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ECONOMY

GDP SLUMP MAKES GROWTH TARGET 'NEAR IMPOSSIBLE'

China's economy narrowly misses contraction in second quarter, putting Beijing's annual goal out of reach without significant stimulus, experts say

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China's economy narrowly escaped a contraction in the second quarter, but still faces a near "impossible" task to meet Beijing's annual growth target amid concerns over global inflation and recession.

The world's second-largest economy only grew by 0.4 per cent between April and June, falling short of expectations and dropping to the second-lowest pace on record following a contraction of 6.8 per cent in the first quarter of 2020.

China is still seemingly better positioned to mount its recovery, helped by its low inflation rate compared to the United States and Europe, although both the Shanghai and Hong Kong stock markets closed down yesterday due to weak investor sentiment, while the yuan weakened to 6.7670 against the US dollar in onshore trading.

But potential disruptions from its zero-Covid policy and a contracting property market at home, coupled with external headwinds, threaten Beijing's "around 5.5 per cent" annual gross domestic product (GDP) goal.

"It implies that GDP growth has to accelerate to over 7 per cent in the second half to deliver an annual growth of 5 per cent for the whole year this year," said Larry Hu, chief China economist at Macquarie Capital.

"It is impossible without a significant escalation of policy stimulus from the current level."

Given the sharp slowdown from 4.8 per cent growth in the first quarter, China's economy grew by 2.5 per cent in the first half of the year.

He Jun, a senior analyst with Anbound, a multinational independent think tank, said China's economy has failed to impress so far this year compared with the recovery in India and Vietnam, but as the largest emerging economy, it would still have an impact on global growth.

He said the economy could not afford another round of strict coronavirus-induced lockdowns similar to those seen in the first half of the year. "If that happens again in the second half of the year, the economy for the whole year will really collapse," he said.

National Bureau of Statistics spokesman Fu Linghui, though, highlighted indications of a recovery in June after Beijing rolled out a series of support measures.

"It is challenging to achieve the expected economic growth target for the whole year," Fu said.

The recovery in June was partially helped by the reopening of Shanghai, which was locked down in April and May. But the financial hub saw its economy contract by 13.7 per cent in the second quarter, making it the worst performing of China's 31 administrative regions. Beijing also reported a fall of 2.9 per cent.

In other figures released yesterday, industrial production, a gauge of activity in the manufacturing, mining and utilities sectors, grew by 3.9 per cent in June from a year earlier, up from 0.7 per cent growth in May.

2.5%

China's economy grew this much in the first half of the year following the sharp slowdown in the second quarter

Fixed-asset investments – which Beijing has relied heavily on this year to stem downturn risks – grew by 6.1 per cent in the first half of the year, although a subindex for property fell by 5.4 per cent.

Retail sales rose by 3.1 per cent year on year in June, reversing a fall of 6.7 per cent in May, but still lower than the 12.1 per cent growth seen a year earlier.

"The strong pickup in activity in June reflects a one-off boost from reopening and the recovery will almost certainly slow in the coming months," said Julian Evans-Pritchard, senior China economist at Capital Economics.

"Policy stimulus is being stepped up, but remains more restrained than in 2020 despite a less favourable economic backdrop."

Wang Jun, a member of the China Chief Economists Forum, urged stronger and looser policies, including issuing up to 2 trillion yuan (HK$2.32 trillion) of special treasury bonds, while also raising the fiscal deficit ratio above the planned 2.8 per cent.

"All depends on the Politburo's judgment on the situation later this month," he said. "It has to adjust either the annual growth target or the toolkit."

Premier Li Keqiang has long warned against all-out stimulus, preferring structural tools and targeted support after the State Council unveiled a 33-point package in late May which was focused on helping small businesses and infrastructure investment.

"We need to make concerted efforts to consolidate the foundation for economic recovery in the third quarter, and bring economic operation back on track as soon as possible," Li said earlier this week.

Zhang Yansheng, chief researcher with the China Centre for International Economic Exchanges, said a major challenge was weak domestic demand.

"The top priority in the second half should be business resumption [of the service sector and construction projects], and how to coordinate scientific pandemic control and economic recovery," he said yesterday.

"Internationally, if there are stronger efforts to curb inflation, the world economy could inevitably fall into a recession. Which will be the next after Sri Lanka? Is there a chain reaction?"

The International Monetary Fund on Tuesday cut its US economic growth forecast to 2.3 per cent from 2.9 per cent, citing record inflation and the US Federal Reserve's aggressive interest rate increases.

The world's largest economy reported a 40-year high inflation rate of 9.1 per cent in June, strengthening market expectations for a 75 basis points rate increase later this month.

Ding Shuang, chief Greater China economist at Standard Chartered Bank, believes China may have to rely more on domestic demand, estimating more local bond issuance to fund infrastructure construction.

"China will not change its monetary and fiscal policies despite the Fed's tightening approach," said Ding, who predicted China's economy would grow by 4.1 per cent this year.