

## Flash Economics

23 January 2019 - 102

### What is slowing the Chinese economy?

China's growth is very clearly slowing. What can this be attributed to?

- Not to monetary conditions, which remain highly accommodating;
- Not to fiscal policy, which is expansionary;
- Not to overindebtedness, as credit is growing rapidly;
- Not to a slowdown in real wages;
- Not to a slowdown in productivity;
- Not to a deterioration in cost competitiveness;
- Not to a slowdown in global trade.

If China's economic slowdown does not have a macroeconomic cause, then the only remaining explanation is a loss of confidence in the future among companies and households.

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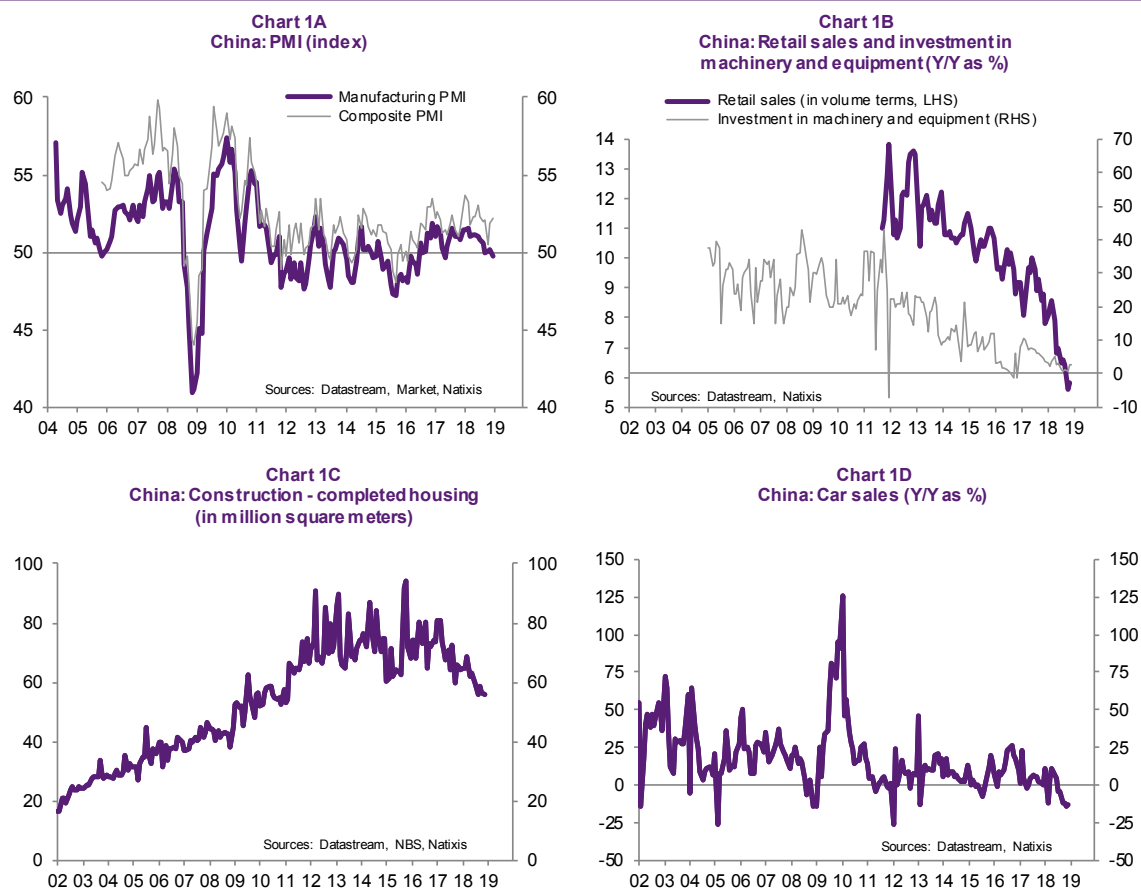
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## Very clear growth slowdown in China

Various indicators show **the slowdown in Chinese growth**: fall in growth expectations (**Chart 1A**); slowdown in consumption and stagnation in investment (**Chart 1B**); fall in residential construction (**Chart 1C**) and in car sales (**Chart 1D**).

