China Economic Slowdown

China's economy grows at slowest annual rate since 1990

Fourth-quarter GDP figure slips to 6.4% as trade war hits consumer sentiment

The trade war has depressed business sentiment in China © AP

Gabriel Wildau in Shanghai and Emily Feng in Beijing JANUARY 21, 2019

China's economic growth dropped to its slowest annual rate in almost three decades last year as the US trade war and Beijing's crackdown on a debt-fuelled corporate spending spree took their toll on Chinese companies and consumers.

The 6.6 per cent increase in gross domestic product in 2018 was the lowest since 1990, when China was reeling from international sanctions following the Tiananmen Square massacre. It was down from 6.8 per cent in 2017.

The data published on Monday also showed the Chinese economy was continuing to decelerate, growing just 6.4 per cent in the fourth quarter, the lowest quarterly rate since the global financial crisis. Growth has now slowed for three consecutive quarters, prompting concern among investors that the country could drag down the global economy.

Beijing has adopted a series of fiscal and monetary stimulus measures since July in an effort to boost investment and spending, but the new data shows that thus far the measures have failed to reverse the slowdown. Last week, the finance ministry outlined plans for additional tax cuts.

Despite the gloomy outlook, financial markets across Asia took the announcement in their stride, with most major indices ending the day flat or slightly higher — a sign of just how far they fell at the end of last year as guidance from technology companies like Apple and automakers including Ford and Volkswagen provided an early warning of the slowdown.

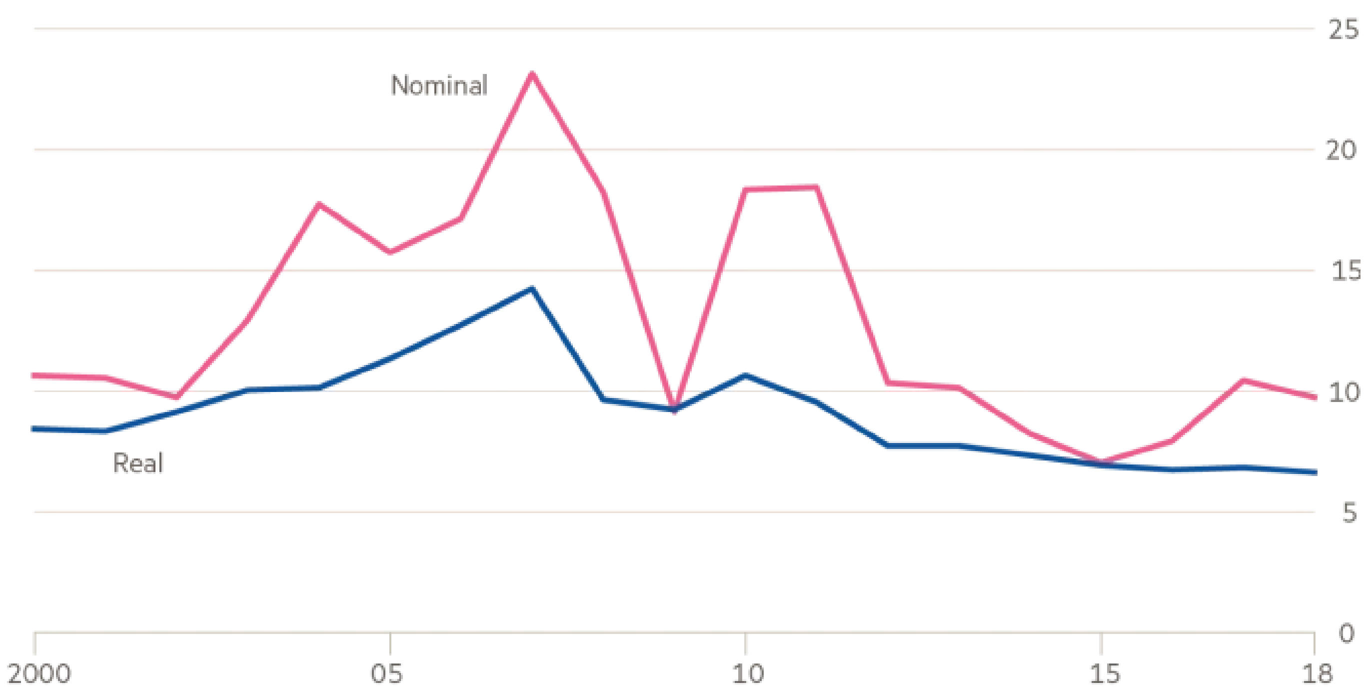
Mainland China’s CSI 300 closed up 0.6 per cent, with Hong Kong’s Hang Seng up 0.4 per cent. The Topix in Tokyo was 0.6 per cent higher and Sydney’s S&P/ASX 200 rose 0.2 per cent.

US President Donald Trump’s tariffs on Chinese exports have not yet inflicted direct damage on the country’s economy, according to the data. But economists and corporate executives say the trade conflict has taken a heavy toll on sentiment, leading to a slowdown in consumer spending and capital investment.

