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LNU’s China Panel No 23 – May 11, 2017

Growth temperature rises in the Chinese economy to 6.4 in April - up from last December

Summary

From the end of April until the beginning of May, we prepared our traditional spring survey on the business climate and economic conditions in China. We try to find out more about the Chinese business cycle and some important structural issues. We received again answers from around 15 independent China experts from Asia, the U.S. and Europe – thanks!

¤ Our so-called Temperature Indicator for the Chinese economy improved to 6.4 in April/May compared to 5.2 in December last year (on a scale 1-10; 10=very hot).

¤ The panel expects GDP growth in 2017 and 2018 to remain quite stable compared to 6.7 in 2016 (2017: 6.5 %, 2017q4: 6.3 %, 2018:6.0 % - based on official statistics).

¤ The panel’s GDP forecast on China for 2017 and 2018 includes the assumption of an ongoing gradual but relatively modest upswing in the OECD area as a whole.

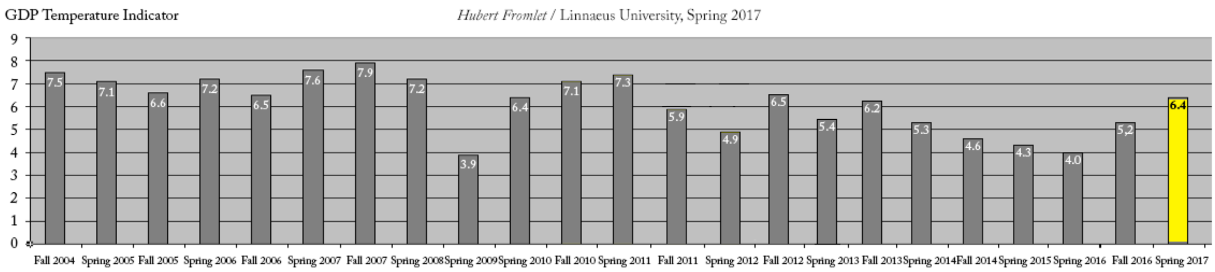
¤ 75 % of the panelists have rather a downward bias in their forecasts than vice versa.

¤ There are almost no appreciation expectations anymore for the Chinese currency RMB.

¤ 90 % of the panelists still see a bubble on the real estate market.

¤ Ranking of some structural areas in China (scale 1-10, 10 = very good): statistics 3.9, institutions 5.3, marketization of a) banks 4.1, b) stock markets 4.0, c) bond markets 4.4.

Hubert Fromlet



LNU's China Survey from Spring 2017
and comments by Hubert Fromlet, Linnaeus University/Linnéuniversitetet

1. LNU's "Temperature Indicator": another improvement to 6.4 from 5.2 in December

This time, our "Temperature Indicator" rose for the second time in a row after several quarters of weakening until last spring (from 5.2 at the end of 2016 to 6.4 now in spring 2017). The current number of 6.4 remains somewhat dampened in a historical perspective or compared to our all-time-high of 7.9 in fall 2007. However, some rising growth optimism can be figured out. But we do not know exactly whether this improved attitude is based mainly on encouraging official statistical – maybe questionable - growth indicators or more on visible and trustworthy signals of improvements in reality. This is an area where also applied psychology may play a role.

2a. The Panel's predictions for GDP growth – stable but not high

2016:	6.7 (official)
2017:	**6.5**
2017, q4:	**6.3**
2018:	**6.0**

Obviously, our China panel expects GDP growth to remain on a relatively stable level (and not quite following the current positive mood as answered in question 1). Our China experts see GDP growth in 2017 in line with the official objective of "6.5 percent or more if possible". The expected outcome for 2018 may appear somewhat dampened. However, a 6-percent growth rate wouldn't be bad if it (mainly) reflected necessary - initially growth-dampening - restructuring of industry etc. It is - as Chinese leaders and scientists often point out – the quality of growth that counts. This is certainly correct. But how can we receive (reliable) evidence on such a kind of change? The 19th National Congress next fall – a real political top event – will hopefully give some illuminating information.

