Business

WITH REUTERS

As growth flags, China holds back on stimulus

HONG KONG

Government appears eager to avoid excesses of previous package

BY BETTINA WASSENER

As evidence has mounted that the Chinese economy is slowing, Beijing has kept the world on tenterhooks, delivering none of the big, headline-grabbing economic stimulus measures many analysts have predicted.

Two months have passed since the last interest rate cut, and it looks increasingly as if the Chinese government is biding its time, avoiding measures that could reignite another investment binge of the sort that sent prices for property and other assets soaring in 2009 and 2010.

Officials are taking "a very reactionary, cautious approach," said Wang Tao, an economist at UBS. "They do not want to repeat the excesses of last time."

The latest sign of China's flagging economic health came Saturday in the form of an official index measuring activity in the manufacturing sector. This slumped more than expected, to 49.2 in August, falling below the level of 50 that separates expansion from contraction for the first time since late 2011.

A similar survey, which is published by HSBC and is more focused on small and midsize enterprises, registered a similar deterioration. The final reading, released Monday, came in at 47.6, down from 49.3 in July.

In the euro zone, manufacturing contracted more than initially estimated in August, suggesting that the economy might struggle to avoid a recession in the third quarter, Bloomberg reported.

A gauge of manufacturing in the euro area based on a survey of purchasing managers was revised lower, to 45.1 from the reading of 45.3 estimated earlier, Markit Economics said Monday. The index, which stood at 44 in July, has held for 13 months below 50.

Many analysts took the indicators for China as a signal that policy makers would soon announce another cut in the reserve requirement ratio for banks, a step that would free up more cash for them to lend.

An investment binge sent prices for property and other assets soaring in 2009 and 2010.

Some say Beijing may also cut rates to reinject momentum into an economy that has been battered by falling exports and a slowing domestic property market.

The authorities have not been sitting entirely idle in recent months. Project approvals have been accelerated, for example. But more than eight weeks have passed since the last rate cut, while the reserve ratio requirement was last lowered in May. Increasingly, analysts say they think Beijing is playing for time before it resorts to more sweeping policy tools again.

In theory, inflation's sharp fall in recent months, to a low of 1.8 percent in July, should give policy makers room to inject more energy into the flagging economy.

In practice, however, the authorities must still navigate a minefield of unintended consequences. More determined stimulus measures could help the economy regain momentum and resuscitate the investment demand that is crucial to China's growth model.

They also could produce side effects of the sort that followed a huge stimulus package in the wake of the financial crisis in late 2008. Combined with lower interest rates and a flood of bank lending, the spending package helped the economy bounce back quickly in 2009. But it also led to high inflation, soaring real estate prices and an increase in loans that could ultimately go sour.

The concern that property prices could once again flare up is probably one of the main factors prompting Beijing to delay more sweeping policy action for the moment, said Minggao Shen, an economist in Hong Kong for Citigroup.

At the same time, he said, policy makers in Beijing have signaled this year that they are more comfortable with the concept of slower — and ultimately higher-quality — growth. In March, the official growth target for this year was lowered to 7.5 percent, down from the 8 percent that had been set as a minimum target in recent years.

That slower pace has not yet produced large job losses of the kind that occurred in late 2008 and early 2009. That has given the Chinese authorities, who are in any case preoccupied with the once-a-decade leadership transition this autumn, the leeway to keep their stimulus powder dry for a little longer and wait for the effects that any policy changes in Europe and the United States might have on the global economy.

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Planning for Greece's euro exit, just in case

NEW YORK

Many U.S. firms doubt that Athens will be able to meet austerity pledges

BY NELSON D. SCHWARTZ

PETROS GIANNAKOURIS/THE ASSOCIATED PRESS

A woman reflected in a graffiti-covered mirror waiting for customers at her sign-making shop in Athens. "Companies are asking some very granular questions," one consultant said.

