

# *ZEW-PwC China Economic Barometer*

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# ZEW

Zentrum für Europäische  
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## **ZEW-PwC China Economic Barometer**

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# Editorial

The *ZEW-PwC China Economic Barometer* presents the current situation and expected trends for the Chinese economy over the next twelve months. The barometer is based on a quarterly survey of managers from German companies in China. Along with the economic situation and trends, the German managers in China were asked to assess the performance of macroeconomic indicators, as well as company sales, investment across various sectors and the regulatory environment. The *ZEW-PwC China Economic Barometer* is compiled and published jointly by the Centre for European Economic Research (ZEW) and PwC.

- **Key message 1**

Economic outlook slightly brighter but remains negative overall

- **Key message 2**

Growth supported by private consumption and investment

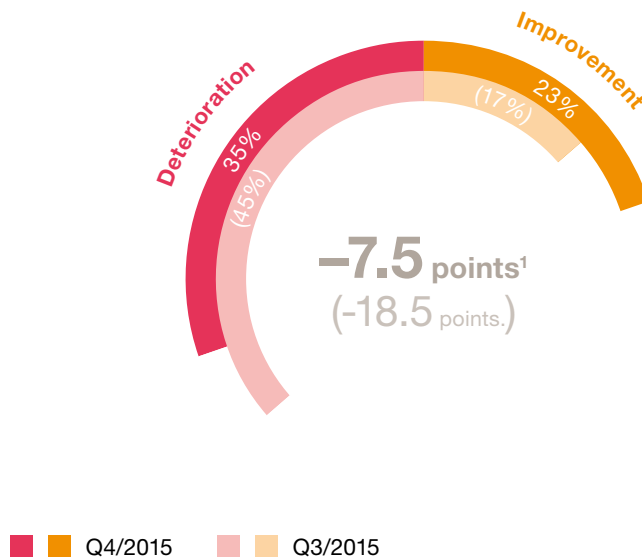
- **Key message 3**

New five-year plan: expected to bring improvements for German companies too; continuing urgent need for reforms on legal security, environmental protection and market access

# Outlook improves but remains negative overall

For the first quarter of 2016, the assessment of the current economic situation by German managers in China is up considerably compared with the fourth quarter of 2015, but remains negative overall at -7.5 points. The managers surveyed still believe that the probability of further economic downturn over the next 12 months is quite high, at 35%.

**Fig. 1** Current assessment of the economic situation in China and probability of a change in direction over the next 12 months



<sup>1</sup> Centre: Scoring of the current economic situation in China. Difference between positive and negative responses.  
Ring: Probability of a deterioration/improvement in the economic situation over the next 12 months in per cent. Difference from 100%: probability of “no change”. Figures for previous quarter in brackets. Sources: ZEW and PwC.

## Growth supported by private consumption and investment

The expectations for most of the other macroeconomic variables also suggest an improvement in sentiment. The executives surveyed gave much higher scores on the performance of private consumption and private investment than one quarter ago. Consumer spending is expected to rise due to an expected decline in saving habits as well as a rise in salaries. Domestic demand from private households and companies should therefore be a major source of support for the Chinese economy over the next six months.

The outlook on export and import activities remains negative, however, even though the scores for the performance over the next six months are up compared to last quarter. Approximately 38% of the managers still expect exports to fall, with over 50% also expecting to see a decline in imports.

## Development of performance indicators of German companies in China

The scores for trade activities, production and sales by German companies in China also reflect the more positive sentiment. Approximately 39% of the surveyed managers expect production to grow over the next six months compared with just 28% in the previous quarter. The outlook on sales is even clearer, with about 60% of managers expecting an increase as compared with just 35% last quarter.

