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China's Factories Drive Uneven Economic Recovery

World's second-largest economy grew 5.3% to start the year, but consumption lagged behind

By Jason Douglas Follow

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China's pickup in economic growth was propelled by a rise in industrial production and swelling investment in factories.
PHOTO: ALEX PLAVEVSKI/SHUTTERSTOCK

SINGAPORE—China's economy picked up pace in the first quarter as Beijing's plan to boost growth by pouring money into factories began to show results.

But that approach is leading to a lopsided recovery and stoking trade tensions overseas, with Western governments and some big emerging economies crying foul over a growing wave of cheap Chinese imports that they say threaten domestic jobs and industries.

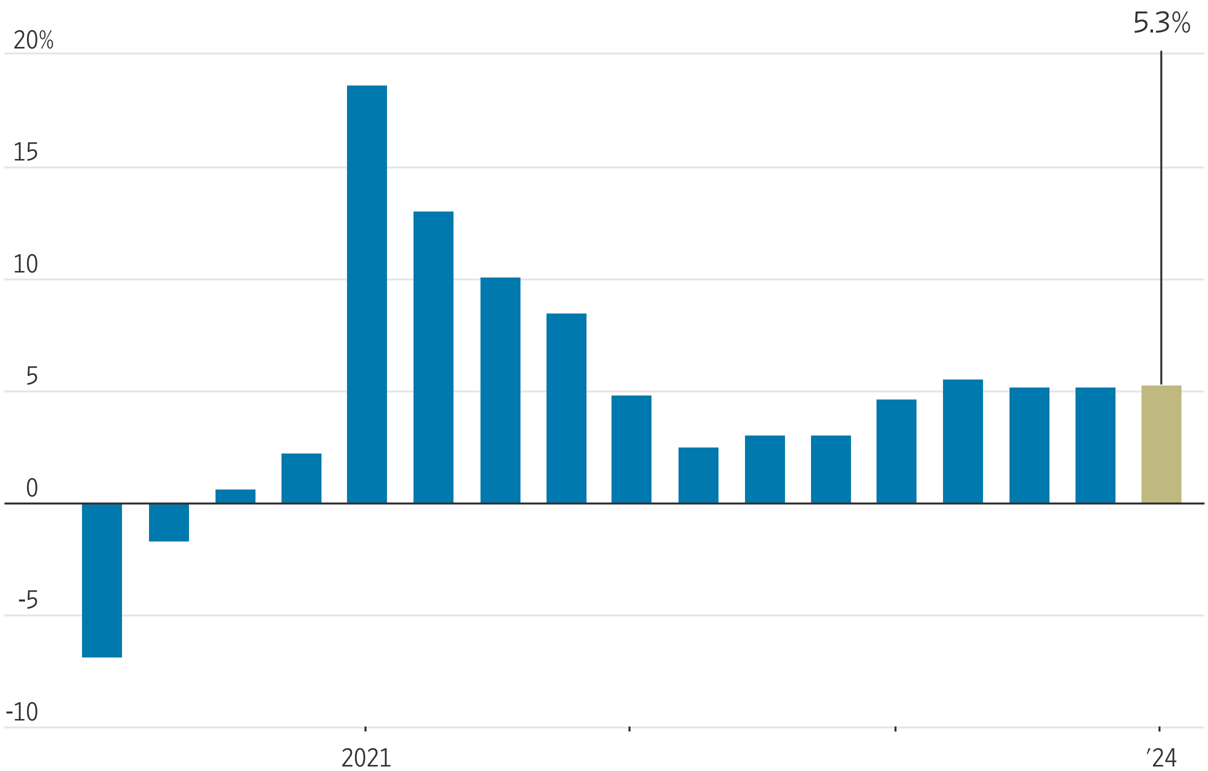
With familiar signs of weakness in consumption and real estate in the first three months of the year, many economists say Beijing still isn't doing enough to support Chinese households and nurture a more balanced recovery.

And the loss of some momentum in March compared with the preceding two months reinforced expectations that further stimulus will be needed to ensure that the government meets its growth target of around 5% for the year.

Manufacturing Growth

The economy picked up in China as Beijing poured money into factories.

Gross domestic product, change on year



Source: CEIC

China said its economy grew 5.3% in the first quarter compared with the same three months a year earlier, a faster pace than the 5.2% year-over-year growth rate that the country notched in the final quarter of 2023, China's National Bureau of Statistics said Tuesday.

The pickup was propelled by a rise in industrial production and swelling investment in factories. After a challenging few years, Chinese officials are steering activity and investment toward manufacturing and exports to compensate for domestic consumers' reluctance to spend and a continuing crunch in the property market.

