# China Economic Panel (CEP)

Economic Sentiments for China Worsens, But Growth Expectations Remain Positive

According to the current survey for July (5 – 19 July 2017), the economic outlook for China has declined significantly, falling by 13.8 points.

The CEP Indicator, which reflects the expectations of international financial market experts regarding China's macroeconomic development over the coming twelve months, is currently no higher than minus 4.1 points (June 2017: 9.7 points) and thus far below the long-term average of 5.1 points.

The high volatility of the CEP Indicator over the past few months therefore shows no signs of ceasing. The survey responses, however, show that the experts' expectations for the Chinese economy largely oscillate from month to month between "slight improvement" and "slight decline".

figure 1:   CEP Indicator July 2017
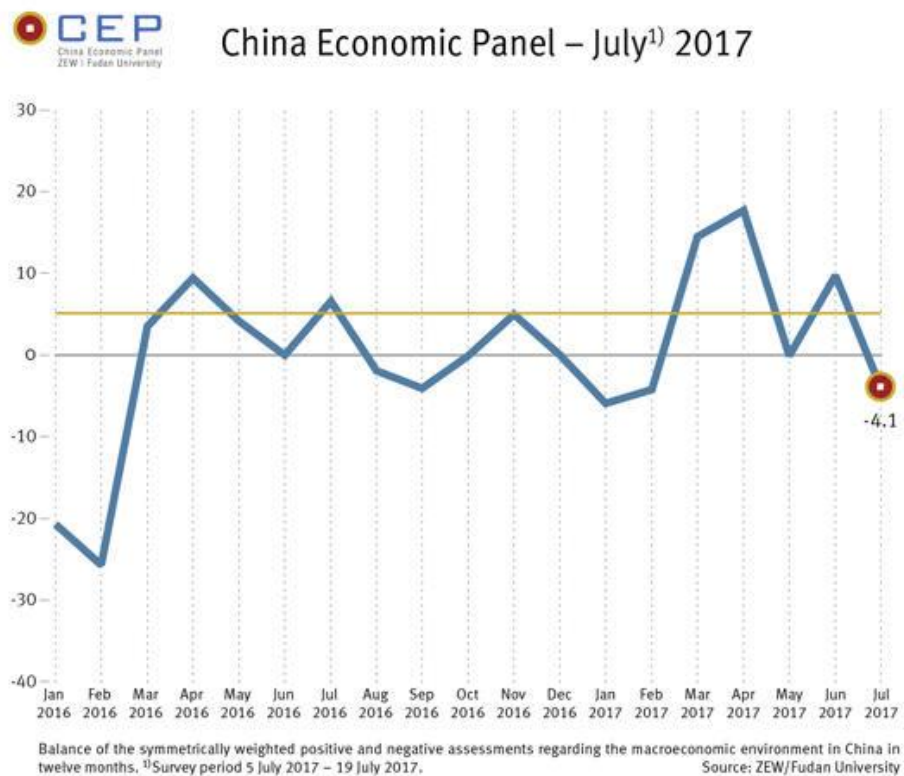
source: ZEW/Fudan

In contrast, there are hardly any participants who expect the economic development to "increase significantly" or to "decrease significantly".

"These frequent fluctuations seen within a relatively short period of time are a clear indication of uncertainty among the experts in terms of their assessment of future growth in China. The experts do not, however, expect great changes," says Dr. Michael Schröder, senior researcher in ZEW's Research Department "International Finance and Financial Management" and project leader of the CEP survey. This is also confirmed by the point forecasts for growth of gross domestic product. The forecasts for both 2017 and 2018 remain unchanged from the previous month, with projected growth for 2017 still at 6.7 per cent and for 2018 at 6.6 per cent.

One positive development is that the assessment of the current situation has slightly improved again, with the indicator reflecting the assessment of the current economic situation climbing 2.1 points to a level of 16.7 points.

"What is particularly remarkable about the current survey results is the significant decline in real estate price expectations," says Michael Schröder. Virtually all regions listed in the survey – except for Hong Kong and Guangzhou – were predicted to see real estate prices drop by more than 20 points and in some cases even 30 points. This correlates with a downturn in expectations for the economic situation in these regions. In this case, however, there has also been a shift in expectations from a "slight increase" towards a "slight decrease". It remains to be seen whether this change in expectations will have a long-lasting effect on the development of the actual economy.

