China’s growth rate takes another downturn

By Nick Beams
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Warnings by the International Monetary Fund earlier this week that the global economy will experience a prolonged period of lower growth were immediately underscored by Chinese data released yesterday. The world’s second biggest economy expanded at its slowest pace since the immediate aftermath of the global financial crisis in 2008–2009.

The significance of the figures was not so much in the headline result—growth of 7 percent in the first quarter of 2015 compared to 7.3 percent in the previous quarter—but where the slowdown occurred.

Before the eruption of the financial crisis, Chinese growth of 10 percent and more was fuelled by increased exports. Since then, it has been sustained by internal infrastructure investment and a real estate and property boom, both financed by government stimulus measures and credit expansion. But the ending of this artificial boom over the past year is now finding its reflection in the industrial economy.

China’s crude steel production fell over the first quarter by 1.7 percent, the first decline on record, as a result of the slowdown in construction projects and the accumulation of unsold apartment buildings. Pig iron production, a stage in the steel-making process, fell by 2.3 percent.

China’s National Bureau of Statistics (NBS) reported that the growth in property investment and infrastructure is the lowest on record. Tom Murray, the managing director of the Beijing-based J Capital Research, told the *Australian Financial Review*: “New housing construction has fallen off a cliff in China.”

According to the NBS, fixed asset investment, including all infrastructure and property investment, grew by 13.5 percent in the first quarter, compared to the 20 percent growth rates recorded as recently as two years ago. The downturn in the residential property market was highlighted by a 32.4 percent decline in the area of land sold, compared to one year ago.

Other areas of the Chinese economy also showed a marked slowdown in spite of efforts by financial authorities to stimulate the economy. The People’s Bank of China (PBoC) has cut interest rates twice since November and lowered borrowing costs. Yet firms are still reluctant to invest because of a growing weakness in consumption demand and the already high levels of corporate debt.

Retail sales, which measure final consumption demand, grew at a nine-year low of 10.2 percent in the year to March.

Other figures showed that the deceleration is increasing. Factory output grew by 5.6 percent in March, compared to 6.8 percent in January and February.

The industrial production slowdown is already having a major impact on countries in South East Asia that export semi-manufactured goods, which often receive their final form in Chinese factories. The value of China’s imports in the first quarter fell by 17.3 percent compared to a year ago.

The slowdown in steel production will further add to the pressure on the Australian economy as the price of iron ore, Australia’s largest single export earner, continues to slide.

From levels of more than $100 per tonne a little more than a year ago, it has now slumped to below $50, with predictions that it could go as low as $35. The slide is a result both of falling Chinese demand and decisions by two of the world’s major producers, BHP Billiton and Rio Tinto, to increase supply with the aim of driving their higher-cost rivals out of the market.

Commenting on the fall in steel and pig iron production, the chief information officer at the consulting group MySteel, Xu Xiangchun, warned: “This is not good news for Australian iron ore miners. The iron ore price hasn’t seen its bottom yet.”

Besides its impact on the economies of countries that supply it with components and raw materials, China's slowdown is having significant financial effects. The interest rate cuts initiated by the PoBC have halted the rise of the renminbi, provoking a move of money out of the country into international property markets. According to a report in the *Financial Times*, real estate brokers estimate that Chinese buyers are now the single biggest force in the US, UK and Australian property markets.

The speculation in property is part of a broader process, which has seen an explosion in financial activity as the economy has slowed.

The *Economist* magazine recently noted: "Between 2010 and 2014, when China boasted the world's fastest growing economy, its stock market was consistently among the world's worst performers. Since July of last year, this relationship has flipped. Whereas China's growth has drifted steadily lower, its share indices have doubled in value."

The latest data show that the Shanghai Stock Market Index is up 20 percent for this month and 30 percent for the year. While Chinese markets do not have the same impact on the world financial system as Wall Street, their operations are substantial. As a *Sydney Morning Herald* article noted, last Friday about $250 billion worth of Chinese stocks changed hands. This is equivalent to the daily value of trades on US markets.

The share market boom appears to have been fuelled, at least in part, by a drop in short-term funding costs in China of about 2 percent over the past month—the result of rate cuts initiated by the PoBC, supposedly with the aim of trying to boost the real economy.

As is the case around the world, the main effect of the rate cuts has been to fuel speculation and parasitism. This underscores the fact that, far from providing a way forward for the world economy as a whole—the prospect often touted in the years immediately following the global financial crisis—Chinese capitalism is afflicted with the same malignancies as its international counterparts.