

LNU's China Panel Survey No 15 – December 19, 2012:

Our “overheating indicator” for China rises to 6.5 - slightly improved outlook for 2013 and 2014

Our so-called **overheating indicator for China** - derived from a survey with China specialists all over the globe - gained some temperature in December compared to May 2012 (**6.5**; May:2012: 4.9; 1-10; 10=extremely overheated). The current GDP-growth temperature does not indicate any overheating in the general economy.

GDP forecasts for China (average, percent) 2012: 7.4 2013: 7.9 2014: 8.1

For both 2013 and 2014, GDP predictions are characterized by downward biases - though on a somewhat more encouraging trend. I personally would see all three forecasts about a quarter percentage point higher and tend, consequently, somewhat more to an upward bias.

One of the panel's assumptions for Chinese growth forecasts is that around two thirds of our panel members count on a gradual but relatively modest recovery in 2013/2014 in the **OECD area as a whole**. Approximately, one third believes - on average - in a continued weak and disappointing performance of the entire OECD block. China's **growth sensitivity** that is **related to the European crisis** is considered to be at **5.6** (scale 1-10; 1=no sensitivity at all) - which is not negligible!

Three fourths of the panelists predict that the Chinese **currency renminbi** (RMB) will appreciate slightly during 2013 (by 1-5 percent). All the other remaining panelists assume the RMB to remain more or less stable.

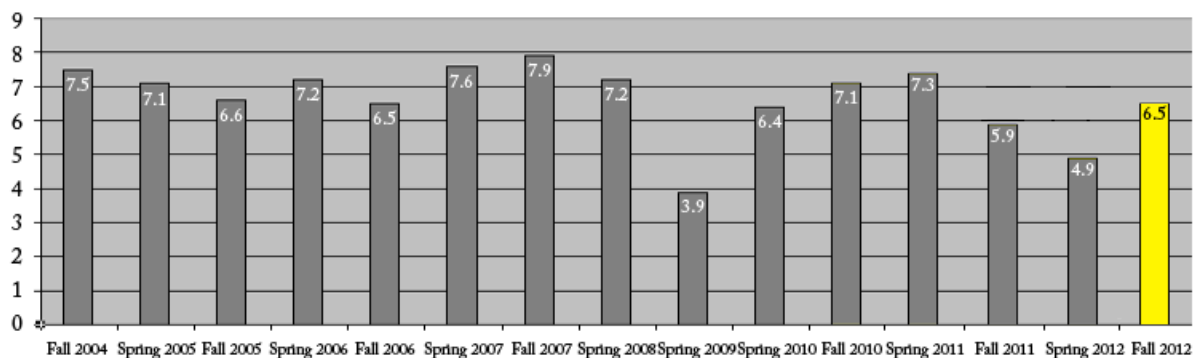
100 percent of the panelists think that there is still a dangerous **price bubble** on the *real estate market*. When it comes to the Chinese *stock market*, however, our China experts seem to be markedly less concerned about potential bubble risks.

Hubert Fromlet

China “Overheating/GDP-growth Temperature Indicator” – Linnaeus University (Linnéuniversitetet)

GDP Temperature Indicator

Hubert Fromlet / Linnaeus University, December 2012



1. Our “Overheating”/GDP-Growth Temperature Indicator” rises to 6.5

(1-10; 10= ”hottest”)

Result in December 2012 (average): **6.5** (May 2012: 4.9)

Own comment:

Compared to our China panel from May this year (4.9), our “overheating indicator” on China’s economy has been moving up to 6.5. This is still quite a low value - but significantly above our all-time-low from spring 2009 during the subprime crisis (3.9). The Chinese business cycle may reach a turning point these days - but without any significant strengthening going on.

2. The panel’s predictions for GDP growth – some improvement is predicted for 2013/2014

Result for GDP growth in December 2012 (average, percent):

2012: 7.4

2013: 7.9

2014: 8.1

Own comment:

Without doubt, Chinese GDP growth has been downsizing in the past few quarters, to a high extent caused by the European crisis - but also by weakening demand from other parts of the world. The panel’s GDP outlook for 2013 and 2014 remains moderate despite some predicted improvement. This conclusion is partly underlined by the assumed modest growth perspectives for the OECD area as a whole (see next question). But I would like to conclude that the predicted GDP growth rates close to 8 percent are in line with expectations of the new political leadership. My own forecasts are around a quarter percentage point higher for all three years compared to the average of the panel.

