

## **China property curbs seen cracking amid slowdown risks**

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**By Bloomberg**

China's slump in property sales and construction is spurring speculation that the government's four-year-old campaign of real-estate controls will start to crack.

Citigroup Inc sees "targeted easing" including on home purchase restrictions, while Bank of America Corp says smaller cities may see looser rules. Centaline Group, parent of China's biggest real-estate brokerage, says some cities are inclined to adjust policies such as the level of scrutiny of buyers.

A 25% plunge in new-building construction helped drag economic growth in the first three months of this year to the slowest in six quarters, adding pressure on premier Li Keqiang to avert a deeper slowdown. While the government last night announced more support measures including lower reserve requirements for rural banks, Li reiterated that the nation isn't considering stronger stimulus.

"The housing sector now poses the biggest downside risk to the Chinese economy," said Yao Wei, China economist at Societe Generale SA in Hong Kong. "The next batch of policy announcements is likely to be housing policy relaxation at the local government level."

The National Bureau of Statistics said yesterday that growth in gross domestic product slowed to 7.4% in the first quarter from 7.7% in the previous period, compared with a 7.5% annual target. Industrial production in March 2014 and fixed-asset investment for the first three months of the year trailed estimates.

### **Rural Banks**

The State Council, or cabinet, said last night that it would lower reserve requirements at "qualified" rural banks to provide more funds to agriculture-related industries, building on plans announced earlier this month for railway and housing spending and tax breaks to support expansion. First-quarter growth was within a reasonable range, the cabinet said.

China's interest-rate swaps fell by the most since June after last night's announcement. The cost of the one-year rate swap, the fixed payment needed to receive the floating seven-day repurchase rate, dropped 18 basis points to 3.86% as of 10:58am in Shanghai. It reached 3.81% earlier, the lowest since July 9, 2013, according to data compiled by Bloomberg.

Last night's measures "are small in magnitude in terms of their macro impact, but send a clear signal of loosening intention," Goldman Sachs Group Inc analysts said in a note. Bank of America Corp estimated that a cut of 1 percentage point in rural lenders' reserve ratios may release as much as 78 billion yuan (RM41 billion) in liquidity.

### **Reasonable Range**

Li said yesterday that growth a bit higher or lower than 7.5% can be deemed to be in a reasonable range, according to a government statement after a State Council meeting. China will maintain a "prudent" monetary policy and a "proactive" fiscal stance and will ensure the 2014 growth target can be reached through reform and changes to the structure of the economy, Li said.

The value of property sales in the first quarter fell 5.2% from a year earlier and unsold completed properties jumped 23% from a year earlier to 521.6 million square meters, the bureau said.

Sheng Laiyun, a spokesman for the statistics bureau, said yesterday that "relevant departments will closely follow the changes in the property market and improve property macro- control policies accordingly," responding to a question at a briefing on whether housing-market policies would be relaxed.

The property market has had new developments including falling prices in third- and fourth-tier cities, Sheng said.

### **Shadow Banking**

The nation's slowdown is partly being engineered by the government, which has been trying to curb a US\$6 trillion (RM19 trillion) shadow- banking industry and reduce overcapacity and pollution. Nationwide measures to cool property-price gains since 2010 have included higher interest rates for second-home mortgages, and restrictions on purchases in about 40 cities.

UBS AG estimates the real-estate industry accounts for more than a quarter of final demand in the economy when including property-generated needs for goods including electric machinery and instruments, chemicals and metals.

“For now, I think the government will hold its breath, but if the sector were to continue to weaken — and I think most forward-looking indicators suggest it will — I’d expect the government’s nerve not to hold,” George Magnus, an independent senior economic adviser in London to UBS, said in an e-mail.

Measures may include “monetary easing, including possibly further yuan depreciation, and a relaxation of some past restraints on property purchases and transactions,” Magnus said.

### **Some Easing**

JPMorgan Chase & Co said yesterday that there may be “some degree of easing in property tightening measures” such as restrictions on purchases and mortgages in markets where housing is under pressure. It’s “unlikely to evolve” into a national policy shift, Grace Ng, senior China economist in Hong Kong, said in a note.

Any loosening measures may only be minor, said Andy Mantel, founder and chief executive officer of Pacific Sun Advisors in Hong Kong. Xu Gao, chief economist at Everbright Securities Co in Beijing, said the government should focus on loosening monetary policy to help the property market.

Some of the cities that have imposed home purchase restrictions, such as Wenzhou, Xuzhou and Zhoushan, have been loosening such curbs starting in the second half of 2013 to boost sales, according to Centaline.

### **Beijing Prices**

In the capital city of Beijing, one of the four “first- tier” major cities, existing-home prices fell 3.8% from the March average to 31,265 yuan a square meter in the first 10 days of April, according to Baci & 5i5j Group, the city’s second-biggest property broker.

Ding Shuang, senior China economist at Citigroup in Hong Kong, said it’s possible the government could buy housing inventory to use as low-income apartments.

“Property developers, especially smaller ones, are very vulnerable,” he said. “If they cannot sell their inventory, they may default and the non-performing loan ratio could increase and bond defaults could also increase.”

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