

ZEW-PwC China Economic Barometer

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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 12 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 PricewaterhouseCoopers (PwC).

- **Key message 1**

Public spending expected to remain high.

- **Key message 2**

German companies are projected to increase activities in China.

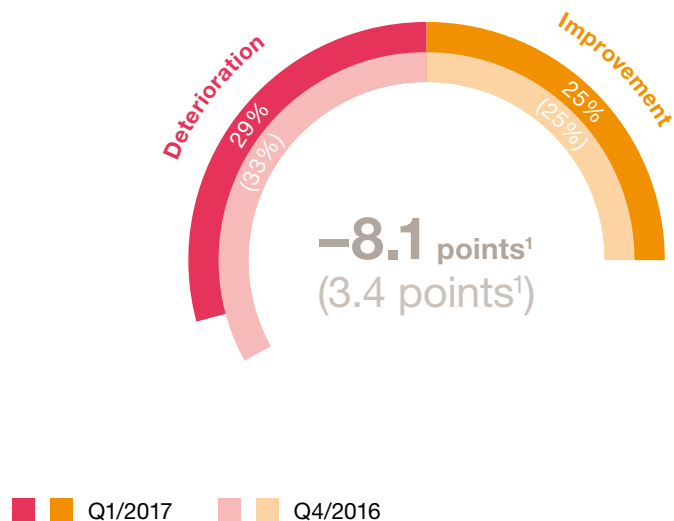
- **Key message 3**

China can become a major competitor for Silicon Valley.

2017 starts optimistically

The managers surveyed consider the first quarter of 2017 to be somewhat worse than the previous quarter. The value of the indicator lies at -8.1 percentage points (previously 3.4 points). On the other hand, the outlook for the next 12 months has slightly improved, with the balance¹ of the previous quarter rising from by 0.5 points to 1.6 points, which is well above the average of -5.1 points since the survey was initiated in the third quarter of 2013. Some 29% of the managers surveyed expect to see the economic situation deteriorate, a somewhat smaller percentage than in the previous quarter. The percentage of respondents who expect an upturn remains unchanged at 25% .

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



¹ Centre: Assessment 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 twelve months in percent. Difference from 100%: probability of "no change". Figures for previous quarter in brackets. Sources: ZEW and PwC.

Public spending is expected to remain important for the economy

At 38.3 points, the score for inflation has reached a new high. A driving factor is likely to be the development of wages. More than 90% of survey respondents expect average wages to increase, while 77.7% expect an increase in unit labour costs.

The score for public debt is down to 58.3 points, which is significantly lower than the peak of 76.3 points in the third quarter of 2016. Nevertheless, expectations still clearly point to the expansion of government debt. More than 70% of respondents expect an increase in government expenditures in the next six months.

With respect to China's foreign trade, almost half of respondents expect stronger export activity; in the previous quarter it was just over a fifth. This is also reflected in forecasts for exports and imports to and from Germany. At the end of 2016, 43.9 % of German managers still predicted a decline in imports, now 48.3% see an increase in imports from Germany on the horizon.

Development of indicators concerning German companies in China

The activities of German companies in China in the next six months are being viewed in a much better light. The indicator for trading activities rose from 12.9 to 25 points, while that for sales jumped from 21.8 in the previous quarter to the current 36.2 points. Scores concerning production and the number of staff rose only marginally.

Foreign acquisitions and investment activity in China by industry

With respect to takeovers and mergers in China, scores have reached a new record high at 51.9 points. More than 75% of the managers surveyed expect to see a further increase. The values for China's foreign acquisitions, in general and in Germany in particular, have fallen slightly, although they still remain very high at 42.9 points.

There were some significant changes in the perceived attractiveness of Chinese industries for investment activities. Large increases over the previous quarter were seen in the sectors of automotive (now 22.4 points, previously 6.3), electronics (now 25 points, previously 15.4) and retail (now 19.6 points, previously 10.5). A sharp drop was seen in the energy sector (now 5.8 points, previously 24.3).

Several areas continue to be very positively assessed, namely the service industry, information and communication technology, and consumer goods, although the latter two have fallen. The construction industry and steel/metals, as in the past assessments, were once again seen in a very negative light.

