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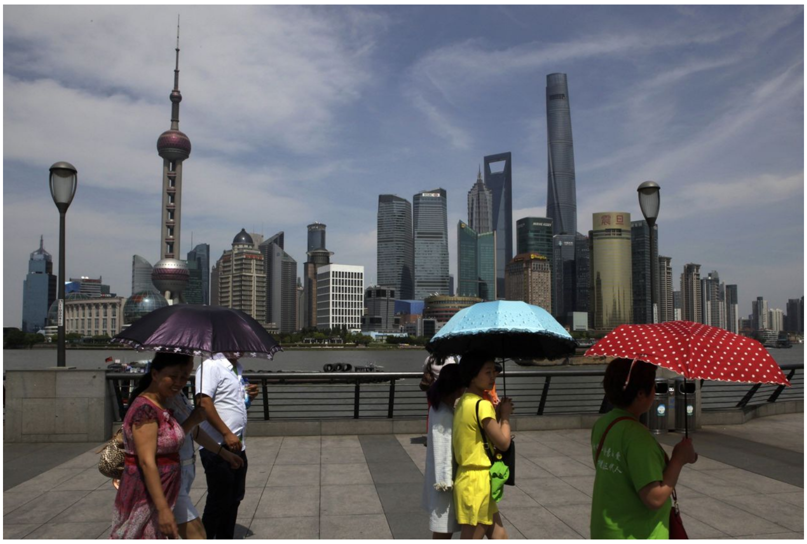
ASIA

Slowing Growth Raises Pressure on China's Stimulus Efforts

Expectations grow that Beijing will ease credit to boost spending after GDP growth slows to 6.2%



People walk on Shanghai's Bund with the buildings of Pudong, China's financial and commercial hub, in the background. **PHOTO:** PAUL TRAYNOR/ASSOCIATED PRESS

By Chao Deng

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BEIJING—A strategy by Chinese policy makers to stimulate the economy with tax and fee cuts hasn't stopped growth from slowing, stoking expectations that Beijing will roll out more incentives such as easier credit conditions to get businesses and consumers spending.

Chinese economic growth slipped to 6.2% in the April-through-June quarter, as measured by gross domestic product, after holding steady at 6.4% in the previous two quarters, official statistics showed Monday.

Barring a modest recovery in June, signs accumulated that business activity struggled to pick up in the quarter. Consumer spending, which Chinese leaders hoped would support growth, is adding to the picture of cooling demand. The breakdown of second-quarter figures shows how roughly 2 trillion yuan ($291 billion) of stimulus, introduced by Premier Li Keqiang in March, is failing to make business owners less risk-averse.

"I wouldn't say it's not working, but it's not as big an impact as people thought," said Bo Zhuang, an economist at research firm TS Lombard.

The trade dispute with the U.S. is dragging on China's economy and creating an uncertain business environment. To avoid the latest round of President Trump's tariffs, some manufacturers are shifting production out of China, fueling worries about layoffs and declining demand.

Foshan Gaoming Xingnuo Machine Equipment Co.,which produces equipment used in the pharmaceutical, chemical and rubber industries, was supposed to benefit from April's cut in the value-added tax. Its rate fell to 13% from 16%, but clients then asked for lower prices, and the company still cut its investment this year because of lower revenue and profit, according to Liang Yongwen, a manager.

"A lot of old clients slashed or canceled their orders this year as they scaled back equipment purchases or stopped expanding their production lines," Mr. Liang added at a recent trade expo in Beijing.

While Beijing has repeatedly said it wouldn't resort to flooding the economy with credit, economists say it is growing more likely that policy makers will use broad-based measures to ensure economic stability. That would include fiscal and monetary stimulus that risks inflating debt levels.

Policy makers could lower interest rates, relax borrowing restrictions on local governments and ease limits on home purchases in big cities, economists say. Measures they could use to stimulate consumption include subsidies to boost purchases of cars, home appliances and other big-ticket items.

Complicating stimulus efforts: Total debt climbed in the first quarter to over $40 trillion, or 304% of China's economy, as measured by GDP, according to data Monday by the Institute of International Finance. The country saw one of the biggest increases in debt ratio among emerging markets during that quarter, after its debt ratio reached 298% at the end of 2018, it said.

Analysts say Beijing is unlikely to cut benchmark interest rates as it tries to get banks to lower the rates at which they lend. Instead, they say, it could cut the rates at which banks borrow from the central bank and the amount of reserves they have to keep with it.

Although policy makers have relaxed controls on credit, Larry Hu, an economist at Macquarie Group, said Beijing has to do more to make credit growth sustainable. He said policy makers might have to artificially create demand for credit by loosening the property sector.

Many companies that sell to the U.S. are vulnerable to the twists and turns of the trade dispute, which is weighing on business sentiment. Battery maker Zhongyin Battery Co., of Ningbo, enjoyed a rush of orders after the U.S. unveiled planned higher tariffs on $200 billion of Chinese goods including the company's products, said salesman Sun Xiaodong. But the front-loading ended when the 25% duties kicked in. "Buyers don't want to pay," he said.

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Consumption contributed 60% of economic growth in the first half, down from 76% in the whole of 2018. Growth got a lift from a widening trade surplus, a trend analysts don't expect to continue, as exports will likely slow faster than imports.

If Beijing doesn't dig deeper into its policy tool box, economists predict that growth will gradually trend to the lower end of the official targeted range of 6% to 6.5% for the year. "Domestic demand is anemic," said Lombard's Mr. Zhuang, who expects 6.1% growth in the second half.

Fixed-asset investment growth slowed to 5.8% in the first half of the year, from 6.3% in the first quarter, weakening across the board, including in property and infrastructure. Manufacturing investment growth slowed to 3% in the first half from 4.6% in the first quarter.

Underpinning the lack of business demand is a slump in confidence. A survey conducted by private research firm IHS Markit Ltd. showed that business confidence and hiring expectations in June were at their lowest since at least 2009. Less than a 10th of the roughly 7,000 respondents expect an increase in business activity in the next 12 months as companies predict flat profits, the survey found.

—Grace Zhu and Liyan Qi contributed to this article.

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