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China: Our (GDP-) Growth Temperature Indicator Falls to 4.3 – the Second Lowest Number Ever

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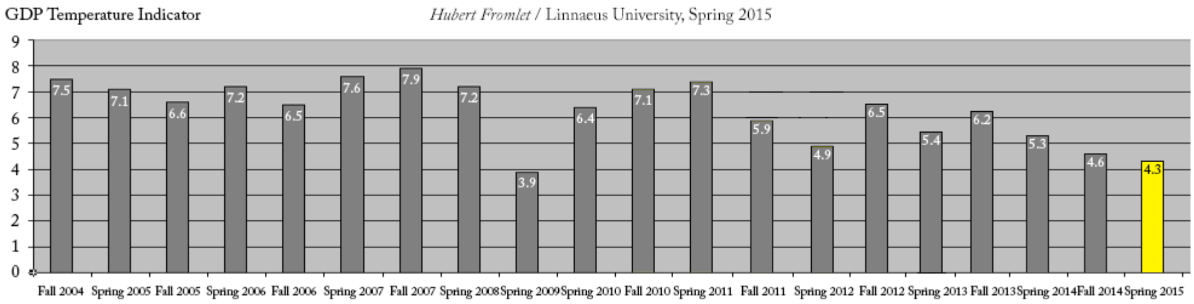
In the second half of April, Linnaeus University conducted again its biannual survey on China's economic outlook for roughly two years ahead. Roughly 15 China experts answered this time, China experts working in Europe, the U.S. and Asia.

Second lowest number for our Growth Temperature Indicator ever – spring 2015



Our Growth Temparature Indicator confirms again the ongoing slowdown in the Chinese economy. 4.3 is the second lowest number ever since we started this analysis in fall 2004 – and reflects the third decreasing number in a row. In my view, it seems to be an open question whether Chinese GDP growth still is at around 7 percent – as it is signaled by official statistics – or in reality even (somewhat) lower. Unfortunately, there is still reason to mistrust Chinese growth statistics even if qualitative improvements should have taken place in the past few years.

6.5 % GDP growth the "New Normal"?

GDP forecasts by our Panel:

2015:	6.8 %	(6.9 % forecast in Nov 2014)
2015 q4:	6.6 %	(6.7 % forecast in Nov 2014)
2016:	6.5 %	
2016q4:	6.5 %	

According to our Panel Survey, GDP-growth forecasts have been revised down one more time - though only slightly. Since about one year ago, Chinese political leaders are talking frequently about the "new normal", i.e. the lower – but healthier - trend growth than the Chinese have become used to in the past two decades. This is partly explained by the intended new economic policy which is aimed at supporting the supply side of the economy – an approach which usually takes time to be implemented and also to see a better and more sustainable quality of growth. If GDP growth could be "settled" at around 6.5 percent in the forthcoming years, it would probably still reflect a satisfactory growth development if structural reforms simultaneously are in place.

Three out of four panelists assume only a gradual and modest recovery.

73 percent of our panelists assume in their forecasts on China that this year and 2016 will give only a gradual and relatively modest international recovery – and no significant acceleration of global growth. Consequently, Chinese exports are not expected to gain momentum as a growth driver for the Chinese economy. Main contributors to Chinese GDP growth in 2015/2016 will most probably be investments and consumption.

Downward bias for the panelists' own forecasts on China's GDP.

For 2015:
downward bias 86 %   upward bias 14 %

For 2016:
downward bias 50 %   upward bias 50 %

This year seems to be very modest by Chinese growth standards, according to our panelists. 2016 looks a little bit more friendly – but it is hard to say to what extent the divided bias opinion for next year reflects a more positive growth attitude or remaining uncertainty.

Financial markets are regarded as the greatest concern.

Our China Panel regards as the greatest short-term concerns:

1.Financial markets
2.Overcapacity in Corporate China
3.Delayed economic reform policy

This question deals with the Panel's greatest short-term concerns, i.e. watching a horizon about two years ahead. Financial markets - real estate included – are again in the top of the risk list. A number of risks outside the "top 3-list" are also mentioned several times - such as the environment, labor markets and the uneven distribution of income.

¤ What about the bbubbles – are they still there?

Bubble on the <u>stock market:</u>
Yes: 50 %   No: 50 %

Bubble on the real <u>estate market:</u>
Yes: 80 %   No: 20%

Our panelists see the risks on the stock market as higher than half a year ago whereas the risks for the real estate market only have changed slightly – but are still considered as high.

¤ Stable confidence in the Chinese economy – but expressing uncertainty all the same

Despite the weakening short-term perspectives for Chinese GDP growth, the panel's confidence in the Chinese economy remains quite stable, i.e. close to 3 on a scale between 1 and 5 (5=very good) – both in a 3, 5 and 10 years' perspective. My own interpretation of the numerical stability, however, is rather a relatively high degree of uncertainty in the longer run than real economic stability in the future.

Altogether, it should be stressed that the future quality of Chinese GDP growth must be regarded as much more important than short-term GDP numbers. Hopefully, the worst possible development can be avoided – slower GDP growth because of industrial overcapacity, weakening Chinese competitiveness without structural measures and increasing credit losses of the banks. On the other hand, weakening economic growth that is – and will be - caused by promising structural reform policy could be beneficial to the future quality of GDP growth.

Hubert Fromlet