fastFT Chinese economy

China GDP grows faster than expected in first quarter

Expansion of 6.4% follows stimulus efforts and US climbdown on threat to escalate trade war

Workers check parts at a factory in Fujian province © AFP

Tom Mitchell and Nian Liu in Beijing APRIL 16, 2019

The Chinese economy grew at a faster-than-expected rate during the first quarter of this year, after US President Donald Trump last month backed down from a threat to escalate his trade war with Beijing and government stimulus measures began to take hold.

On Wednesday the National Bureau of Statistics estimated that the world's second-largest economy expanded 6.4 per cent in the first quarter, compared to the same period last year and ahead of the 6.3 per cent expected according to a Reuters poll. The figure matched the 6.4 per cent growth posted in the final quarter of 2018, but was significantly below last year's first-quarter growth figure of 6.8 per cent.

"Q1 is expected to mark the low point of China's growth cycle," said Tai Hui, chief Asia Pacific market strategist for JPMorgan Asset Management. "Recent data indicate that government policy to stabilise the economy is taking effect."

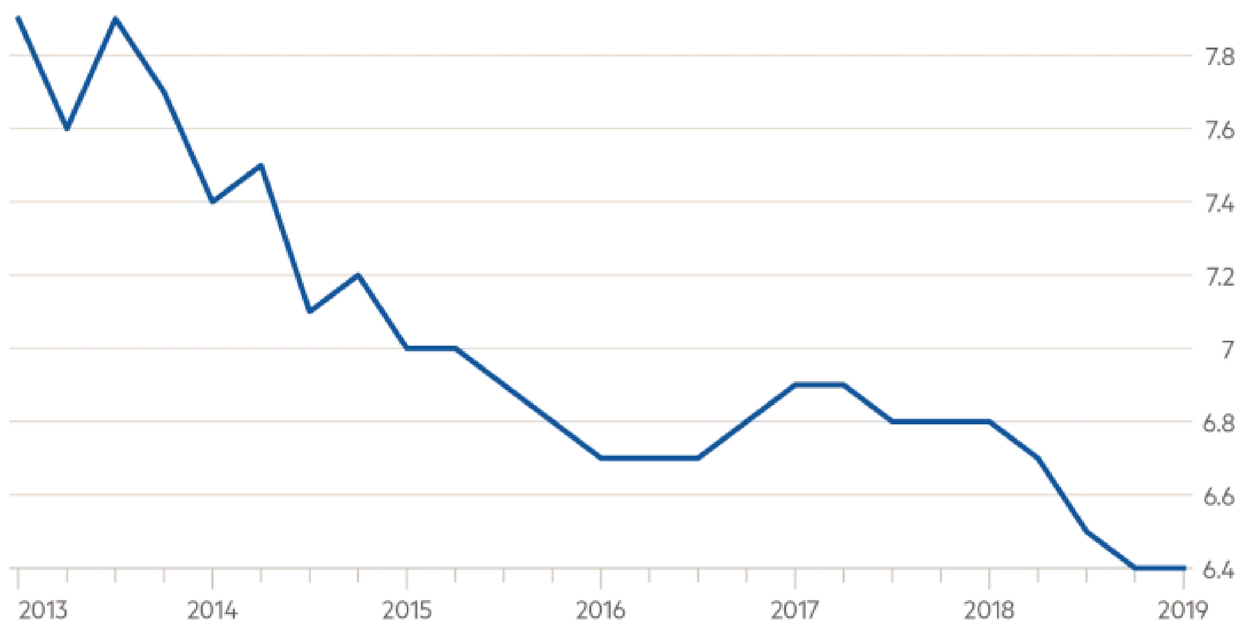
Eswar Prasad, economist at Cornell University, took a similar view: "There are signs that policy-led stabilisation of growth is beginning to take hold, aided by the abatement of trade tensions with the US."

Surging industrial production in March provided a big boost to China's economy, rising 8.5 per cent year-on-year compared with just 5.3 per cent in the January-February period.

Year-to-date fixed asset investment was also strong in the first quarter, rising 6.3 per cent over the same period in 2018 and up from 5.3 per cent last August.

China GDP growth

Quarterly percentage change, year on year



Sources: National Bureau of Statistics, CEIC
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The outlook for the world's second-largest economy had appeared far gloomier as recently as February. Chinese industrial profits fell 14 per cent in January and February compared to the same period last year, the largest drop in more than a decade.