## Foreign acquisitions and investment activity in China by sector

The overall more positive view of the economic situation is also reflected in the expectations for investment in individual industries. The survey forecasts a considerable increase in investment in China for almost all industries, particularly those dependent on consumer behavior, i.e., the consumer goods, retail and service sectors, as well as banking and insurance. Total scores are up from 9.5 to 25.8 (consumer goods), from -5.0 to 11.8 (retail), from 39.3 to 51.7 (services) and from 12.8 to 35 (banking and insurance). The automotive, chemicals, machinery, electronics and construction industries also show a significant improvement, although the balance is still negative. The overall more positive view is dampened by a significant decline in expectations for investments in the steel/metals sector, which fell from a disappointing low in the previous quarter (-59.9) to an even lower rating (-72.7).

**Tab. 1 Expected investment activity in China over the next six months by sector**

Industry	Trend	Balance
Services	↑	51.7
Information/Communications	↑	39.7
Banking/Insurance	↑	35.0
Consumer goods	↗	25.8
Energy	↗	13.3
Retail	↗	11.8
Electronics	→	-5.9
Machinery	→	-5.9
Chemicals	→	-9.4
Automotive	↘	-11.4
Construction	↓	-48.5
Steel/Metals	↓	-72.7

Sources: ZEW and PwC.

## Trends in the regulatory environment

This quarter's assessment of the regulatory environment is also much more optimistic than in the previous survey. The surveyed managers expect to see improvements in financing requirements and procedures for public tendering. There is also a slightly more positive view on the operating environment with respect to intellectual property.

## Results of special question: What impact do you expect the new five-year plan?

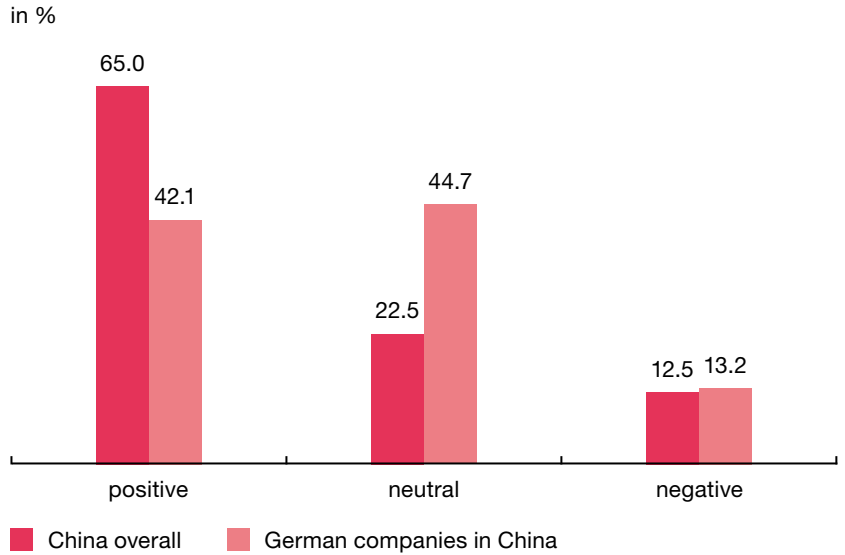
The new five-year plan, which is to come into force this year, sets targets of a 6.5% p.a. increase in GDP, action on industrial policy, investment in infrastructure, (de-)regulation, for example in the financial markets, as well as environmental targets.

Almost two thirds of the participants expect the measures to have a positive or even very positive impact for China. Only a small proportion (12.5%) is worried it may adversely affect the economy. The scores for their impact on German companies in China are also positive, with about 42% expecting to see positive or very positive effects and 44.7% expecting them to have no particular impact.

The managers were also asked to name areas where they think reform is most needed with regard to their own company's success. By far the largest proportion of responses related to legal certainty (25%), environmental protection and market access (16% each).



**Fig. 2** What impact do you expect the new five-year plan to have on the overall Chinese economy and on German companies?



