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China’s Economy Barely Grows as Recovery Fades

The country’s rebound from its Covid-19 reopening has lost momentum

By Jason Douglas Follow

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China’s retail sales in June rose just 0.2% compared with May, a sign that households are wary of spending. PHOTO: CFOTO/NURPHOTO/ZUMA PRESS

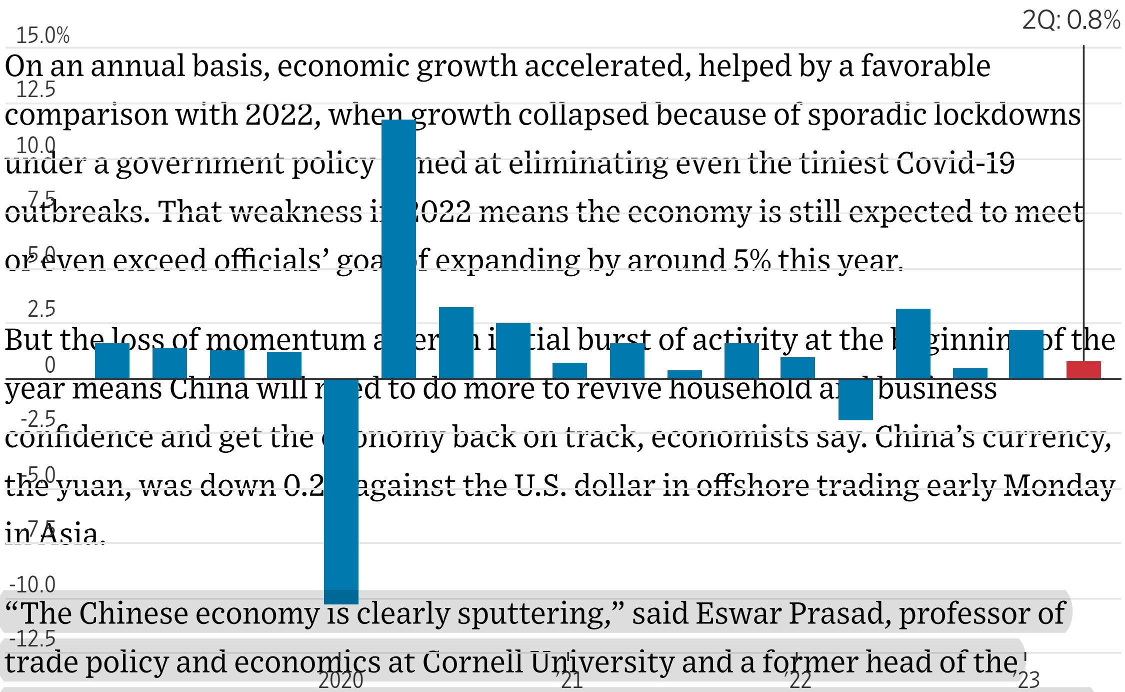
SINGAPORE—China’s economy barely grew in the second quarter from the first quarter and youth unemployment hit a record high in June, providing evidence of a fading recovery that risks leaving the global economy underpowered this year as recession stalks the U.S. and Europe.

The sluggish pace of growth in 2023 is piling pressure on Beijing to reignite an expansion that is in danger of fizzling out as consumers refrain from spending and exports slump. A drawn-out real estate crunch and shaky local-government finances are compounding the gloom.

China’s economy grew just 0.8% in the second quarter compared with the first three months of the year, and more than a fifth of Chinese aged 16 to 24 are out of work.

The struggle to keep growth motoring ahead is the most pressing challenge among a lengthy list of issues facing Chinese leader Xi Jinping and his top officials. A difficult relationship with the U.S.-led West is squeezing investment in China. Beijing is sparring with Washington over semiconductors and the materials needed to make them. Russia, an ally, is sunk in a quagmire of its own making in Ukraine.

Growth in the second quarter was less than half the 2.2% quarterly pace recorded in the January-to-March period. The result reflected weak retail sales, subdued private-sector investment and a reversal in exports, which had propelled growth throughout the pandemic but are suffering now as major central banks ratchet up interest rates.



