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To: H
Subject: China's economic situation

This is the latest from Bob Hormats:

High on the list of concerns of China's leaders when you arrive in Beijing will be the country's weak (by chinese standards) economic performance. So here is a short summary of the situation from a report by Oxford Analytica:The economic outlook has become more uncertain for lack of a stronger policy response. The need for stimulus is becoming more urgent, suggesting more decisive action soon, but Beijing appears caught between this and the need to avoid exacerbating structural problems. Political distraction by the imminent Party Congress could also be slowing decision-making.Purchasing Managers' Indices (PMIs) released on September 1-2 indicated that the manufacturing sector contracted in August. The official PMI indicated contraction for the first time since December 2011, falling to 49.2. The HSBC PMI has been below 50 for ten consecutive months and in August fell to 47.6, the lowest level since March 2009, though it remains far above that low (of nearly 40). Three reserve requirement rate cuts and two interest rate cuts have not provided the intended monetary stimulus. The government has far more capacity in this direction, with low inflation and scope for easing interest rates, still-high required reserve ratios and curbs on the housing market still in place. However, bank lending has been sluggish and second-quarter reports indicate a rise in non-performing loans (though these still remain low at 0.9% on average for commercial banks as at end-June).