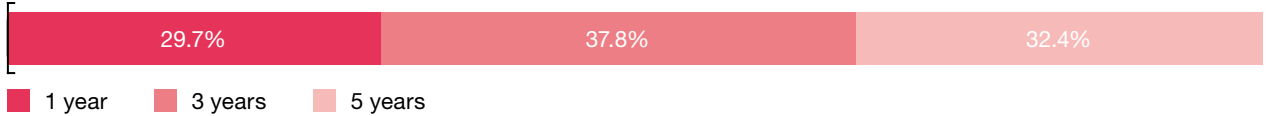
**Tab. 2 ZEW-PwC-China Economic Barometer: Results December 2015**

<b>Current overall macroeconomic situation</b>						
	very good	good	normal	bad	very bad	balance
China	2.5	12.5	55.0	27.5	2.5	-7.5
Eurozone	7.7	20.5	46.2	25.6	0.0	5.1
USA	8.1	54.1	27.0	10.8	0.0	29.7
<b>Economic expectations (12 months)</b>						
	improve	slightly improve	no change	slightly worsen	worsen	balance
China	2.5	25.0	22.5	40.0	10.0	-15.0
Eurozone	5.3	21.1	42.1	28.9	2.6	-1.3
USA	5.3	36.8	39.5	13.2	5.3	11.8
<b>Probability of the development of the overall macroeconomic situation in China over the next 12 months</b>						
	22.8%	42.2%		35.1%		
	improve	not change		worsen		
<b>Macroeconomic indicators for China (6 months)</b>						
	increase	slightly increase	no change	slightly decrease	decrease	balance
Inflation	10.3	48.7	30.8	10.3	0.0	29.5
Interest rates	0.0	13.2	23.7	50.0	13.2	-31.6
Public debt	32.4	48.6	13.5	2.7	2.7	52.7
International debt	8.3	36.1	47.2	8.3	0.0	22.2
China's FDI inflow	0.0	23.7	21.1	26.3	28.9	-30.3
China's FDI outflow	23.7	42.1	26.3	7.9	0.0	40.8
China's import activity	2.6	23.7	21.1	44.7	7.9	-15.8
China's export activity	5.1	23.1	33.3	25.6	12.8	-9.0
Chinese imports from Germany	0.0	28.9	42.1	18.4	10.5	-5.3
Chinese exports to Germany	2.7	24.3	32.4	32.4	8.1	-9.5

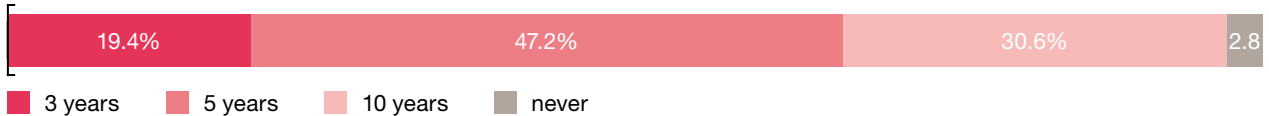
<b>Investment activities in China (6 months)</b>	increase	slightly increase	no change	slightly decrease	decrease	balance
Banking and Insurance	10.0	56.7	26.7	6.7	0.0	35.0
Automotive	2.9	22.9	25.7	45.7	2.9	-11.4
Chemicals	6.3	15.6	40.6	28.1	9.4	-9.4
Steel/Metals	3.0	0.0	15.2	12.1	69.7	-72.7
Electronics	2.9	32.4	20.6	38.2	5.9	-5.9
Machinery	8.8	23.5	23.5	35.3	8.8	-5.9
Consumer goods	12.1	36.4	42.5	9.1	0.0	25.8
Information and telecommunication technology	14.7	52.9	29.4	2.9	0.0	39.7
Construction	0.0	11.8	20.6	26.5	41.2	-48.5
Retail	5.9	29.4	47.1	17.6	0.0	11.8
Energy	0.0	46.7	36.7	13.3	3.3	13.3
Services	30.0	46.7	20.0	3.3	0.0	51.7
<b>Indicators of German companies in China (6 months)</b>	increase	slightly increase	no change	slightly decrease	decrease	balance
Trade activities	6.1	42.4	27.3	24.2	0.0	15.2
Production	9.7	29.0	45.2	16.1	0.0	16.1
Sales	10.5	50.0	23.7	15.8	0.0	27.6
Workforce	5.4	27.0	43.2	18.9	5.4	4.1
<b>Mergers &amp; Acquisitions activities within China (6 months)</b>	increase	slightly increase	no change	slightly decrease	decrease	balance
	16.2	48.6	21.6	5.4	8.1	29.7
<b>Chinese M&amp;A activities abroad (6 months)</b>	increase	slightly increase	no change	slightly decrease	decrease	balance
	36.8	42.1	18.4	2.6	0.0	56.0
<b>Germany's importance as an investment destination (6 months)</b>	increase	slightly increase	no change	slightly decrease	decrease	balance
	20.5	48.7	28.2	0.0	2.6	42.3