But Mr Trump's decision not to increase the punitive tariff rate currently assessed on about half of all Chinese exports on March 1, as he had previously threatened, dissipated much of the negative sentiment that had been weighing heavily on China's stock markets and private sector companies late last year.

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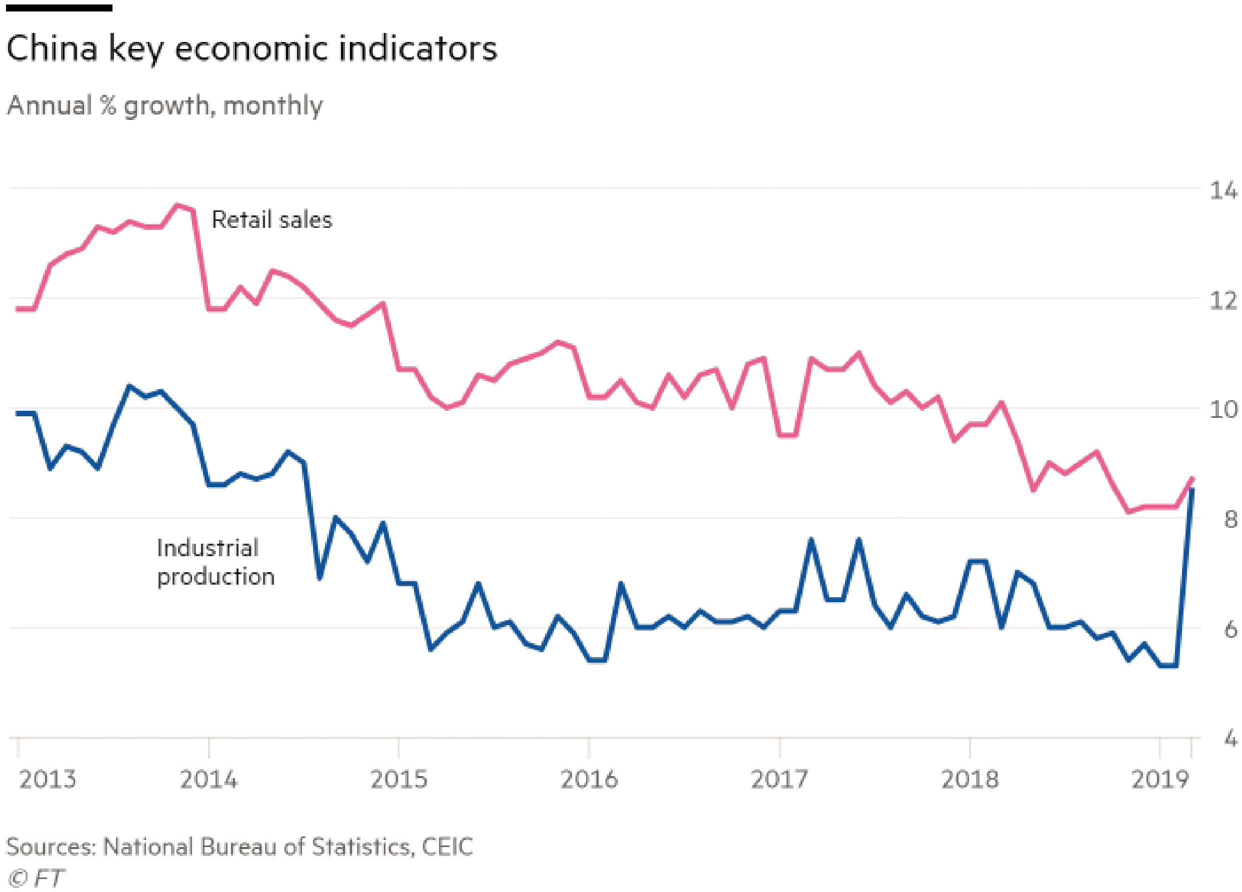
"The national economy enjoyed stable performance and growing positive factors, stronger market expectations and confidence," said NBS spokesman Mao Shengyong. "However, at the same time we should also be aware that ...the task of reform and development is arduous and downward economic pressures still persist."

The CSI 300 Index, which tracks the biggest companies on the Shanghai and Shenzhen stock exchanges, has risen more than 35 per cent this year.