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

Industry	Trend	Balance
Services	↑	53.8
Information/Communications	↑	39.3
Electronics	↗	25.0
Consumer goods	↗	24.1
Automotive	↗	22.4
Banking/Insurance	↗	22.0
Retail	↗	19.6
Machinery	↗	10.7
Chemicals	→	6.0
Energy	→	5.8
Construction	↘	-27.8
Steel/Metals	↓	-48.2

Sources: ZEW und PwC.

Expectations for the regulatory environment have deteriorated further

Compared to the previous quarter, the attitude towards all areas is generally negative. Particularly striking is the decline in financing conditions, which are currently being valued at -9.6 points – a drop of 16.2 points. Significant decreases were also seen in the categories of taxation (now -17.3 points, previously -5) and public tenders (now -19.2 points, previously -7.9). The assessments for legal protection and intellectual property are also more pessimistic, having noticeably declined.

Will China become a major competitor for Silicon Valley?

The German managers surveyed consider Germany to have a slight advantage over China in terms of the efficiency of digital office organisation.

Looking at the competitive position of Silicon Valley in the international sphere, only 20% of German managers believe that Silicon Valley will remain unchallenged in its top position in the next five years. Some 35% believe that Europe, China or Israel can improve their competitive position (see Fig. 3), while 40% of those surveyed are convinced that China will be able to significantly close the gap in the next five years.

With respect to the international competitiveness of the Chinese start-up scene, 55.6% of German managers expect Chinese start-ups to be able to hold their own as international competitors in the next five years (see Fig. 4). However, almost no one sees them taking a pioneering role on the international stage. At the same time, 37% remain relatively sceptical and see Chinese start-ups playing at best a secondary role at international level.

Fig. 2 Office organisation and digitisation: Which country is more efficient?

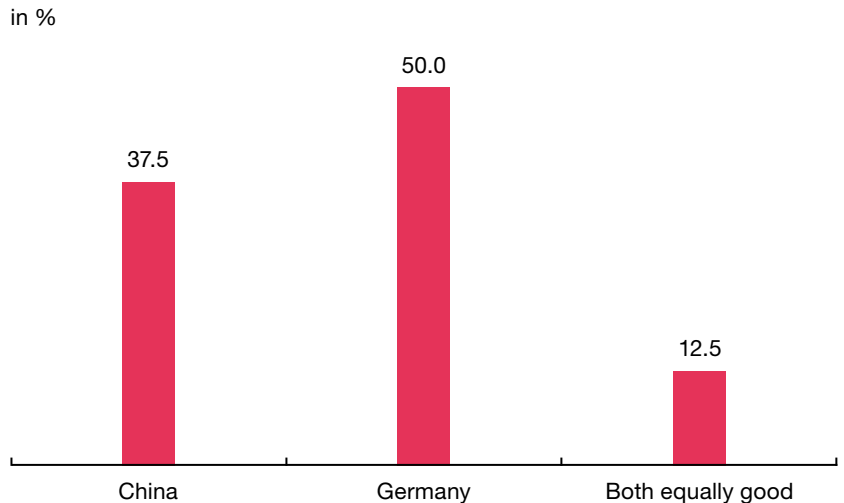


Fig. 3 Innovation leader for internet products in the next five years: Silicon Valley or other regions/countries?