ZEW/Fudan China Economic Panel: Results July 2017

Current economic situation	very good		good		normal		bad		very bad		balance	
China	0.0	(+/- 0.0)	36.1	(+ 3.8)	61.1	(- 3.4)	2.8	(- 0.4)	0.0	(+/- 0.0)	16.7	(+ 2.1)
USA	5.9	(+ 2.3)	52.9	(+ 2.9)	41.2	(+ 1.9)	0.0	(- 7.1)	0.0	(+/- 0.0)	32.4	(+ 7.3)

Economic expectation (1 Y)	improve		slightly improve		not change		slightly worsen		worsen		balance	
China (CEP-Indicator)	2.8	(+ 2.8)	30.6	(-11.3)	22.2	(-13.3)	44.4	(+21.8)	0.0	(+/- 0.0)	-4.1	(-13.8)

GDP (growth rate) in %	2017Q3	2017Q4	2017	2018
China	6.8	6.7	6.7	6.6
USA	1.4	1.4	1.4	1.6

Inflation (CPI) in %	3 months	1 year
China	1.7 (1.4)	1.9 (1.7)
USA	0.8 (1.4)	0.9 (1.2)

Interest rates	3 months	1 year
SHIBOR (3 months)	4.4 (4.7)	4.4 (4.8)
One-year deposit rate	1.5 (1.5)	1.6 (1.6)
One-year lending rate	4.4 (4.4)	4.4 (4.5)

Stock market indices	3 months	1 year
SSE Composite Index	3.257 (3.159)	3.391 (3.325)
Hang Seng Index	25.592 (25.279)	26.330 (26.088)
Growth Enterprise Market Index (SZ)	1.445 (1.288)	1.454 (1.295)
WTI Crude Oil (US-Dollar)	46 (49)	49 (50)

Monetary aggregate M2 (6 M)	increase		slightly increase		not change		slightly decrease		decrease		balance	
China M2 growth rate	6.7	(- 1.0)	60.0	(+17.7)	6.6	(-12.6)	26.7	(+11.3)	0.0	(-15.4)	23.4	(+17.6)

Specific indicators China (1 Y)	increase		slightly increase		not change		slightly decrease		decrease		balance	
Foreign exchange reserves	0.0	(+/- 0.0)	36.7	(+ 9.8)	20.0	(+ 4.5)	43.3	(-10.5)	0.0	(- 3.8)	-3.3	(+14.0)
FDI outflow (out of China)	13.3	(- 2.7)	50.0	(-14.0)	20.0	(+ 8.0)	16.7	(+12.7)	0.0	(- 4.0)	30.0	(-12.0)
FDI inflow (into China)	0.0	(+/- 0.0)	63.3	(+15.3)	10.0	(-10.0)	26.7	(- 1.3)	0.0	(- 4.0)	18.3	(+12.3)
Export activity	6.5	(- 4.6)	58.1	(-12.3)	9.6	(+ 2.2)	25.8	(+14.7)	0.0	(+/- 0.0)	22.7	(-18.1)
Import activity	12.9	(+ 1.8)	54.8	(- 0.8)	12.9	(-13.0)	19.4	(+12.0)	0.0	(+/- 0.0)	30.6	(- 4.6)
Domestic consumption	6.5	(- 0.9)	51.6	(-11.4)	29.0	(+ 6.8)	12.9	(+ 5.5)	0.0	(+/- 0.0)	25.9	(- 9.3)
Employment rate	0.0	(+/- 0.0)	16.1	(-14.7)	58.1	(+ 4.3)	25.8	(+10.4)	0.0	(+/- 0.0)	-4.9	(-12.6)
Growth rate of new car registrations	6.5	(+ 2.7)	67.7	(+ 6.2)	12.9	(-14.1)	12.9	(+ 5.2)	0.0	(+/- 0.0)	33.9	(+ 3.2)
Total share of world trade	6.5	(+ 2.7)	38.7	(-22.8)	32.2	(+ 5.2)	22.6	(+14.9)	0.0	(+/- 0.0)	14.6	(-16.1)

Exchange rates	3 months	1 year
Yuan / US-Dollar	6.83 (6.87)	6.92 (6.97)
US-Dollar / Euro	1.13 (1.10)	1.15 (1.11)

