

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 PwC.

- **Key message 1**

Sharp increase in macroeconomic expectations: highest level since the end of 2013.

- **Key message 2**

China's foreign trade gaining in importance.

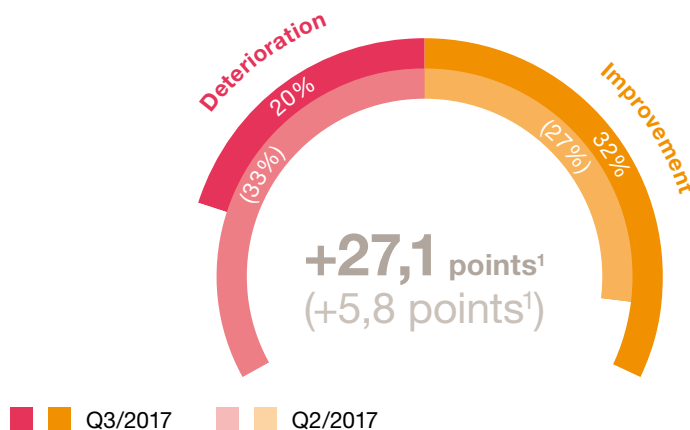
- **Key message 3**

More Chinese acquisitions expected in Germany.

Sharp increase in macroeconomic expectations: highest level since the end of 2013

This quarter, the German managers we surveyed scored China's macroeconomic situation – and the prospects for the next twelve months – far higher than in the second quarter of 2017. The situation score was up from 5.8 points at 27.1, the highest since the second quarter of 2014. The outlook for the next twelve months is also significantly higher. The expectations score rose from –3.5 points to 17.1, the second highest since the survey started in 2013. The likelihood of an economic downturn is now just 20 per cent compared with 37% previously. And the likelihood of an economic upturn is up from 27% at 32%.

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

Foreign trade gaining in importance

The most startling changes in the macroeconomic forecasts for the next six months are on China's foreign trade relations. Expectations on exports improved from -11.6 to 9.1 points; on imports they were up from -5.8 to 29.4 points. These increases show that managers believe China's is likely to integrate even further into the international trade system. As with these overall expectations on exports and imports, an improvement was also seen in expectations on foreign trade with Germany in particular.

And the positive trend on exports and imports was matched by expectations on foreign direct investment (FDI). FDI outflows from China are expected to increase, with a score of 31.8 points, up from 25, as Chinese investors increase activities outside the country. Inflows to China were relatively neutral at -6.1 points.

Positive development of indicators concerning German companies in China

The increase in macroeconomic expectations is also leading to an improvement in forecasts for company indicators, particularly trade activities and sales. Expectations for trade activities were up from 29.7 points to 43.5 points. Expectations on sales are significantly improved, from 32.1 to 51.6 points. So both indicators suggest trade and sales will increase even more over the next six months. The picture on expectations for production and workforce remains similar to the previous quarter; both continue to be low.

Increase in Chinese foreign acquisitions and sector-specific investment in China

The increase in expected levels of FDI is also reflected in the forecasts on foreign acquisitions. Expectations for Chinese foreign acquisitions were up from 37.5 points to 51.5 points. Scores were up slightly on Germany's attractiveness as an investment destination at 44.1 compared with 40.2 points previously. The managers we surveyed also continue to expect to see more Chinese purchases of foreign companies, as well as an increase in buyouts of and participations in German companies.

Our analysis of investment in China by sector shows expectations are up for every single sector. The service, information and telecommunication technology, and consumer goods sectors are still the top three, although in a slightly different order. The bottom two sectors in terms of expectations continue to be the construction and steel/metals sectors. The latter in particular is expected to see a continuing decline in investment activity.

It is in the mid-ranking sectors that we have seen some more striking shifts. The electronics, energy and machinery industries are each up three places whilst automotive, retail and banking, and insurance have scored relatively poorly.

Overall, high levels of growth are expected in two sets of industries: sectors close to the consumer and technology-oriented sectors.

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




Industry	Trend	Balance
Information/Communications	↑	55.0
Services	↑	53.1
Consumer goods	↑	37.5
Electronics	↑	33.3
Energy	↗	25.0
Automotive	↗	24.2
Machinery	↗	21.0
Retail	↗	19.4
Banking/Insurance	↗	18.3
Chemicals	→	10.0
Construction	→	-6.5
Steel/Metals	↓	-38.3

Sources: ZEW and PwC.

Expectations remain dampened for regulatory environment

Ratings on regulation are roughly the same as in the previous quarter. The exception is scores for taxation, which fell from 0 to –6.3 points. Overall, scores on the regulation sub-headings suggest no major changes versus baseline are expected over the next six months.