China and other major regional stock indices were little changed on Wednesday after the release of the data. The renminbi and Australian dollar, however, strengthened while oil prices hit a 2019 high. The Australian dollar, which serves as a proxy for regional trade, climbed as much as 0.5 per cent to a high of $0.7174 against the dollar, swinging back from an earlier fall.

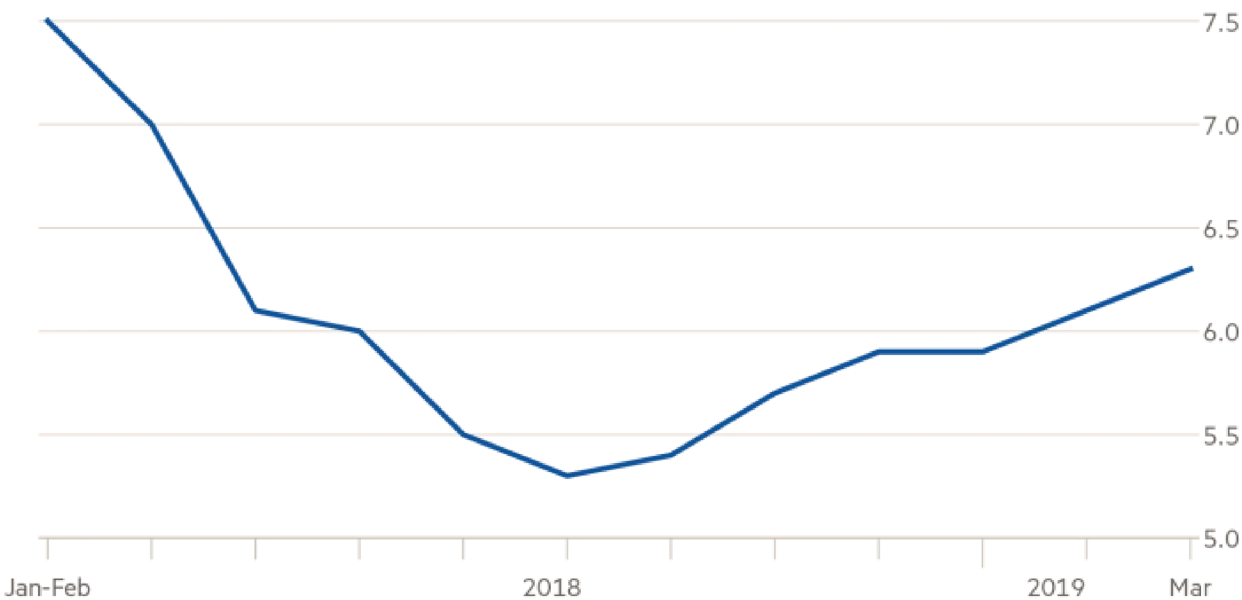
Oil prices rose above $72 a barrel for the first time since November to a high of $72.08. The onshore renminbi was up 0.1 per cent at Rmb6.7057 to the dollar.

China's central bank said in a statement earlier this week that "economic growth is resilient", and repeated earlier assurances that it would not resort to "flood-like" monetary stimulus measures that sent overall debt levels soaring in the wake of the 2008-09 global financial crisis.

In their effort to bolster economic activity, Chinese officials last month unveiled an Rmb2tn ($298bn) tax-cut package. Lending by the state banking sector hit a quarterly record of Rmb5.8tn.

Fixed-asset investment*

Percentage change year on year



* All figures year-to-date
Source: National Bureau of Statistics
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Officials, however, are still struggling to direct state-bank credit to the private sector, especially small and medium-sized enterprises which have been hardest hit by a crackdown on shadow financing channels. This week the founder of one of China's largest peer-to-peer lending platforms, Fincera chairman Li Yonghui, complained on social media that his firm could not get local government approval to extend more credit to SMEs.

"We service SMEs and want to grow, but it has been very difficult over the past two years," said Fincera director Spencer Li. Mr Li is not optimistic that state banks will heed top-level calls to extend more credit to SMEs, such as the trucking and other logistics firms Fincera works with. "It will be challenging. [State banks] are not built for it."

In addition to boosting industrial production and fixed asset investment, the credit surge was also felt in China's property sector. Property investment over the first three months of the year increased 11.8 per cent, compared with 9.5 per cent in 2018.

Property sales have also been rising, with a survey of 70 cities showing strong price rises in April.

Premier Li Keqiang said in March that the government expected the economy to expand by 6 per cent to 6.5 per cent this year.

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