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CHINA

China Growth at Its Slowest Since 1992 as Beijing Struggles to Juice Economy

Economy grew by 6.2% in the second quarter as U.S. and businesses held back from making big investments amid trade tensions

A woman works on an assembly line in China's Shandong province in May. **PHOTO:** AGENCE FRANCE-PRESSE/GETTY IMAGES

By Chao Deng

Updated July 15, 2019 12:02 am ET

BEIJING—China's economic growth decelerated to its slowest pace in decades, weakened by trade tensions with the U.S. and businesses that held back from making big investments despite encouragement from Beijing.

The economy grew by 6.2% in the second quarter, down from 6.4% in the period before, official statistics showed Monday. Growth was slower than the 6.3% year-over-year rate forecast by economists.

Investments remained weak on a quarterly basis, even though the month of June saw the beginning of a potential recovery as Beijing encouraged banks to lend more. Exports fell in June from a year earlier after trade talks with Washington broke down and President Trump applied higher tariffs to Chinese goods.

The figures show how Beijing's strategy to stimulate the economy by cutting 2 trillion yuan ($291 billion) in taxes and fees is falling short. In unveiling them in March, Premier Li Keqiang called the cuts a fair and efficient way to alleviate the struggles of companies.

Domestic sentiment in the quarter was held hostage by the twists and turns of the trade dispute. An impasse in negotiations shattered hopes for a deal in late May and Chinese businesses are worried that the two nations can't resolve their differences, even as Mr. Trump and Chinese President Xi Jinping got talks back on track in the waning days of June.

"There should be big volatility in China's economy right now," said Ting Lu, chief China economist at Nomura International. The tax cuts probably aren't having a big effect on sentiment, he said.

China's economy is growing at its slowest pace since at least 1992 when official records for quarterly growth started to be published. Economists expect Beijing to relax controls more on borrowing to reach its targeted GDP growth of between 6% to 6.5% this year.

Mao Shengyong, a spokesman at the National Bureau of Statistics, said China had "sufficient policy reserves" to stabilize the economy in the second half, including additional tax cuts and efforts to boost infrastructure investment.

Investment in bridges, roads and other infrastructure rose 5.8% in the first half of the year compared with 5.6% during the first five months. Factory output was up 6.3% in June from a year earlier, compared with 5.3% in May.

Still, economists doubt that a recovery of such activity in June, according to the official data, was sustainable. Nomura calculated that factory output was up 5.6% on a quarterly basis in the April-to-June period, compared with 6.5% in the first quarter.

Liu Li-Gang, an economist at Citigroup, said the pickup in June was due to a surge in new loans. Manufacturing-investment growth of below 6% for at least two consecutive months pulled down overall quarterly growth, he said.

Fei Xiangping, a marketing specialist of Superstar Shenzhen Automation Co., which produces battery packs for electric vehicles and cellphones, says business has been tough due to a protracted slump in China's automobile market.

"The prospect of the new energy industry should be good in the long run, but we just hit the wall this year," she said. Ms. Fei said her company makes battery packs for domestic car makers like Chery Automobile Co. and Zhejiang Geely Holding Group Co., as well as for Chinese mobile phone makers like OPPO and Vivo.

She hopes the government will introduce more favorable policies to encourage domestic consumption, especially with regards to auto purchases. "Without more supporting measures, it would be difficult for us for years ahead."

Another promising data point in June was consumption, with better-than-expected retail sales. Zhu Haibin, an economist with J.P. Morgan , said higher sales of automobiles drove retail growth and would boost consumption in the second half.

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Beijing has for months encouraged cities to spend and embarked on credit-loosening measures, but the economy has been slow to react. Analysts say local governments are holding back from starting projects for fear of being held responsible by the Communist Party for amassing more debt. Such austerity might bode well for China's financial well-being in the long run, but high-speed rail, highways and other national-level projects won't be enough to lift infrastructure-investment growth in the second half of the year, they say.

Meanwhile, sentiment has been weighed down by uncertainty in the U.S.-China trade dispute. Exports fell 1.3% in June from a year earlier after rising 1.1% in May, according to official data released last week.

Economists say Beijing may be forced to further loosen monetary policy, even though that could push up debt levels. After staying roughly stable last year, debt reached 247% of China's $13 trillion economy at the end of March, up 5 percentage points from the end of 2018, according to Macquarie Group.

Zhu Ning, a professor at the National Institute of Financial Research at Tsinghua University, said cutting banks' reserve requirement ratios or cutting benchmark interest rates would risk pressuring the value of the Chinese yuan, an undesirable outcome for Beijing during trade negotiations. Such measures also are growing less effective for pumping up growth.

That is why there isn't as much stimulus as people hoped for, Mr. Zhu said.

—Grace Zhu and Liyan Qi contributed to this article.

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