Chinese Economy

China's economy grows 6.8% in third quarter

Solid figure boosts Xi's plan to consolidate power at Communist party congress

Despite strong growth, economists warn of long-term risks from reliance on debt-fuelled investment

OCTOBER 19, 2017 by Gabriel Wildau and Tom Mitchell in Beijing

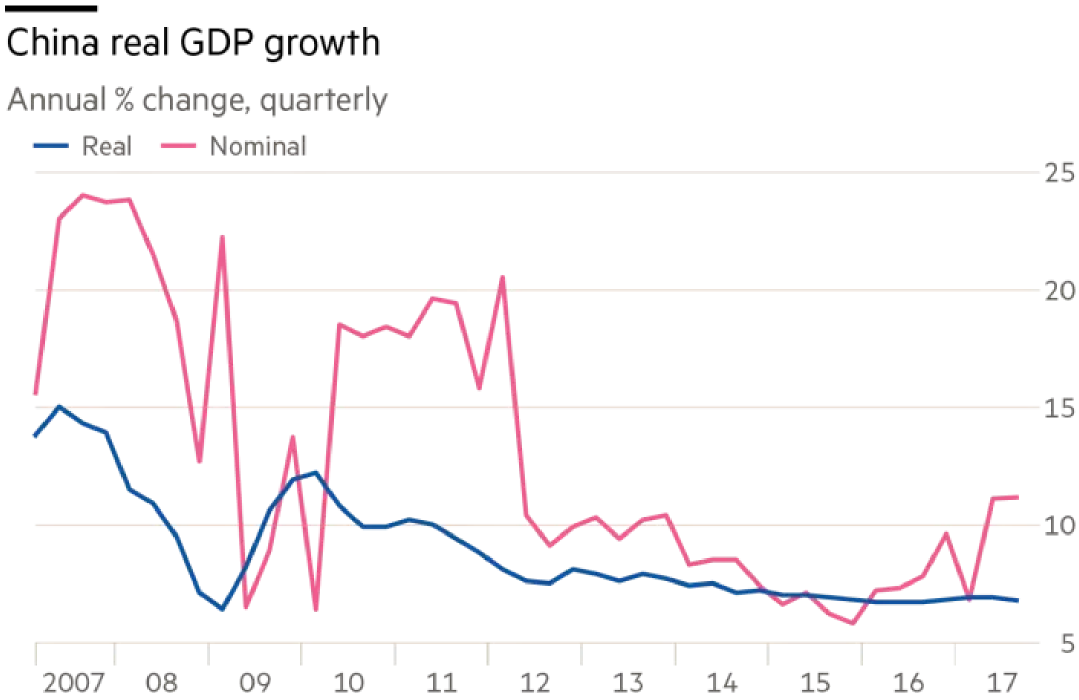
China's economy grew at 6.8 per cent in the third quarter year on year, slightly below the previous period but still above the government's full-year target, boosting President Xi Jinping's effort to consolidate power at a five-yearly Communist party congress.

Analysts have said that Mr Xi was determined to ensure strong growth in the lead-up to the party congress, where he will seek to install loyalists in key positions as part of the leadership transition.

In his opening speech on Wednesday, Mr Xi noted that gross domestic product rose Rmb26tn ($3.9tn) during his first five years in office, declaring that "China has seen the basic needs of over 1bn people met".

With year-on-year growth of 6.9 per cent through the first three quarters of 2017, China is all but certain to exceed its full-year target of "around 6.5 per cent". The economy is also poised for its first year-on-year acceleration in growth since 2010, following a 6.7 per cent expansion last year.

Despite the solid headline figure, economists warn that the economy this year benefited from the lagging impact of significant monetary and fiscal stimulus in 2016. That stimulus boosted short-term growth but added to long-term risks from reliance on debt-fuelled investment.



