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China's economy grows at its slowest pace since early 2009

By Gerry Shih
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HONG KONG — China's economy is growing at the slowest pace since the depths of the financial crisis in early 2009, according to newly released official data that heightens pressure on the leaders in Beijing navigating a trade dispute with Washington.

China's National Bureau of Statistics said Friday that gross domestic product rose 6.5 percent during the third quarter compared with a year earlier, slightly below the 6.6 percent estimate by economists polled by Reuters. The sequential growth from the previous quarter also slowed.

The Chinese growth figures, which were released along with the weakest industrial output numbers in years, came as a parade of top officials made a joint media push to boost public confidence in the country's slumping stock market, which is dominated by China's middle-class mom-and-pop investors.

Shortly after the economic data was released, the official Xinhua News Agency released a statement from Liu He, President Xi Jinping's top economic adviser and trade negotiator to the United States, downplaying the real impact of the trade dispute and talking up the chances for rapprochement.

"Frankly, the psychological impact is bigger than the actual impact," Liu told Xinhua. "Right now, China and the U.S. are in contact."

Investors and economic observers are waiting for the outcome of a potential meeting between President Trump and Xi in November at the Group of 20 summit in Buenos Aires.

With Beijing highly wary of Trump administration officials' ability to negotiate on behalf of the White House, a tete-a-tete between the top leaders could help lower tensions and breathe some confidence back into China's market, which has slumped some 25 percent since the start of the year — as Trump has gleefully pointed out on Twitter.

Beijing has previously signaled that growth would naturally fall this year as it coaxes Chinese companies to cut down risky levels of investment and debt, but the underwhelming GDP figure — combined with poor industrial output — may deepen anxieties given that many economists don't think the effect of the trade war has even shown up yet in Chinese data.

Numbers released Friday showed that industrial output growth rose 5.8 percent, lower than what economists expected, and home sales also lagged, according to Reuters. Retail sales, however, rose more than expected, showing that Chinese domestic consumption, which leaders have been hoping to boost, remains strong.

“The government is clearly getting concerned about the loss of growth momentum, as evidenced by the recent cut in banks’ reserve requirements,” Eswar Prasad, a Cornell University professor and former head of the International Monetary Fund’s China division, said in an email. “The slower but still strong headline growth masks the increasing drag from domestic financial vulnerabilities and the expanding trade war with the U.S.”

China’s central bank this month took a reverse step from its stated goal of tightening monetary policy by cutting banks’ reserve requirements for the fourth time this year and injecting more cash into the economy. The stock market fell anyway amid a global sell-off.

While Liu on Friday talked up China’s prospects in the trade war, Yi Gang, the head of China’s central bank, put out a statement dismissing the stock market’s woes as unjustified. They are the result of investor “emotions” and don’t match solid economic fundamentals, he said.

China’s stock regulator also chimed in on Friday, saying it would help investment funds buy shares in companies and expedite approvals for mergers and acquisitions.

The Shanghai Composite Index took the economic data and official statements in stride, rising 2.5 percent.

Commerce Ministry spokesman Gao Feng told reporters Thursday that the tariffs would inflict only “limited and manageable” impact on Chinese exporters.

“For enterprises with strong competitiveness and low substitutability, it can be said that the impact isn’t big,” Gao said, while acknowledging that small companies might see fewer orders and production stoppages.

Andrew Polk, a macroeconomic analyst at Trivium, said the trade war was not reflected in economic performance.

“China’s economic challenges are almost entirely domestic, and we haven’t seen the trade war show up in the economic data at all,” Polk said. “But it certainly hurts the sentiment and brings about an uncertainty to the society.”

Chinese leaders are in a dilemma about how to prop up the economy given their stated aim of lowering dangerous levels of debt. After a round of stimulus measures already, their options are dwindling.

“They don’t have a lot of other levers to pull,” Polk said. “They can’t rely on monetary stimulus that much, otherwise it would add to the country’s debt challenges.”

Lyric Li in Beijing contributed to this report.

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