo.

Property Meltdown Risk

Full-year economic growth slowed to 9.2 percent from 10.4 percent in 2010, today’s report showed. Industrial production increased 12.8 percent in December from a year earlier, more than the median estimate of 12.3 percent in a Bloomberg survey and a 12.4 percent increase in November. The economy grew 2 percent last quarter from the previous three months, when it expanded 2.3 percent.

“The data confirmed no hard landing is likely, more so given the loosening stance already adopted by the policy makers,” said Shen Jianguang, Hong Kong-based chief greater China economist for Mizuho Securities Asia Ltd. Still, there is “no room for complacency, given the risks of a property sector meltdown and global crises,” said Shen, who expects more loosening in credit, an expansionary fiscal policy and loosening in the property sector in the second quarter.

China’s home sales rose at the slowest pace in three years in 2011, data from the statistics bureau today showed, after the government extended measures to control property prices. Mizuho’s property analyst Alan Jin expects the data to worsen in the next two quarters because developers are short of capital.

Europe Downgrades

The yuan, which was little changed today, dropped the most in more than two months yesterday after Standard
& Poor's stripped France of its top credit rating and downgraded eight other euro-area nations.

In New Zealand, reports today showed business confidence and consumer spending weakened in the final months of 2011, bolstering the case for central bank Governor Alan Bollard to delay raising interest rates until the second half of this year. Singapore's exports unexpectedly rose in December as pharmaceutical shipments countered a drop in sales of electronics goods.

Japan's government maintained its assessment that the economy is still picking up from the March earthquake, with exports weakening recently because of slower global growth.

**Weaker Expansion**

In the U.S., the Federal Reserve Bank of New York's Empire State manufacturing index rose to an eight-month high of 11 in January, based on a Bloomberg News survey of economists before the report today. Inflation in the euro area and the U.K. may have risen at a slower pace in December from a year earlier, separate surveys showed.

Banks including BNP Paribas SA, Nomura Holdings Inc. and UBS AG forecast weaker economic expansion in China this quarter as overseas sales moderate further and government measures to rein in property prices hurt demand for goods including steel, cement and home appliances.

“Amid a slowdown of both domestic and external economies, the government will continue to roll out stimulus policies,” said Sylvia Chiu, an economist at SinoPac Financial in Taipei who was the only analyst to predict today's GDP number in the Bloomberg survey. She expects China's growth to slow to 8.6 percent in 2012.

**Lack of Credit**

Chiu says reserve requirement ratios will drop to 19 percent by the end of 2012 and sees the benchmark one-year lending rate at 6.06 percent. The reserve ratio is currently 21 percent for the biggest lenders and borrowing costs are 6.56 percent.

Sany's Liang, who topped Forbes Asia's 2011 China rich list with an estimated wealth of $9.3 billion, was among business leaders who met Wen during his visit to Hunan province earlier this month. Zhan Chunxin, chairman of competitor Zoomlion Heavy Industry Science & Technology Co., who was also at the meeting, complained a lack of access to credit was hurting customers and suppliers.

Fixed-asset investment excluding rural households expanded 23.8 percent last year, compared with the median 24.1 percent estimate in a Bloomberg survey. Retail sales rose 18.1 percent in December from a year earlier, today's report showed.

The People's Bank of China last month allowed banks to set aside less of their deposits as reserves and December's new loans were the highest since April, signs the government is loosening monetary policy to encourage lending even as it maintains curbs on the residential real-estate market to bring down home prices.

**Halt Sales**

The PBOC halted sales of bills and repurchase contracts at the end of December to add funds to the financial system before the Lunar New Year holiday that starts Jan. 23. It will inject more cash through 14-day reverse repurchase operations today and Jan. 19, two traders who declined to be identified said yesterday, after the seven-day repurchase rate, which measures interbank funding availability, surged to the highest since July.
“The economic data is almost in line and haven’t gone beyond the intolerable level of the government,” said Dai Ming, a fund manager at Shanghai Kingsun Investment Management & Consulting Co. “Further monetary policy easing may be pushed back a bit until next month as policy makers are still concerned about a comeback in inflation.”

Consumer-price gains averaged 5.4 percent last year, exceeding the government’s 4 percent target every month, even as the pace slowed to 4.1 percent in December from a year earlier.

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