Sources: National Bureau of Statistics; CEIC
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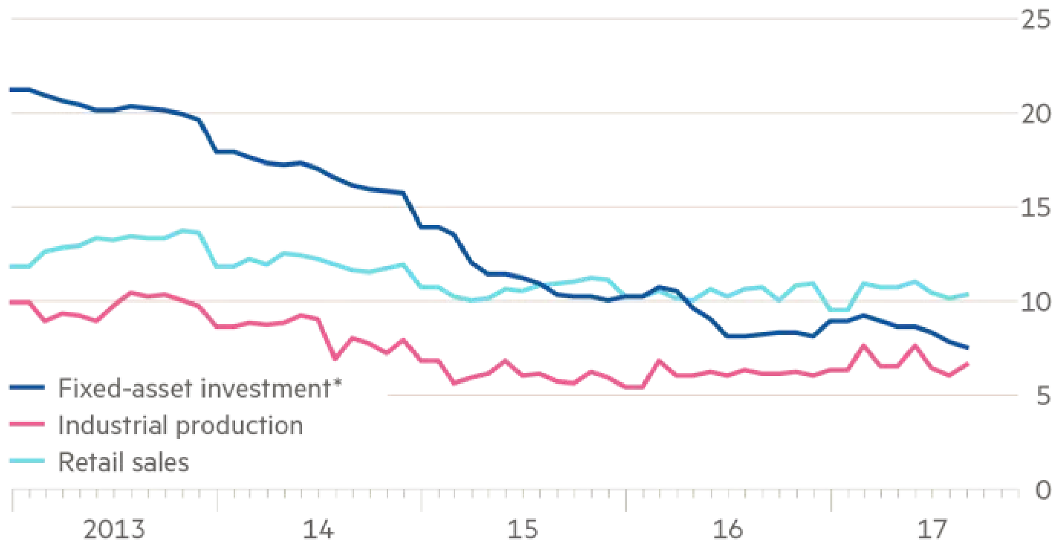
"The latest growth data paint a reassuring picture of an economy that, on the surface, is firing well on all cylinders. Beneath the surface, potential financial market stresses continue to build up but remain at bay for now," said Eswar Prasad, economics professor at Cornell University and former China head for the International Monetary Fund.

A flood of mortgage lending drove a surge in the housing market, sparking renewed concerns of a bubble. Local-government borrowing underpinned strong spending on infrastructure.

Meanwhile, private business investment remained depressed. Fixed-asset investment by private enterprises grew only 6 per cent through the first nine months of the year, below the 11 per cent pace for state-owned groups.

China key activity indicators

Annual % growth, monthly



Sources: National Bureau of Statistics, CEIC

*Year to date

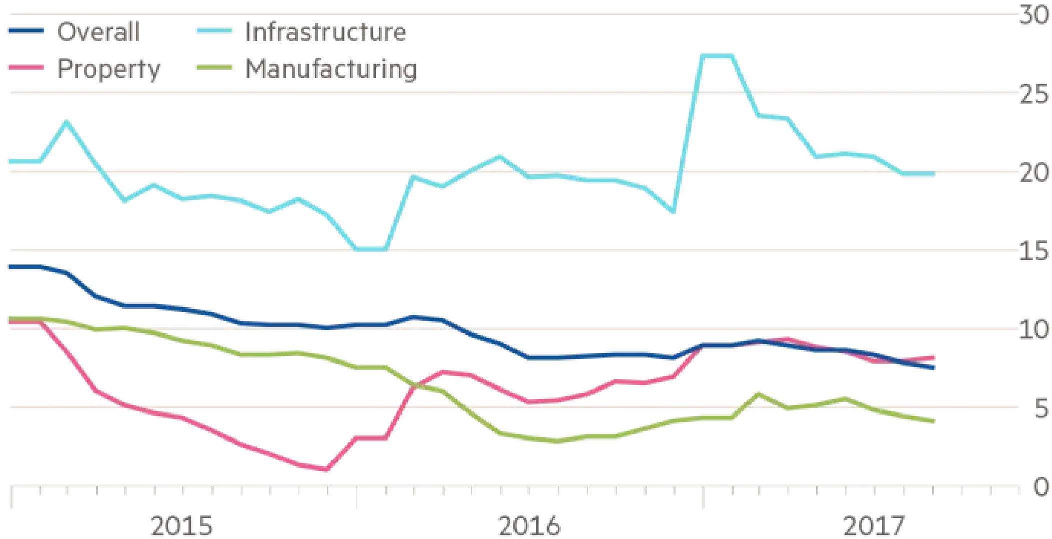
But strong growth early in the year from property and infrastructure gave authorities breathing space to shift from stimulus to deleveraging. Following fast credit growth last year, which exacerbated concerns over debt, financial regulators tightened policy this year.

As a result, China's ratio of debt to GDP declined slightly in the first half, according to one estimate, due to a combination of slower credit growth and faster inflation, which raised nominal GDP.

Now, however, most economists believe that growth has peaked for the current cycle and is set to slow. Property sales by floor area fell in September from a year earlier for the first time in two and a half years, following nine straight months of slowing price growth. That could renew pressure on policymakers to ramp up investment-driven stimulus.

Infrastructure main growth driver for China investment

Fixed-asset investment growth by category, annual % growth, monthly year-to-date



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"Going forward, the property market will continue to slow," said China's National Bureau of Statistics. "Since last year, the country has taken a series of targeted measures to control the real estate market in various cities, and the effect is gradually showing itself."

On the other hand, Mr Xi's speech on Wednesday did not mention long-term targets for the size of the economy or per-capita GDP, which some analysts interpreted as a sign that the government would be increasingly tolerant of slower growth as it pursued structural reform.

"Both omissions seem geared to giving the leadership more room to slow the economy and deal with the many structural problems that have caused alarm among external economists and commentators," Christopher Johnson, a China specialist at the Center for Strategic and International Studies, wrote in a research note.

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