CHINA

China Growth Beats Expectations Thanks to Humming Factories

Many economists prepared for a weaker first-quarter performance

Chinese workers pouring molten steel at a factory in Fujian province on April 10. **PHOTO:** AGENCE FRANCE-PRESSE/GETTY IMAGES

By James T. Areddy

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SHANGHAI—China's economic growth held to a 6.4% rate in the first three months of the year as factory production picked up significantly amid signs authorities worked forcefully to stabilize business following months of weakness.

The 6.4% expansion in China's economy during the first quarter was the second straight at that level but remained below 2018's 6.6% full-year rate, according to official data released Wednesday. The pace was slightly higher than what many economists expected and appeared buoyed by a powerful rebound in some key drivers. Industrial production, after a lackluster start to the year, surged 8.5% in March from a year earlier. Retail sales for the quarter were stronger than expected along with property investment.

While China's economy has been on a slow downtrend this past decade—weighed down by debt and excess capacity—a sharper-than-expected slowdown hit last year, exacerbated by severe trade tensions with the U.S. The government now appears to be stepping up work to arrest the slide. Many economists prepared for a weaker first-quarter performance, and the year's nadir, on belief that stable activity in consumer and services sectors would be offset by sluggish investment in fixed assets, such as factories and bridges.

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Beijing took tentative steps in recent months to address cash crunches at many businesses with new and targeted stimulus including tax cuts and red-tape curbs. It also gave a nod to local governments to spend on infrastructure, a partial unwinding of the central government's credit squeeze that began two years ago in an effort to arrest the buildup of debt. Money supply also picked up visibly in March, a sign of credit easing.

"Policy supports are beginning to show up in the economy," said Grace Ng, an economist with JPMorgan . She said the fiscal "front loading" helped support new investment into projects including property.

A spokesman for the National Bureau of Statistics, Mao Shengyong, told a media briefing Wednesday that China's domestic economy has performed well, especially against a backdrop of weak international trade and other unfavorable conditions, due to government actions such a cut in value-added taxes. He described the data as "relatively stellar."

Also boosting sentiment is an easing of trade tensions between the U.S. and China that put off some investors last year. Months of trans-Pacific negotiations to freeze or reverse some or all of the punitive tariffs on hundreds of billions of dollars of goods the countries trade appear to be making progress.

Bets that a deal is within reach are helping lift business confidence and underpin markets in China: the Shanghai Composite Index has gained more than 5% in April after posting a 24% gain in the first three months of 2019, its best quarter in five years. That reflects, in part, how Beijing—eager to attract cash—is allowing foreigners to invest in new ways.

The statistics bureau said consumption drove more than 65% of first-quarter activity, in line with consumer-facing companies that say demand from Chinese individuals is holding up.

The sharp increase in industrial production and other signs of new business activity caught economists by surprise, appearing to exceed the impact of announced policy support, such as tax reductions. A note from Capital Economics said the bounce might reflect seasonal or other distortions. China's long Lunar New Year holiday, the dates for which shift slightly year to year, fell in early February, making March a time for rebounding activity.

Wednesday's better-than-expected readings are likely to raise further questions about the government's data, though Mr. Mao denied authorities are "deliberately ironing out the fluctuations of economy."

Many past drivers of the economy still aren't firing. Passenger auto sales fell last year for the first time since 1990 and continued to tumble in the first quarter, an indication of trouble for both manufacturers and consumers. Investment in factories, roads and other fixed assets grew 6.3% in the first three months of the year, only a slight upturn from a 6.1% rise in January and February. And while the data showed fresh stirrings in property investment, analysts say real-estate downside risks remain a concern.

Consumer prices are also rising due to a virus that is spreading through the nation's pig population, devastating the supply of pork, which is a staple. Pork production was off 5.2% in the quarter while consumer prices were ahead 1.8%. The upward price pressure and risk of higher inflation, according to the International Monetary Fund, mean Beijing should avoid spending too much on projects that might support growth.

Beijing has for weeks batted aside suggestions it might flood the economy with new credit and add to the debt pile. But technical measures of financial activity in China, including a broad measure called total social financing, show that authorities markedly amped up the cash available for businesses to bolster growth. "The short-term priorities have clearly changed," said Cornell University's Eswar Prasad.

Despite the stimulus and other support measures, China's economy is expected by economists and the government to keep slowing. Each tick down pulls the growth rate to levels not seen in nearly 30 years, when China's Tiananmen Square crackdown sent investors fleeing and sparked a two-year slump. Beijing has set a minimum growth target this year of 6% for its $13.4 trillion GDP. At that rate, the world's No. 2 economy would essentially add the annual output of Switzerland.

"Thanks to the better-than-expected data, policy makers may be more confident in Chinese economy," said Ms. Ng, the JPMorgan economist.

—Liyan Qi, Grace Zhu and Zhou Wei contributed to this article.

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