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China's Economy Gets Boost From Stimulus, but Headwinds Grow

Economists point to challenges including Israel-Hamas war and frosty relations with U.S.

By Jason Douglas Follow

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China's economy expanded 4.9% in the third quarter compared with the same quarter a year earlier.
PHOTO: QILAI SHEN/BLOOMBERG NEWS

SINGAPORE—China's economy showed signs of emerging from a soft patch in the third quarter, as retail sales got a lift from government stimulus and factory activity stabilized after months of weakness.

Growth came in at 4.9%, faster than expected by economists though still a decline on a year-on-year basis from the previous quarter. Growth accelerated on quarter-on-quarter terms, which strips out distortions caused by China's unlocking from Covid lockdowns in 2022.

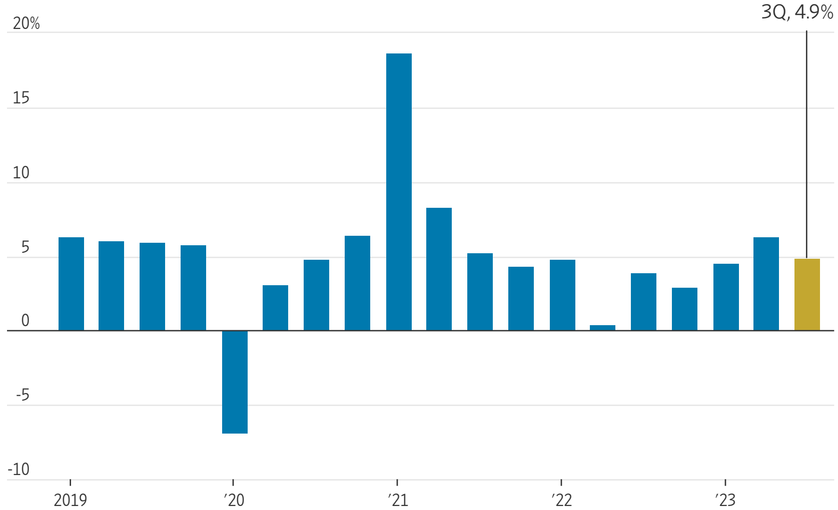
The economy's performance holds off for now broad fears about a more serious economic crunch. Real estate remains a major risk, with home sales crumbling and developers China Evergrande and Country Garden struggling with heavy debts. Consumer confidence is fragile and the global backdrop is darkening because of the war between Israel and Hamas.

Longer term, China faces a daunting list of headwinds, including frosty relations with the U.S.-led West, worsening demographics and a difficult reorienting of its economy toward growth powered by consumption and advanced manufacturing and away from property-driven investment. Economists expect growth to slow in the years ahead as China wrestles with these challenges.

On Target

China's economy remains on track to meet Beijing's 5% growth goal this year

Gross domestic product, year-over-year change



Source: Macrobond

"The Chinese economy seems to have navigated its way past a particularly rough patch thanks to various supportive measures by the government, but a strong rebound is not in the cards," said Eswar Prasad, a Cornell University economist who once headed the IMF's China division. "Still, it is a good omen both for the Chinese and world economies that a more significant downturn seems to have been averted."

Compared with the previous three months, China's economy in the third quarter expanded 1.3%, accelerating from a revised 0.5% pace in the previous quarter, China's National Bureau of Statistics said Wednesday. The revision means China's economy eked out even less growth in the April to June period than the 0.8% initially estimated, a rate that was already roughly half the average pace recorded in the five years before the pandemic.

Growth year-to-date was 5.2%, keeping the economy on track to meet the government's goal of expanding around 5% for the year as a whole.

Sheng Laiyun, deputy chief of China's statistics bureau, told reporters on Wednesday that the country need only record 4.4% growth in the last three months of the year to meet its annual target. "We are confident that we can realize the growth target this year," he said.

