Beijing got nervous and started juicing

By Gwynn Guilford | @sinoceros | January 20, 2014

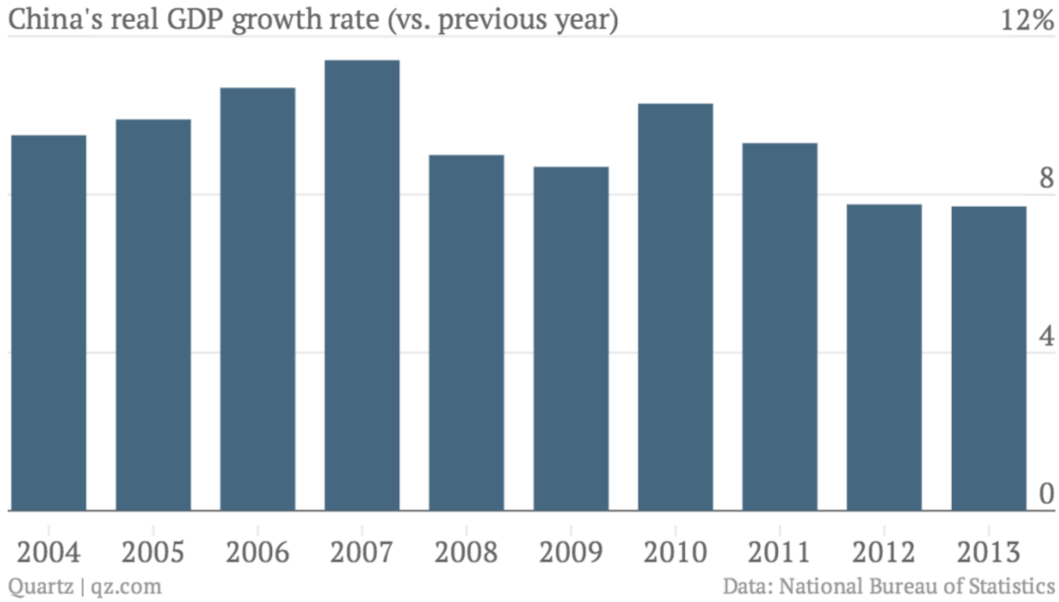
China rolls out yet another shiny GDP number. *Reuters/China Daily*

China is the only major economy in the world to set a hard target for economic growth, and the latest GDP figures released today show precisely why it's a bad idea.

Fueled by a huge surge in government "mini-stimulus" lending in the second half of the year, China's GDP increased by a higher-than-expected 7.7% for 2013 (link in Chinese) according to the National Bureau of Statistics. That might sound like a good thing, but it's not: essentially the government freaked out at the prospect of missing its 7.5% target, and overshot the mark.

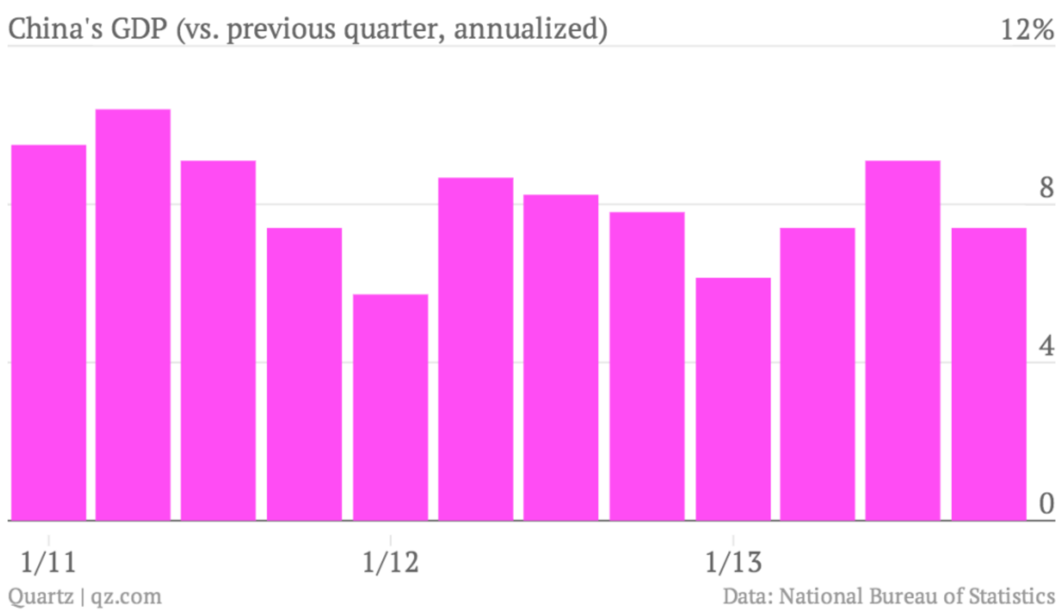
The consequences—especially for China's attempts to reform its economy and limit the amount of debt that its businesses and local governments are taking on—could be ugly.