On an annual basis, economic growth accelerated, helped by a favorable comparison with 2022, when growth collapsed because of sporadic lockdowns under a government policy aimed at eliminating even the tiniest Covid-19 outbreaks. That weakness in 2022 means the economy is still expected to meet or even exceed officials’ goal of expanding by around 5% this year.

But the loss of momentum after an initial burst of activity at the beginning of the year means China will need to do more to revive household and business confidence and get the economy back on track, economists say. China’s currency, the yuan, was down 0.2% against the U.S. dollar in offshore trading early Monday in Asia.

“The Chinese economy is clearly sputtering,” said Eswar Prasad, professor of trade policy and economics at Cornell University and a former head of the International Monetary Fund’s China division. He said the figures highlight the need for more stimulus to power faster growth, as well as policy changes that will help revive confidence in China’s private sector and spur faster productivity growth.

Compared with the same quarter the previous year, growth in the second quarter accelerated to 6.3% from a 4.5% annual pace in the first quarter, a worse performance than the 6.9% pace expected by economists polled by The Wall Street Journal. The pickup in the annual rate was flattered by a deep slump in the second quarter of last year, when businesses in Shanghai were closed to contain a citywide outbreak of Covid-19.

Beijing abandoned its strict Covid controls around the turn of the year, paving the way for a rebound in activity as businesses resumed trading and consumers spent some of the savings they had squirreled away during the pandemic.

The hope was that China’s consumers would step up to power a durable recovery and a prolonged slide in the real-estate sector would turn around, buoying the economy with demand for exports weakening as stubbornly high inflation and rising borrowing costs curbed spending in the West.

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Monday’s data suggests that hope was misplaced. Retail sales in June rose just 0.2% compared with May, a sign that households are wary of spending. Economists say their caution reflects anxiety about jobs and the wider economy as well as the lingering scars of the pandemic, such as lost income and jobs.

China’s headline measure of joblessness, the surveyed urban unemployment rate, held steady at 5.2% in June. But youth unemployment rose yet again, with joblessness among those aged 16 to 24 rising to 21.3% in June from 20.8% in May.

Investment in buildings, machinery and other fixed assets rose just 0.4% in June compared with May, hurt by weakness in real estate. Industrial production expanded 0.7% over the same period.

Residential buildings under construction in Zhengzhou, China. PHOTO: QILAI SHEN/BLOOMBERG NEWS

China’s postpandemic recovery has taken a different shape than those of other major economies. Consumer spending in the U.S. and Europe bounced back quickly after their reopenings thanks to government support for workers’ incomes. Joblessness fell. Inflation shot up, particularly after Russia’s invasion of Ukraine sent global food and commodity prices higher.

China, by contrast, recorded zero inflation in June. That was weaker than in Japan, for years a poster child of economic stagnation and sinking prices.

There has been better economic news in the U.S. Inflation cooled last month to its lowest pace in two years, strengthening expectations the Federal Reserve will be able to finish its interest-rate increases without tanking the economy.

Elsewhere, though, economic signals suggest the global economy is losing steam. Manufacturing activity is weak across the board. Data from China and other Asian economies suggest trade is taking another lurch downward.

The World Bank expects global economic growth to slow in the second half of the year as aggressive moves by central banks to tame inflation take a toll on activity. The Washington, D.C.-based lender expects the global economy to expand 2.1% this year, down from 3.1% in 2022.

Economists say Chinese authorities will need to do more to prop up the faltering recovery. The People’s Bank of China has cut benchmark interest rates in an effort to drive growth, but economists say lower borrowing costs might not help much since consumers and businesses seem reluctant to take on new loans.

Instead, economists say the government should step in with direct support for households to buoy consumption, create new jobs and reignite confidence in the economy. Measures could include handouts to low-income households, income-tax cuts or lifting spending on social programs to free up more household income for spending, said Prasad, of Cornell University.

Chinese officials have signaled a reluctance to undertake large-scale stimulus measures, preferring instead a piecemeal approach so as to avoid piling on too much debt. Beijing is also seeking to shift the country’s priorities away from rapid growth at all costs toward steps that help prepare China for rising tensions with the rest of the world and possible conflict.

“China’s recovery is going from bad to worse,” said Harry Murphy Cruise, an economist at Moody’s Analytics, in a note to clients. “Increasingly, 2023 is looking like a year to forget for China.”

Write to Jason Douglas at jason.douglas@wsj.com

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