

LNU's China Panel No 25 - May 3, 2018

## “Stable and satisfactory numbers from China - LNU's “Temperature Indicator at 6.0 “

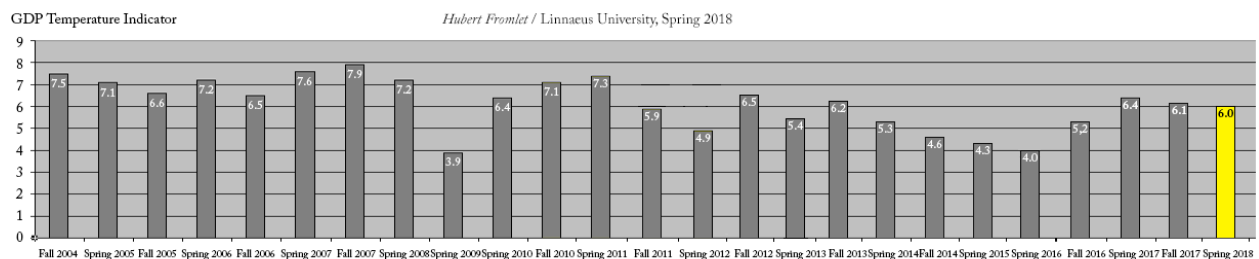
### *Summary*

In the second half of April, Linnaeus University prepared its traditional spring 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!

### *“LNU's China Panel remains cautiously confident on China – despite the obvious risks”*

- ☒ LNU's “**Temperature Indicator**” for GDP growth in China remained stable at 6.0 in April compared to 6.1 in December 2017 (10 means “very hot” on the scale) - still satisfactory despite the small decrease.
- ☒ The panel expects Chinese **GDP growth** to come in at 6.5 percent in 2018 as a whole - 0.3 higher than predicted last December and at - somewhat slower – 6,2 percent in q4 2018. For 2019, our forecasters see Chinese GDP grow with 6.2 percent as well. This latter number – if achieved in reality - would certainly be acceptable inside and outside China.
- ☒ More than half of the forecasters (54 percent) see rather a **downward bias** in their own GDP prediction than an upward bias – and around one third no bias at all.
- ☒ There are divided views on the course of the currency RMB in 2018 but most experts expect a **slight depreciation** (1-5 percent) of the RMB against the U.S. dollar in 2018.
- ☒ **GDP growth on average until 2023** is seen at 5.6 percent.

**Hubert Fromlet**



## LNU's China Survey from Spring 2018 – further survey results and comments by Hubert Fromlet, Linnaeus University/Linnéuniversitetet

### 1. LNU's "Temperature Indicator" - down slightly to 6.0 from December

6.0 for our so-called "Temperature Indicator" is reflecting quite a satisfactory growth situation in China at this moment - at least according to our own historical experience back to fall 2004. Sure, 6.0 is somewhat slower than 6.4 in spring 2017 but exactly 2.0 points higher than our second lowest number ever in spring 2016. However, 6.0 is also clearly below the all-time-high of 7.9 in fall 2007 (10 is the highest score) – reflecting the gradual reduction of growth (ambitions).

### 2a. The Panel's predicts 6.5 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 of LNU foresees GDP to increase by 6.5 percent in 2018 – exactly in line with the objective of China's political leadership. Therefore, this political growth target will most probably be met statistically and would, consequently, be quite alright on the paper. However, it is impossible to say to what extent reality will deviate from this numerical result. The panel certainly cannot apply other growth benchmarks than the ones given by China's political leaders and the National Bureau of Statistics (NBS).

For 2019, our China Panel seems to expect a minor slowdown in the economy when foreseeing the predicted 6.2 GDP-growth rate in q4 2018 and the same number in 2019.

### 2b. The outlook for China in 2018/2019 is based on

☒ a continuously good recovery in the OECD area as a whole but somewhat dampened growth at the end of 2018

**\*66 procent**

☒ a continuously good recovery in the OECD area as a whole, also at the end of 2018

**\*25 procent**

☒ a clearly weakening GDP-growth performance in the OECD area at the end of 2018

**\* 9 procent**

The result is clear: a strong majority or two thirds of the China Panel assumes a relatively good upswing in the OECD in the forthcoming quarters but somewhat dampened growth at the end of the year. 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, no 3 if at all (clearly behind private consumption and investments)

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 at least to be on the right track in terms of the demand side - but how fast and long will or can it move?

### **4. Do you expect the renminbi in 2018 against the USD**

- to appreciate slightly (by +1 to +5 percent)      **28 procent**
- to remain very stable (by -1 up to +1 percent)      **8 procent**
- to depreciate slightly (by -1 down to -5 percent)      **64 procent**

Our panelists obviously feel uncertain about the future course of the currency RMB (CNY) - but a more pronounced downward bias than last time can be found this time. "Automatic" appreciations as previously during many years are not predicted anymore.

### **5. GDP growth 5.6 percent in the next five years (on average)**

5.6 percent on average for GDP growth until 2023 – as seen by the panel half a year ago as well - would probably be acceptable for China's top leaders. We also have to ask ourselves again about the shares of the rapidly changing and the still lagging, uncompetitive China in their contributions to GDP growth. In my previous China blog, I defined and explained the current three different Chinas as follows ([chinaresearch.se](http://chinaresearch.se)) :

- ☒ the traditional and conservative China,
- ☒ the slowly reforming China,
- ☒ the rapidly changing China.

One can without doubt conclude that the future developments of the three above-mentioned Chinas will decide the development of long-term growth in China.

**6. How will the recently appointed and partly re-appointed Chinese political leaders deal with their planned economic reforms** (scale 1 – 5; 1 = very poorly, 5 = very successfully)

Result: **2.9** (December 2017: 3.0)

The panel's average grading as shown above is very much the way one could expect. 2.9 expresses certain appreciation about achieved and probably planned reforms - but also uncertainty which, of course, increases the farther the time horizon is moved into the future. Verbally, 2.9 means "satisfactory" - which is quite a decent grading and almost unchanged compared to the judgments in December 2017.

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

**7. Still unsatisfactory quality of official economic statistics**

Finally, we wanted an answer to an institutional question. Like many times before, we asked the panelists about their view on the quality of economic statistics (on a scale from 1 – 10; 1 = very poor, 10 = very good). The average result this time was 4.1. This can, for example, be compared to 4.9 in spring 2014. Probably, no real deterioration has taken place during this period – but analysts (and journalists) have become more aware of the obvious statistical shortcomings.

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