Here's a look at how 2013 stacked up:



What does this mean for 2014? First off, the quarterly data that the NBS releases suggests that the government will need to juice the economy again if it’s to hold steady at the current rate.

China records its GDP by comparing it with the previous year and adjusting that for inflation. However, the way that most major economies measure growth—by comparing output against the previous quarter, adjusting it for seasonality and projecting what annual growth would look like at that rate—captures growth momentum more effectively. Here’s what that looks like:



As you can see, momentum slowed somewhat in Q4, as the effects of the stimulus wore off and, possibly, as lending hit a seasonal lull in December. "Growth momentum is clearly weakening," Credit Agricole analyst Dariusz Kowalczyk told Bloomberg. "The slowdown became increasingly clear as the quarter progressed."

In order to make sure this year's growth comes in anywhere close to 2013 target, the government will need to roll out a new stimulus and keep credit growth booming. That encourages businesses to pile on more debt—which is really dangerous for a country that's already shelling out 39% of its GDP to pay off interest on existing debts.

Because of the distortions created by stimulus spending, many economists believe China's investment is increasingly flowing into projects—or even worse, into real estate—that aren't profitable. The cost of creating overcapacity is slower growth in the future. The government might not allow a much lower rate of GDP growth in 2014 (we'll have to wait until the government holds its big annual meeting in March to find out what this year's target is). But it has to happen eventually—and the sooner, the better.

http://qz.com/168558

ACCESSIVE DEMANDS

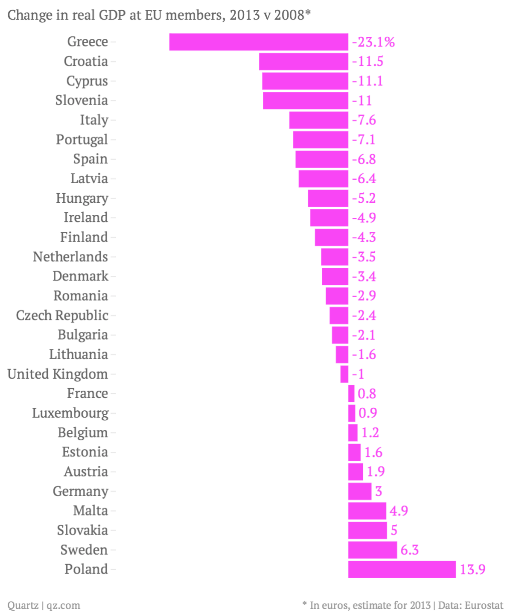
Why the EU admitted a country that may need a bailout—and is preparing to do it again

By Jason Karaian | @jkaraian | 3 hours ago

A beautiful country with an ugly economy. *Reuters/Nikola Solic*

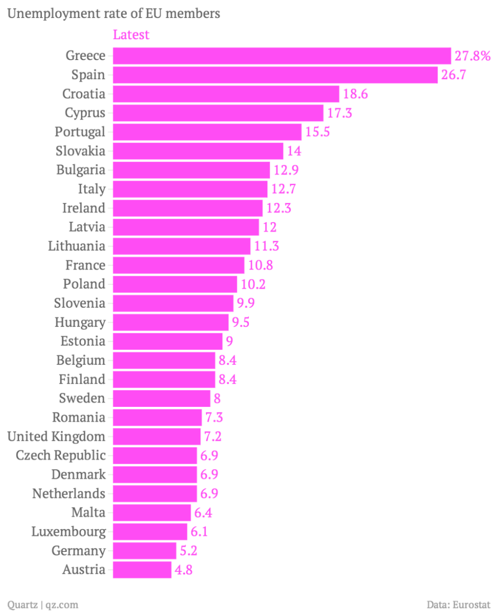
Croatia joined the European Union last July, more than 10 years after first applying for membership. Some dubbed its accession “lucky” because, frankly, the economy is a mess. Should the EU have brought another recessionary, tourism-dependent country in southern Europe into the fold?