<b>Domestic demand in China (6 months)</b>	increase	slightly increase	no change	slightly decrease	decrease	balance
Average wages	28.9	60.5	5.3	2.6	2.6	55.3
Unit labour costs	21.1	65.8	5.3	7.9	0.0	50.0
Private capital investments	7.9	39.5	26.3	21.1	5.3	11.8
Private consumption	11.0	39.5	36.8	13.2	0.0	23.7
Private savings rate	2.6	15.8	52.6	28.9	0.0	-3.9
Public spending	26.3	50.0	18.4	5.3	0.0	48.7
<b>Regulatory environment (6 months)</b>	improve	slightly improve	no change	slightly worsen	worsen	balance
Financing	8.3	44.4	44.4	2.8	0.0	29.2
Business approval requirements	5.7	22.9	57.1	14.3	0.0	10.0
Public tenders	0.0	21.2	63.6	9.1	6.1	0.0
Taxation	0.0	22.9	48.6	14.3	14.3	-10.0
Legal protection	0.0	8.3	77.8	13.9	0.0	-2.8
Intellectual Property	0.0	25.0	66.7	5.6	2.8	6.9

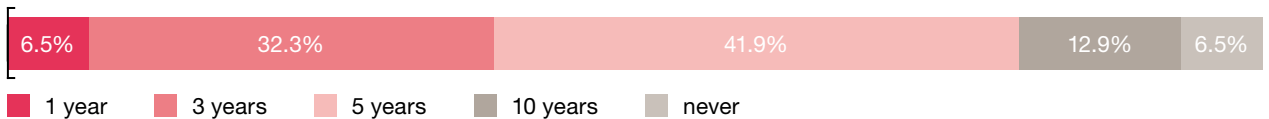
### The RMB exchange rate will noticeably become more flexible within...



### Full convertibility of the RMB



### Relaxation/deregulation of the sector-related Catalogue of Industries for Guiding Foreign Direct Investment



### Introduction of an "International Board" at the Shanghai Stock Exchange



Note: The December survey for the *ZEW-PwC-China Economic Barometer* was conducted during the period 08. to 22. December 2015. 40 managers of German companies located in China participated in the survey. Numbers displayed are percentages of the corresponding answer categories. Balances refer to the weighted distributions from positive and negative assessments. Assessments are weighted with +1, +0.5, 0, -0.5, -1 and move within the interval (-100, +100).

## Register now!

Are you a decision-maker with expert knowledge of China? Would you like to take part in the *ZEW-PwC China Economic Barometer*, which assesses the mood of German companies with regards to China's economy every three months? Then register now for the survey at the following link: [survey.zew.de/wiba](http://survey.zew.de/wiba). Participating is easy – you can answer the questions online with your PC or tablet.

### Your benefit

You will receive the outcome of the survey before it is published, providing you with a valuable information head-start. The ZEW will of course treat your data anonymously.

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