China Says More Aid Coming as Downdraft From Trade War Rises

2018-10-31 12:15:14.437 GMT

By Bloomberg News

(Bloomberg) -- China's leadership signaled that further stimulus measures are being planned, as disappointing economic data showed that the current piecemeal approach isn't working.

The nation's economic situation is changing, downward pressure is increasing, and the government needs to take timely steps to counter this, according to a statement from a Politburo meeting Wednesday chaired by President Xi Jinping.

The signal of increasing urgency came just hours after purchasing manager reports showed an across-the-board deterioration that risks spilling into a broader drag on global growth. The world's second largest economy is being damaged by its trade war with the U.S. and a domestic debt cleanup.

With those pressing constraints, officials have added modest policy support so far, ranging from tax cuts to regulatory relief, rather than repeating the fiscal firepower seen after a previous slowdown. Investors seem unpersuaded by the drip-feed approach with the yuan hovering around a decade low and stocks sliding.

"Accepting slower growth has long been a challenge for Beijing, but now the rate of slowdown is firmly out of the comfort zone," said Katrina Ell, an economist at Moody's Analytics in Sydney. "In recent years the balancing act has been addressing risks in the financial system against pressure to stabilize economic growth. It appears the latter is again more of a priority."

Slumping PMIs

Manufacturing growth slowed to the lowest level in more than two years, and while economists had seen further tax cuts coming, few had predicted bigger stimulus for now. An export sub-gauge fell deeper into contractionary territory, suggesting that an earlier export rush to beat U.S. tariff deadlines will fade sharply.

The U.S. is preparing to announce by early December tariffs on all remaining imports from China if talks next month between presidents Donald Trump and Xi Jinping fail to ease the trade war. An increase in the tariffs already in effect on $200 billion of Chinese imports scheduled for January would provide a

stiff test to many exporters and could quicken the shifting of
global supply chains.
JPMorgan Chase & Co. CEO Jamie Dimon said escalating trade tensions between the U.S. and China are increasingly starting to resemble a trade war, rather than just a “skirmish.”
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China’s leaders from Xi Jinping on down had politically committed to avoiding a ‘flood’ of stimulus, and a multi-year campaign to curb the rate of debt expansion appeared to be paused, not scrapped. Xi’s right-hand man on the economy, Liu He, has long advocated a shift away from credit-fueled growth at all costs and senior officials continue to warn of the dangers of excess debt, even as they seek to channel more money to cash-strapped private businesses.

Preemptive, Timely Action

“The leadership is paying great attention to the problems, and will be more preemptive and take action in a timely manner,” according to the statement Wednesday. The Politburo reiterated that China will maintain a proactive fiscal policy and a prudent monetary policy, while trying to find solutions to help private businesses.
Earlier Wednesday, data from around the region suggested that, aside from the U.S., the global economy is heading into a difficult period. Industrial output for September in South Korea and Japan came in below estimates, as did third quarter output in Taiwan.
"The spring of 2019 will be the real difficult time for China as multiple factors such as trade tension, slower sales of durable goods and the end of a property boom in lower-tier cities weigh on growth," Lu Ting, chief China economist at Nomura International Ltd. in Hong Kong, said after the announcement. "It’ll be a test if China can sustain growth of around 6.5 percent. Policy makers are likely to further cut

taxes and ease property purchase controls in bigger cities to lift the economy."

The government and central bank have already this month introduced a raft of measures to stabilize sentiment, adding to steps to boost liquidity in the financial system, tax deductions for households and targeted measures aimed at helping exporters. Those measures have yet to have much effect.

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"For China, signs of a further slide in growth and threats of expanded tariffs from the U.S. are an unfortunate combination. So far, Beijing has managed to find policies that combine targeted stimulus with steps toward reform. If demand continues to deteriorate, threading that needle will get harder to do."-- Tom Orlik, chief economist, Bloomberg Economics

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Policy Implementation

The leadership also emphasized implementing policies that have already been announced, and said China will continue to "actively and effectively" utilize foreign investment and defend foreign companies' legitimate rights.

If new stimulus measures accelerate China's debt increase, the government will face the accusation that its determination to deal with the credit overhang has crumbled, according to George Magnus, an economist at Oxford University's China Centre.

"It was always the case that the acid test of the government's resolve to deleverage would be its nerve if the economy started to falter," he said. "Which it is."

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