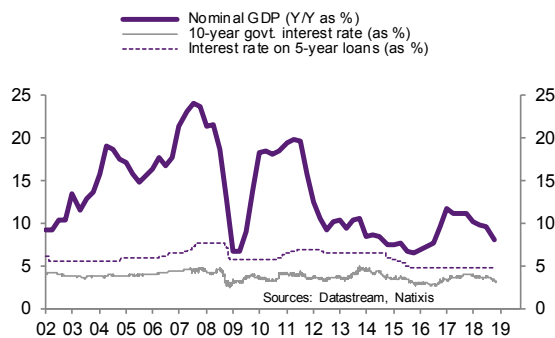


## China's growth slowdown does not have a clear macroeconomic cause

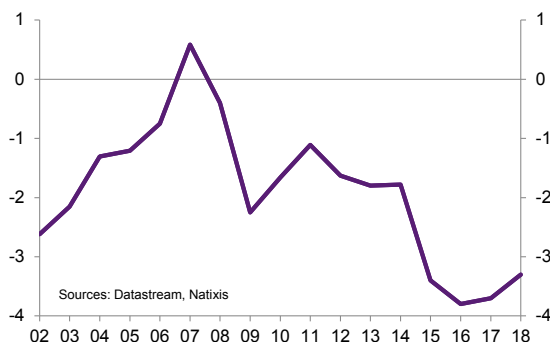
China's slowdown cannot be attributed to:

- **Monetary conditions**, which remain highly accommodating (**Chart 2**);
- **Fiscal policy**, which remains expansionary (**Chart 3**);

**Chart 2**  
China: Nominal GDP, interest rate on 10-year government bonds and interest rate on 5-year loans

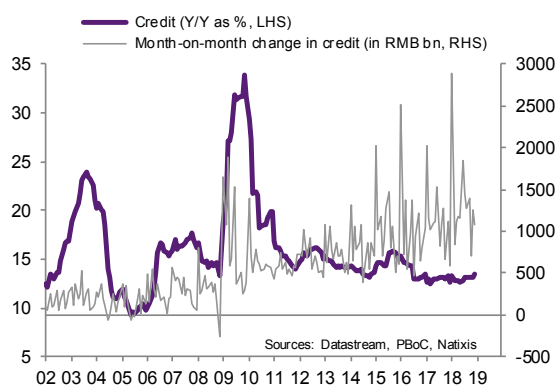


**Chart 3**  
China: Fiscal deficit (as % of nominal GDP)

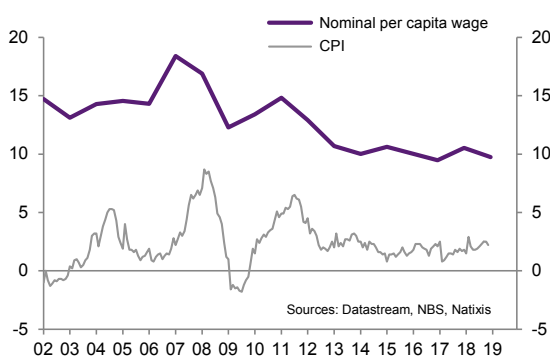


- **Overindebtedness**, as credit is growing rapidly (Chart 4);
- **A slowdown in real wages**, which continue to grow rapidly (Chart 5);

**Chart 4**  
China: Credit and month-on-month change in credit

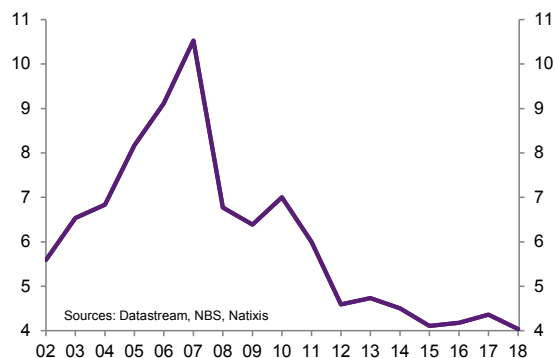


**Chart 5**  
China: Nominal per capita wage and inflation (Y/Y as %)

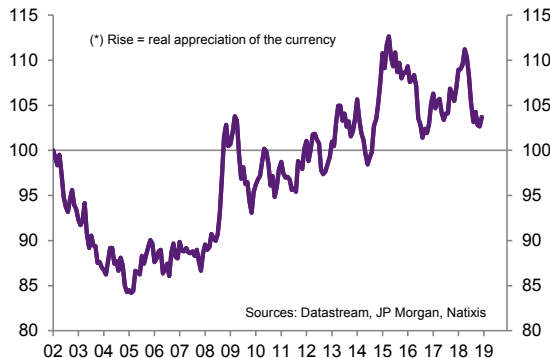


- **A slowdown in productivity**, which is growing rapidly (Chart 6);
- **A deterioration in cost competitiveness**, as the real trade-weighted exchange rate has depreciated since late 2015 (Chart 7);

