A Growth Slowdown in China?

Nicholas R. Lardy says the latest GDP figures from China show an overall slowdown but underlying strength in employment, the services sector, and consumption.


Steve Weisman: China has released new economic numbers that are being widely interpreted as disappointing for its economic growth prospects. Chinese leaders are in Davos to explain what’s going on and Nicholas Lardy of the Peterson Institute is here with me, Steve Weisman, to explain to viewers. Nick, what are the new numbers?

Nicholas Lardy: The big number is that the economy grew at 7.4 percent in 2014, which is just very slightly below the targeted 7.5 percent that has gotten so much attention.

Steve Weisman: Is it a big disappointment?

Nicholas Lardy: No, I don’t think it is. A tenth of a percentage point this way or that way is really not significant even in the short run, and the underlying numbers in this report are actually fairly positive. China generated a record number of new jobs in 2014 in part because they continued the pattern of economic growth in which the service sector is growing more rapidly than the overall economy. The service sector is more labor intensive. From the political point of view, when you have very high employment creation, the political leaders are not actually shaking in their boots because they came in a tenth of a percentage point below their nominal target.

We also see very strong consumption growth, very strong growth of disposable income. And again, that ties back into the growth of employment and the continued growth of wages. So there are some elements in the report that are actually fairly optimistic, but most of the attention focus is on the headline growth number and it is down slightly from the target and it is the slowest growth they’ve had in quite a few years, but 7.4 percent is spectacularly good by global standards.

Steve Weisman: Is this service and consumption growth as you just mentioned, part of the re-balancing that you and others have called for?

Nicholas Lardy: It certainly is part of it, they’re getting stronger consumption growth, they are moving away from an industrial-led, export-led, growth pattern, relying more on domestic consumption demand. There’s a long way to go in that rebalancing process, but I think we’re beginning to see some of the results of the policies that have been adopted in recent years.

Steve Weisman: The Chinese leaders are making their presentation in Davos this week. That ought to cheer a lot of people in attendance I suppose.

Nicholas Lardy: There are a lot of naysayers out there. They say this is just the first step down, next year will be even lower and the year for that will be even lower. So there is some nervousness in the
markets about what the growth pattern will be growing forward. But I say when you look a little bit behind the headline numbers, there are some significant elements of strength and if that continues, then I think the downside risk for the economy over the next few years is actually fairly modest, that they should be able to keep growing at 7 percent and 7.5 percent. They won’t be slipping down to 6 percent and 5 percent and 4 percent as some people are forecasting.

Steve Weisman: Is there anything worrisome in these numbers—the property value, inflation, the asset bubble problems?

Nicholas Lardy: I would say it’s a good news story. The main reason the economy is slowing down is that investment in housing has moderated, but that’s very much necessary. China has been over-investing in property for quite a number of years and now we see—a few years ago, property investment is growing at a 30 percent. Last year it was only growing at 10 percent, so that’s led to less demand for steel, a lot of construction materials and so forth. It has very widespread repercussions. But this is a necessary adjustment to get onto a more sustainable growth which is not led by an unsustainable growth of the property sector, which as we’ve seen in other countries, including our own, can be somewhat problematic.

Steve Weisman: Thank you very much, Nick.

Nicholas Lardy: Thank you, Steve.