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## China's consumers fret, and retail sales slow

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### SHANGHAI

China's massive economic stimulus helped boost factory output and bank lending in February but figures also showed a slowdown in consumer spending -- an area vital for economic recovery.

To keep the world's third-largest economy growing, China needs shoppers to keep spending, especially in the countryside that is home to more than half its 1.3 billion people. But retail sales slowed in the first two months of the year as consumers worried over job security and the faltering economy.

The National Statistics Bureau reported Thursday that retail spending rose 15.2 percent to 2 trillion yuan (\$294 billion) in January-February, a marked slowdown from 21.6 percent for all of 2008. China did not report separate figures for the first two months, citing the complication of the Lunar New Year holiday, which fell in February last year and in late January this year.

Industrial production rose 11 percent in February, driven by a big jump in concrete production, as some of the government's planned \$4 trillion yuan (\$586 billion) of stimulus spending was plowed into new highways and other public works. That was up from a 5.9 percent year-on-year increase in December.

Meanwhile, China's largely state-owned banks boosted lending by 300 percent to 1.1 trillion yuan (\$160 billion) in February -- as state companies and government agencies borrowed to finance stimulus projects.

The mixed signals highlight the challenge Beijing faces in ensuring its stimulus measures will fill the void left by plunging Chinese exports. To reach its stated target of 8 percent growth, consumers and companies must spend more. Growth slipped to 6.8 percent in the last quarter of 2008, the weakest in seven years.

Even as the world economic slump intensified, China's retail sales had seemed immune to the economic chill, rising by double-digit figures each month and surging more than 20 percent for several months last autumn. Ordinary Chinese may now be catching up with the gloom.

Consumers are tightening their belts partly due to the "poverty effect" brought on by job cuts, ailing share prices and the weak property market, said Andy Xie, an independent economist based in Shanghai.

"We will see sluggish consumption in coming months, and it will get worse," he said.

Even upwardly mobile young citydwellers -- who have relatively more money to spend -- are realizing they are vulnerable. Many are employed by companies that are reacting to the export slump by slashing jobs, shrinking bonuses and otherwise cutting spending.

"I didn't major in economics at the university, but I certainly want to be sure I manage my money well in the midst of such a gloomy economy," said Shen Lihua, a 27-year-old marketing staffer for a foreign company in Shanghai.

Consumers are growing increasingly uneasy over the economic outlook, a Shanghai-based market research group, DDMA, said in a survey released this week that showed 45 percent of those it polled in February had cut back on spending, up from 38 percent in January.

DDMA's survey of 602 people aged 25-45 was conducted mainly in big cities and reflected the sentiments of relatively affluent consumers. Twelve percent of those responding had lost their jobs, up from 3 percent in January, DDMA said.

"The February data suggests that the Chinese consumer market has reached a tipping point," the report said.

More than two-thirds of China's consumer spending is in the cities, although Thursday's data showed rural retail sales climbing 17 percent in January-February, while urban sales grew 14.4 percent.

Farmers have lower incomes and tend to save heavily to pay for education, health care and other expenses.

"It seems clear the domestic demand is slowing in China, and this could be happening at a faster pace than the sales data suggest," Moody's Economy.com analyst Sherman Chan said in a report. "Having households pull back on spending is exactly what China does not need."

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AP Business Writer Joe McDonald in Beijing and Associated Press researcher Ji Chen in Shanghai contributed to this report.

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