3. Do you assume in your GDP forecasts during 2013/2014

- a continuous weak GDP-growth performance in the OECD area as a whole **24 %**
- a gradual but relatively modest recovery in the OECD area as a whole **76 %**
- a more significant strengthening of GDP growth in the OECD area as a whole -

Own comment:

The content of the answers given by our experts is obvious: growth forecasts are predominantly based on quite a modest recovery in the OECD area during 2013 and 2014. A positive bias of the panel’s China forecasts would for this reason to a high extent assume that the global economy during the next two years has to perform (visibly) stronger than predicted by the majority of the panel.

4. How sensitive is China's GDP to the ongoing European crisis?

(1-10; 10=extremely sensitive)

Result in December 2012: 5,6

Own comment:

The survey number of 5.6 reflects that there is an obvious impact on the performance of Chinese exporting companies that can be derived directly from the European crisis. The effect could be something like 0.5-0.7 percent of GDP which would lead to the conclusion that *domestic* GDP growth has not changed substantially during 2012. Thus, the weakening of Chinese GDP growth must be mainly regarded as an exogenous factor.

5. Where do you expect economic growth to come from during the forecasting period 2013 and 2014? Please rank!

Result in December 2012: *Investment, private consumption* and – if at all – weakly from *net exports*.

Own comments:

The forthcoming quarters will - according to the panel - develop as another period of investment-led growth, contrary to what many international China experts (still) are expecting. Most probably, investments will perform strongly in the forthcoming two years, due to a number of construction and other infrastructure stimuli. Private consumption is already today a pretty good contributor to economic growth. However, the generally desired increasing role of private consumption - in relation to total GDP - is a change that cannot be achieved very quickly by central "orders"; it is rather a social and psychological issue that urges strongly for the introduction or broad improvements of health care, social security, conditions for migrant workers in the metropolitan areas, etc. These and other improvements are necessary in order to reduce the high savings ratio of Chinese households for the sake of a more sizable acceleration of private consumption. I can't see that such a new trend can be started in a sustainable and/or strong way any time soon despite the recent shift of political leadership.

6. What kind of bias do you see in your own GDP forecast

2013: upward: 38 % (May 2012: 20 %) downward: 62 % (May 2012: 80 %)

2014: upward: 43 % downward: 57 %

Own comment:

The panel's judgments on the Chinese economy remain cautious despite some less negative signals since May 2012 - in my opinion possibly a notch too reluctant. But: who knows what really happens when we consider all the shortcomings that exist in Chinese statistics? This means in other words that it must be regarded as unclear how strong the past quarters' weakening really has been. I consider even the Chinese PMI as an economic indicator with probably quite limited applicability - despite its numerical accuracy.

7. The renminbi will in 2013 against the U.S.dollar

☒ appreciate slightly (by 1-5%):	76 %
☒ appreciate more visibly (by >5%)	-
☒ be stable	24 %
☒ depreciate	-

Own comment:

Nothing new can be reported from the currency policy area. While the internationalization of the RMB continues, recently also with South Korea - which should not be equalized with general and full convertibility of the Chinese currency - the very gradual and cautious appreciation policy of the RMB should persist under the new political leadership. It should be pointed at the fact that important decisions on exchange rate policy are made by the Standing Committee of the Politburo - the most important decision group of the People's Republic of China. It can be therefore recommended to pay increasingly attention to comments of these "top 7"-leaders when it comes to exchange rate policy as well.

8. There is still a dangerous asset price bubble

- on the stock market	yes: 26 %	no: 74 %
- on the real estate market	yes: 100 %	no: -

Own comment:

Chinese stock markets have - on trend - developed rather poorly in the past quarters which makes it understandable that our panel's China experts look quite relaxed at the risk of a dangerous asset price bubble on the Chinese stock market. However, things are seen quite differently when it comes to the real estate market. All our panelists are still worried about price trends on this important market. This concern does not reflect any mentionable change of the panelists' views since May 2012.