Near-term Challenges for the Chinese Economy

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PIIE Fall 2022 Global Economic Prospects
China’s short-run performance: Stability above growth
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

- 2016: 6.8%
- 2017: 6.9%
- 2018: 6.8%
- 2019: 5.9%
- 2020: 2.2%
- 2021: 8.1%
- 2022: 3%

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

- **IMF**: 3.3% today, 4.8% January
- **World Bank**: 2.8% today, 5.1% January
- **Nomura**: 2.7% today, 4.3% January
- **Goldman Sachs**: 3% today, 4.3% January

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
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

- 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.
Near-term Challenges to the Chinese Economy

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