CHINA

Further economic stabilization measures on the cards

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The slowdown in growth in China in the first quarter came as anything but a surprise. Persistent excess capacity in industry and the ongoing price correction on the property market argue against an early reversal in growth dynamics. And the purchasing managers' index for the manufacturing industry published today by HSBC and Markit also offers little hope of a short-term acceleration in growth. In April the index fell to 49.2 points, the lowest level for a year. Further economic stabilization measures are therefore likely in the near future.

In recent weeks and months the Chinese government and central bank have already been striving to stabilize the economic development with targeted measures. The People's Bank of China, for instance, has lowered key rates and minimum reserve ratios several times since November 2014. Minimum reserve ratios were most recently trimmed by 100 basis points last weekend, with the aim of giving banks more leeway to lend. In order to stabilize demand on the property market, capital requirements on buyers of second properties were relaxed in March. The amount of capital needed has been reduced from 60% to 40% of the purchase price. The price correction on the real estate market has persisted of late. In March prices were down by an average 6.1% on a year earlier.

Given the evident persistent slowdown in growth, we expect the Chinese government and the People´s Bank of China to enact further economic policy measures in the foreseeable future. Among other things, we believe the central bank will cut key rates again this quarter. A further reduction in minimum reserve ratios is also likely. The renminbi is likely to remain on the weak side against the US dollar going into the third quarter. Furthermore, we expect public-sector infrastructure projects to be speeded up in order to stimulate the economy.

The impact of all these measures alone is likely to be only moderate, not least against the backdrop of towering debt levels, especially among Chinese municipalities. However, in conjunction with the nascent economic pickup in the industrial countries and the positive effects of the oil price slide on the Chinese economy, the measures are likely to contribute to a gradual acceleration in economic growth in the coming months. All told, we are sticking with our forecast for 7% real growth this year (2014: 7.4%).

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