



**PIIE** PETERSON INSTITUTE FOR  
INTERNATIONAL ECONOMICS

# Near-term Challenges for the Chinese Economy

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PIIE Fall 2022 Global Economic Prospects

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**China's short**-run  
performance:

Stability above  
growth

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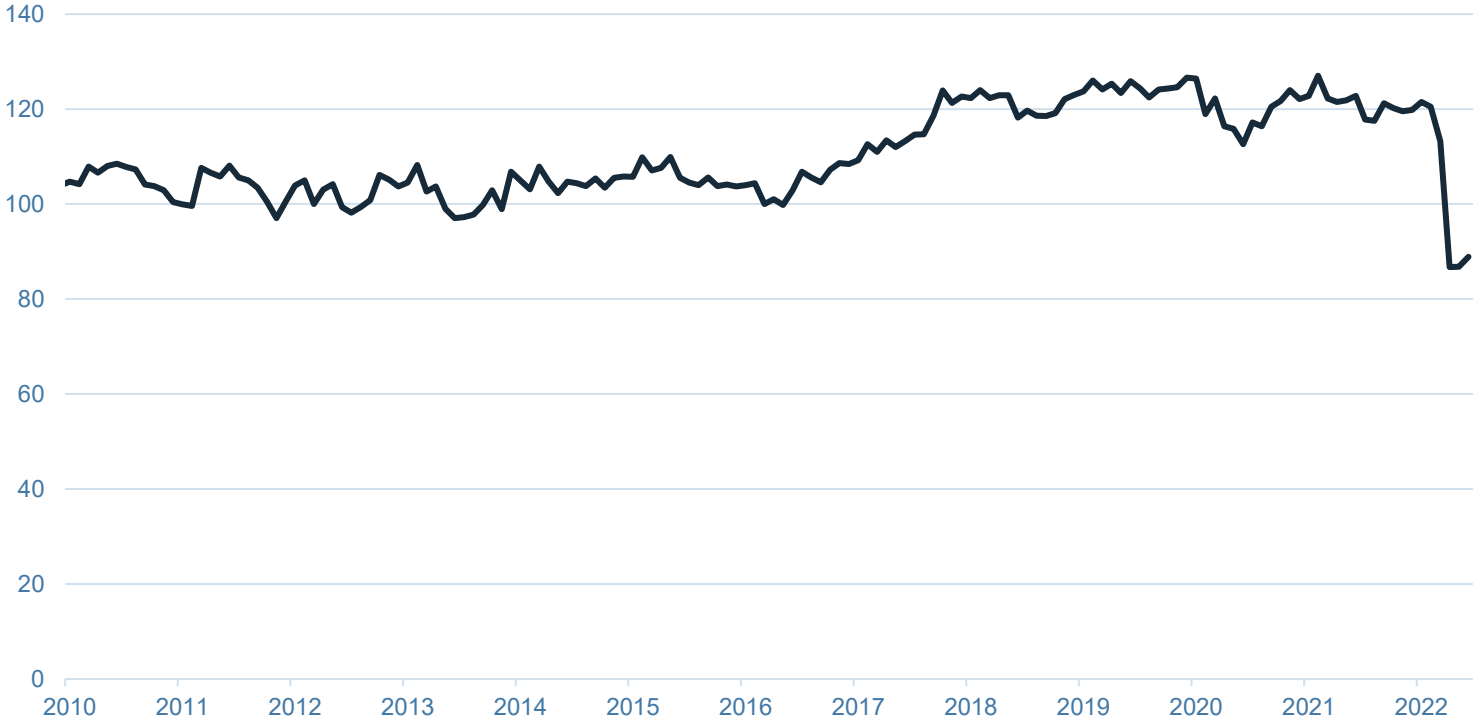
In the annual government report delivered by Premier Li Keqiang on March 5 at the National **People's Congress, China's leaders pledged to “maintain social stability” for the Communist Party's national congress, a five-yearly power transition set to take place on October 16th.**

The Shanghai Covid lockdown had just begun. It would last for two months. By April, 60% of **China's 100 largest cities had some form of mobility restriction or lockdown.**