The up-and-down performance of China's economy contrasts with unexpected vigor in the U.S., where consumer and government spending is keeping the economy motoring even in the teeth of aggressive interest-rate rises by the Federal Reserve. Economists polled by The Wall Street Journal now think it is more likely than not that the U.S. economy will avoid recession. That marks a reversal from the beginning of the year when China's reopening was expected to fuel global growth and the U.S. was tipped to rapidly lose steam.

The drag from a shrinking property sector has weighed on growth in China. PHOTO: WU HAO/SHUTTERSTOCK

The International Monetary Fund, in its latest projections this month, said the U.S. and other countries look poised for a "soft landing," in which inflation cools without a significant downturn in growth.

The IMF raised its growth forecasts for the U.S. this year and next while cutting them for China. Turmoil in China's property sector is hurting consumer confidence and squeezing spending, the fund said, urging the government to consider handouts to households to generate a more robust recovery.

Chinese growth fizzled in the spring after an early burst of activity driven by the lifting of strict Covid-19 controls faded. Chinese authorities have unleashed a barrage of stimulus measures in recent weeks aimed at re-energizing wilting consumer spending and arresting the downward spiral in real estate. Interest rates have been slashed and funding dished out to banks to lend to households and businesses, while many cities have scrapped restrictions on home purchases. In some cases, developers have been allowed to offer big discounts to would-be buyers in an effort to unload inventories of unsold apartments.

Some signs suggest the economy is turning a corner. Business surveys point to improving factory output, while domestic travel picked up, albeit modestly, during a recent eight-day holiday. Electricity consumption is rising and cargo shipments are steady, economists at Nomura noted in a note to clients published on Monday. Lending to households and businesses is growing.

On the flip side, inflation was flat in September when compared with a year earlier, suggesting sluggish demand, and exports fell for the fifth straight month last month, though at a slower rate than in August. Home sales and other indicators of housing-market activity remain anemic. Home sales by value fell 3.2% from a year earlier in the first nine months of the year, compared with a 1.5% fall in the January-to-August period, according to Wednesday's data.

"I think we're starting to see a weak bottoming out," said Rory Green, head of Asia research at economics consultancy GlobalData.TSLombard in London. But he said he doesn't expect much of a pickup in growth soon, akin to an "L-shaped" recovery in which the economy grows slowly for some time.

A barrage of stimulus measures has been aimed at re-energizing wilting consumer spending. PHOTO: QILAI SHEN/BLOOMBERG NEWS

Ting Lu, chief China economist at Nomura, said there’s a risk that improving data could persuade Beijing to shift to “wait-and-see” mode and take its foot of the gas with stimulus, which could cause growth to falter again toward the end of the year or early in 2024.

For now, most economists anticipate Beijing will keep adding to its range of stimulus measures, perhaps with more interest-rate cuts or additional help for home buyers. But officials have signaled that while they want to stabilize the housing market, they want to avoid reigniting another speculative frenzy in real estate, suggesting an expansive stimulus effort isn’t in the cards.

That means other parts of the economy will need to do the heavy lifting to sustain growth, say economists. Wednesday’s data showed retail sales grew strongly in September, rising 5.5% in September compared with a year earlier and accelerating from the 4.6% rate recorded in August. Industrial production, which has been struggling thanks to weak exports, increased 4.5% from a year earlier in September, matching August’s pace.

Investment in buildings, machinery and other fixed assets slowed, however, underlining the drag from property. Investment rose 3.1% in the January-to-September period, compared with the same nine months in 2022, a weaker pace than the 3.2% expansion over the first eight months of the year.

Unemployment fell to 5% in September, from 5.2% in August. China stopped publishing data for joblessness among young people in June, citing methodology wrinkles officials said they wanted to iron out. But many analysts attributed the decision to official discomfort over how high youth unemployment had risen, with the June data showing about one in five of people aged 16 to 24 were looking for work.

—Grace Zhu and Xiao Xiao in Beijing contributed to this article.

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