Sectors (1 Y)	increase		slightly increase		not change		slightly decrease		decrease		balance	
Retail banking	0.0	(- 4.2)	63.0	(+ 8.8)	18.5	(- 6.4)	14.8	(+ 2.3)	3.7	(- 0.5)	20.4	(- 0.5)
Investment banking	18.5	(+14.3)	63.0	(-12.0)	14.8	(+ 6.5)	3.7	(- 8.8)	0.0	(+/- 0.0)	48.2	(+12.7)
Insurance	22.2	(+ 1.4)	55.6	(- 6.9)	7.4	(- 5.1)	14.8	(+10.6)	0.0	(+/- 0.0)	42.6	(- 7.4)
Automotive	7.1	(+ 3.1)	57.1	(+ 1.1)	21.5	(+ 1.5)	14.3	(- 1.7)	0.0	(- 4.0)	28.5	(+ 8.5)
Chemical / Pharmaceutical	7.4	(+ 3.4)	44.4	(-23.6)	40.8	(+12.8)	7.4	(+ 7.4)	0.0	(+/- 0.0)	25.9	(-12.1)
Machinery / Engineering	7.4	(- 4.6)	29.6	(-22.4)	37.1	(+13.1)	25.9	(+13.9)	0.0	(+/- 0.0)	9.3	(-22.7)
Electronics	18.5	(- 5.5)	44.4	(+ 8.4)	26.0	(- 2.0)	11.1	(- 0.9)	0.0	(+/- 0.0)	35.2	(- 0.8)
Retail and commerce	7.1	(- 5.9)	64.3	(+12.1)	14.3	(- 7.5)	14.3	(+ 5.6)	0.0	(- 4.3)	32.1	(+ 1.6)
Construction	10.7	(- 5.3)	21.4	(- 6.6)	14.4	(+ 2.4)	46.4	(+10.4)	7.1	(- 0.9)	-8.9	(-12.9)
Energy	7.4	(- 0.9)	48.1	(+14.8)	18.6	(-19.0)	25.9	(+ 5.1)	0.0	(+/- 0.0)	18.5	(+ 3.9)
Information Technology	25.9	(- 7.4)	59.3	(- 3.2)	11.1	(+ 6.9)	3.7	(+ 3.7)	0.0	(+/- 0.0)	53.7	(-10.9)
Services	22.2	(-11.1)	51.9	(+ 1.9)	14.8	(- 1.9)	11.1	(+11.1)	0.0	(+/- 0.0)	42.6	(-15.7)

Economic expectation (1 Y)	improve		slightly improve		not change		slightly worsen		worsen		balance	
Beijing	10.7	(+ 2.7)	42.9	(+ 6.9)	21.4	(-18.6)	25.0	(+ 9.0)	0.0	(+/- 0.0)	19.7	(+ 1.7)
Shanghai	7.1	(- 4.9)	50.0	(+ 6.0)	21.5	(-14.5)	21.4	(+13.4)	0.0	(+/- 0.0)	21.4	(- 8.6)
Hong Kong	0.0	(- 4.0)	28.6	(+ 4.6)	46.4	(- 9.6)	25.0	(+13.0)	0.0	(- 4.0)	1.8	(- 4.2)
Guangzhou	7.4	(-10.0)	40.7	(+ 5.9)	22.3	(-12.5)	29.6	(+16.6)	0.0	(+/- 0.0)	13.0	(-15.3)
Shenzhen	25.9	(- 7.4)	33.3	(-12.5)	26.0	(+ 9.3)	14.8	(+10.6)	0.0	(+/- 0.0)	35.2	(-18.9)
Tianjin	22.2	(+ 9.2)	29.6	(-18.2)	14.9	(- 6.9)	33.3	(+24.6)	0.0	(- 8.7)	20.4	(- 3.5)
Chongqing	22.2	(- 3.9)	25.9	(- 8.9)	14.9	(-19.9)	29.6	(+25.3)	7.4	(+ 7.4)	13.0	(-28.4)

Real estate price expectation (1 Y)	increase		slightly increase		not change		slightly decrease		decrease		balance	
Beijing	7.1	(- 4.9)	21.4	(-18.6)	25.1	(+ 1.1)	46.4	(+26.4)	0.0	(- 4.0)	-5.4	(-23.4)
Shanghai	10.7	(- 1.3)	28.6	(-19.4)	21.4	(+ 1.4)	35.7	(+19.7)	3.6	(- 0.4)	3.6	(-20.4)
Hong Kong	7.4	(+ 3.4)	37.0	(-11.0)	22.3	(- 5.7)	33.3	(+21.3)	0.0	(- 8.0)	9.3	(- 4.7)
Guangzhou	11.1	(+11.1)	22.2	(-36.1)	37.1	(+16.3)	29.6	(+12.9)	0.0	(- 4.2)	7.4	(- 9.2)
Shenzhen	11.1	(- 5.6)	22.2	(-23.6)	18.6	(+ 6.1)	40.7	(+19.9)	7.4	(+ 3.2)	-5.6	(-30.6)
Tianjin	7.4	(+ 3.1)	25.9	(-30.6)	26.0	(+ 4.1)	29.6	(+25.3)	11.1	(- 1.9)	-5.6	(-23.0)
Chongqing	3.7	(- 5.0)	33.3	(-27.6)	26.0	(+ 4.2)	29.6	(+25.3)	7.4	(+ 3.1)	-1.9	(-34.6)

Note: 36 analysts participated in the July survey, which was conducted during the period 7/5-7/19/2017. The analysts were asked about their expectations for the respective time horizons (Y = year, M = month). Numbers displayed are percentages in case of directional forecasts (change compared to previous survey in parentheses) and numerical values in case of point forecasts (results of previous survey in parentheses). Balances refer to the weighted distributions from positive and negative assessments.