School of Business and Economics
Linnæus University
Kalmar Växjö

LNU’s China Panel No 24 re-visited – January 8, 2018

“Satisfactory survey numbers from China”

In the beginning of December, Linnaeus University prepared its traditional fall/winter survey on the business climate and economic conditions in China, both with shorter and longer time perspectives. The (independent) responding China experts – around 15 of them - come from Asia, the U.S. and Europe – thanks a lot!

Unfortunately, the publication of the survey took place on December 22/23 when seasonal holidays already had started for many readers. For this this reason, we re-publish the results of the survey, provided with some additional comments. We see no reason why any result from the December Panel should be obsolete already today.

Summary: LNU’s China Panel remains cautiously optimistic on China – despite the risks”

¤ LNU’s **“Temperature Indicator”** for GDP growth remained stable at 6.1 in December 2017 compared to 6.4 in May 2017 - still satisfactory despite the small decrease (10 means “very hot” on the scale).

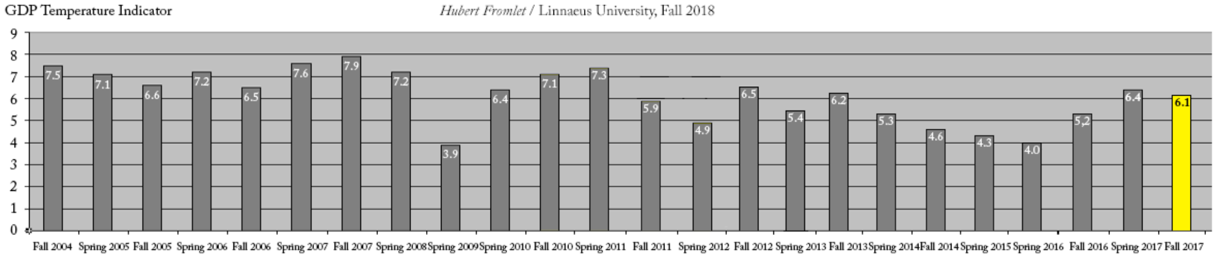
¤ The panel expects Chinese **GDP growth** to come in at 6.2 percent in 2018 as a whole and at - somewhat slower - 6 percent in q4 2018. But also this latter number would still be acceptable inside and outside China.

¤ The forecasts of the panel have rather a **downward bias** than an upward bias.

¤ There are very divided views on the course of the currency RMB in 2018.

¤ GDP growth is seen at **5.6 percent** on average until 2022 (five years from now).

Hubert Fromlet



LNU’s China Survey from Fall 2018 -
comments by Hubert Fromlet, Linnaeus University/Linnéuniversitetet

1. LNU’s ”Temperature Indicator” - down slightly to 6.1” in December 2017

6.1 for our so-called “Temperature Indicator” is reflecting quite a satisfactory growth situation in China right now - at least according to our own historical (panel) experience back to fall 2004. 6.1 is roughly a similar number as we had in spring 2017 but 2.1 points higher than our second lowest number ever in spring 2016 - though still clearly below the all-time-high of 7.9 in fall 2007. (10 is the highest score).

2a. The Panel’s predicts 6.2 percent for GDP growth in 2018

Gradually downsizing economic growth and improving the quality of GDP at the same time are regarded as extremely important policy objectives of China’s political leadership.

The invited China Panel foresees GDP to increase by 6.2 percent in 2018. This would be a slight deceleration compared to the estimates of 6.6 and 6.8 percent for 2017 by the panel and myself. It may be added that the officially envisaged GDP growth of “around 6.5 percent” in 2018 has been re-confirmed a few days ago by different official sources (which also is my own prediction for this year). We know that official GDP forecasts usually “have” to come true. Therefore it does not really make sense to discuss now whether Chinese GDP growth finally comes in at 6.2, 6.5 or 6.7 percent – all these numbers are possible and would be in any case close to 6.5 percent. However, an official final result with a deviation to *less* than 6 percent compared to the objective of around 6.5 percent certainly would make me puzzled.