“Aggregate data continue to portray a relatively benign picture that seems increasingly inconsistent with a sense of growing economic malaise and souring business, consumer and investor sentiment,” said Eswar Prasad, professor at Cornell University and former China head at the International Monetary Fund.

China GDP growth

Annual % growth, yearly



Sources: National Bureau of Statistics; CEIC
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In its annual review of the global economy published on Friday, the IMF predicted the Chinese economy would slow even further, forecasting 6.2 per cent growth this year, with chief economist Gita Gopinath warning it could have severe knock-on effects on financial and commodity markets.

"China's growth slowdown could be faster than expected, especially if trade tensions continue," Ms Gopinath said in Davos.

Growth in retail sales, one of the most important gauges of consumer spending, ticked up in December to 8.2 per cent but remains near the 18-year low of 8.1 per cent touched in November.

Ning Jizhe, director of China's statistics bureau, on Monday sought to project confidence, noting that growth in China was still far higher than in the US, EU and Japan. But he also acknowledged the trade war was having an impact.

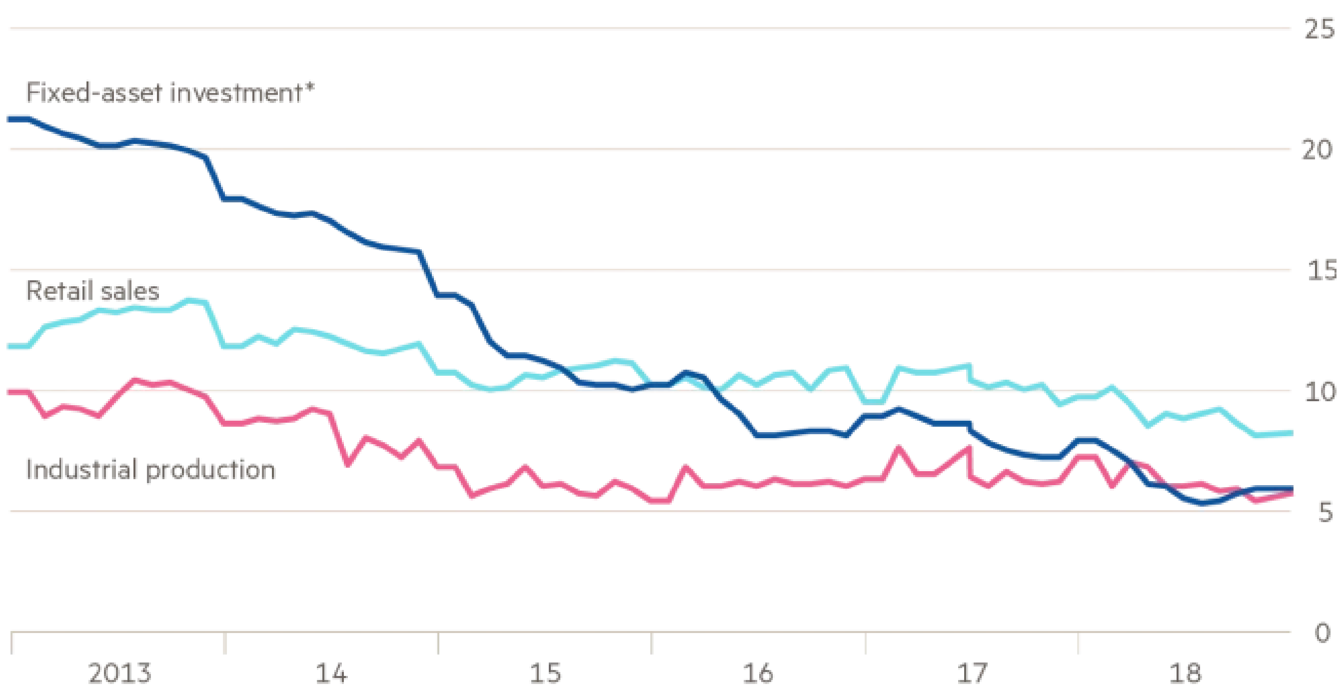
"US-China trade friction indeed has an impact on economic performance . . . but we have overcome the overall influence," he said.

Analysts said the deterioration in economic expansion was at least partly self-inflicted, however.

Beijing's campaign to control financial risk by weaning the economy off its reliance on debt-fuelled stimulus contributed to a sharp slowdown in infrastructure spending, while also reducing access to credit for privately owned companies. A parallel effort to strengthen enforcement of environmental regulations fell heavily on private groups as well.

China key economic indicators

Annual % growth, monthly



* Monthly year to date
Sources: National Bureau of Statistics, CEIC
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Economists expect Beijing to ramp up stimulus measures in the coming months, including additional cuts to banks' required reserve ratio. But experts also warn that previous rounds of heavy stimulus have left policymakers with less flexibility to loosen credit, which would further swell the economy's debt burden.

"China's economy is muddling through: slowing, but not realising the worst fears about downside risks to the global outlook," William Adams, senior economist at PNC Financial Services, wrote on Monday.

Additional reporting by Chris Giles in Davos.

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