# Consumer confidence fell to 12 year low

## China Consumer Confidence Index



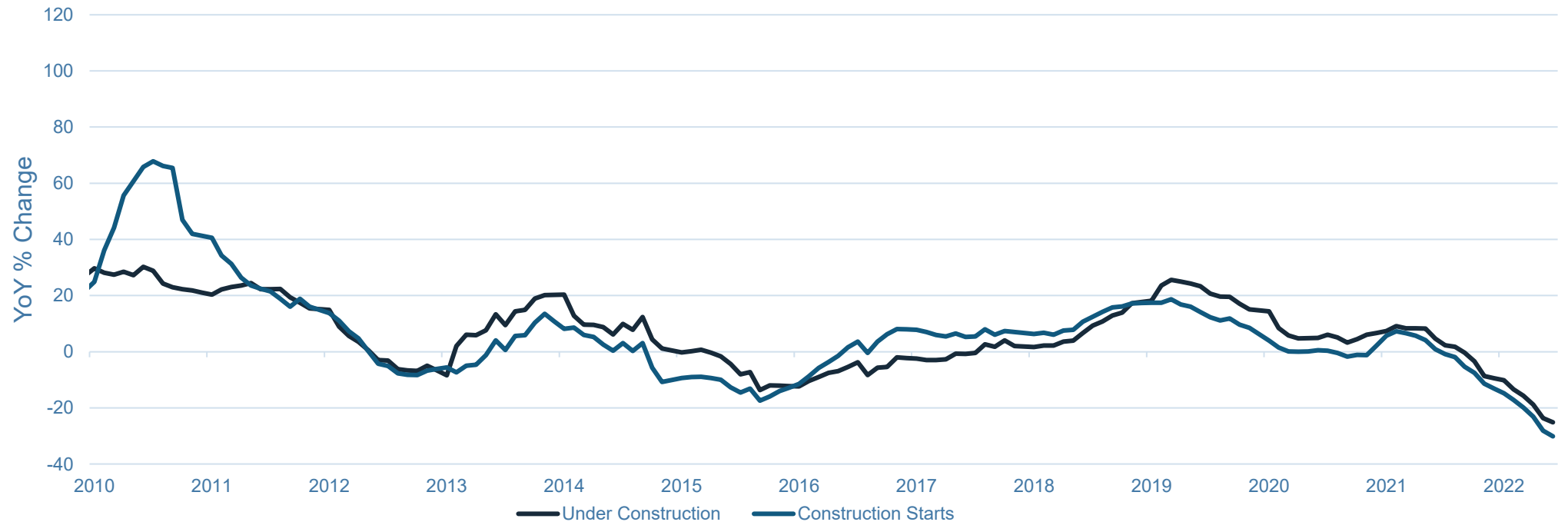
Source: Chinese National Bureau of Statistics, September 2022

**China's property bubble was pricked by the “three red lines”** -- financial regulatory guidelines introduced in August 2020 to reduce leverage in the property sector.

In mid 2021, the second largest developer, Evergrande, missed bond payments and was declared in default by S&P Global. Housing starts have fallen since then.

