Economics

# China's Economic Growth Comes in Worse Than Expected, Adding Pressure on Xi

- GDP expansion slowest in five quarters as demand struggles
- Third Plenum meeting in focus after disappointing data


China's Growth Figures 'Disappointing,' Hang Seng Bank Says *Source: Bloomberg*

By Bloomberg News
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China's growth unexpectedly slowed to the worst pace in five quarters as faltering consumer spending undermined an export boom, putting pressure on policymakers to step up support at a twice-a-decade economic meeting this week.

Gross domestic product expanded 4.7% in the second quarter from the same period a year earlier, weaker than all except one of 28 estimates in a Bloomberg survey of economists. Retail sales rose at the slowest monthly pace since December 2022, showing a flurry of government efforts to juice confidence have done little to reinvigorate the Chinese consumer.

President Xi Jinping's bet on manufacturing and high-tech sectors to propel China's growth in the post-pandemic era got a boost, as industrial production held up. But that strategy is already facing geopolitical headwinds. Those risks could escalate after former US President Donald

Trump, who has threatened to raise tariffs on surging Chinese imports if reelected, galvanized his supporters after being shot in the ear at a campaign rally.

“The increasing likelihood of Trump 2.0 means that China will need additional policy efforts to boost its domestic demand in a timely manner, as external demand downside risks loom,” said Xiaojia Zhi, an economist at Credit Agricole CIB in Hong Kong.

The data published Monday fueled calls for policymakers to boost domestic spending as Xi convened the twice-decade Third Plenum in Beijing to set long-term economic and political policies.

The four-day conclave this week will probably focus on “promoting high-tech and manufacturing as the path to higher productivity and sustained growth in the longer term,” Duncan Wrigley, chief China economist at Pantheon Macroeconomics, wrote in a note Monday.

“Sweeping reforms to create a consumption-driven growth model, such as household residency reform or building a universal welfare system, are unlikely,” he said.

Chinese stocks in Hong Kong extended their declines after the disappointing data, with the Hang Seng China Enterprises Index closing 1.7% lower. The People’s Bank of China earlier in the day held its benchmark rate steady amid concerns about capital flight, pressure on bank profits and a need to defend the yuan.

Luxury retailers are feeling the pain from weak demand in China. Swatch Group AG’s shares fell the most in four years after sales and profit plunged amid a China-led slowdown, part of a wider selloff in shares of top European brands.


WATCH: China's Great Slowdown

China’s housing crisis remained a significant drag on the world’s second-largest economy, with new-home prices in major Chinese cities falling for the 13th straight month in June. Underscoring the weak confidence caused by that slump, China marked its fifth period of deflation in the second quarter, extending the longest slide of economy-wide prices since 1999.

A government program to subsidize the replacement of old vehicles and home appliances was having mixed effects. the data showed.

“Amongst all monthly figures released today, the highlight is weak retail sales,” said Raymond Yeung, chief economist for greater China at Australia & New Zealand Banking Group. “Household consumption remains very weak. The ‘replacement’ schemes fail to lift spending. With employers slashing salary and high youth unemployment, households will still be cautious going forward.”

Read More: China Home Prices Fall Sharply Despite Latest Rescue Plan

Illustrating China’s struggle to stimulate household spending, retail sales of cars fell 6.2% in June despite new financial incentives, the steepest decline in more than a year. Home appliances and audio-video equipment decreased 7.6% last month, the worst since 2022.

Companies were more responsive to the government's efforts. Growth in purchases of equipment and instruments exceeded 17% in the first half of the year, dwarfing a 6.6% increase in 2023, as factories sought to comply with new environment regulations accompanying the subsidies.

Goldman Sachs Group Inc. cut its China GDP growth forecast to 4.9% from 5% for this year, a downgrade that still puts the country on track to meet its annual goal of around 5%.

The National Bureau of Statistics said in a statement accompanying the data that the growth slowdown in the second quarter was due to short-term factors such as extreme weather and rain downpours and floods. It also reflected the economy is facing more difficulties and challenges, with the problems of insufficient domestic demand and clogged domestic circulation remaining, the NBS said.

"Policy focus possibly shifted to economic restructuring and risk prevention, such as to maintain financial stability, in the second quarter after a rather strong first quarter," said Jacqueline Rong, chief China economist at BNP Paribas SA. Authorities may ramp up fiscal spending and could cut rates in August following a Politburo meeting of the party's most senior 24 officials including Xi later this month, she added.

### What Bloomberg Economics Says ...

> China's 2Q GDP growth undershot even our conservative projection – showing that the economy is struggling to maintain a tepid recovery. A sharp deceleration in consumption and services in June was the main driver - a particularly worrying sign of weak confidence. Industrial production held up slightly better, but also stayed soft in historical terms. This underlines the fact that industrial output won't be able support a broad recovery alone.
>
> *– Chang Shu, Chief Asia Economist, and David Qu, Economist*
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> Read more here.

China didn't disclose much about the first day of the closed-door meeting of its Central Committee on Monday, announcing only that it had started and Xi explained a plan on "deepening reform and advancing Chinese modernization."

Economists have called on this week's gathering to address the property downturn, boost technology self-sufficiency and relieve local fiscal strains. But any short-term economic measures are more likely to come during the Politburo meeting.

Other Key Figures From the Data:

Industrial production increased 5.3% on year in June, versus economists' forecast of 5%

Retail sales rose 2%, compared with a predicted growth of 3.4%

Fixed-asset investment gained 3.9% in the first six months, matching an expected 3.9% increase. Contraction in the property sector continued, with investment slumping 10.1% in the period

The urban jobless rate was unchanged at 5% last month from May

In a sign of the conclave's importance, officials skipped a monthly press conference to answer questions on the data, opting to post the figures online along with a separate statement with comments on the economy. Beijing last disrupted the usual format of a major data release in October 2022, when Xi held a party congress that saw him securing a precedent-defying third term as leader.

"While the case for reform is high, it's unlikely to be a particularly exciting affair," Harry Murphy Cruise, economist at Moody's Analytics said of the Third Plenum. "Big policy pivots can be taken as an admission of failure and a sure-fire way to lose face."

China explainers:

Why China's Third Plenum Matters for Global Investors

What to Expect From the Third Plenum, China's Big Policy Meeting

A Simple Guide to China's Complicated Policy Universe

*– With assistance from John Liu, Fran Wang, James Mayger, Lucille Liu, Yujing Liu, Lin Zhu, and Jing Zhao*

*(Updates with selloff of top European brands in ninth paragraph.)*