World Bank cuts China 'growth' for 2024

East Asia's developing economies set to expand at one of the lowest rates in five decades, global agency warns

BLOOMBERG & AGENCIES
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China's economy may grow at a slower pace next year, while East Asia's developing economies may see their slowest rate of growth in around 50 years, the World Bank said in its latest report, blaming US efforts at protectionism and the economic drag of increasing debt.

Gross domestic product growth is estimated at 5 per cent in 2023 and 4.5 per cent in 2024, the World Bank said in its semi-annual outlook for East Asia and the Pacific. That compares with April forecasts of 5.1 per cent for this year and 4.8 per cent for the next. The latest estimates were still faster than the pace seen in other emerging markets, it said.

China accounts for some of that drag. The world's second-largest economy will likely expand 4.4 per cent next year, down from the 4.8 per cent previously projected, amid property woes, increasing debt, and a fading boost from the post-Covid reopening. The 2023 GDP forecast for China was kept at 5.1 per cent.

"WHAT HAPPENS IN CHINA MATTERS FOR THE WHOLE REGION"
WORLD BANK REPORT

"What happens in China matters for the whole region," the report read. "A 1 per cent reduction in its growth is associated with a reduction in regional growth by 0.3 percentage points."

Excluding China, East Asia and the Pacific should see slightly faster growth in 2024 as the global economy improves and revives foreign demand for the region's manufactured goods and commodities, the World Bank said. Geopolitical tensions, possible natural disasters including extreme weather events are downside risks to the outlook, it said.

Why a US recession is still likely — and coming soon

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When everyone expects a soft landing, brace for impact. That's the lesson of recent economic history — and it's an uncomfortable one for the US right now.

A summer in which inflation trended lower, jobs remained plentiful and consumers kept spending has bolstered confidence — not least at the Federal Reserve — that the world's biggest economy will avoid recession.

A last-minute deal to avoid a government shutdown kicks one immediate risk a little further into the future. But a major auto strike, the resumption of student-loan repayments, and a shutdown that may yet come back after the stop-gap spending deal lapses, could easily shave a percentage point off GDP growth in the fourth quarter.

Add those shocks to other powerful forces at work on the economy — from dwindling pandemic savings to soaring interest rates and now oil prices too — and the combined impact could be enough to tip the US into a downturn as early as this year.

The bottom line: history, and data, suggest the consensus has gotten a little too complacent — just as it did before every US downturn of the past four decades.

Why do economists find it so difficult to anticipate recessions? One reason is simply the way forecasting works. It typically assumes that what happens next in the economy will be some kind of extension of what's already happened — a linear process, in the jargon. But recessions are non-linear events. The human mind isn't good at thinking about them.

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The key takeaway is that risks are heavily skewed toward higher unemployment.

Soft-landing optimists point out that stocks have had a good year, manufacturing is bottoming out and housing reaccelerating. The trouble is, those are the areas that have the shortest lag time from rate hikes to real-world impact.

For the parts of the economy that matter for making the recession call — above all the labour market — lags are longer, typically 18 to 24 months.

That means the full force of the Fed's hikes — 525 basis points since early 2022 — won't be felt until the end of this year or early 2024. When that happens, it will provide a fresh impetus for stocks and housing to turn down. It's premature to say the economy has weathered that storm.