China's economy meets official growth target, but many feel worse off

By Reuters

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Summary

- China's Q4 GDP grows 5.4% y/y, beating market forecast
- 2024 GDP expands 5.0%, meeting the government's target
- But growth was unbalanced, led by industry and exports
- Consumption lags as workers faces uncertainties
- 2025 outlook clouded by trade tensions as Trump returns

BEIJING, Jan 17 (Reuters) - China's economy grew 5% last year, matching the government's target, but in a lopsided fashion, with many people complaining of worsening living standards as Beijing struggles to transfer its industrial and export gains to consumers.

The imbalance raises concerns that structural problems may deepen in 2025, when China plans a similar growth performance by going deeper into debt to counter the impact of expected U.S. tariff hikes, potentially as soon as Monday when Donald Trump is inaugurated as president.

December data showed industrial output far outpacing retail sales, and the unemployment rate ticking higher, highlighting the supply-side strength of an economy running a trillion-dollar trade surplus, but also its domestic weakness.

Export-led growth has been partly underpinned by factory gate deflation which makes Chinese goods more competitive on global markets, but also exposes Beijing to greater conflicts as trade gaps with other countries widen. Within borders, falling prices have ripped into corporate profits and workers' incomes.

Andrew Wang, an executive at a company providing industrial automation services for the booming electrical vehicle sector, said revenues fell 16% last year, prompting him to cut jobs, which he expects to do again soon.

"The data China released was different from what most people felt," Wang said, comparing this year's outlook with notching up the difficulty level on a treadmill.

"We need to run faster just to stay where we are."

China's National Bureau of Statistics and the State Council Information Office, which handles media queries, did not immediately respond to questions about doubts over official data.

"It seems dubious that China precisely hit its growth target for 2024 at a time when the economy continues to face tepid domestic demand, persistent deflationary pressures, and flailing property and equity markets," said Eswar Prasad, trade policy professor at Cornell University and a former China director at the International Monetary Fund.

"Looking ahead, China not only faces significant domestic challenges but also a hostile external environment."

If the bulk of the extra stimulus Beijing has lined up for this year keeps flowing towards industrial upgrades and infrastructure, rather than households, it could exacerbate overcapacity in factories, weaken consumption, and increase deflationary pressures, analysts say.

Nomura analysts said that to deliver "a truly sustainable" growth recovery, Beijing needs to ease fiscal and monetary policy, resolve the protracted property crisis, reform its tax and social welfare systems and alleviate geopolitical tensions.

"Simply put, despite today's sanguine data, now is not the time for Beijing to rest on its laurels," the analysts said.

This chart depicts China's GDP (year-on-year and quarter-on-quarter) in each quarter.

'UNEASE'

Chinese exporters expect higher tariffs to have a much greater impact than in Trump's first term, accelerating movement of production abroad and further shrinking profits, hurting jobs and private sector investment.

Another trade war would find China much more vulnerable than when Trump first raised tariffs in 2018, as it grapples with a deep property crisis, huge local government debt, and 16% youth unemployment, among other imbalances.

Beijing has pledged to prioritise domestic consumption, but has revealed little apart from a recently-expanded trade-in programme that subsidises purchases of cars, appliances and other goods.

[1/4] People hang out at The Bund as the financial district of Pudong is seen in the background in Shanghai, China, January 16, 2025. REUTERS/Go Nakamura Purchase Licensing Rights

China gave civil servants their first big pay bump in a decade, but financial regulators got steep wage cuts, as have many in the private sector.

For Jiaqi Zhang, a 25-year-old investment banker in Beijing, 2024 felt like a downturn. Her salary was trimmed for a second straight year, bringing the total pay cut to 30%, and eight or nine of her colleagues lost their jobs, she said.

"There is a general feeling of unease in the company," said Zhang, who has cut back on buying clothes and dining out. "I'm ready to leave at any time, it's just that there's nowhere to go right now."

The chart shows China's annual GDP growth target vs actual GDP growth.

SCEPTICISM

Data on Friday showed the world's second-largest economy beat economists' 2024 forecast of 4.9% growth. Its reported fourth-quarter 5.4% pace was the quickest since early 2023.

"China's economy is showing signs of revival, led by industrial output and exports," said Frederic Neumann, chief Asia economist at HSBC.

But the bounce may have been flattered by front-loading of shipments to the U.S. ahead of any new tariffs, which will inevitably lead to a pay-back, he said.

"There will be an even bigger need to apply domestic stimulus" this year, Neumann said.

China (.CSI300), (.SSEC) and Hong Kong shares (.HSI) rose slightly, but the yuan lingered near 16-month lows. Subdued markets reflect wavering confidence in China's outlook, analysts said.

"Are investors around the world going to invest in China because they hit 5%? No," said Alicia Garcia-Herrero, chief economist for Asia Pacific at Natixis. "So it's becoming an irrelevant target."

Beijing has rarely missed its growth targets. The last time was in 2022 due to the pandemic. It is expected to maintain a roughly 5% target in 2025, but analysts forecast growth to slow to 4.5% this year and 4.2% in 2026.

Long-standing scepticism about the accuracy of official data has shifted into higher gear over the past month.

A bearish commentary by Gao Shanwen, a prominent Chinese economist who spoke of "dispirited youth", vanished from social media after going viral. Gao estimated GDP growth may have been overstated by 10 percentage points between 2021 and 2023.

In a Dec. 31 note, Rhodium Group estimated China's economy only grew 2.4%-2.8% in 2024, pointing to the disconnect between relatively stable official figures and the flood of stimulus unleashed from about the mid-way mark.

This included May's blockbuster property package, the most aggressive monetary policy easing steps since the pandemic in September and a 10 trillion yuan ($1.36 trillion) debt package for local governments.

"If China's actual growth is below headline rates, it suggests there is a broader problem of China's domestic demand that is contributing to global trade tensions," Rhodium partner Local Wright told Reuters.

"Overcapacity would be a far less pressing issue if China's economy was actually growing at 5% rates."

($1 = 7.3273 Chinese yuan)

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