How Much Is China's Economy Slowing?

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> Beijing is preparing another massive stimulus, but the economy is visibly running out of steam.

What's really going on with China's economy? It's a $13 trillion question with massive implications for the continued rule of the Chinese Communist Party and President Xi Jinping, as well as the rest of the world, for much of which China is the No. 1 trading partner.

Officially, things are right on track. The latest GDP numbers for the fourth quarter and the full year of 2018, released this week, show exactly the managed, modest slowdown in economic growth that Beijing promised to deliver: 6.6 percent annual growth in the world's second-largest economy. Even as headlines trumpeted a 28-year low in China's growth rate, that was just what party leadership had pledged, knowing that the double-digit growth rates posted earlier this century were never coming back.

The problem is that nobody (well, almost nobody) trusts the official Chinese economic data, including especially its GDP figures. That's because economic growth, and the statistics to back it up, is more a political target in China than a reflection of the true state of the economy. And for years, Chinese officials at all levels of government cooked statistics to meet those political objectives.

"Whenever there's a problem, Chinese data are meaningless," said Derek Scissors, a resident scholar at the American Enterprise Institute. "The problem in this case is a clear economic slowdown over the last nine months. Nothing China publishes in this setting can be trusted."

For example, Scissors notes, Chinese data about the economy don't add up: Officially, telecom equipment sales rose, except when they didn't. Other indicators of how the real economy is performing, such as electricity consumption or the amount of freight shipped by rail, don't seem to correspond to the headline GDP numbers in any given year. Also, unlike GDP statistics in other economies, official Chinese numbers suspiciously show almost no variation from quarter to quarter.

Getting a handle on what's really going on with the world's second-largest economy is hugely important for multinational firms, such as auto companies or Apple, which have to make investment decisions based on expectations of demand from China's massive internal market. And properly understanding just how resilient the Chinese economy is matters a great deal to policymakers around the world; a sudden slowdown could accelerate domestic political aggravation for Xi and the

Communist Party, which has relied on supercharged growth to keep its population quiescent.

The consensus view among economists is that China’s economic growth did slow down last year, and especially at the end of the year, as the trade war with the United States intensified.

“If officials keep telling us that the slowdown merits concern, keep telling us that new stimulus measures are coming,” said George Magnus, an expert on the Chinese economy at the University of Oxford’s China Centre, “I think we can assume with confidence that all is not well.”

That does sort of show up even in official statistics. Auto sales in China fell last year for the first time in almost two decades, a clear sign that nervous consumers are putting off big-ticket purchases.

“The deceleration is coming on the consumption front, mainly—there’s a massive collapse of demand for durable goods, especially automobiles,” said Alicia García-Herrero, the chief Asia-Pacific economist at the French bank Natixis. “Anything that requires a longer-term investment, that’s where you see a collapse.”

The reasons for the slowdown in China’s rate of growth are many. The global economy is losing steam, reducing demand for Chinese manufactured goods; the International Monetary Fund (IMF) this week trimmed its forecast for annual global economic growth from 3.7 percent to 3.5 percent, and the head of the European Central Bank (ECB) on Thursday warned of growing risks to Europe’s economy.

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