in %, multiple responses were possible

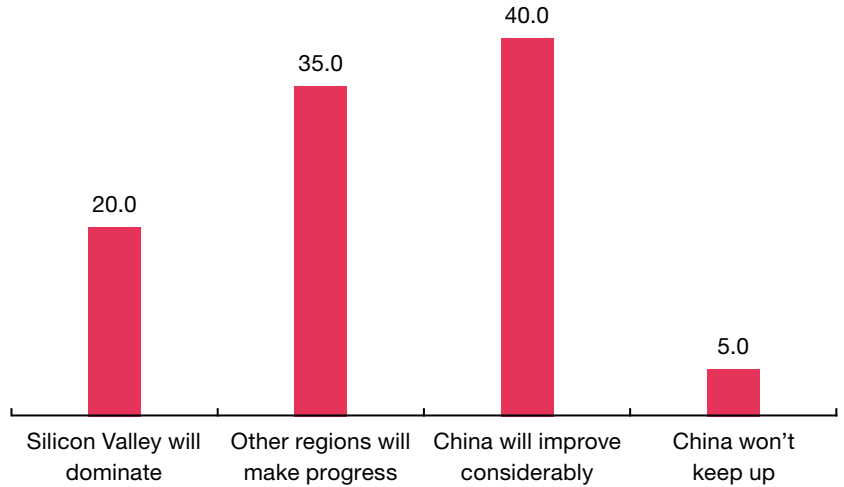
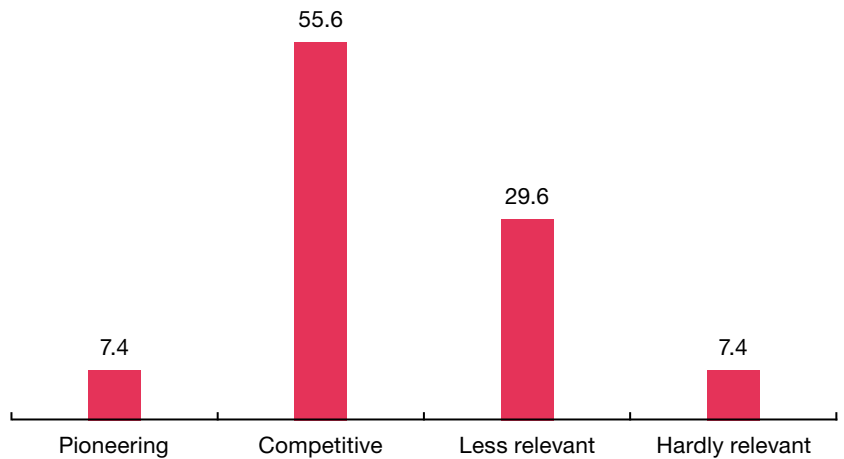


Fig. 4 China in an international context: How do you assess the competitive potential of the start-up scene in the next five years?

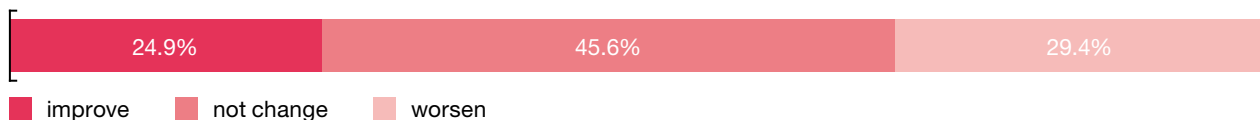
in %



Tab. 2 ZEW-PwC China Economic Barometer: Results for December 2016

Current overall macroeconomic situation						
	very good	good	normal	bad	very bad	balance
China	0.0	19.4	48.4	29.0	3.2	-8.1
Eurozone	0.0	6.7	60.0	30.0	3.3	-15.0
USA	0.0	48.1	44.4	3.7	3.7	18.5
Economic expectations (12 months)						
	improve	slightly improve	no change	slightly worsen	worsen	balance
China	0.0	32.3	45.2	16.1	6.5	1.6
Eurozone	0.0	16.7	53.3	30.0	0.0	-6.7
USA	3.6	25.0	39.3	28.6	3.6	-1.8

Probability of the development of the overall macroeconomic situation in China over the next 12 months

