China’s Economic Growth Hits 27-Year Low as Trade War Stings

By Keith Bradsher

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BEIJING — China’s growth fell to its slowest pace in nearly three decades, officials disclosed on Monday, as a resurgence of trade tensions with the United States and lingering financial problems take an increasing toll on one of the world’s most vital economic engines.

Chinese officials said the economy grew 6.2 percent between April and June compared with a year earlier. While such economic growth would be the envy of most of the world, it represented the slowest pace in China since the beginning of modern quarterly record-keeping in 1992. That marks a significant slowdown from earlier this year, when growth came in at 6.4 percent, matching a 27-year low reached during the global financial crisis a decade ago.

Premier Li Keqiang set a target in March for economic growth to be between 6 and 6.5 percent this year. The figures on Monday fell within that range.

But much of the growth in the quarter may have taken place in April and early May, when public confidence was higher because of a tax cut in March and heavy infrastructure spending as spring began. Trade talks broke down on May 10 and President Trump raised tariffs sharply on Chinese goods, a step that damaged consumer confidence within China. Growth early in the quarter also would have taken place before the contentious government takeover of a bank in late May hurt financial confidence.
Chinese officials on Monday acknowledged that conditions are becoming increasingly difficult.

“Economic conditions are still severe both at home and abroad, the global economic growth is slowing down, the external instabilities and uncertainties are increasing, the unbalanced and inadequate development at home is still acute, and the economy is under new downward pressure,” said Mao Shengyong, a spokesman for China’s National Bureau of Statistics, in a news conference.

Mr. Mao downplayed the effects of trade, saying China’s economy increasingly relies on consumption.

But President Trump, in a Twitter message on Monday about the economic data, said that tariffs on Chinese goods “are having a major effect on companies wanting to leave China for non-tariffed countries.”

“Thousands of companies are leaving,” he said. “This is why China wants to make a deal with the U.S.”

Monthly economic data, particularly for imports, suggests that the second quarter started strong but then slowed. “There was certainly a surge in activity through April,” said George Magnus, a longtime specialist in the Chinese economy who is now at Oxford University. “Something happened in May.”
The number may also understate the extent of the slowdown. Economists widely doubt the veracity of the overall Chinese growth figure, which shows far more stability than comparable numbers from the United States and elsewhere.

A few sectors of the Chinese economy are doing fairly well. The strongest sector appears to be the construction of infrastructure, much of it paid for with money borrowed by local, provincial and national government agencies. Retail sales

A used car dealership in Beijing. Auto sales have slumped badly. Lam Yik Fei for The New York Times
ticked up as well.

The biggest drag on the Chinese economy lies in trade, which grew powerfully over the past three decades but has stopped rising in recent months. Exports dipped 1.3 percent in June from a year earlier, the government said on Friday, and imports fell 7.3 percent.

While the trade war has hurt American purchases from China, economic weakness in Europe and many Asian countries has caused overseas demand to weaken far more broadly than just in the United States. Last week, Singapore unexpectedly announced that its trade-dependent economy had shrunk at an annualized rate of 3.4 percent in the second quarter.

“The economy is definitely in a broad decelerating trend because the global economy is slowing down, so exports are slowing down,” said Larry Hu, the chief China economist at Macquarie Capital, the investment banking unit of a big Australian multinational.

China’s troubles have their roots not just in trade but also in a debt-laden financial system that has been shaken by a series of large shocks in the last few weeks.

On May 24, Chinese financial regulators took over Baoshang Bank in Inner Mongolia, a small institution that is part of a financial empire previously controlled by Xiao Jianhua, a financier who disappeared into the custody of government investigators two years ago. Regulators tried to force a few of its largest creditors to accept losses rather than bailing them out as a way to teach financiers to be more careful about where they put their institutions’ money.

Problems in some of the shadowy corners of China’s financial system have also frightened investors. China’s shadow banking system plays an important role in funding property projects and other private business ventures. But managers of
some riskier investment products have had a hard time making high-interest payments to investors in recent weeks. In some cases they have also had trouble even repaying principal.

These incidents have set off a broader shift in recent weeks away from riskier investments. Institutions and households alike have been putting money into larger, more stable financial institutions run by the central government.

Big state-controlled banks have steered the bulk of their lending to state-owned enterprises. That long-running trend has hurt the real estate market and the broader private sector.
Regulators have repeatedly urged the big banks to lend more to small businesses and the private sector, and Mr. Li, the premier, did so again on July 2. But these exhortations have had limited effect so far. Bank lending officers worry that they might be blamed, or even investigated for corruption, if they extend large loans to struggling private businesses that then default as the economy weakens.

Andrew Collier, the managing director and founder of Orient Capital Research, a Hong Kong investment and economic research firm, said that troubles at Baoshang and in the shadow banking system had rattled financial markets but seemed to have been contained, at least so far.

“The Chinese central bank is watching carefully, and for now will use quiet means to avoid any shaky financial shenanigans,” he said.

Economists are watching for other potential warning signs, like inflation. Price increases have been tame, according to official statistics. But many in China complain that the actual cost of living is rising fast, particularly for food but also for rent and other daily expenses.

Industrial production has weakened this year, as has private sector investment. Housing sales have slowed, as buyers look harder for bargains but sellers have been reluctant to cut prices. Car factories have sharply reduced output in response to weak sales, although there were signs last month that consumer interest in buying luxury automobiles may finally be stabilizing.
The long-running trade war has prompted many multinational companies to look at ways to shift supply chains elsewhere. But many continue to invest in China to supply China’s own market as well as others, especially in Asia.

“The Chinese government will continue to work hard to create a more stable, fair, transparent and predictable investment environment,” Gao Feng, spokesman for the Ministry of Commerce, said at a news briefing on Thursday. He later added that “China has not experienced large-scale withdrawals of foreign capital.”

For now, though, the economy keeps running to a considerable extent because the Chinese government is pumping huge sums of money into infrastructure. It is building high-speed rail lines, immense highway bridges, ports and other facilities to connect ever smaller and less affluent cities and towns to the rest of the country.

That infrastructure is making it easier to do business and move around even in some of the poorest and most remote areas of China. But bankers and economists worry about whether some of these investments will ever earn enough of a return to cover their cost.

“There’s a very weak commercial basis,” Mr. Magnus said, “for this credit-fueled infrastructure spending.”

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