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Chinese Growth Comes in Cooler as Investors Pin Hopes on Stimulus

Wobbly data for the third quarter underscores challenges for Beijing policymakers seeking to boost economic activity

By *Jason Douglas* Follow

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Shoppers at a mall in Beijing earlier this month. PHOTO: GREG BAKER/AFP/GETTY IMAGES

SINGAPORE—China's economy slowed in the third quarter, a deceleration that highlights the urgency of Beijing's recent pivot toward greater support for growth after months of hesitancy.

Investors' initial euphoria over Beijing's weekslong barrage of stimulus measures and messages of reassurance has faded, however, as doubts have crept in over just how effective any planned stimulus will be at revving up the ailing economy and bringing a festering property crisis to a close. Key details remain unclear—including, critically, how much more Beijing intends to borrow to finance its support plan and what exactly it intends to spend it on.

The result has been a roller coaster for Chinese stocks in recent weeks, as investor sentiment has swung wildly between boundless optimism and nagging unease.

The growth figure China released Friday will do little to buoy sentiments. China's economy expanded 4.6% in the July-to-September quarter compared with the year-earlier period. That was a touch slower than the 4.7% year-over-year expansion in the second three months of the year.

Pan Gongsheng, governor of the People's Bank of China, said on Friday that benchmark interest rates could be cut as soon as Monday. In mainland China, the benchmark CSI 300 index closed up 3.6%. In Hong Kong, the Hang Seng Index also closed 3.6% higher.

Chinese stocks have fluctuated in recent weeks, as investor sentiment has swung between optimism and unease. PHOTO: QILAI SHEN/BLOOMBERG NEWS

Expectations are high that a committee of China's legislature, the National People's Congress, will sign off on a big new fiscal package, possibly running into hundreds of billions of dollars of extra government borrowing, when it convenes later this month.

Friday's GDP figures "seriously jeopardize the government's growth target for this year. It will take a huge stimulus-fueled push to generate a turnaround in growth sufficient to attain the target," said Eswar Prasad, professor of trade policy at Cornell University and a former head of the International Monetary Fund's China division, referring to the government's annual growth target of "around 5%."

But a meaningful effort to turn the economy around would require putting money into the pockets of Chinese consumers, many economists say, and the odds of that type of stimulus are diminishing. Instead, leader Xi Jinping and his top lieutenants are focused on managing a brewing financial crisis in local government budgets, not reorienting China's economy away from its heavy reliance on investment and manufacturing, The Wall Street Journal has reported.

That reluctance to restructure the economy is a recipe for slower growth in the years ahead, and raises the chances of persistent tensions over trade, economists say.

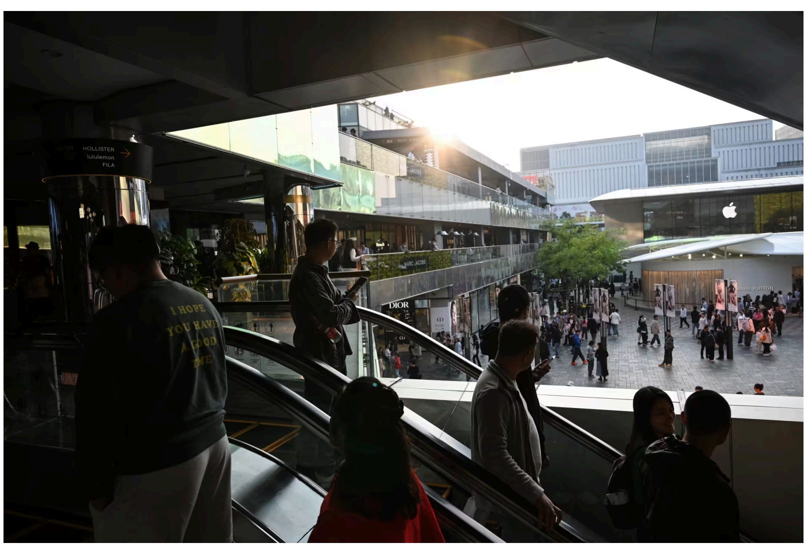
China may still meet its official growth target. For the first nine months of 2024, China says the economy has grown 4.8% from the same period in 2023, putting it at the low end of the "around 5%" goal.

