Latest economic data put question mark over China's growth target

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Doubts are beginning to be raised about whether the Chinese economy will be able to reach its official growth target of 5 percent for this year as factory activity continues to fall.

August saw the fourth consecutive monthly contraction as the purchasing managers' index (PMI) issued by the National Bureau of Statistics (NBS) dropped to 49.1 from 49.4 (below 50 indicates contraction). The August result was below expectations, with Bloomberg forecasting 49.5.

The latest figures were not a one-off, or even a recent phenomenon, but part of a longer trend. The reading has been below 50 for all but three months in the period since April 2023. There was a small rise after China lifted COVID restrictions at the end of 2022—at the cost of at least one million deaths—but since then it has been very much downhill.

Other data showed that beneath the headline inflation, deflationary pressures were at work. According to analysis by Goldman Sachs economists, both input and output price sub-indexes fell. "Price indicators in the NBS manufacturing survey suggest deflationary pressures picked up significantly," they said.

The worsening situation in manufacturing is being compounded by the fall in the housing and property sector, which has been a mainstay of the Chinese economy for more than a decade.

According to preliminary data from the China Real Estate Information Corp, reported by Bloomberg, the value of new-home sales in August from the 100 largest real estate companies fell by 26.8 percent from a year earlier, compared to a 19.7 percent decline in July.

The decline in the housing market is having a significant effect on the budgets of local governments. Goldman Sachs economists have warned that revenues from taxes and land sales will fall short of projections unless there is significant intervention by government authorities. But there is little sign of that happening with the measures undertaken so far described as insufficient.

The *Wall Street Journal* reported that the "festering crisis" in real estate, now into its third year, "has yet to bottom out and remains a major headache" despite some rescue efforts.

The worsening economic outlook has led to a slew of predictions that China will not meet its growth target of 5 percent this year unless there is a major intervention by the government.

Bloomberg economists said: "Looking forward, the economy will need more policy support to pull out of its extended period of weakness. Two months of weak PMI readings so far this quarter, including the latest downward surprise in the manufacturing gauge, bode poorly for the economy."

An analysis by Goldman Sachs stated that "more fiscal easing is necessary to help secure the 'around 5 percent' fill-year growth target."

Economists at the Swiss Bank UBS have predicted the economy will grow by 4.6 percent this year and 4 percent in 2025. This compares with previous forecasts of 4.9 percent and 4.6 percent respectively.

Economists at Barclays bank have taken a slightly different approach, examining tax revenue collections which they believe provide a more accurate assessment of the state of the economy than growth numbers. Their conclusion is that the situation could be more serious than growth figures indicate.

According to their findings, reported in the *Wall Street Journal*, the tax revenue from corporate incomes dropped by 5.4 percent in the first seven months of the year, with the fall reflected in a lowering of profit margins for companies.

"With weaker domestic demand exacerbating overcapacity issues, price wars or price cuts are becoming more widespread across industries" amid "fierce competition."

"Falling profits will likely lead to pay cuts and layoffs, boding ill for consumption," they said.

These gloomier views are countered by government representatives. In a video message, the Chinese finance minister Lan Fo'an emphasised the government was very much in control.

"Looking forward, China's economic development has multiple advantages and macro control policies will continue," he said, describing the performance of the economy in the first half of the years as "generally stable and progressing steadily."

Lan was speaking from Cape Town, South Africa where he was attending a meeting to establish a New Development Bank sponsored by the BRICS group of countries.

There is no question that the actions of the Chinese state can play a powerful role in determining the direction of the economy. But the objective laws and contradictions of the global capitalist economy are even more powerful, and they are starting to make themselves felt.

The government is not able to resort to the major stimulus measures as in the past because it fears this will only create a debt crisis and destabilise the financial system. There are already concerns in this area.

The slowdown in the Chinese economy and the lack of profitable investment opportunities has already led to a move into government bonds, pushing up their price and sending their yields, or interest rate down. (The two have an inverse relationship.)

The People's Bank of China is trying to halt these moves because of fears of a bond market bubble that could collapse in the wake of the issuing of more government debt. This would push down the price of bonds, raising their yields which would mean that banks, which had invested heavily in government debt, would incur significant losses.

The concern is that such banks could be placed in a similar situation to the American Silicon Valley Bank which went under in the March 2023 as a result of significant losses on its Treasury bonds.

The Chinese government's general plan is to try to expand its way out of the slowdown by increasing exports through the development of high-tech products and basic industrial goods, in particular steel. But it is running into rising tariff walls and protectionist measures.

Protectionism is certain to be intensified in conditions of a slower global economy, including in the US.

Then there is the issue of what policies will be adopted to specifically target China by whoever wins the US presidential election. Trump has said he will increase tariffs on all Chinese imports by 60 percent while Harris's policies will show no letup in the anti-Chinese measures enacted under Biden.

The continued slowdown, as exemplified in the most recent data, has led to the widespread view that the 5 percent growth target is out of reach. They were summed up by Wang Yan, a strategist at the global investment firm Alpine Macro, who said it was "almost impossible" to achieve.

Wang commented that Chinese policymakers appeared to be "paralysed" and lacked a coherent strategy with the piecemeal measures they had employed to so far being ad hoc and hesitant. He warned of a "slow implosion" in the period ahead.

The great fear of the ruling Chinese oligarchy if that if such a development does take place then it could lead to an explosion of class and social struggles. The political stability of the regime has largely rested on its capacity to deliver economic expansion and jobs.