# Rate of new housing starts has fallen since 6/21

## Chinese Housing Sector Activity

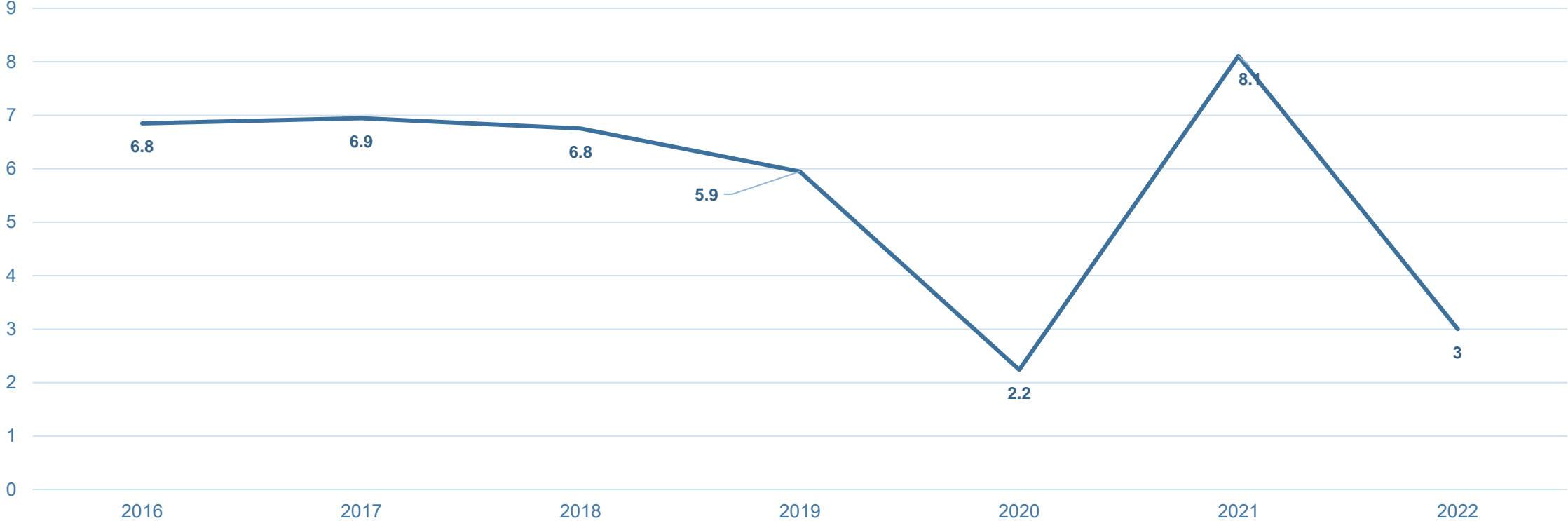


Source: Chinese National Bureau of Statistics, September 2022

# China's growth expected to fall to 3% in 2022

## China's Real GDP Growth

Annual percent change

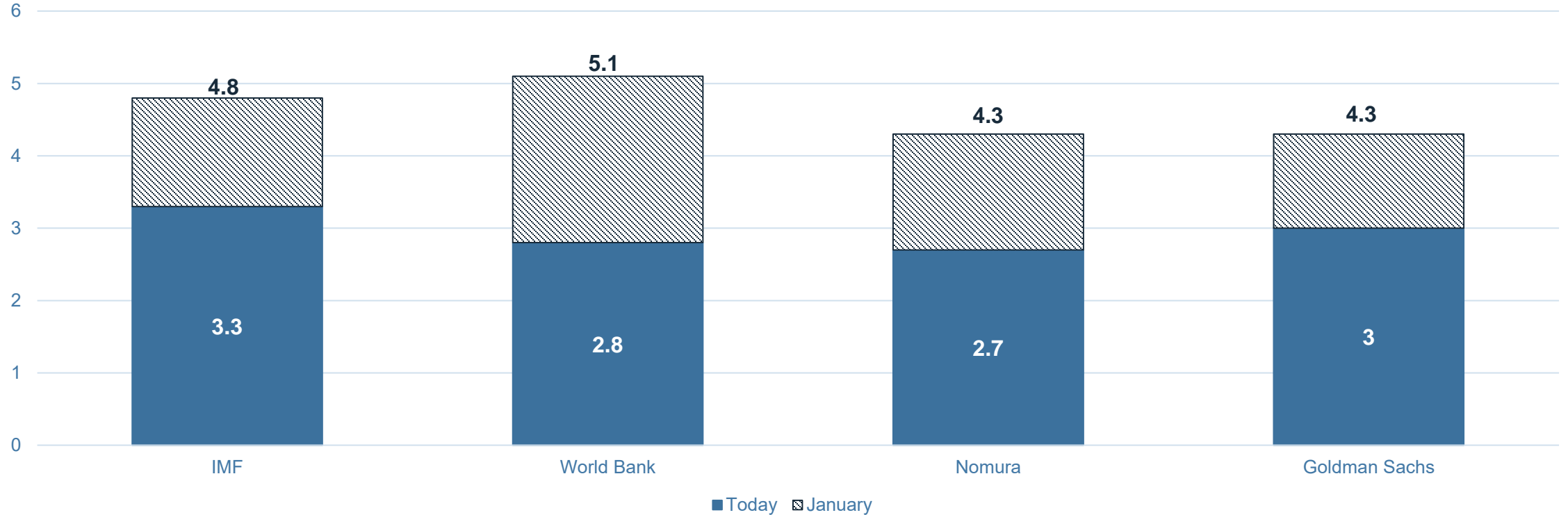


Note: Underlying data uses 1978 as the base year. Growth rate for 2022 is an estimate, drawn from PIIE Fall 2022 Global Economic Prospects  
Source: China National Bureau of Statistics; calculations by PIIE

