12-14-2024

WSJ Print Edition

image

Beijing Grasps for Ways to Halt Deflation

Companies pump out goods as prices fall, creating a cycle that erodes confidence

For personal, non-commercial use only.

BY HANNAH MIAO

The country that invented paper is making way too much of it.

So Shandong Chenming Paper, one of China's biggest paper manufacturers, did what any company faced with overcapacity would do: It cut prices to unload more supply while it tried to ride out the storm.

Instead, its losses mounted. Last month, the company said it racked up about $250 million in overdue debts. Creditors sued, and some of the manufacturer's bank accounts were frozen, it said.

The papermaker's troubles are only the latest sign of the havoc caused by falling prices in China, as factories struggle to cope with overcapacity and weak demand.

Chinese leaders this past week pledged to do more to stimulate the economy, including by cutting interest rates and boosting government borrowing. But pressure is building on Beijing to take more forceful action to prevent a downward spiral of deflation that becomes self-reinforcing, potentially landing China in a longer-term recession.

Prices for goods leaving Chinese factories have fallen yearover- year for 26 consecutive months, dropping 2.5% in November from a year earlier, and there is little sign of them rising again soon. China's gross domestic product deflator, a broader gauge of price levels across the economy, has been in negative territory for six consecutive quarters, the longest stretch since the late 1990s.

A potential new trade war with President-elect Donald Trump could worsen the problem, by making it harder for China to unload excess factory production on the U.S., leaving it with more goods it can't absorb at home.

The fear is that deflation is becoming ingrained in China. As falling prices sap profitability, companies could postpone investments or shed workers, leading more people to cut back on spending. Others might put off purchases because they think prices will drop even more.

China's consumer-price index is still above zero—but only barely, gaining just 0.2% in November from a year earlier, compared with a 2.7% increase in the U.S. The Chinese rate is well below the roughly 2% level that most central banks consider healthy.

Many economists are watching China's producerprice inflation data—which captures factory-level prices— especially closely, given the country's reliance on manufacturing as a growth driver.

Chinese leaders have taken steps to put a floor under the economy, which has struggled with a real-estate market bust and rising debt loads in many cities. Authorities have cut interest rates, and last month, policymakers approved a $1.4

trillion debt-swap plan to shore up local government finances.

This past week, China's 24man Politburo said it would implement more proactive fiscal policy and adopt a "moderately loose" monetary policy next year—the first introduction of such language since 2008. The leaders also vowed to boost domestic demand and stabilize the housing market, which some economists have said is needed to reignite inflation.

While there have been signs that China's economy is regaining some momentum, the policies so far don't seem to be boosting prices. One reason is that the policies mainly have focused on fending off immediate financial risks rather than triggering a sustained increase in consumer spending.

Another is that Beijing has been extending loans and subsidies to Chinese factories. That supports growth, but it exacerbates the problem of excess supply, adding to downward pressure on prices.

Some economists expect producer prices to continue in negative territory at least through 2025. "The longer deflation lasts, it becomes entrenched into people's expectations about future economic prospects," said Eswar Prasad, professor of trade policy at Cornell University and a former head of the International Monetary Fund's China division.

Copyright (c)2024 Dow Jones & Company, Inc. All Rights Reserved. 12/14/2024
Powered by TECNAVIA

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

For personal, non-commercial use only.

 Copyright (c)2024 Dow Jones & Company, Inc. All Rights Reserved. 12/14/2024