Tab. 2 ZEW-PwC-China Economic Barometer: Results May 2017

Current overall macroeconomic situation	very good	good	normal	bad	very bad	balance
China	5.7	48.6	40.0	5.7	0.0	27.1
Eurozone	5.9	35.3	44.1	14.7	0.0	16.2
USA	0.0	43.3	43.3	13.3	0.0	15.0
Economic expectations (12 months)	improve	slightly improve	no change	slightly worsen	worsen	balance
China	8.6	28.6	51.4	11.4	0.0	17.1
Eurozone	3.0	30.3	60.6	6.1	0.0	15.2
USA	3.3	23.3	50.0	23.3	0.0	3.3
Probability of the development of the overall macroeconomic situation in China over the next 12 months						
32,3%		47,9%			19,8%	
	improve		not change		worsen	
Macroeconomic indicators for China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
Inflation	3.0	87.9	9.1	0.0	0.0	47.0
Interest rates	0.0	44.1	50.0	5.9	0.0	19.1
Public debt	33.3	48.5	15.2	3.0	0.0	56.1
International debt	6.1	45.5	39.4	6.1	3.0	22.7
China's FDI inflow	0.0	33.3	30.3	27.3	9.1	–6.1
China's FDI outflow	15.2	45.5	30.3	6.1	3.0	31.8
China's import activity	8.8	52.9	29.4	5.9	2.9	29.4
China's export activity	3.0	39.4	30.3	27.3	0.0	9.1
Chinese imports from Germany	8.8	50.0	32.4	8.8	0.0	29.4
Chinese exports to Germany	5.9	23.5	64.7	5.9	0.0	14.7

Investment activities in China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
Banking and Insurance	6.7	36.7	46.7	6.7	3.3	18.3
Automotive	12.9	51.6	16.1	9.7	9.7	24.2
Chemicals	10.0	30.0	36.7	16.7	6.7	10.0
Steel/Metals	3.3	3.3	23.3	53.3	16.7	-38.3
Electronics	13.3	46.7	33.3	6.7	0.0	33.3
Machinery	16.1	35.5	25.8	19.4	3.2	21.0
Consumer goods	9.4	62.5	21.9	6.3	0.0	37.5
Information and telecommunication technology	36.7	40.0	20.0	3.3	0.0	55.0
Construction	6.5	16.1	41.9	29.0	6.5	-6.5
Retail	6.5	32.3	54.8	6.5	0.0	19.4
Energy	14.3	35.7	35.7	14.3	0.0	25.0
Services	31.3	43.8	25.0	0.0	0.0	53.1
Indicators of German companies in China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
Trade activities	16.1	58.1	22.6	3.2	0.0	43.5
Production	14.8	33.3	44.4	7.4	0.0	27.8
Sales	22.6	61.3	12.9	3.2	0.0	51.6
Workforce	6.7	40.0	43.3	6.7	3.3	20.0
Mergers & Acquisitions activities within China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
	29.4	50.0	17.6	2.9	0.0	52.9
Chinese M&A activities abroad (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
	38.2	38.2	14.7	5.9	2.9	51.5
Germany's importance as an investment destination (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
	17.6	58.8	17.6	5.9	0.0	44.1

Domestic demand in China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
Average wages	20.6	67.6	8.8	2.9	0.0	52.9
Unit labour costs	20.6	61.8	17.6	0.0	0.0	51.5
Private capital investments	0.0	57.6	33.3	6.1	3.0	22.7
Private consumption	9.0	64.7	23.5	2.9	0.0	39.7
Private savings rate	2.9	29.4	44.1	23.5	0.0	5.9
Public spending	23.5	50.0	23.5	2.9	0.0	47.1
Regulatory environment (6 months)	improve	slightly improve	no change	slightly worsen	worsen	balance
Financing	0.0	30.3	48.5	9.1	12.1	-1.5
Business approval requirements	0.0	38.2	41.2	11.8	8.8	4.4
Public tenders	0.0	18.8	53.1	25.0	3.1	-6.3
Taxation	0.0	18.8	56.3	18.8	6.3	-6.3
Legal protection	0.0	14.7	67.6	14.7	2.9	-2.9
Intellectual Property	0.0	24.2	60.6	12.1	3.0	3.0

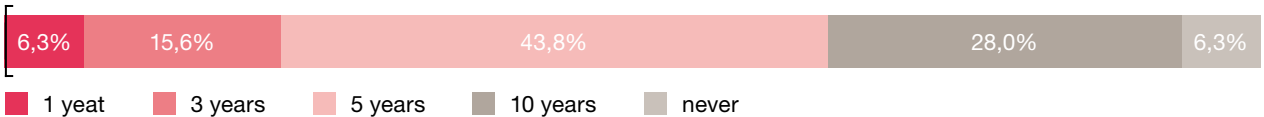
The RMB exchange rate will noticeably become more flexible within ...



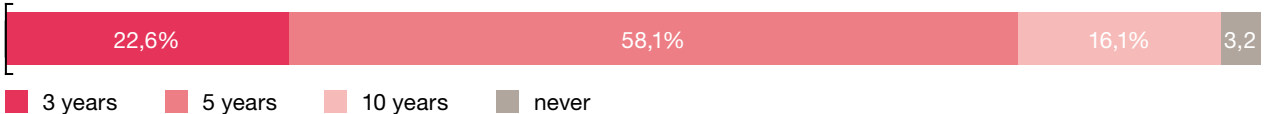
Full convertibility of the RMB



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 survey for the *ZEW-PwC-China Economic Barometer* was conducted during the period between May 15th and 30th 2017. 36 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).

Contact



PwC

Thomas Heck

Partner, Head of China Business Group
Germany and Europe
Tel.: +49 69 9895-1265
thomas.heck@pwc.com

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ZEW

Dr. Michael Schröder

Project Leader and Senior Researcher,
ZEW Research Department
"International Finance and
Financial Management"
Tel.: +49 621 1235-368
schroeder@zew.de

The Centre for European Economic Research (ZEW), Mannheim

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