Even as Greece desperately tries to avoid defaulting on its debt, companies are preparing for what was once unthinkable: that Greece could soon be forced to leave the euro zone.

Bank of America Merrill Lynch has looked into filling trucks with cash and sending them over the Greek border so that clients can continue to pay local employees and suppliers in the event that money is unavailable. Ford has configured its computer systems so they will immediately be able to handle a new Greek currency.

No one knows just how broad the shock waves from a Greek exit would be, but big banks and consulting firms have also been doing a brisk business advising their corporate clients on how to prepare for a splintering of the euro zone.

That is a striking contrast to the assurances from European politicians that the crisis is manageable and that the currency union can be held together.

To be sure, a Greek exit, should it occur, would not happen quickly. The new prime minister, Antonis Samaras, has made it a priority to keep Greece in the currency union, and even if his government defaults on some debt, that is not an automatic trigger for the country to leave the union. Should Greece ever decide to leave, or if other members tried to force it out, there would be many legal hurdles that would take time to clear.

On Thursday, the European Central Bank will consider measures that would ease pressure on Europe's cash-starved countries.

JPMorgan Chase, though, is taking no chances. It has already created new accounts for a handful of corporate giants that are reserved for a new drachma in Greece, or whatever currency might succeed the euro in other countries.

Stock markets around the world have rallied this summer on hopes that European leaders will solve the Continent's debt problems, but the quickening tempo of preparations by big business for a potential Greek exit suggests that investors may be unduly optimistic. Many executives are deeply skeptical that Greece will accede to the austere fiscal policies being demanded by Europe in return for financial assistance.

Greece's abandonment of the euro would most likely create turmoil in global markets, which have experienced periodic sell-offs whenever Europe's debt problems have flared up over the past two and a half years. It would also increase the pressure on Italy and Spain, much larger economic powers that are struggling with debt problems of their own.

"It's safe to say most companies are preparing," said Paul Dennis, a program manager with Corporate Executive Board, a private advisory firm.

In a survey this summer, the firm found that 80 percent of clients polled expected Greece to leave the euro zone, and a fifth of those expected more countries to follow.

"Fifteen months ago, when we started looking at this, we said it was unthinkable," said Heiner Leisten, a partner with the Boston Consulting Group in Cologne who heads up its global insurance practice. "It's not impossible or unthinkable now."

Mr. Leisten's firm, as well as PricewaterhouseCoopers, has already considered the timing of a Greek withdrawal — for example, the news might hit on a Friday night, when the global markets are closed.

A bank holiday could quickly follow, with the stock market and most local financial institutions shutting down, while new capital controls made it hard to move money in and out of the country.

"We've had conversations with several dozen companies and we're doing work for a number of these," said Peter Frank, who advises corporate treasurers as a principal at Pricewaterhouse. "Almost all of that has come in over the transom in the last 90 days."

He added: "Companies are asking some very granular questions, like, 'If a news release comes out on a Friday night announcing that Greece has pulled out of the euro, what do we do?' In some cases, companies have contingency plans in place, such as having someone take a train to Athens with €50,000 to pay employees."

The recent wave of preparations by companies for a Greek exit from the euro signals a stark switch from their stance in the past, said Carole Berndt, head of global transaction services in Europe, the Middle East and Africa for Bank of America Merrill Lynch.

"When we started giving advice, they came for the free sandwiches and chocolate cookies," she said jokingly. "Now that has changed, and contingency planning is focused on three primary scenarios — a single-country exit, a multicountry exit and a breakup of the euro zone in its entirety."

Banks and consulting firms are reluctant to identify their clients, and many big companies also declined to discuss their contingency plans, fearing it could anger customers in Europe if it became known they were contemplating the euro's demise.

Central banks, as well as the German Finance Ministry, have also been considering the implications of a Greek exit but have been even more secretive about specific plans.

In Europe, the holding company for Iberia Airlines and British Airways has acknowledged that it is preparing plans in the event of a euro exit by Spain.

