Macro Research

Macro Comment China

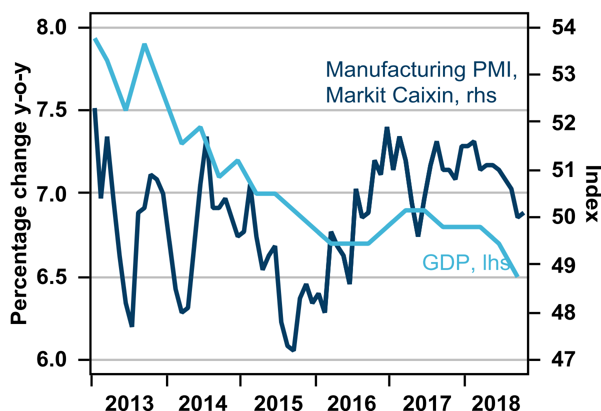
Stimuli not enough to avoid further slowdown

Economic growth in China is slowing due to trade war fears and previous deleveraging efforts. Stimuli have been announced and more are likely to come. These measures will mitigate but not avoid the growth slowdown, as it is now more difficult than it was previously to stimulate the economy.

Trade war fears and deleveraging hurt

Economic growth has slowed since spring, as evidenced by the plunge in business confidence indicators, and to a lesser extent also by the 'hard' activity indicators such as GDP and fixed investments. Confidence, especially among exporters, is hurt by the ongoing trade war with the US, whereas the tariffs have yet to take their toll on actual exports. However, the main reason behind the domestic growth slowdown is the efforts made earlier to dampen credit growth and especially shadow banking activity. Total debt as a percentage of GDP is no longer increasing, but it comes with a price, as the slower credit growth dampens economic activity.

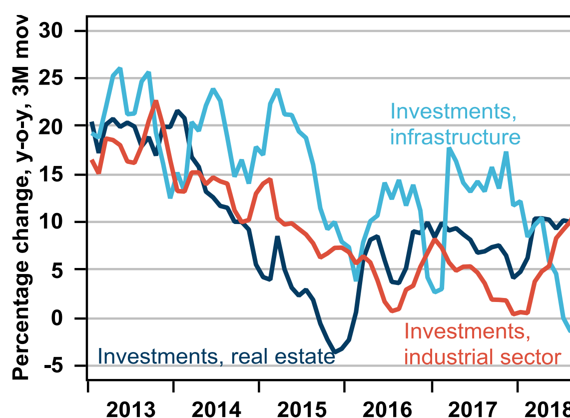
Growth has slowed since spring



Source: Macrobond

The authorities have acknowledged the slowdown and have toned down the deleveraging focus. Stimuli have been announced in the form of, for instance, tax cuts, easier monetary policy (until now primarily via increased money market liquidity and lower interbank interest rates) and promotion of local government bond issuance to support infrastructure spending. These measures, along with further actions likely to be implemented ahead, should kick in somewhat into next year.

Infrastructure ready for a boost



Source: Macrobond

Now more difficult to stimulate the economy

It is, however, now not as easy as in earlier instances of slowing growth to stimulate the economy. China's 'classical way' of stimulating is by boosting property and infrastructure investments. However the property market is this time already vibrant, with limited room for a further boost. The need for infrastructure, such as high-speed rails, highways, ports and airports, is also less pronounced than earlier with an increasing risk of investing in unprofitable projects. In general, a re-inflation of the credit bubble is not desirable, making it harder to stimulate the economy in the classical way. With this in mind, the announced tax cut can be seen as a more 'modern' way of stimulating, not least, household consumption.

All in all, the stimuli will mitigate and smooth the growth slowdown but not avoid it. We stick to our below-consensus view of official GDP growth slowing gradually from 6.5 percent this year to 5.7 percent in 2020.

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