https://www.wsj.com/articles/china-growth-slows-across-all-fronts-in-july-as-real-estate-weighs-11660545532

WORLDASIACHINA

China's Growth Slowed Across All Fronts in July, Prompting Unexpected Rate Cut

Move came after a month in which retail sales, property prices and youth unemployment worsened

By Jason Douglas Follow

Updated Aug. 15, 2022 11:25 am ET

SINGAPORE—China's economy stumbled in July as a two-month boost from easing lockdowns faded, prompting the country's central bank to unexpectedly cut two key interest rates in an effort to shore up faltering growth.

A raft of data released Monday showed economic activity slowed across the board in July, including factory output, investment, consumer spending, youth hiring and real estate, highlighting the breadth of the economic challenge facing policy makers in a politically sensitive year for leader Xi Jinping, who is expected to break with recent precedent and seek a third term in power this fall.

Economists say Monday's policy moves would probably do little to spur more borrowing by households and businesses who are on edge over the threat of fresh disruptions to daily life from any new Covid-19 outbreaks and gloomy about their prospects against a worsening backdrop for growth and jobs.

The fresh evidence of China’s slowdown adds to the headwinds facing the global economy this year, which is already reeling from the fallout from Russia’s invasion of Ukraine and efforts by central banks in the U.S., Europe and beyond to tame rocketing inflation by jacking up borrowing costs.

The ripples were quickly felt in commodity markets, reflecting China’s status as the world’s biggest consumer of raw materials. Brent crude futures fell more than 5% to $93.19 a barrel, putting the energy benchmark on track for its lowest closing level since mid-February, before the war in Ukraine sent oil-and-gas markets higher. Copper prices fell 2.5% to about $7,900 a metric ton, and soybean futures lost 3.1% to $14.09 a bushel. China consumes about 15% of the world’s oil, imports more crude than any other country and consumes more than half of refined copper globally.

U.S. stocks and Chinese government bond yields also fell, while the dollar gained about 0.7% against the offshore Chinese yuan.

The world’s second-largest economy is straining under the effects of Beijing’s zero-tolerance approach to Covid-19 and a deflating property bubble, which have triggered protests and mortgage-payment strikes in several provinces and cities. Consumers are reluctant to spend and businesses are wary of investing, a consequence of the “humongous uncertainty about the future,” said Alicia García-Herrero, Asia-Pacific chief economist at investment bank Natixis in Hong Kong.

One stark sign of China’s economic malaise: One in five Chinese youth, or 19.9%, was unemployed in July, Monday’s figures showed, the highest level since China started publishing such data in 2018.

On Monday, the People’s Bank of China cut by 0.1 percentage point two key interest rates and pumped the equivalent of $59.3 billion into the financial system to rev up lending and wider economic growth. The unexpected move marked a small step toward more support for China’s economy, and may foreshadow further cuts to borrowing costs in the months ahead, some economists said.

"Domestic demand growth remains fragile, held back by government policies as well as rising concern about the economy's prospects, so the PBOC is trying to do what it can to at least support business and consumer confidence in order to prop up demand," said Eswar Prasad, professor of economics at Cornell University.

Yet top government officials have signaled they are unpersuaded by the need to unload big bazooka-style stimulus of the kind they unleashed after the 2008-09 financial crisis and other recent spells of economic turbulence. They have cited risks such as inflation and ballooning debts and contrasted Beijing's fiscal and monetary rectitude with what they see as the profligate West.

A planned infrastructure push has yielded limited results so far, which economists say reflects financing constraints on the local governments tasked with its delivery as well as a shortage of ready-to-go projects.

Chinese Premier Li Keqiang told business leaders at an event hosted by the World Economic Forum in late July that the government won't roll out massive stimulus measures or flood the financial system with too much new money, and would instead aim for stable prices and "a relatively good" economic performance, state media reported.

Senior Chinese Communist Party officials announced no new fiscal stimulus measures at a meeting late last month and pledged to stick with their zero-tolerance approach to managing Covid outbreaks. Officials have effectively dropped a growth target of around 5.5% for the year, and the question now for many economists is just how feeble growth is likely to get.

Economists at Standard Chartered cut their 2022 growth forecast for the Chinese economy on Monday, to 3.3% from 4.1% previously. "We expect the path to China's economic recovery to be a slog," economists Wei Li, Shuang Ding and Hunter Chan said in a note to clients.

Data released by China's National Bureau of Statistics Monday showed industrial production rose 3.8% from a year earlier in July, easing from a 3.9% year-over-year increase in June and well short of the 4.5% growth expected by economists polled by The Wall Street Journal.

Factory output and exports have been a bright spot for Chinese growth for the past two years, especially after production resumed and supply-chain kinks were worked out following the lifting of lockdowns imposed in the spring to contain Covid-19. But economists have long expected demand for Chinese goods to begin to fade as consumers in the West feel the pinch from rising prices and interest rates.

Retail sales, a key gauge of consumer spending, grew 2.7% from a year earlier in July, a weaker reading than the 3.1% recorded in June and the 5.0% increase expected by surveyed economists.

Consumer confidence has been rocked by the threat of repeated lockdowns and China's property bust. Separate data released Monday showed new home prices posted their steepest year-over-year decline in more than six years in July, highlighting the strain in the real-estate market after a yearlong regulatory squeeze that has hit sales and led to stalled projects and developer defaults.

Average new-home prices in 70 major cities fell 1.67% in July from a year earlier, compared with June's 1.29% decrease, according to Wall Street Journal calculations based on data released Monday by China's statistics bureau.

On a month-on-month basis, average new-home prices fell for an 11th consecutive month. Prices dropped 0.11% in July from June, widening from the previous month's 0.10% decline, the statistics bureau said. Only 30 of the 70 cities recorded a month-over-month increase in home prices in July, down from 31 cities in June.

Data suggest the benefits of the planned infrastructure push have been limited. Fixed-asset investment slowed in July, rising 5.7% on year in the January-July period, compared with the 6.1% pace recorded in the first half of the year. Economists had expected growth of 6.2%.

The unemployment rate for those age 16 to 24 rose to 19.9% in July, from 19.3% in June, setting a record. The overall jobless rate edged down, however, to 5.4% from 5.5%.

—Grace Zhu and Bingyan Wang in Beijing contributed to this article.

Corrections & Amplifications
Monday's figures showed one in five Chinese youth, or 19.9%, was unemployed in July. An earlier version of this article incorrectly said the figures were from Wednesday. (Corrected on Aug. 15)

Write to Jason Douglas at jason.douglas@wsj.com

Appeared in the August 16, 2022, print edition as 'Beijing Cuts Rates As Growth Pace Slows'.