Significant signs of slowdown in Chinese economy

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When China scrapped its zero-COVID policy at the end of last year under pressure from the major powers and global corporations, they anticipated its economy would sharply rebound providing an impetus to global growth. The latest Chinese economic data reveal that is not taking place.

Figures released earlier this week showed that both industrial output and consumer spending were well short of expectations.

Industrial production increased by 5.6 percent, but this was far below the forecast of a 10.6 percent rise. Coming off a low base because of the decline in spending due to anti-COVID measures, consumer spending was up by 18.4 percent year on year, but also below forecasts.

One of the most significant figures was the rise in youth unemployment. For those aged between 16 and 24 it hit a new record of 20.4 percent, surpassing the previous record of 19.9 percent last summer.

The overall jobless level fell to 5.2 percent but the rise in youth unemployment indicates that jobs cannot be found for an increasing number of young people graduating from universities and colleges.

The rise in youth unemployment—and what this indicates for the future—is clearly of concern for the government of Xi Jinping because it bases its political legitimacy on the assertion that it will continue to ensure economic growth and rising living standards.

At a briefing on the latest data, National Bureau of Statistics (NBS) spokesperson Fu Linghui said: “More efforts need to be made to stabilise and expand employment for young people.”

The NBS has pointed to both global and domestic conditions as weighing on the economy. It said, “the global environment is still complex and grim, and domestic demand still looks insufficient” and that the economy’s “internal drive for rebound is still not strong.”

Figures on inflation underscore this assessment. In contrast to the situation in many other parts of the world, China’s consumer prices rose by only 0.1 percent in the year to April, the lowest increase since February 2021. Producer prices have also fallen for seven consecutive months, giving rise to concerns that a deflationary environment could be setting in.

According to a report in the *South China Morning Post* (SCMP), deflation worries have “deepened as seven provinces and major cities, including Shanghai, Henan, Liaoning and Shanxi, reported year-on-year contractions in consumer prices last month.”

The property market and real estate development, which have been key drivers of the Chinese economy for more than a decade, are also an area of concern. Property investment was down 6.2 percent for the year so far, worse than the expectation of a 5.7 percent fall.

The longer-term trend is also down. According to calculations by Bloomberg, while property sales rose by 13.2 percent year-on-year to April, investment in the sector contracted by 16.2 percent for the year and construction of new homes continued to fall.

Trade figures are pointing in the same direction and highlight the impact of the worsening global economic outlook. The International Monetary Fund has forecast that apart from the contraction in 2008?2009 and the recession induced by the onset of COVID in 2020, this year will see the lowest global growth this century.

Chinese exports rose by 8.5 percent last month. While this was higher than expectations, it was well down on the 14.8 percent increase in March.

The worsening situation was more clearly reflected in the falls in imports, which to a great extent comprise components and raw materials for future Chinese production. They shrank by 7.9 percent, worse than expected, the result of a slowing global economy.

The demand for smartphones, integrated circuits, and computers, assembled from imported components, has

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been falling for months, an expression of weakening global demand.

Iris Pang, chief economist for Greater China and the financial firm ING commented to the SCMP: “It seems increasingly clear that the global economic slowdown is weighing on China’s exports. Falling imports—an input for future exports—suggest a further deterioration of exports in the coming months is highly likely.”

She predicted that in response the government would step to support manufacturing employment through stimulus measures.

The April official manufacturing purchasing managers’ index—an indicator of future activity—fell to 49.2. after remaining above the 50-point mark separating expansion and contraction for the first months of the year.

Comments by financial analysts all pointed to a significant slowdown in the Chinese economy.

According to Bruce Pang, chief economist for Greater China at Jones Lang Lasalle, the weaker-than-expected data showed “how difficult it is to keep the growth engine running after restarting it.” While there would be a growth of activity in the second quarter “on the back of a lower base”—the comparison with last year—it would be lower than the first quarter of this year “as the recovery is losing steam.”

Xiangrong Yu, chief China economist at Cito, wrote in a note: “China’s activity indicators missed expectations by a wide mark even with a favourable base” and with China now out of the “sweet spot” of reopening, the hope of further repair in sentiment “could be diminishing in the absence of decisive government actions.”

Julian Evans-Pritchard of Capital Economics suggested the reopening recovery still had some way to go but it was “likely to fizzle out in the second half of the year” because of unwinding fiscally, lower credit growth, the weakening housing market, and the impact of global demand on Chinese exports.

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