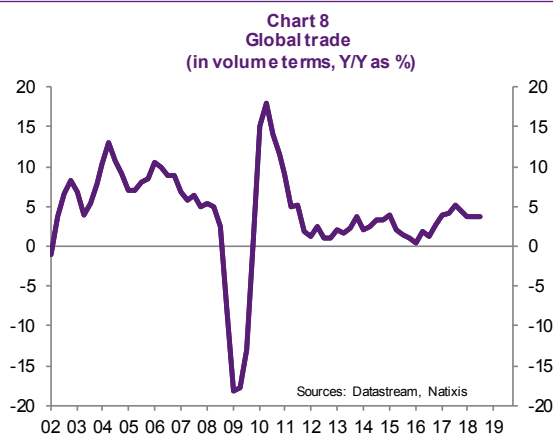
**Chart 6**  
China: Per capita productivity (as % per year)



**Chart 7**  
China: Real trade-weighted exchange rate\* (deflated by PPI, 2002:1 = 100)



- A slowdown in global trade, which remains vigorous (**Chart 8**).



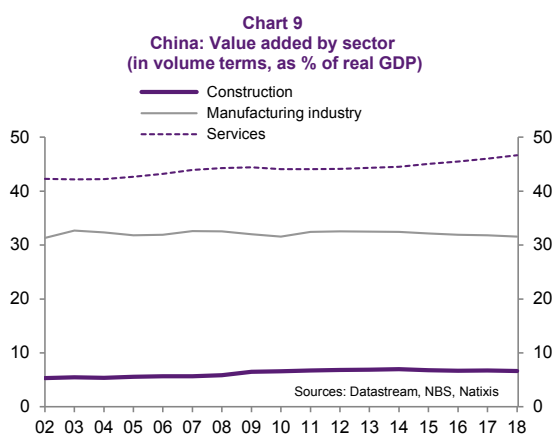
So we cannot find a convincing macroeconomic cause behind China’s growth slowdown.

### Conclusion: A confidence problem?

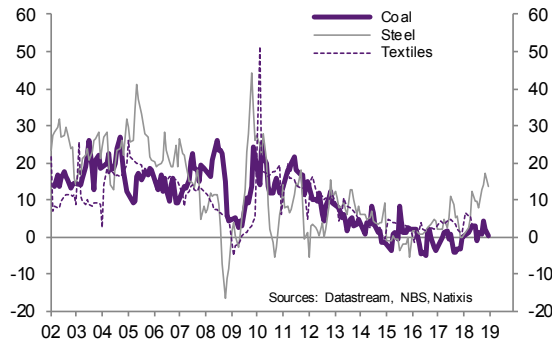
If the very clear slowdown in the Chinese economy cannot be attributed to a macroeconomic mechanism, it must be attributed to a loss of confidence among Chinese companies and households.

This loss of confidence may result from:

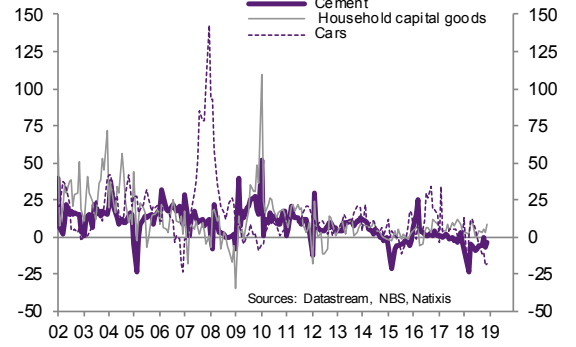
- Fears over the effects of protectionism in the United States;
- The pace of the adjustment in the Chinese economy, which is becoming a service economy (**Chart 9**), giving rise to considerable job losses in the sectors that are contracting (**Charts 10A and B**).



**Chart 10A**  
China: Production of coal, steel and textiles  
(Y/Y as %)



**Chart 10B**  
China: Production of cement, household capital goods and cars  
(Y/Y as %)



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