Marked slowdown in China’s growth rate

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China’s growth rate slowed significantly in the third quarter, adding to fears that flow-on effects mean that the so-called post-pandemic recovery in the global economy could be short-lived.

According to figures released on Monday, the economy grew by 4.9 percent in the third quarter compared to the same period in 2020 but by only 0.2 when compared to the June quarter. This was one of its weakest quarterly expansions in more than a decade. The growth rate for the April-June period was 7.9 percent compared to the previous year.

While retail sales were up by 4.4 percent compared to the previous year, industrial production only rose 3.1 percent, compared to forecasts of 3.8 percent growth, an expansion of only 0.1 percent from the previous month.

The lowered growth rate is attributable to a series of problems including the surge in global inflation, power shortages leading to cuts in production, and clamp downs imposed to eliminate outbreaks of the Delta variant of COVID-19. Another major factor was the slowing real estate and property market where a number of companies, most notably Evergrande, have been experiencing major financial problems.

In releasing the data Fu Linghui, a spokesman for the National Bureau of Statistics, delivered a mixed message.

“The Chinese economy has maintained recovery momentum in the first three quarters with progress in structural adjustment and high-quality development,” he said.

Structural adjustment refers to the clamp down by financial authorities on the growth of debt, especially in the real estate sector. High quality development involves the moves by the government to impose restrictions on the high-tech financial and private education firms in the name of combatting social inequality.

Chinese premier Le Keqiang voiced confidence in the economy in a speech last week, saying that despite difficulties China would meet its meet its overall development targets. However, Fu said there were “increasing uncertainties in the external environment” and the “domestic economy is instable and unbalanced.”

One of the problems in the “external environment” is the surge in inflation from which China has not been exempt, particularly in the energy sector. Data released last week showed that factory gate prices in September rose at their fastest rate for more than a quarter of a century.

The producer price index jumped by 10.7 percent compared to a year earlier, the highest rate of increase since 1995.

This was the result of rising commodity prices for industrial materials and record prices for coal combined with significant shortages. The rise in production costs have not yet translated into higher consumer prices but there are warnings that China, like the rest of the world, could be at risk of stagflation—lower growth combined with increased inflation.

The financial crisis surrounding the property developer Evergrande, which has missed payments on dollar-denominated debt, together with financial problems at other real estate firms, has signalled that the role of property development in boosting Chinese growth is coming to an end.

Last Friday, in the first official comment since Evergrande missed international bond payments, Peoples Bank of China official Zou Lan made clear there would be no central bank bailout for the embattled company.

Zou told a press conference that the Evergrande situation was being resolved by local governments and authorities through “market and rule of law principles.” He said the company’s problems were of its own making and claimed they could be absorbed by the country's financial system.

Evergrande, Zou said, had "poor management, failed to run its businesses cautiously according to changes in market conditions and expanded blindly."

This was less than a full assessment. It failed to mention the central government's role in promoting the expansion of property development as a driver of the Chinese economy and the effect of the credit restrictions it suddenly imposed last year.

Zou said Evergrande's creditors were "scattered and individual banks' exposure is small" and the "risk of spillover to the financial industry is controllable."

Advisers to Evergrande bondholders have said they have had "no meaningful engagement" with the company.

Questions are also being raised about the role of the global accounting firm PwC in the Evergrande demise. The *Financial Times* has reported that last week Hong Kong's Financial Reporting Council had raised "questions" about a PwC audit of the company in 2020 and for the six months to the end of 2021.

The PwC audit signed off on Evergrande as a "going concern"—meaning it had the resources to continue operating for another 12 months. The Hong Kong authority said it would investigate whether PwC's audit "complied with the applicable auditing standards."

The problems of the Chinese real estate sector do not stop with Evergrande. Property developer Fantasia has defaulted on a $206 million bond and another company, Sinic Holdings, defaulted on payments on $246 million worth of bonds that were due on Monday.

Recent data shows a downturn in the property market. Bloomberg reported that the combined sales of the country's top 100 property developers fell by 36 percent year-on-year in September, normally a peak month for home sales.

In the first nine months of the year, according to official figures released this week, new construction starts measured by floor area fell by 4.5 percent in the first nine months of the year compared to a fall of 3.2 percent drop in the January to August period.

Despite the problems arising from its economic restructuring program—above all the effort to rein in debt—the Chinese government appears determined to continue.

This is indicated by the publication last Friday in Qiushi, a journal of the Chinese Communist Party, of an extended version of President Xi's policy address in August on the need to achieve "common prosperity" and promote wealth redistribution.

In an indication of what the CCP regards as being at stake, Xi said that in order to "continuously consolidate the Party's foundation for holding power over the long term, we shall focus on driving common prosperity for all."

"At present income inequality is a prominent issue around the globe. The rich and the poor in some countries are polarised with the collapse of the middle class. This has led to social disintegration, political polarisation and rampant populism—indeed, the lessons [for us] are profound! Our country must resolutely guard against polarisation, drive common prosperity, and maintain social harmony and stability."

Xi said it had to be clearly recognised that "the problems of unbalanced and inadequate development in China remains prominent with wide gaps between urban and regional development and income distribution."

Xi's remarks are a clear expression of the fact that the promotion of capitalist development by the regime is giving rise to social tensions threatening its stability. These tensions are only going to increase if the economic slowdown, indicated by the latest data, is a continuing trend.