China's Economic Growth Falls To Nearly 3-Year Low

Joe McDonald, AP Business Writer

BEIJING (AP) — China's declining economic growth fell to its lowest level in nearly three years in the first quarter, but analysts said it should rebound in coming months.

The world's second-biggest economy grew by a still-robust 8.1 percent in the three months ending in March, down from the previous quarter's 8.9 percent, data showed Friday. It was the weakest expansion since the second quarter of 2009 but above the government's 7.5 percent target for the year.

China's rapid growth has fallen steadily since 2010 as a slump in global demand battered its exporters and Beijing tightened lending and investment curbs to cool an overheated economy and surging inflation.

An uncontrolled slump could have global repercussions, hurting demand for oil, industrial components and consumer goods at a time when U.S. and European growth are weak. It also might fuel political tensions in China as the ruling Communist Party prepares for a sensitive, once-a-decade handover of power to younger leaders.

"This quarter's growth was pretty weak," said IHS Global Insight analyst Xianfang Ren. "Starting from next quarter, growth should strengthen."

The World Bank and private sector analysts expect China to achieve a "soft landing," with growth rebounding later this year. But some worry the slowdown might be too sharp, raising the risk of job losses.

The World Bank and International Monetary Fund expect 8.2 percent growth for China this year — below 2010's explosive 10.4 percent expansion but ahead of low single-digit forecasts for the United States, Japan and Europe.

Last year's unexpectedly steep plunge in demand for China's exports due to U.S. and European economic woes prompted communist leaders to reverse course and ease controls on bank lending to help struggling manufacturers.

"The 'soft landing' scenario is very likely," said Frances Cheung, senior strategist for Credit Agricole CIB in Hong Kong.

Still, Cheung said financial markets might react badly to the latest data, because a recent rally in prices was based on expectations Chinese growth would be stronger.

Chinese leaders are trying to reduce reliance on exports and investment and shift to

growth based on domestic consumption. In line with that, they reduced their annual growth target through 2015 to 7.5 percent from the 8 percent level of recent years.

On Friday, the Cabinet issued a statement pledging to press ahead with reforms intended to increase domestic consumption but announced no major policy changes, suggesting Communist leaders are satisfied with the latest economic performance.

The statement cautioned that China still faces difficult economic conditions due to uncertainty in key export markets and possible pressure for prices to rise. It called on the public to remain diligent and calm.

In a possible sign of gathering economic strength, Chinese factory activity, retail sales and exports accelerated over the course of the first quarter.

Industrial production rose 11.9 percent over a year earlier in March, up 0.5 percentage points from the January-February period. Growth in retail sales rose by a similar margin to 15.2 percent. Export growth rose two percentage points to 8.9 percent, though that was well below China's double-digit rates in recent years.

"China's economy is stabilizing," said Sheng Laiyun, a spokesman for the National Bureau of Statistics, at a news conference.

IHS Global Insight's Ren said China also should benefit from an improved outlook for the U.S. economy, which would help exporters, and recent growth in real estate sales.

Data released Thursday showed bank lending in March soared to just over 1 trillion yuan ($160 billion), well above analysts' forecasts.

On Thursday, the World Bank trimmed its growth forecast for China this year from 8.4 percent but said it should avoid an abrupt downturn. It said growth next year should rebound to 8.6 percent.

"The near-term challenge we see is maintaining this 'soft landing' that we see under way," the bank's lead China economist, Ardo Hansson, told reporters.

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