Today that question is surely being asked again. Standard & Poor’s has cut the country’s credit rating by another notch, dropping it deeper into “junk” territory. S&P reckons that Croatia’s economy will shrink for a sixth consecutive year in 2014; Greece is the only EU member whose GDP has fallen further over the last five years than Croatia’s.



The benefits to Croatia of EU membership are undeniable, but they are overwhelmed, says S&P, by short-term problems that the agency diplomatically describes as "labor market rigidities and a complicated business environment." S&P frets about the slow pace of government reforms ahead of 2015 elections—a gridlock that may even mean Croatia fails to spend all of the funds the EU makes available for its poorer members. A recent survey ranked Croatia among the most corrupt countries in the EU.

Meanwhile, Croatia's unemployment, like its economic contraction, ranks near the top of the EU charts. Whatever excitement there was in finally joining the EU, it soon gave way to a "morose mood" among the country's disgruntled citizens.



Against this gloomy backdrop, Croatia has been considered a candidate for a potential bailout from the day it joined the EU; the country's central-bank governor, Boris Vujcic, is the latest to bat back these accusations. "Asking for an EU/IMF help program is always an option, but is not in the cards now," he told the Wall Street Journal (paywall) last week.

However, Croatia's GDP is only 0.3% that of the EU economy as a whole. A bailout, if it came to that, would put a very small dent in the bloc's budget. What's more, the political importance of bringing the once war-torn member of the former Yugoslavia into the EU clearly trumps the economic headaches that the nation of 4.3 million people brings to the group. As if to underline that, neighboring Serbia, with plenty of its own problems, this week opened formal talks to join the EU.

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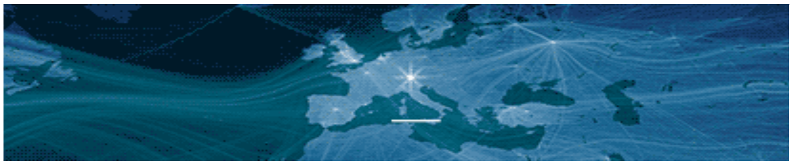

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RAZOR BURN

Procter & Gamble is watching emerging market turmoil—and male facial hair—closely

By John McDuling | @jmcduling | 2 hours ago

The best a man can get? *AP Images/Aynsley Floyd*

Procter & Gamble—the world’s biggest household goods manufacturer and the company behind Duracell batteries, Oral-B toothbrushes, and Herbal Essences shampoo, among many others—reported a 16% decline in quarterly earnings this morning. (Its shares are up because that was still slightly better than expected.)

The behemoth manufacturer generates an estimated 40% of its revenues from emerging markets, giving it a unique insight into the tensions gripping many developing countries, which are beginning to seriously spook the markets.

“We continue to monitor unrest in Egypt, which is a large business for us and a base of export for the balance of Africa, as well as unrest and economic instability in the Ukraine, though the situation has recently improved,” chief financial officer John Moeller said on a conference call this morning. ”Venezuelan price controls and access to dollars for imported products and devaluation present risk as do price controls and devaluation in Argentina.”

Emerging market currencies have taken a beating this week, with weak economic data from China and a loosening of controls in Argentina prompting a rethink about the growth potential in developing economies. But P&G said it expects its margins in developing economies to expand this year, and for foreign currency declines to moderate.

The company, which also makes Gillette shaving products, said that the rising popularity of male facial hair had affected its grooming sales, which were flat.

“While the incidence of facial shaving is somewhat down, the incidence of body shaving is up, and we can take advantage of that and plan to do that as well,” Moeller told the Financial Times (paywall).

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