

LNU's China Panel No 24 – December 22, 2017

“Satisfactory numbers from China”

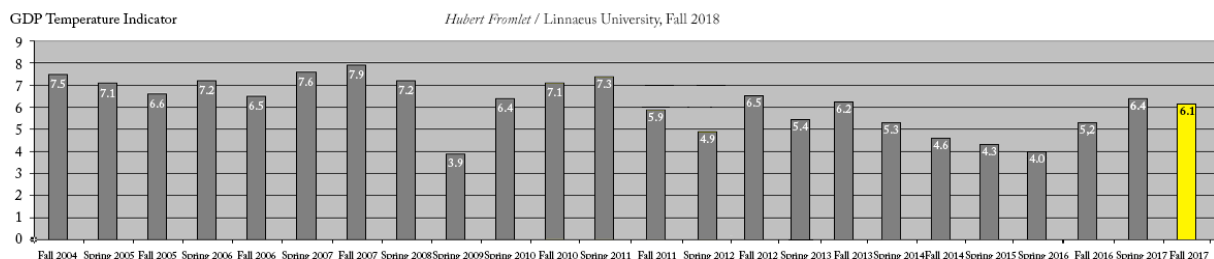
Summary

In the beginning of December, Linnaeus University prepared its traditional 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 Europa – thanks a lot!

“Satisfactory numbers from China”

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

However, it seems to be impossible to find out to what extent future growth will be based on more sophisticated or old-fashioned products. Some guideline may be given by the traditional Chinese GDP calculations from the production side.

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 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 that still exist (private and local debt, bad loans, real estate, social issues, Trump and North Korea, etc).

2b. Do you assume in your forecast for 2018

- # a more significant strengthening of GDP in the OECD area ***66 procent**
- # a gradual but relatively modest upswing in the OECD area as a whole ***26 procent**
- # a weak and disappointing GDP-growth performance in the OECD area ***8 procent**

The result is clear: a strong majority of the China Panel assumes a relatively moderate 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?

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 predicted 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 size of the share of the modern 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 farther the applied time horizon lies in the future. Verbally, 3.0 means “satisfactory” - which is quite a decent grading.

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

Hubert Fromlet