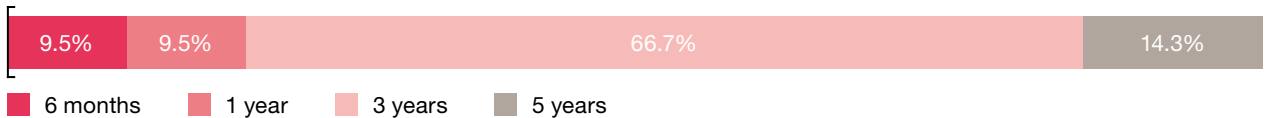


Macroeconomic indicators for China (6 months)						
	increase	slightly increase	no change	slightly decrease	decrease	balance
Inflation	16.7	56.7	13.3	13.3	0.0	38.3
Interest rates	3.6	32.1	42.9	21.4	0.0	8.9
Public debt	40.0	36.7	23.3	0.0	0.0	58.3
International debt	14.3	50.0	28.6	7.1	0.0	35.7
China's FDI inflow	0.0	17.2	27.6	24.1	31.0	-34.5
China's FDI outflow	29.6	40.7	14.8	7.4	7.4	38.9
China's import activity	3.3	23.3	33.3	33.3	6.7	-8.3
China's export activity	12.9	35.5	12.9	32.3	6.5	8.1
Chinese imports from Germany	6.9	41.4	27.6	20.7	3.4	13.8
Chinese exports to Germany	20.7	10.3	48.3	20.7	0.0	15.5

Investment activities in China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
Banking and Insurance	12.0	36.0	40.0	8.0	4.0	22.0
Automotive	20.7	37.9	6.9	34.5	0.0	22.4
Chemicals	4.0	40.0	28.0	20.0	8.0	6.0
Steel/Metals	0.0	17.9	7.1	35.7	39.3	-48.2
Electronics	14.3	35.7	35.7	14.3	0.0	25.0
Machinery	17.9	25.0	21.4	32.1	3.6	10.7
Consumer goods	18.5	29.6	33.3	18.5	0.0	24.1
Information and telecommunication technology	32.1	28.6	25.0	14.3	0.0	39.3
Construction	3.7	14.8	25.9	33.3	22.2	-27.8
Retail	14.3	28.6	42.9	10.7	3.6	19.6
Energy	7.7	34.6	26.9	23.1	7.7	5.8
Services	30.8	46.2	23.1	0.0	0.0	53.8
Indicators of German companies in China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
Trade activities	14.3	35.7	39.3	7.1	3.6	25.0
Production	3.7	48.1	33.3	3.7	11.1	14.8
Sales	13.8	62.1	13.8	3.4	6.9	36.2
Workforce	0.0	41.4	41.4	10.3	6.9	8.6
Mergers & Acquisitions activities within China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
	25.9	51.9	22.2	0.0	0.0	51.9
Chinese M&A activities abroad (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
	32.1	42.9	10.7	7.1	7.1	42.9
Germany's importance as an investment destination (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
	25.0	42.9	28.6	0.0	3.6	42.9

Domestic demand in China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
Average wages	29.6	63.0	7.4	0.0	0.0	61.1
Unit labour costs	33.3	44.4	22.2	0.0	0.0	55.6
Private capital investments	0.0	44.0	32.0	24.0	0.0	10.0
Private consumption	7.0	51.9	33.3	7.4	0.0	29.6
Private savings rate	0.0	40.7	33.3	25.9	0.0	7.4
Public spending	32.1	39.3	28.6	0.0	0.0	51.8
Regulatory environment (6 months)	improve	slightly improve	no change	slightly worsen	worsen	balance
Financing	3.8	3.8	69.2	15.4	7.7	-9.6
Business approval requirements	3.7	18.5	51.9	22.2	3.7	-1.9
Public tenders	0.0	7.7	57.7	23.1	11.5	-19.2
Taxation	0.0	15.4	50.0	19.2	15.4	-17.3
Legal protection	0.0	25.9	48.1	7.4	18.5	-9.3
Intellectual Property	0.0	26.9	57.7	7.7	7.7	1.9

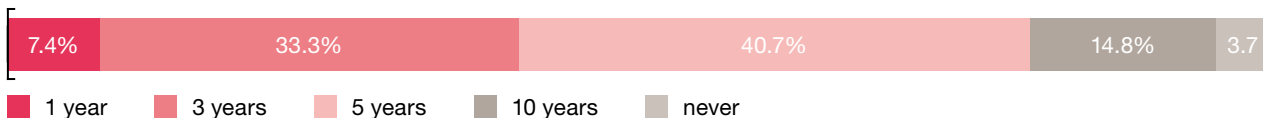
The RMB exchange rate will noticeably become more flexible within ...



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 from 25. November to 15. Dezember 2016. 31 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 move within the interval (-100, 100). The values are rounded to one decimal place.

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. Participating is easy – you can comfortably 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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