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Chinese Economy with Slight Improvement in Jan.-Mar. Quarter

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The Chinese economy grew 6.4% year over year (yoy) in January-March period, at the same rate with the previous quarter (last quarter in 2018). Growth of industrial production accelerated to 6.5% yoy in January-March quarter from 5.3% yoy in January-February period. Manufacturing PMI (surveyed by the National Bureau of Statistics) came in at 50.5 in March, improving by 1.3 points from 49.2 last month to exceed the 50 level that indicates the dividing point between economic expansion and contraction. Producer prices rose 0.4% yoy in March, accelerating to 0.3% from the rise (0.1% yoy) in January and February. In 2018, the Chinese economy tended to slow down almost consistently with the change becoming more conspicuous in October-December period in some of the regions and industries. After the turn of the year into 2019, the economy started showing a sign of bottoming out, which gives a hope that it would strengthen in the latter half of the year. It seems to be because the fiscal and monetary policies taken since the end of last year until recently, the season of the National People's Congress in March, have taken effect. The improvement may have tentatively averted a situation that the rapid slowdown of the Chinese economy will instantly lead to a faltering of the global economy, however, this sign of bottoming out was mainly attributed to the government policy measures and we can hardly see the end of the U.S.-China trade frictions. So it is too early or too optimistic to recognize it as a sign of full-fledged recovery.

In the effort to make the economy recovery, the Chinese government instructed the state owned commercial banks and other financial institutions to increase the amount of lending to small and medium-sized enterprises (SMEs) last November. But it concerns us in which way such lending practically spreads to the real economy or how the credit decisions are made. The Chinese government has taken a deleveraging policy since 2016 and, as a result, the liquidity in the area of shadow banking was tightened up in 2017 and 2018. That may have been welcomed if it had improved the way of financial intermediations which was not transparent enough, but the liquidity of private SMEs is significantly worsened. It would have been fine if they could find other sources of funding in a short period of time, but in reality it was not so easy. There must have been a lot of companies which experienced difficulty in raising funds even if they should pay a high rate interest. From the banks viewpoint, it is far from easy to make new loans to SMEs that have no truck record with them, and there are problems as well that management cost of small loans are high and aggravate efficiency in many ways. If the banks lower the credit decision standards, they will soon face a risk of non-performing assets. Of course, these loans should have been made to meet the policy needs and as response to the government order, so the banks may think they will come and support in the end though there is no guarantee of it.

Besides, at a time when debts in the private sector are increasing in China especially with the individual debts represented by housing loans rising rapidly, the consumption increase has shown a sign of levelling off. Since the population of production age is expected to turn to decline with aging acceleration, medium- and long-term policy measures have been introduced including partial mitigation of inequality of treatment based on the Hukou system (household registration system in China) to respond to it. The government faces a myriad of challenges.

The U.S.-China trade frictions that escalated since last year are far away from solution, although application of additional tariffs was temporally averted at the summit meeting held in last December. This problem has more of an aspect of struggle for hegemony between two biggest economies. An anticipated U.S.-China summit meeting (hand-clapping ceremony) were initially reported to be arranged sometime during May, but it has become more probable that it will be postponed to the occasion of G20 Osaka Summit in June or later. If the U.S.-China summit meeting should take place at all, there is no doubt that the themes for discussion would cover not only the bilateral economic and trade issues but also wider geopolitical issues of East Asia including problems surrounding the Korean Peninsula and those of Taiwan with the presidential election scheduled early next year. Any way this is not an age of stable international environment for China in which it can concentrate on its economic growth as before.

As mentioned above, China has many policy issues and uncertainties. But we can say that the good news to the world economy was the bottoming out of Chinese economy following the successful stimulus measures taken by the government.