"We've looked at many scenarios, including where one or more countries decides to redenominate," said Roger Griffith, who oversees global settlement and customer risk for MasterCard. "We have defined operating steps and communications steps to take."

"Practically, we could make a change in a day or two and be prepared in terms of our systems."

He added, "Practically, we could make a change in a day or two and be prepared in terms of our systems."

In a statement, Visa said that it, too, would be able to make "a swift transition to a new currency with the minimum possible disruption to consumers and retailers."

Juniper Networks, a provider of networking technology based in California, created a "Euro Zone Crisis Assessment and Contingency Plan," which company executives liken to the kind of business continuity plans that they maintain in the event of an earthquake.

"It's about having an awareness versus having to scramble," said Catherine Portman, vice president for treasury at Juniper. The company has already begun moving funds in euro zone banks to accounts elsewhere more frequently, while making sure it has adequate money and liquidity in place so employees and suppliers are paid without disruption.

FMC, a chemical giant based in Philadelphia, is asking some Greek customers to pay in advance, rather than risk selling to them now and not getting paid later. It has also begun to avoid keeping any excess cash in Greek, Italian or Spanish bank accounts, while carefully monitoring the creditworthiness of customers in those countries.

"It's been a very hot topic," said Thomas C. Deas Jr., an FMC executive who serves as chairman of the National Association of Corporate Treasurers. Members of his group discussed the issue during a conference call last Tuesday, he added.

U.S. companies have been more aggressive about seeking out advice than their European counterparts, according to John Gibbons, head of treasury services in Europe for JPMorgan Chase.

Mr. Gibbons said a handful of the largest U.S. companies had requested the special accounts configured for a currency that did not yet exist.

"We're planning against the extreme," he said. "You don't lose anything by doing it."

RECESSION LOOMS LARGER IN EURO ZONE

European manufacturing contracted in August more than initially figured, suggesting a path to recession. PAGE 16

Dry monsoon season leaves Indian farmers on edge of ruin

MURUMA, INDIA

BY VIKAS BAJAJ

Vilas Dinkar Mukane lives halfway around the world from the corn farmers of Iowa, but the Indian sharecropper is at risk of losing his livelihood for the same reason they are: not enough rain.

With the nourishing downpours of the annual monsoon season down an average of 12 percent across India and much more in some regions, farmers in this village about 400 kilometers, or 250 miles, east of Mumbai are on the brink of disaster. "If this situation continues, I'll lose everything," said Mr. Mukane, whose soybean, sugarcane and cotton crops were stunted and wilting in his fields recently. "Nothing can happen without water."

Drought has devastated crops around the world this year, including corn and soybeans in the United States, wheat in Russia and Australia, and soybeans in Brazil and Argentina. This has contributed to a 6 percent rise in global food prices from June to July, according to data from the United Nations.

India is experiencing its fourth drought in a dozen years, raising concerns about the reliability of the country's primary source of fresh water, the monsoon rains that typically fall from June to October.

Some scientists warn that such calamities are part of a trend that is likely to intensify in the coming decades because of climate changes caused by the human release of greenhouse gases. A paper published last month blamed global warming for a large increase in the percentage of the planet affected by extreme summer heat in the past several decades. And the World Meteorological Organization, a division of the United Nations, recently warned that climate change was "projected to increase the frequency, intensity and duration of droughts, with impacts on many sectors, in particular food, water and energy."

Scientists say that in addition to increasing temperatures, climate change appears to be making India and its neighbors Bangladesh, Pakistan and Sri Lanka more vulnerable to erratic monsoons.

Studies using 130 years of data show big changes in rainfall in recent decades, said B.N. Goswami, director of the Indian Institute of Tropical Meteorology, a government-backed research organization. Climate models suggest that while rainfall should increase over all in the coming decades, the region can expect longer dry spells and more intense downpours — forces that would seem to cancel each other out but in fact pose new threats.

