



More Slowdown in China

Nicholas R. Lardy assesses the latest Chinese economic output numbers, which show that a drop in exports and housing investment are contributing to slower growth.

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Steve Weisman: The latest economic indicators from China indicate, as expected, that their economy is slowing down. But how much is it slowing down? Nicholas Lardy, Senior Fellow at the Peterson Institute for International Economics is here with me, Steve Weisman, to talk about the numbers and their context. Nick, first, what did the numbers say?

Nicholas Lardy: The numbers showed that in the second quarter of this year the Chinese economy grew at seven 7.6 percent, which is down about a half percent from the pace of growth in the first quarter this year and down almost two full percentage points from the growth in the second quarter of last year.

Steve Weisman: How significant a slowdown is that? Some say that a slowdown isn't necessarily a bad thing given concerns about over-heating a year or two ago.

Nicholas Lardy: It's not necessarily a bad thing. Indeed, the Chinese government has said that their goal for growth is now down more than the 7.5 percent range, rather than the 8 percent that they used to talk about. And they have indicated that they are more concerned about the quality of growth, the sustainability of growth, rather than putting so much emphasis just on the headline number.

So you could argue that this is fully consistent with what they're trying to achieve. On the other hand, it's not clear that there's going to be a leveling off at this pace or some slight pickup going forward. Many of the investment banks think that the economy will pick up in the second half and it will end up growing at something close to 8 percent for the year. But when you start looking at the causes of the decline, that seems at least to me to be far from certain. The economy could continue to slow from here. I think if it did so, there would be increasing concern in the Chinese leadership.

Steve Weisman: Chinese export dependence must be a factor, with U.S. and Europe experiencing slow or anemic growth. What contributing factor is that?

Nicholas Lardy: Yes, weak exports are certainly slowing China's growth somewhat. But even more important, I believe, is the slowdown in the property sector. Investment in property is currently running at about 16 percent in nominal terms, which seems quite high.

Steve Weisman: Right.

Nicholas Lardy: But it's half the pace that was growing at a year ago. In other words, this economy has generated very high growth in large measures through having super elevated growth of investment and property normally 25-30 percent per year.

Steve Weisman: Which was dangerously high, wasn't it?

Nicholas Lardy: Dangerously high. It has now come down. That has been partly the result of government policy, but it's very difficult to be confident about what will happen going forward. And some of the forward-looking indicators like, for example, the amount of new construction that has started up, that's down about 12 percent in the first half of this year, which is a very sharp decline.

So investment is still running at a reasonable rate. But developers are finishing up projects they started a long time ago and they're not starting so many new projects. If that situation continues for a few more quarters, then property could become an even bigger drag on economic growth.

Steve Weisman: What does this portend for the leadership change later this year?

Nicholas Lardy: I think it presents some rather large challenges. If the growth rate continues to be soft in the third and fourth quarter when the leadership transition is underway, I think it will raise very, very serious concerns. I think as I've said before, it's one thing to go out on a weak note, but the leaders don't want to come in is struggling to try to keep growth at an adequate pace.

Steve Weisman: Does the focus on the economy by the outgoing and incoming leadership make it easier or harder for the U.S. to gain Chinese cooperation on other issues, like Iran for example?

Nicholas Lardy: I think to a considerable degree these things operate on separate tracks. Even though they're having some difficulties on the economic front, they're still pursuing what they see to be their national interest on major Forum Policy issues like the South China Sea, Iran and so forth.

Steve Weisman: The South China Sea was the subject of the ASEAN meeting in the last few days. Were there any interesting takeaways there?

Nicholas Lardy: I think the main takeaway was that no progress was really made on resolving the various competing claims that China and so many other countries have in the region.

Steve Weisman: Despite a fairly robust diplomatic effort by the United States.

Nicholas Lardy: The U.S. has all along said that it favors a negotiated solution and whatever all parties can agree to. But we don't really have much leverage to push the ball down the field on this one.

Steve Weisman: Thank you, Nick.

Nicholas Lardy: Thank you.

