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No Rebound in Chinese Growth Expected

China's National People's Congress announced last week that the GDP growth target for 2019 has been set at 6 to 6.5%. This number does not mean much to us (we never take any GDP number as gospel), but what is significant to us is that this would mark a drop from the 6.6% growth that the government has estimated for 2018. The government also announced that it will be cutting around 2 trillion yuan ($298 billion) in taxes and fees for companies. In addition, additional efforts to boost infrastructure spending have also been announced again, this time including a bond issuance quota for local governments being set at 2.15 trillion yuan ($320.8 billion). This would reportedly mark a 59% increase from the bond issuance quota for local governments that was issued last year.

China's central government is conceding economic growth will decline this year, and it is lowering taxes and fees and boosting spending and fiscal support in order to hopefully slow the decline. Significant is that these efforts are not expected to lead to a rebound in growth. Tax relief and an increase in government spending is only expected to help slow the ongoing decline in economic growth. What also remains different than from other years is that officials continue to state that growth should continue to slow, and the government is continuing to hold back on the stimulus levers to an extent. Overall, the central government is acting in more restrained manner than seen in years past and the very near-term future of the economy remains in question. While all stimulus efforts are positive developments, it is significant that the most recent stimulus efforts are not expected to lead to a rebound in growth, and that there is a real chance that these measures could have less of an impact than the government expects. Also remaining a pressing issue is that stimulus measures traditionally lag several months before actually leading to real market changes.

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