# Economic slowdown not anticipated in January

## Estimated Chinese GDP Growth Rates from Major Forecasters

Percent, January 2022 vs. Today

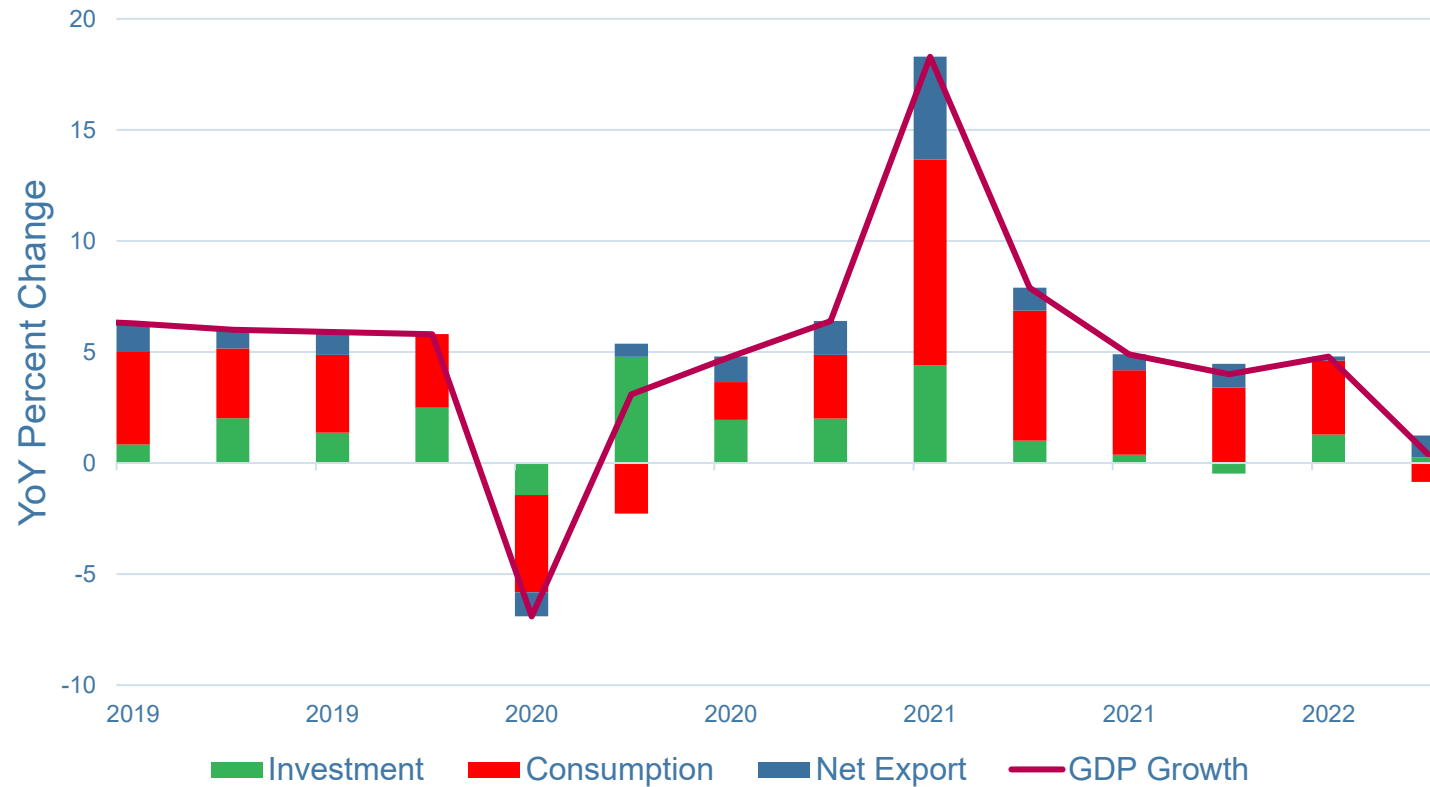


Source: Various reports from listed institutions



# Q2 Chinese growth driven by net exports

## Contributions to GDP Growth, Quarterly



Source: Chinese National Bureau of Statistics, September 2022

**China's next**  
challenge:  
revive growth

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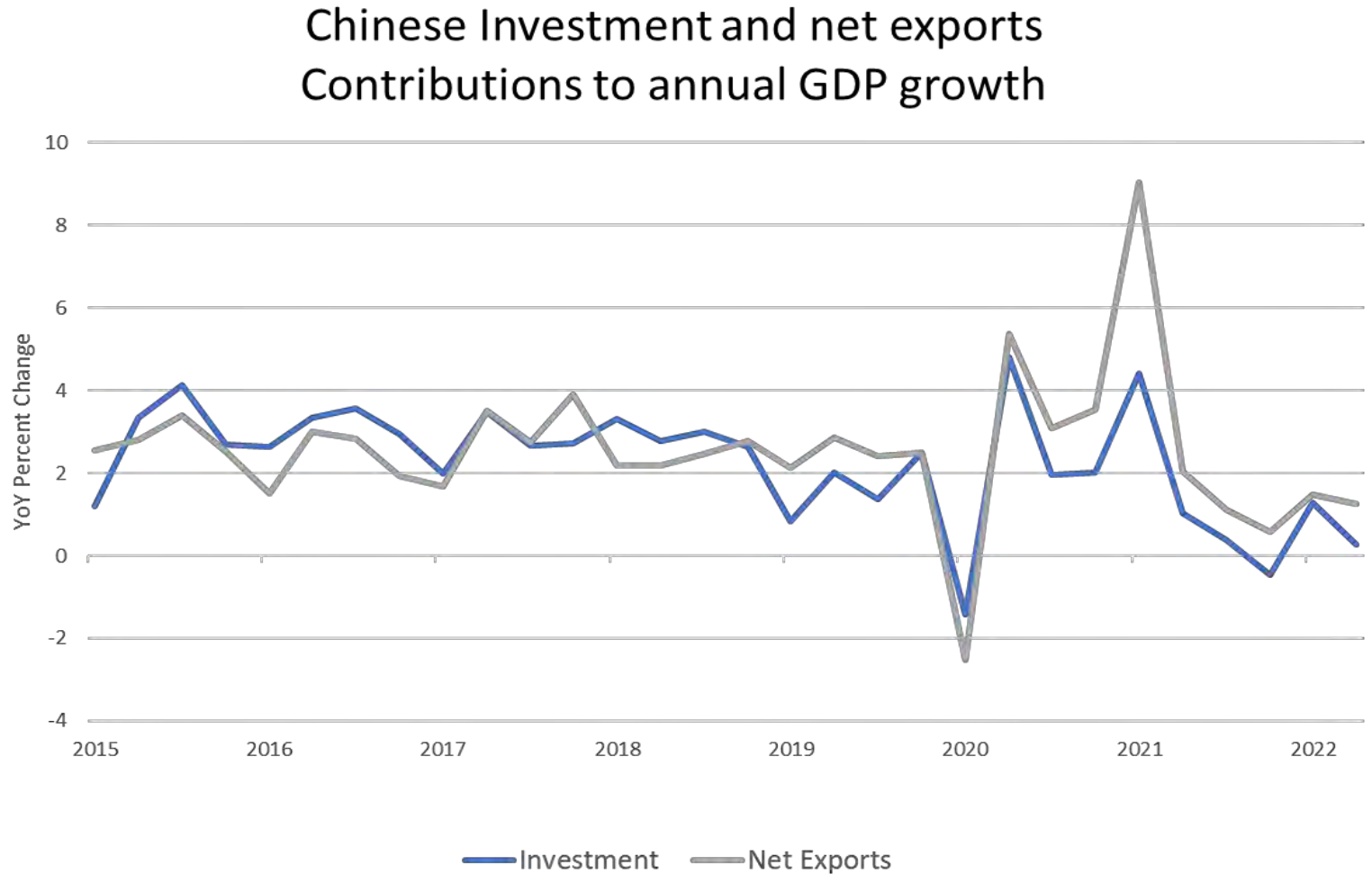


# Stabilization policy to the rescue?

- **Fiscal policy** tools underdeveloped; China has thin safety net and has been unwilling to provide direct household support.
- Traditional reliance on **government investment** challenged by local debt level.
- **Monetary policy** main tool of stabilization but rising interest rates in the US limit Chinese options.

# Challenge 1: Adjust to a slowing global economy

- WTO predicts world trade will grow only 1% in 2023, down from 3.4% likely in 2022.
- US-China tech trade tensions rising.
- Will investment be used to fill the gap?



Source: Chinese National Bureau of Statistics, September 2022

## Challenge 2: Reduce Covid policy uncertainty

Current zero covid policies unhinged from best practices.