Beijing is also seeking to stake out a commanding lead in newer high-tech industries such as electric vehicles and renewable energy equipment—sectors it counts among the "new productive forces" it wants to harness to fuel the next stage of China's economic ascendancy.

Real estate, which once accounted for as much as one quarter of China's economic output, was a major drag on growth.
PHOTO: CFOTO/DDP/ZUMA PRESS

But Beijing's strategy is raising hackles around the world as governments balk at the risk to jobs and industries from a potential rerun of the "China shock" of the early 2000s, when a torrent of Chinese imports hit low-tech manufacturing in the U.S., costing the country an estimated two million jobs.

The U.S. and Europe are pushing back against Chinese EVs, solar panels and wind turbines, new industries that they are also seeking to dominate. Emerging economies are feeling the heat from China's manufacturing glut too, with Brazil, India and Mexico among those investigating whether Chinese products such as steel and ceramics are being dumped on their markets at unfairly low prices.

China says its companies are competing fairly and has criticized such moves as protectionism. The International Monetary Fund and others warn that these mounting tensions over trade could lead to the global economy fracturing, with blocs of countries allied around the U.S. and China, respectively, and broader trade impeded.

Tuesday's data laid out in detail the fruits of Beijing's strategy, with industrial production rising 6.1% from a year earlier in the first quarter, propelling overall growth. Investment in manufacturing rose 9.9%.

But there were also signs of the strategy's limits. Data showed a growing mismatch between ballooning supply and lackluster demand, with China's factories reporting a drop in the amount of available production capacity they are using. Overall capacity utilization fell 0.7 percentage point in the first quarter to 73.6%, with steeper drops in industries including cars and electrical machinery. In February, inventories of finished products were 2.4% larger than a year earlier, according to China's statistics agency.

"It is a positive omen for the world economy that China seems to be getting past a rough patch. However, these data will not assuage concerns that a production-led recovery and weak consumption demand could lead China to aggressively push exports to keep its recovery going," said Eswar Prasad, professor of trade policy and economics at Cornell University and a former head of the IMF's China division.

China's economy last year recorded one of its weakest growth rates in decades outside of the turbulent pandemic years, as a hoped-for consumption boom following Beijing's abandonment of its strict Covid-19 controls petered out after only a few months.

Real estate, which once accounted for as much as one quarter of economic output, was a major drag on growth as housing sales and construction tumbled.

Tuesday's data show those trends persisting this year. Property investment fell 9.5% in the January-March period from a year earlier, widening from a 9.0% drop in the first two months of the year.

"The Chinese real-estate market is en route to further weakening, and this trend has not changed," said Larry Hu, chief China economist at Macquarie Group.

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Meanwhile, retail-sales growth in the first quarter lagged behind industrial production, rising just 4.7% compared with a year earlier.

Uniqlo owner Fast Retailing said its revenue from mainland China, Hong Kong and Taiwan rose 12% to 360 billion Japanese yen, equivalent to $2.33 billion, in its fiscal first half ended Feb. 29, a much slower rate of growth than in the U.S. and Europe.

Chinese consumers "have tightened their purse strings and become more selective," Fast Retailing's chief financial officer Takeshi Okazaki said last week.

CK Hutchison Holdings, a Hong Kong-based conglomerate with businesses in retail, infrastructure and telecommunications, said revenue at its China health and beauty retail unit fell 6% in 2023 compared with the previous year. Executives told analysts in late March that business in China is "quite stagnant" and people are saving rather than spending.

Retail-sales growth in the first quarter lagged behind industrial production. PHOTO: WU HAO/SHUTTERSTOCK

Behind the sluggishness in consumer spending are concerns about the property market and anxiety over jobs and earnings. China's headline rate of joblessness, the surveyed urban unemployment rate, edged down to 5.2% in March, from February's 5.3%, but remains above where it was six months ago.

Beijing has taken some small steps to bolster household spending, such as cuts to interest rates and a program that offers people a discount for trading in old home appliances and cars for new ones.

But economists say more support is needed, especially if China is to shake off the risk of persistent deflation and assuage foreign concerns about its relentless focus on manufacturing. Deeper interest-rate cuts and more government spending aimed at households would help push up inflation and lift consumption, economists say.

“If officials can’t convince households to loosen the purse strings, the economy risks having too many eggs in one basket,” Harry Murphy Cruise, economist at Moody’s Analytics, wrote in a research note Tuesday.

—Grace Zhu and Xiao Xiao in Beijing, Cao Li in Hong Kong and Megumi Fujikawa in Tokyo contributed to this article.

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

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