"Heavy rains are normally short duration, and therefore the water runs off," said Dr. Goswami, who added that more research was needed to fully understand the effect of climate change on monsoons. "Weak rains are important for recharging groundwater."

KUNI TAKAHASHI FOR THE NEW YORK TIMES

Bhaurao Bhanudas Date, on his parched field, said he needed water more than aid money.

India is more vulnerable to disruption from drought than are countries like the United States. While agriculture accounts for just 15 percent of the Indian economy, half of the 1.2 billion people in India work on farms, and many of its poorest citizens already cannot afford enough food after price increases of 10 percent or more in the past couple of years.

"These kinds of rainfall failures have a lot of human effects," said Yoginder K. Alagh, chairman of the Institute of Rural Management and a former Indian minister. "A large number of people don't get employment. There are acute drinking water problems."

Food grain and oilseed production in India could fall as much as 12 percent this year as a result of poor rain, said P.K. Joshi, director for South Asia at the International Food Policy Research Institute.

The good news is that the drought is not likely to result in widespread famine. India has more than 76 million tons of wheat, rice and other grain in storage, in part because of government support for those crops and an export ban put in place in 2008 when global food prices shot up. But analysts expect prices for dairy, meat, lentils and vegetables to rise.

Unlike the United States, where crop insurance and other government programs provide a safety net for farmers, India offers ad hoc and unpredictable government support, increasing the risk that legions of farmers will be wiped out. If it does not rain soon, Mr. Mukane, 25, who works a field in Muruma, said he would have to sell whatever he could to repay banks and lenders 500,000 rupees, or $9,000, much of it borrowed at an interest rate of 7 percent a month.

Weak monsoon rains were also an underlying cause of the blackouts that cut power to half of the country in July. The paucity of water lowered the supply of power from dams that account for a fifth of electric capacity, even as consumers cranked up fans and air-conditioners and farmers ran electric pumps to draw water from wells.

Across the country, rainfall has been about 12 percent below long-term averages through last Thursday. But that broad number belies the acute pain in many parts of the country. Rainfall in the Marathwada region of Maharashtra State is down 39 percent. In parts of the north and west, it is down 18 percent to 78 percent. At the same time, heavy rains and flooding have displaced tens of thousands in the eastern state of Assam.

Experts say the effect of the poor monsoon rains has been compounded by mismanagement. The chief minister of Maharashtra, Prithviraj Chavan, recently said that much of the $1.5 billion a year that the state spent on water projects appeared to have been wasted, with virtually no increase in the amount of irrigated farmland over the past decade.

Kiran Singh Pal, a government engineer who manages the irrigation system in the region, said the system was poorly maintained because officials like him were not given enough money or staff. He also said many farmers received no government water because so much of it was cornered by a few powerful landowners.

"We have enough water to irrigate all the fields," Mr. Pal said. "The problem is we don't have any control."

Mr. Mukane, the sharecropper, and his neighbors said their problems were heightened because they received much less water this year from a nearby reservoir, which is so depleted that it can barely provide drinking water to Aurangabad, a city of 1.2 million.

National and state officials have started offering small forms of relief for hard-hit areas, like fodder for cattle, cheap diesel fuel and subsidized seeds.

But Bhaurao Bhanudas Date, a 48-year-old farmer near Muruma, said that what he needed most was water. He said he expected little to no return from his sugarcane and cotton crops this year and would have to fall back on the income he earned from selling fodder and milk from his five cows.

Mr. Mukane said his father had recently gone to a temple to pray for rain, taking a pot of river water as an offering. The family is particularly anxious because Mr. Mukane's wife is expecting their first child, and the government usually provides relief only to landowners, not to farmers who rent land.

"We keep looking up, hoping it will rain today," he said on a recent afternoon as clouds covered the sky. About 10 minutes later, his prayers seemed to have been answered when a light drizzle started. But it petered out after a few minutes.

Neha Thirani contributed research from Mumbai.