China records lowest growth rate since 1990

Nick Beams
22 January 2019

The Chinese economy has recorded its lowest annual growth rate since 1990 amid indications that the trade war launched by the US is starting to make an impact. According to official government data, the economy grew 6.6 percent last year with growth in the fourth quarter falling to an annual rate of 6.4 percent—the lowest level since the early months of the financial crisis a decade ago.

Commenting on the figures, the head of the National Bureau of Statistics Ning Jizhe told a news conference on Monday that the economy faced "downward pressure." Referring to the US trade war, he pointed to a "complicated and severe external environment" but then sought to issue a reassurance that "the economy overall is driven by domestic demand."

However, it is in the domestic economy that the signs of weakness are most apparent. China is the world's largest auto market and sales fell last year for the first time since 1991, contracting by 4 percent. Retail sales growth has also fallen to its lowest level in more than a decade.

Apple made a surprise announcement earlier this month when it issued a downward sales revision because of lower than expected demand for its iPhones in China. Ford has cut production at a major Chinese plant in what it said was a move to reduce the inventory of unsold cars.

In a comment to the *Financial Times* earlier this month, Fred Hu, the former Greater China chairman for Goldman Sachs, said: "Domestic sentiment is definitely very bad, perhaps even worse than during the 2008 global financial crisis. In theory, China has wide latitude to boost domestic demand to offset the trade war hit on external demand. But sagging business and consumer confidence, private spending on both capital expenditure and personal consumption is more likely to trend down."

This assessment has been backed by Eswar Prasad, former China head at the International Monetary Fund (IMF). "Aggregate data continue to portray a relatively benign picture that seems increasingly inconsistent with a sense of growing economic malaise and souring business, consumer and investor sentiment," he said.

Manufacturing is also contracting. Some factories in Guangdong, at the heart of China's export economy, have shut earlier than usual ahead of the Lunar New Year holiday. Others are suspending production lines and reducing workers' hours amid warnings that migrant workers may not have jobs to return to after the New Year break.

China has adopted a series of limited fiscal and monetary measures since last July in a bid to halt slowing growth but they appear to have had no effect so far. While credit has been eased, the move has failed to lift fixed asset investment which grew by 5.9 percent last year, a significant drop from the 7.2 percent growth recorded in 2017.

There is evidence that the slowdown may be worse than the official figures indicate. China's growth data are generally taken with a fairly large grain of salt with many analysts, both within China and externally, regarding them as overstated.

On this occasion, prior to the release of the latest data, the government revised down the growth figure for 2017 from 6.9 to 6.8 percent. This may have been undertaken to inflate the figures for 2018 growth.

Last month, President Xi Jinping announced that the broad economic agenda for 2019 must be to maintain growth within a "reasonable range." The objective, which will be announced in March, is expected to be a growth rate of between 6 percent and 6.5 percent. This would mean a slight downgrade on the objective last year of growth of "about 6.5 percent."

The *Wall Street Journal* has reported that of the 20 provinces and municipalities that have reported their 2019 growth targets so far, 13 have cut their objectives and six have left their targets unchanged.

The Chinese government is treading a narrow path in seeking to stimulate growth. It has ruled out any return to the kind of massive stimulus package, based on government spending and the expansion of credit, that followed the 2008-2009 crisis because of concerns over the debt levels in the Chinese economy.

In any case, stimulus measures are losing their impact. According to a Moody's analysis, the amount of new capital investment needed to generate a given unit of GDP growth has doubled since 2007. In other words, new investment has less impact on the overall economy while debt levels increase.

The exact level of debt is difficult to calculate because much of it is hidden off balance sheets, The Institute of International Finance estimates it exceeded 300 percent of GDP at the end of last year. Much of it has gone into a construction boom of unprecedented proportions—by one estimate, from the start of 2012 until 2016, China used as much cement as the US did in the entire 20th century. A great deal of that investment has gone to waste with as many as 65 million apartments in China that are unoccupied.

The slowing Chinese economy, and the increasing constrictions on government stimulus, come at a significant turning point in the world economy, with all major international economic bodies warning of a global slowdown and increased risks in 2019.

The World Bank report produced earlier this month warned of "storm clouds" with lower growth expected in the major economies.

The IMF has now revised down its predictions for global growth in 2019 warning that the world economy is weakening faster than expected.

Cutting its forecast for global growth by 0.1 percent from its October prediction to 3.5 percent, the IMF said the main reason for the change was weakness in Europe and Japan. Overall it reduced its forecast growth for the advanced economies, with growth set to drop from 2.3 percent in 2018 to 2 percent this year and falling to 1.7 percent in 2020.

IMF chief economist Gita Gopinath said that while the downward revisions were modest, "we believe the risks to more significant downward corrections are rising."

"The cyclical forces that propelled broad-based global growth since the second half of 2017 may be weakening somewhat faster than we expected in October.… While this does not mean we are staring at a major downturn, it is important to take stock of the many rising risks."

These include rising trade tensions and an associated worsening of financial conditions, a no-deal Brexit that would have negative spillovers across Europe, the budgetary position of Italy coupled with weakness in its banking sector, and a slowdown in China that may be steeper than expected.