Chinese economy continues to slow

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China has recorded its lowest growth rate since the immediate aftermath of the global financial crisis in early 2009, with gross domestic product coming in at 6.9 percent for the third quarter.

The third-quarter growth rate was below the 7 percent rate for the first two quarters and the 7.3 percent growth rate recorded in 2014. The figure was higher than expected, and there is considerable scepticism in some economic and financial circles about the numbers, with some putting the real rate of growth much lower.

The better-than-expected result was largely due to higher growth in the service sector, which increased by 8.6 percent, offsetting the poor performance of the manufacturing and construction sectors, which grew by 5.8 percent, down from 6.1 percent in the previous quarter. The figure for exports was also down, falling by 5.4 percent in the third quarter, after a 2.9 percent drop in the previous three-month period.

But doubts have been expressed over the figures for the service sector, which includes financial services, given the very sharp decline in the Chinese stock market in July and August.

Zhu Haibin, chief China economist at JP Morgan wrote: "It is somewhat puzzling how the service sector maintained strong growth in the third quarter, given that strong service sector growth in the first half was driven mainly by the financial sector. The recent stock market correction should have led to service sector deceleration."

The figure for nominal GDP, which is not adjusted for price changes, was 6.2 percent, down from 7.1 percent in the previous quarter. Westpac Global Economics said the nominal figure was a more accurate guide to underlying conditions and pointed to a sharper deceleration than indicated by the inflation-adjusted figures. "The overall picture remains distinctly underwhelming and far from constructive" it said.

Monthly fixed investment data showed a 10.3 percent increase for the year so far, below the government's target of 15 percent. It was the slowest rate of increase since 2000. Together with industrial production, which is recording its lowest rate of growth in 25 years, these figures underscore the fact that the economic trends that have driven the expansion of the Chinese economy since the early 1990s are losing their force.

Releasing the figures, the National Bureau of Statistics said that China had faced "increasing downward pressure of domestic economic development" in the first nine months of the year but claimed that the overall performance of the national economy was stable and moving in a positive direction.

In a written interview with Reuters on the eve of his state visit to Britain, Chinese president Xi Jinping pointed to concerns about the state of the economy and the impact of global developments.

"As an economy closely linked to international markets, China cannot stay immune to any lacklustre performance of the global economy. We do have concerns about the Chinese economy, and we are working hard to address them. We also worry about the sluggish world economy, which affects all countries, especially developing ones."

Xi's comments point to an underlying shift in global economic relations. Together with the official figures, whatever their accuracy, they underscore the fact that rather than China providing a new basis for global economic expansion—the scenario advanced in the years immediately following the global financial crisis—it is caught in deepening global recessionary trends.

Société Générale CIB economist Klaus Bader described the results as "pretty disappointing" overall. "Investment continued to slow pretty sharply despite efforts by the government to support the economy. It doesn't seem to be sufficient."

"We should not be overoptimistic," said Liu Ligang, the ANZ Banking Group chief economist for Greater

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China, adding “China’s economic growth will continue to slow down.” The group’s forecast for Chinese growth next year is 6.4 percent.

Taking a longer view, the significance of the Chinese slowdown and its implications for the global economy as a whole come into sharper focus. In the first years of the century, global demand was fuelled by the expansion of credit, especially in the United States, which led to a rapid expansion of Chinese exports and growth rates of 10 percent and more.

But the financial house of cards collapsed in the global crisis of 2008 and export-led growth in China came to a shuddering halt as 23 million workers lost their jobs within a matter of months.

Fearful of a social explosion, the Chinese regime responded to the changed global conditions with a major stimulus package based on the expansion of credit to finance investment in the construction sector and the industries that supply it. But this has only led to the creation of a credit bubble and fears of financial instability, under conditions where the global economy, rather than “recovering” from the financial crisis, has experienced ongoing stagnation. Europe, which is China’s largest market, is not back to levels of output reached before the financial crisis.

Over the past two years, with the coming to power of Xi, the Chinese government has made another pragmatic turn, forced on it by the contradictions resulting from its previous policies. Labelled “rebalancing,” the policy involves the promotion of services, the opening up of finance and the expansion of domestic consumption.

But these policies have even less prospect of promoting global recovery than the previous credit-fuelled expansion of investment, prompting fears by commentators of the implications of the growth slowdown for the world economy.

“Chinese rebalancing is at a pivotal moment,” wrote Angus Nicholson, a market analyst at IG. Should it fail, he noted, the global economy “could be pushed into a major downturn.”

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