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China Easing Case Grows on ‘Grim’ Outlook, Money Supply: Economy
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By Bloomberg News

Dec. 14 (Bloomberg) -- China’s money-supply expanded by the least in a decade and Communist Party leaders described the global outlook as “very grim,” underscoring the case for more monetary easing to support growth.

M2, a broad measure of money supply, grew 12.7 percent in November, the least since 2001, according to data released after an annual economic planning meeting in Beijing today. Local-currency lending of 562.2 billion yuan ($88 billion) was less than in October, the central bank said.

The government indicated today that it won’t back away from curbs on the real-estate industry that are damping house sales and pulling down prices. Risks are rising of a deeper slowdown in the world’s second-biggest economy, the New York-based Conference Board said. So far, China has cut banks’ reserve requirements, while leaving interest-rates unchanged at a three- year high.

“The probability of another reserve ratio cut by year-end is rising,” said Yao Wei, a Hong Kong-based economist for Societe Generale SA.

The nation will target “steady and relatively fast growth” and “basically stable” consumer prices, and “unswervingly” implement real-estate curbs, Xinhua News Agency said after the planning meeting. The statement didn’t include last year’s wording that stabilizing prices would be a “more prominent” part of policies, after inflation cooled from a three-year high of 6.5 percent in July.

Bank of America Merrill Lynch said this year’s document was “definitely more pro-growth.”

Stocks Fall

Concerns include “latent risks” in the economic and financial systems, Xinhua said.

The Shanghai Composite Index closed 0.9 percent lower as stocks slid across Asia after the U.S. Federal Reserve refrained from extra steps to support growth. In other economic releases in Asia today, India’s benchmark wholesale-price data showed inflation eased to 9.11 percent.

Industrial production in Europe was unchanged in October from a month earlier and U.S. import prices increased 1 percent in November, according to economists’ median estimates ahead of reports also due today.

In China, officials assessing whether to add stimulus are still grappling with elevated house prices and local-government debt burdens after record lending in 2009 and 2010.

“The authorities are cautious about a premature or aggressive easing of policy, while committed to be pre-emptive and flexible to roll out supportive policies if needed,” said Chang Jian, a Hong Kong-based economist at Barclays Capital, who formerly worked for the World Bank. “The policy focus will be shifting from managing inflation to supporting growth.”

Deeper Slowdown

A decline in a Chinese leading economic indicator suggests that growth will keep slowing in coming months after a 9.1 percent expansion in the third quarter, The Conference Board, a research organization, said today.

“Further policy easing will be needed,” said Liu Li-Gang, a Hong Kong-based economist with Australia & New Zealand Banking Group Ltd.

In China, the theme for next year is "progress amid stability," Xinhua said. "Stability means to maintain macro- economic policies basically stable, maintain steady and relatively fast growth, keep overall price levels basically stable and maintain social stability."

Policies will be fine-tuned as needed and the nation will press on with economic reforms, the statement said. The global outlook "remains very grim" with China facing pressure for growth to slow and prices to rise, and "a grim situation in energy saving," it said.

'Prudent' Stance

In December last year, the government officially shifted its monetary policy stance to "prudent" from "moderately loose." The party's 25-member Politburo said last week that that label will remain unchanged for 2012 and fiscal policy will remain "proactive." The government's labels for policy can lag behind the implementation.

Today's statement said credit growth will be "reasonable"
next year, officials will step up management of local-government debt and so-called "structural" tax cuts will continue.

"The risk of a more substantive slowdown in China's economic growth than anticipated so far is rising," Andrew Polk, an economist at The Conference Board, said. "Targeted loosening of credit markets" should give some help to companies "but the pass through from previous policy tightening measures will continue to act as a brake on the economy," he said.

Housing transactions declined in 27 out of 35 cities during the week of Dec. 5-11, according to Soufun Holdings Ltd., the operator of the nation's biggest real-estate website

Faster Construction

China will speed construction of "ordinary commercial residential housing" and seek to return home prices to a reasonable level, Xinhua said. The yuan's exchange rate will be kept "basically stable," it said.

China's economy will grow 8.5 percent next year, the least in 11 years and down from 10.4 percent in 2010, according to the Organization for Economic Cooperation and Development.

"China's government can and should reflate the economy to support growth and jobs in the coming year," Qu Hongbin, a Hong Kong-based economist at HSBC Holdings Plc, said before today's statement. Qu sees tax cuts, fiscal spending, additional reserve-ratio cuts and a loosening of quotas that limit bank lending.

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--Victoria Ruan, Li Yanping. Editors: Paul Panckhurst, Lily Nonomiya

To contact Bloomberg News staff for this story:
Victoria Ruan in Beijing at +86-10-6649-7570 or vruan1@bloomberg.net; Li Yanping in Beijing at +86-10-6649-7568 or yli16@bloomberg.net

To contact the editor responsible for this story:
Paul Panckhurst at +852-2977-6603 or
ppanckhurst@bloomberg.net