China's growth could slip below 6 per cent, analysts warn, as trade war takes toll

By Kevin Yao and Stella Qiu
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China's economic growth risks slipping below the lower-end of Beijing 2019 target of 6 per cent in the third quarter or over the next year, analysts warn, but government economists are slightly more optimistic as they expect stimulus to help stave off a sharper slowdown.

Economists believe China's economic growth likely cooled further this quarter from a near 30-year low of 6.2 per cent in April-June, but they differ on whether the slowing trend could persist despite a raft of government policy measures.

Economic activity worsened in August, with growth in industrial production at its weakest in 17-1/2 years, as the U.S.-China trade war dented business confidence, investment and domestic consumption.

"There is a risk for Q3 GDP to be below 6.0 per cent," said Zhaopeng Xing, an economist at ANZ.

"But we expect September will see a jump in fixed-asset investment because many gift projects for 70th anniversary will be confirmed to be in the statistics at the quarter end. So we maintain our forecast of Q3 GDP 6.1 per cent," he told Reuters.

UBS expects China's economic growth to slow to 5.5 per cent in 2020 from expected pace of 6.0 per cent in 2019. Growth will slow further in the fourth quarter of 2019 and the first quarter of 2020 due to the impact from higher U.S. tariffs, UBS's China economist Tao Wang said.

Beijing is targeting 6 per cent-6.5 per cent growth for 2019, and government analysts expect the stimulus measures will prop-up the economy.

"We forecast third-quarter growth would be 6.1 per cent, before recovering somewhat in the fourth quarter, to 6.2 per cent," said Zhang Yuxian, head of economic forecasting department of State Information Center, a top government think tank.

"This round of polices, including fiscal, monetary and structural policies, will definitely be reflected in the fourth quarter, otherwise such policies will be ineffective," Zhang told a group of foreign reporters late Wednesday.

That would ensure the economy will grow between 6.2 per cent and 6.3 per cent this year, he said, in line with the government target. Chen Wenling, chief economist at China Center for International Economic Exchanges (CCIEE), a well-connected think tank, told reporters that she expected growth to be around 6.2 per cent this year and around 6 per cent in 2020.

Zhang Yansheng, another economist at CCIEE, said he cannot rule out the possibility that quarterly growth could dip below 6 per cent in the future, but he did not specify a time frame.

More pressure on jobs

Despite a slew of growth-boosting measures since last year, the world's second-largest economy has yet to stabilize. That explains why most private economists remain sober about China's growth outlook as demand at home and abroad weakens.

Analysts say Beijing needs to roll out more stimulus to ward off a sharper slowdown as the protracted trade war with the United States takes a toll on businesses and consumers.

Room for stimulus is limited as policy-makers worry about rising debt risks and property bubbles, although accelerating consumer inflation has yet to become a big concern, policy insiders said.

The market is watching whether the central bank, which has cut reserve requirements seven times since early 2018, will lower its Loan Prime Rate (LPR) on Friday.

Louis Kuijs at Oxford Economics forecast China's GDP to grow 6.1 per cent this year and 5.7 per cent in 2020.

Employment pressures have been partly offset by a more resilient services sector and a shrinking pool of workers as a result of the country's demographic changes, analysts said.

Chen at CCIEE said the trade war has hit the factory jobs sector, although the overall employment remains steady.

"Some small and medium-sized firms have gone bankrupt due to the impact from the Sino-U.S. trade war," she said, citing a private survey that some 4 million jobs have been affected.

China's nationwide survey-based jobless rate was at 5.2 per cent in August, easing slightly from July, according to government data.

UBS's Wang also cautioned about the jobs outlook.

"We also see more pressure on employment in end 2019 and early 2020 after the last tranche of tariffs take effect. This, plus the negative impact of trade war and slowing property activities, will likely depress consumption growth," Wang said.