2b. Do you assume in your GDP forecasts for 2017 and 2018

- a more significant strengthening of GDP in the OECD area	**18** %
- a gradual but relatively modest upswing in the OECD area as a whole	**73** %
- a weak and disappointing GDP-growth performance in the OECD area	**9** %

Our panel believes in slightly improved growth conditions in the OECD area (which was measured before the second round of the French presidential elections). This is in line with most current forecasts on international (OECD-, global) GDP growth and could mean somewhat better conditions for Chinese exports during the forthcoming quarters.

3. Where do you expect Chinese GDP growth during 2017/2018 mainly come from?

The **ranked** answer is:

- private consumption
- investment (particularly construction)
- net exports

It can be added that the expected contribution to GDP growth in the forthcoming quarters does not make a major difference between private consumption in the lead and growth of total investment.

4. Do you see for your own China forecast for 2017/2018

- an **upward** bias **25** %
- a **downward** bias **75** %

This ratio underlines well that China currently is not seen on a stable and solid growth path and expresses well remaining growth uncertainty.

5. What are your three major short-term concerns – i.e. during the next few years – about the Chinese economy?

Ranked, we got the following order:

- the **debt** problem
- bursting **real estate** bubble
- insufficient **reforms**

There is not much to add. Other areas that are mentioned are, for example, rising trade frictions (protectionism), the environment and North Korea.

6. Do you expect the renminbi (RMB) in 2017 against the RMB

- to be **stable** **50** %
- to **depreciate** slightly (1-5%) **33** %
- to **appreciate** slightly (1-5%) **17** %

Experts do not expect a steadily ongoing - more or less "automatic" - appreciation trend anymore. This phenomenon probably reflects mainly two phenomena: on the one hand, doubts about the future of the Chinese economy have been increasing; on the other hand, the Chinese exchange rate nowadays seems to be much closer to a kind of equilibrium than a couple of years ago. Declining appreciation pressure from president Trump may play some role, too.

7. Do you think there is still a dangerous bubble on the

- **stock** market	yes: **33** %	no: **67** %
- **real estate** market	yes: **90** %	no: **10** %

There is no doubt that our China Panel remains concerned about the obvious bubble on the real estate market. These problems seem having grown. A year ago, the percentage of concerned panelists was “only” 67 percent compared to 90 percent these days.

8. How would you grade your general confidence in China’s economy (5 = very big, 1 = very low confidence)

- **three** years from now **2.9**
- **five** years from now **2.7**
- **ten** years from now **3.1**

The panel’s general confidence in the Chinese economy is actually not bad. The numbers reflect hope or uncertainty – but not pessimism.

9. Do you trust in (on a scale from 1-10, 10=very much)

- Chinese statistics => **3.9** (February 2016: 3.7, fall 2010: 4.4)
  (with 58 % seeing some progress in the past 2-3 years)

3.9 is still an insufficient number. The downward trend is worrisome. More could be – and should be – done about the quality of Chinese statistics. This should be a natural commitment for the leaders of the second largest economy in the world.

10. Your grading of the current institutional framework (on a scale from 1 – 10, 10 = very good)

The result is **5.3** (February 2016: 4.2, fall 2010: 4.5)

According to our China Panel, some institutional improvements seem to have taken place more recently (e.g. in the financial sector). Institutional reforms are part of the top leaders’ policy priorities - in line with the Third Plenum from 2013, the very important strategy meeting of China’s current and partly incoming new political leaders.

11. How do you grade – on a scale 1-10 - the current state of marketization as regards

- the **banks**	**4.1**	(February 2016: 3.8, fall 2011: 3.8)
- the **stock** market	**4.0**	(February 2016: 3.7, fall 2011: 4.5)
- the **bond** market	**4.4**	(February 2016: 4.5, fall 2011: 4.2)

These results are not satisfactory. Efforts should be strengthened.

12. Where do you see Chinese GDP growth on average during the forthcoming years?

5.3 % (which is based on official statistics).

The growth target for this year of 6.5 % or more will certainly be met. After the important National Congress this fall, it should be observed carefully whether reforms will be accelerated and to what extent policy will have an impact on GDP growth. Two thirds of LNU's panelists still predict a gradual, quite slow future acceleration of reform activities.

Hubert Fromlet