Other data Friday showed some signs of stabilization in the economy in September after a weak July and August. Retail sales rose 3.3% in the first nine months of the year compared with the same period in 2023, while unemployment edged down to 5.1% last month from 5.3% in August.

Industrial production rose 5.8% in the nine-month period compared with a year earlier, unchanged from the previous reading for January to August. Over the same period, investment in buildings, equipment and other fixed assets was similarly unchanged, at 3.4%.

"On the whole, the economy is still functioning in a smooth and stable manner," despite challenges from a tepid property market, rising local government debt and weakening market confidence, said Bi Jingquan, chairman of a Beijing think tank affiliated with the National Development and Reform Commission, China's top economic-planning agency.

Beijing's target of 5% GDP growth for this year "is still possible, but it could come under 5%," Bi, a former NDRC vice chairman, said at the FutureChina Global Forum in Singapore.



Many economists say putting money into the pockets of Chinese consumers would be the best remedy for China's current malaise. PHOTO: GREG BAKER/AFP/GETTY IMAGES

Beijing's policy pivot came in late September, when Pan, the central bank governor, announced plans to cut interest rates and support China's swooning stock market by offering central bank funds to investors.

A cascade of policy announcements followed, some of which were new while others reheated old promises. Homeowners were told they would be able to refinance their mortgages at lower rates, a trickier process in China than in the U.S. Economic planners pledged to clear a backlog of unsold homes. China's finance minister said he would ensure some $300 billion of unspent borrowing proceeds would be plowed into the economy this year and that banks would get new capital.

Stocks swung as investors wrestled with how significant each new measure was. The benchmark CSI 300 index surged more than 30% in the span of six trading days through Oct. 8, but by Friday was down around 8% from that heady peak. It is still up more than 10% since the start of the year. Hong Kong's Hang Seng Index has tumbled 10% since that same early October peak, but remains around 22% higher than where it started the year.)

One promising signal that stimulus is having an effect: Home sales during the seven-day National Day holiday earlier this month doubled compared with last year, National Bureau of Statistics spokesman Sheng Laiyun said at a news conference Friday.

On Thursday, China's housing ministry said it would redevelop one million homes in rundown urban shantytowns and said it would prod banks to double the loans on offer for developers to around $500 billion, part of a broader attempt to complete unfinished homes. It remains to be seen whether either move will lead to any durable improvement; property stocks slumped after Thursday's announcement.

Though officials have yet to spell out the scale of their overall stimulus plan, economists mostly expect new borrowing to come to somewhere between 1 trillion yuan and 3 trillion yuan, equivalent to between about $140 billion and $421 billion, though some are holding out for more like 10 trillion yuan.

Logan Wright, a partner at New York-based research firm Rhodium Group who leads its China markets research, said the policy moves since late September show the government is becoming more responsive to the economy's short-term weakness. But he said fiscal policy needs to focus on consumption to have a big effect and that deep-seated problems weighing on growth, such as decaying local government finances, will require bolder changes.

"It is a better situation this month than last month," he said. "But does this change the central tendency of the economy? Probably not."

Other data Friday showed the property crisis is far from over, underscoring the importance of government efforts to address a widespread lack of home-buyer confidence. New home prices in 70 Chinese cities fell 6.1% in September compared with a year earlier, worse than the 5.7% drop recorded in August, official data showed. Of the 70 cities, 68 recorded year-over-year price declines, unchanged from August.

Figures earlier this week showed export growth slowing sharply in September to 2.4% in year-over-year terms, compared with 8.7% in August, suggesting buoyant export growth could be petering out as the global economy slows and trade barriers go up to Chinese goods.

—Grace Zhu in Beijing and Chun Han Wong in Singapore contributed to this article.

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