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ECONOMY

Data expected to show slowest GDP growth in 28 years

Analysts predict economy only expanded by 6.6 per cent for 2018 as domestic demand weakened

Reuters in Beijing

Beijing is expected to report today that economic growth cooled to its slowest in 28 years in 2018 amid weakening domestic demand and bruising US tariffs, adding pressure on Beijing to roll out more support measures.

Growing signs of weakness in China, which has generated nearly a third of global growth in the past decade, are stoking worries about risks to the world economy and are weighing on profits for firms ranging from Apple to big carmakers.

Policymakers in Beijing have pledged more support for the economy this year to reduce the risk of massive job losses, but have ruled out a flood of stimuli like that unleashed in the past, which boosted growth rates but left a mountain of debt.

Analysts polled by Reuters expect the world's second-largest economy to have grown 6.4 per cent year on year in the final quarter of 2018, slowing from 6.5 per cent in the previous three months and matching levels last seen in early 2009 during the global financial crisis.

That could pull gross domestic product growth to 6.6 per cent for the year, its lowest since 1990 and down from a revised 6.8 per cent in 2017.

With stimulus measures expected to take some time to kick in, most analysts believe conditions in China are likely to get worse before they get better, and see a further slowdown to 6.3 per cent this year. Some have said real growth levels were already weaker than official data suggested.

Even if Beijing and Washington agree on a trade deal, analysts said it would be no panacea for China's economy unless Beijing could galvanise weak investment and consumer demand.

Chen Xingdong, chief China economist at BNP Paribas, said investors should not expect the latest round of stimulus to produce similar results as during the 2008-09 global crisis, when massive spending quickly boosted growth.

"What China can really do this year is to prevent deflation and prevent a recession and a hard landing in the economy," he said.

On a quarterly basis, growth likely eased to 1.5 per cent in the final three months of 2018, from 1.6 per cent in the previous period.

The nation will release its fourth-quarter and full-year figures today, along with ones for December factory output, retail sales and fixed-asset investment.

Since China's quarterly gross domestic product readings tend to be unusually steady, most investors focus on recent trends.

Surprising contractions in last month's trade data and factory activity gauges in recent weeks have suggested that the economy cooled more quickly than expected at the end of 2018.

Sources have told Reuters that Beijing was planning to lower its growth target to 6-6.5 per cent this year from about 6.5 per cent in 2018.

Tepid expansion in industrial output and weaker consumer spending is squeezing companies' profit margins, discouraging fresh investment and raising the risk of higher job losses.

Some factories in Guangdong province – China's export hub – have shut earlier than usual ahead of the long Lunar New Year holiday as the tariff war with the United States curtails orders.

6.3%

Growth in China's gross domestic product is expected to drop down to this level for 2019, according to analysts polled by Reuters

Others are suspending production lines and cutting back on workers' hours.

US and Chinese trade negotiators are facing an early March deadline on a trade war truce, and Washington has threatened to sharply raise tariffs if there are no substantial signs of progress.

So far, Chinese policymakers have fast-tracked construction projects and cut taxes and some import duties to spur demand.

To free up more funds for lending, particularly to more vulnerable smaller firms, the central bank has cut the amount of reserves that banks need to set aside five times over the past year, and guided borrowing costs lower.

Further reserve ratio reductions are expected in the coming quarters, but most analysts do not see a cut in benchmark interest rates just yet, as policymakers wait to see if earlier steps begin to stabilise conditions.