Unfortunately, it seems to be impossible to find out to what extent future growth will be based on more sophisticated or on old-fashioned products. Hopefully, some guideline may be given by the traditional Chinese GDP calculations from the production side. Publication day for different GDP developments and calculations in 2017 will be already on January 18.

For 2019, our China Panel seems to expect some further, but limited slowdown in the economy when taking the predicted 6.0 GDP-growth rate for q4 2018 as a starting point for 2019. Any kind of numerical GDP forecast on China, however, must be based on not really reliable official statistics. There is, unfortunately, no statistical choice.

Appliers of Chinese statistics should be aware of this shortcoming - and of all the **risks** for the business cycle which we mentioned many times before in this survey and which still exist (private and local debt, bad loans, real estate, social issues, Trump and North Korea, etc).

In my view, there is no doubt that the new/reappointed Chinese political leadership regards the financial risks from indebtedness as the main economic challenge in the next few quarters – probably also beyond 2018.

2b. Do you assume in your forecast for 2018

a more significant strengthening of GDP in the OECD area *26 percent**

a gradual but relatively modest upswing in the OECD area as a whole *66 percent**

a weak and disappointing GDP-growth performance in the OECD area * **8 percent**

The result is clear: a strong majority of the China Panel assumes a relatively moderate continuation or improvement of the ongoing upswing in the OECD area as a whole during the forthcoming quarters. Just to emphasize once more: this is an assumption and not a forecast.

3. The main contributors to GDP growth in 2018 are expected to be (ranked)

private consumption, no 1

investment, no 2

net exports (only a few “votes”)

An increasing share of private consumption in relation to GDP is exactly what China’s political leadership wants to achieve in order to improve people’s satisfaction and to decrease the volumes of non-promising investments.

Altogether:

The Chinese reform train seems to be on the right track - but how fast and long will or can it move in the future?

4. The China Panel assumes for its own forecast (GDP growth) for 2018

an upward bias **17 procent**

a downward bias **83 procent**

no bias at all **-**

The view of our China experts is obvious: a clear majority of the panel believes that the outcome of their GDP predictions rather will turn out to be weaker than stronger if the main forecasts go wrong. This is what we call a downward bias.

5. Do you expect the renminbi in 2018 against the USD

- to appreciate slightly (by +1 to +5 percent) **24 procent**
- to appreciate more markedly (by +5 to +10 percent) **0**
- to appreciate strongly (by >10 percent) **0**
- to remain very stable (by -1 up to +1 percent) **38 procent**
- to depreciate slightly (by -1 down to -5 percent) **38 procent**
- to depreciate more markedly (by -5 down to -10 percent) **0**
- to depreciate strongly (by > 10 percent) **0**

Our panelists feel obviously very uncertain about the future course of the Chinese exchange rate RMB - but a slight downward bias can be found. Previous "automatic" appreciations cannot be assumed anymore.

6. 5.6 percent: GDP growth on average in the next five years, predicted by the panel

5.6 percent on average for GDP growth until the National Congress in 2022 would probably be acceptable for China's top leaders. But we have to ask ourselves again about the future shares of the modern and the lagging (uncompetitive) China in its GDP growth. The answer to this question will also be decisive in different perspectives.

7. How will the recently appointed and partly re-appointed Chinese political leaders deal with their economic reforms until the next National Congress in 2022?
(Scale 1 – 5; 1 = very poorly, 5 = very successfully)

Result: **3.0**

The panel's average grading is very much the way one could expect. 3.0 expresses certain appreciation about achieved and probably planned reforms - but also uncertainty which, of course, increases the farer the applied time horizon lies in the future. Verbally, 3.0 means "satisfactory" - which is quite a decent grading.

Conclusion:

China could indeed continue to move forward - but only if the country and its leaders ambitiously will stick to their own, many times promising economic plans.

Hubert Fromlet
affiliate professor at Linnaeus University