

Linnaeus University's China Panel No 17 - December 2013

Our "temperature indicator" for China rises slightly to 6.2 - but the growth outlook remains moderate

Summary

✘ Our so-called "**temperature indicator**" for the Chinese economy improved somewhat to 6.2 in December 2013 compared to 5.4 in June 2013 (10=extremely overheated). This is number that indicates quite modest growth by Chinese standards. Around 20 China experts from Asia, North America and Europe participated in this survey.

✘ The panel's **GDP projections** (average, in brackets the forecasts from June 2013):
2013: 7.6 (7.6); 2013q4 7.8 (7.8); 2014: 7.6 (7.5); 2014 q4: 7.2 (7.3).

China has obviously landed on more dampened growth path.

✘ 78% of the panelists think that the currency renminbi will appreciate slightly during 2014 (1-5%).

✘ 75% of the panelists still see a kind of bubble on the real estate market.

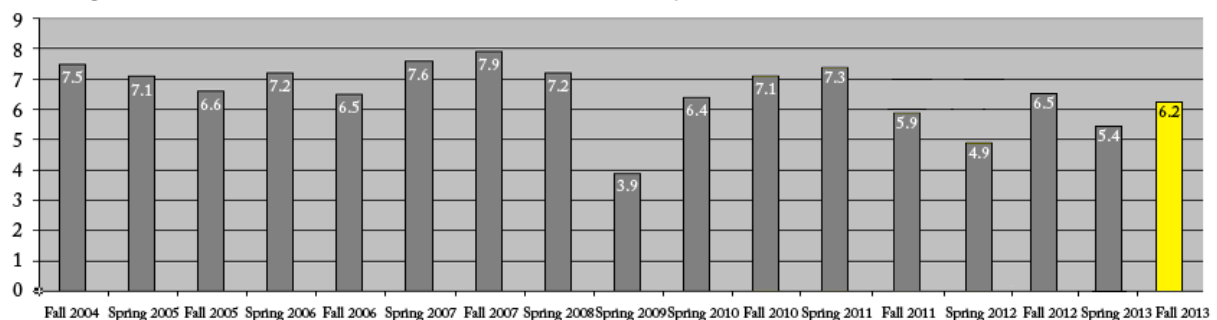
✘ The panel's confidence in the economic future of China is quite neutral (around 3 in a five year's perspective on a scale from 1-5; 5=very strong) - but surprisingly somewhat above 3 (i.e. 3.5) in a ten years' view. The latter result shows implicitly that there is some confidence that China's reform policy during the current leadership will at least be partly successful.

✘ The three most strongly preferred reform areas seem to be - according to the panel (ranked): financial markets, the hukou system (for registration), and, side by side: corruption and the environment.

Hubert Fromlet

GDP Temperature Indicator

Hubert Fromlet / Linnæus University, December 2013



1. Our “Temperature Indicator” (for GDP growth) rises somewhat to 6.2 - no significant recovery can be recognized

Result in December: 6.2

June 2013: 5.4

Own comment:

Some slight improvement can be measured in our December survey - but without indicating any significant acceleration of GDP growth. Some downsizing of the index levels can actually be noted on trend: from 7.2 on average between fall 2004 and spring 2008 to 6.0 between spring 2009 and fall 2013.

2a. The panel’s forecasts for China’s GDP growth (in brackets from June 2013)

2013: 7.6 (7.6)

2013q4: 7.8 (7.8)

2014: 7.6 (7.5)

2014q4: 7.2 (7.3)

Own comment:

There are almost no changes at all in the panel’s GDP outlook. In our last comments on the panel’s judgments, we were asking the question whether China has been landing in kind of “7.5 percent GDP-growth” gap. This seems to be the case. Thus, the next question should be whether this a voluntary development or not (i.e. a calculated slight downsizing for environmental reasons etc. - or because of the relatively moderate global demand - or a combination of both factors). There is no really safe answer on this question at this point.

2b. Do you assume in your GDP forecasts for the one-year period 2013q4 - 2014q4

☒ a continuous weak and disappointing GDP-growth performance in the OECD area as a whole **11%**

☒ a gradual but relatively modest recovery in the OECD area as a whole

88% ☒ a more remarkable recovery in the OECD area as a whole

11%

Own comment:

There is no doubt that China has been suffering from the visibly weakened global demand which, of course, includes demand for Chinese goods since China is the number one exporting country in the world. It seems to be logical that a potentially higher GDP-growth rate in 2014 than predicted above to a high extent will be linked to a better performance of Chinese (net) exports.

3. Where do you expect Chinese GDP growth during 2014 mainly come from (ranked)

- investments
- private consumption
- exports

Own comment:

The results of this question should not be a surprise. No major slowdown of investments can be expected in the short run - and no rapid acceleration of consumer good spending either (which is not really low measured by increase in percent). The preconditions for a markedly higher percentage of private consumption as share of GDP assumes a number of structural changes which take some time to set up and to be effective.

4. What are your three major short-term concerns - i.e. during the next few years - about the Chinese economy (ranked)?

- The whole complex of a real estate crash, credit losses, certain credit restrictions, etc (dominating)
- ongoing (too) high investment ratio at the expense of private consumption
- insufficient exports and social worries

Own comment:

The above-mentioned concerns are logical. Many other concerns are also mentioned, such as demography, the environment, and weakening foreign direct investment (FDI).

5. Do you think there is a dangerous price bubble on (in brackets from June)

- **the stock market** yes: 11% (23%) no: 89% (77%)
- **the real estate market** yes: 75% (92%) no: 25% (8 %)

Own comment:

The good news is that some panelists feel somewhat less worried about a potential bubble on the real estate market. The bad news, however, is that the share of the concerned China experts still runs up to 75 percent. It is still too early to reduce analytical attention to the Chinese real estate market.

6. How would you grade your general confidence in the Chinese economy?

(Scale 1-5; 5=very strong; in brackets results from June 2013)

3 years from now: 3.0 (3.4)

5 years from now: 3.0 (3.1)

10 years from now: 3.5 (3.0)

Own comment:

The results of this question have been quite stable over the years. However, for the first time a slightly higher value can be noted for the long-term horizon than for the medium term. It remains to be seen whether this slight change is reflecting satisfactory confidence in reform policy or not.

8. Which three reform areas will be the most visibly preferred by the Chinese leadership after the Third Plenum in November 2013? Ranked

- Financial markets
- the Hokou (registration) system and the environment
- the fight against corruption

Own comment:

Altogether, 16 reform areas with 60 different reform steps have been singled out by the Chinese leaders during the Third Plenum. Quite a substantial number of reform areas mean at the same time goal conflicts in economic policy. Particularly the urgent need of an improved environment can be counteracted by other goal areas such as urbanization. There will certainly be a number of compromises in all these goal conflicts. However, compromises are not always the best policy solution.

9. What is your opinion on the reform plans and their verification after the Third Plenum? (5=very promising; 1=not promising at all)

Result: **3.2**

Own comment:

The panel's position in this issue is quite neutral. This may mean two things -either a moderate degree of confidence or a "wait-and-see position". But we have to wait a couple of years to receive the answer. Currently, the second option seems to be somewhat more probable according to my own opinion.

Hubert Fromlet / Linnaeus University