# Chinese slowdown continues amid plans for major job cuts

Nick Beams
2 March 2016

Further evidence of the slowdown in the Chinese economy has emerged, with activity in both manufacturing and services falling to their lowest levels since the immediate aftermath of the 2008 global financial crisis.

The official purchasing managers' index in manufacturing dropped to 49 in February from 49.8 the previous month—50 indicates the boundary between expansion and contraction. The PMI for the services sector dropped to 52.7 last month, its lowest level since December 2008.

The official manufacturing PMI has now fallen for seven months in a row and the privately-run Caixin PMI index has also declined. He Fan of the Caixin Insight group said employment numbers had fallen at the sharpest rate since January 2009 as companies looked to downsize in order to cut costs.

Job cuts are set to deepen over the longer term, especially in the state-owned companies at the heart of China's industrial economy.

Speaking to a press conference on Monday, the minister of human resources, Yin Weimin, said some 1.8 million workers in the steel and coal industries could lose their jobs as a result of government plans to cut overcapacity.

The Chinese steel industry, which accounts for more than half of global output, reduced production last year for the first time since 1981 and the government plans to cut production by 150 million tonnes by 2020, resulting in 500,000 steel job losses, with 1.3 million to go in coal.

According to a report from Reuters, the coal and steel cuts are part of a wider plan to axe between 5 and 6 million jobs over the next two to three years, with the figure likely to go even higher. In addition to steel and coal, the cuts are aimed at key industrial sectors, including cement, glassmaking and shipbuilding. Reuters reported that sources with ties to the government leadership were reluctant to speak openly because of fear of "sparking social unrest."

In a sign of official concern over the immediate situation and falling growth rates, the People's Bank of China (PBoC) announced on Monday that it was cutting the reserve requirement ratio for banks by 0.5 percentage points to 17 percent. By reducing the amount of cash that commercial banks have to keep in reserve, the central bank hopes they will increase lending and boost economic activity—this is the government's domestic policy objective.

But the move underscores the thin line financial authorities are treading as they seek to meet international objectives, while keeping control of the economy and financial system. They are trying to prevent a fall in the value of the renminbi, also known as the yuan, amid signs of an increasing capital outflow. Yet the reserve ratio reduction will have the opposite effect: to put downward pressure on the value of the currency.

Pointing to the contradictory forces in economic policy, the *Financial Times* reported that Bank of America Merrill Lynch analysts said the PBoC move on reserves indicated it was "leaning toward the domestic policy objective," possibly in the belief that foreign exchange measures could control capital flows.

At the same time, Chinese authorities have committed themselves to renminbi stability, lest a sudden plunge add to the turbulence in global financial markets.

Instability was in evidence yesterday when 10-year Japanese government bonds sold at a negative yield for the first time in history. The *Financial Times* described it as the crossing of a "financial rubicon" and "the latest sign of a worldwide collapse in borrowing costs which has upended assumptions about the workings of financial markets, as policymakers take ever more drastic steps to stimulate economic growth."

This "upending" follows the decision by the Bank of Japan at the end of January to initiate a policy of negative interest rates on new deposits lodged with it by commercial banks. It is estimated that about one quarter of the global economy is operating under a zero or negative interest rate regime.

On Monday, yields on German bunds, the equivalent of US treasury bonds, dropped to their lowest level in 10 months, drawing closer to the record low set last April.

The market move, the result of investors moving into purchases of government debt, lifting their price and so driving down the yield (the two move in an inverse relationship to each other), came after data showed a return of deflation in the euro zone. Consumer prices dropped by 0.2 percent in February, after a rise of 0.3 percent in January.

HSBC chief European economist Karen Ward said the inflation data "surprised strongly to the downside" and that this added to the call by European Central Bank (ECB) president Mario Draghi for it to act decisively.

The ECB governing council meets later this month and may initiate further monetary easing policies. But if such policies are carried out, it seems more likely that, rather than providing a boost, they will just add to the growing turbulence in the way that the Japanese move to negative interest rates has done. Financial markets are becoming increasingly concerned that the business models of the banks and other large institutions, such as pension funds and insurance companies, cannot operate in a world where the return on government debt is zero or even negative.

Fears of where the global economy is heading were the subject of an op-ed piece by former British Labour shadow chancellor Ed Balls in the *Financial Times* today.

While things had not yet reached a crisis point, he wrote, "economic confidence is clearly draining fast on both sides of the Atlantic."

"Stagnating growth, fragile investor confidence, fears of competitive devaluation, spreading mistrust, isolationist politicians flourishing in the polls—the echoes of the 1930s should be enough to focus minds on making the case for cooperation, open markets and finding new policies to deliver more inclusive economic growth."

This is what made the G-20 meeting last weekend all the more worrying, he continued, as finance ministers fell out with each other, "China blaming Japan, America blaming Europe and the Germans blaming everyone but themselves."

Like all would-be reformers of global capitalism, Balls hopes that a solution to mounting economic problems can be found if only politicians see reason and adopt a different mind-set. The increasingly fractious political and economic relations are not the result of intellectual deficiency. Rather, they are expression of the irresolvable contradiction between the globally-integrated economy and the system of rival capitalist nation-states and great powers—a contradiction which is deepening as recessionary tendencies intensify.