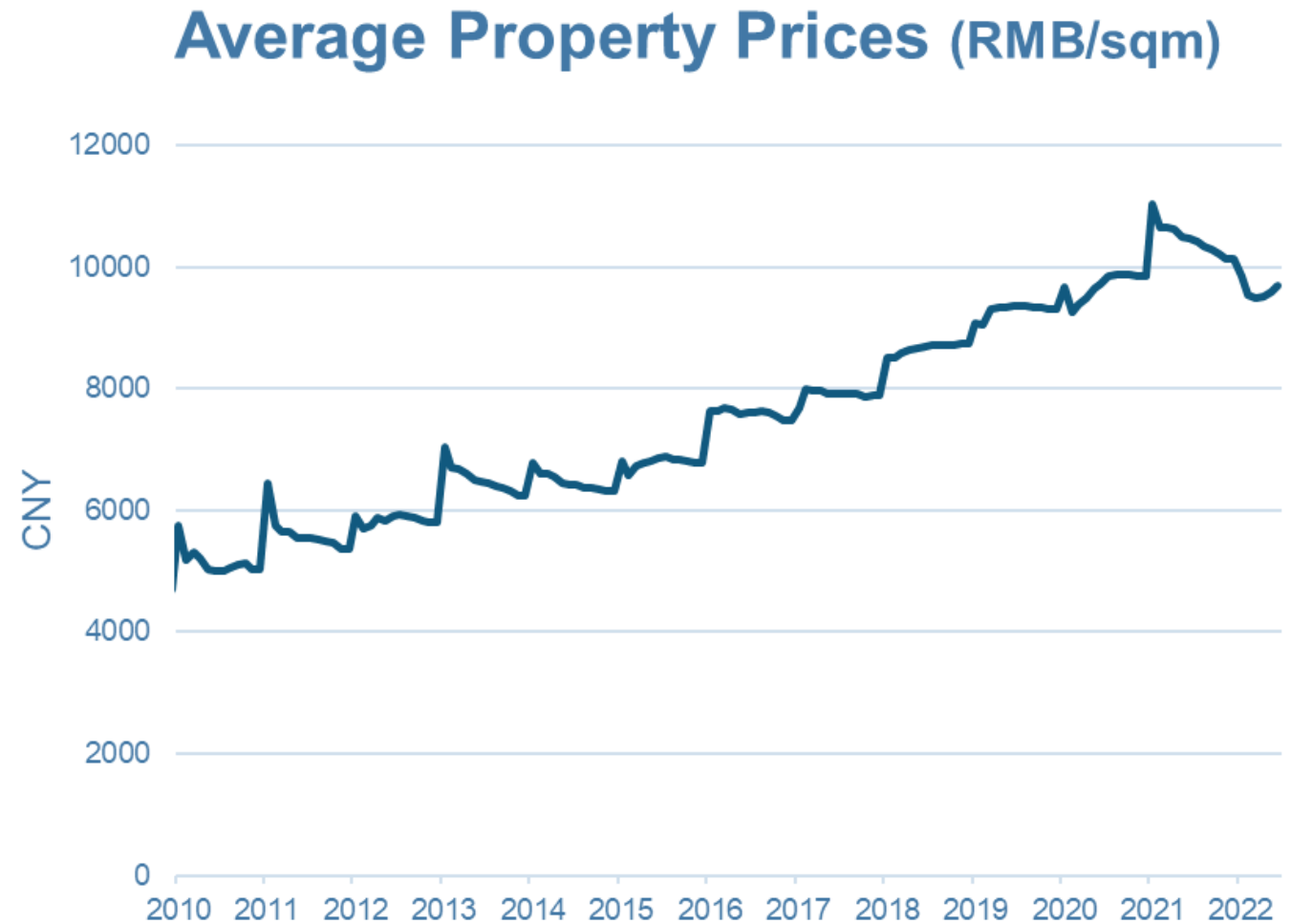


Uncertainty affecting consumer spending. Cited by foreign investors as reason to invest elsewhere. As yet, no signals, no off-ramps in sight.

## Challenge 3: Stabilize property sector

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- New home prices have fallen for 3 straight months.
- Central government bailout support could reach \$500 billion.
- Stabilize without falling back on excess reliance on sector.



Source: Chinese National Bureau of Statistics, September 2022



Summary:

**China's economy has slowed as a result of** consumer and business responses to Zero-Covid and property development policies.

The Chinese government must adjust its public health and regulatory policies to revive consumption and productive investment.



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