

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**

Improved economic outlook: turnaround in sight?

- **Key message 2**

Government demand still crucial, domestic demand up.

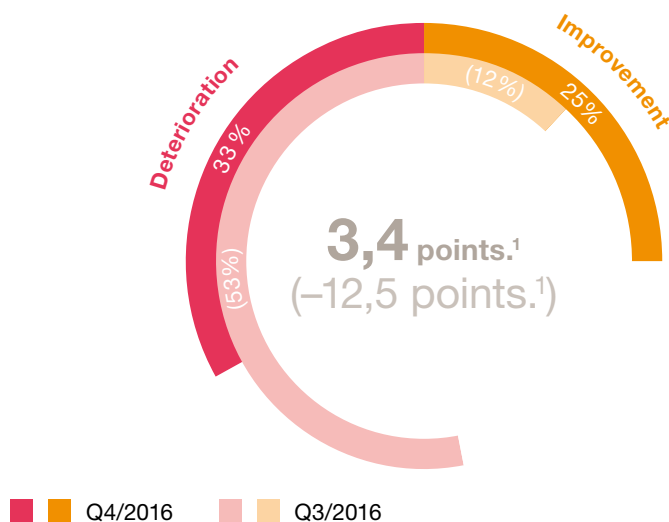
- **Key message 3**

Mobile payment systems: China well ahead – huge scepticism (still) in Germany.

Turnaround in sight?

For the fourth quarter, the rating of the current economic situation by German managers in China is 3.4 points, well up on the previous quarter (-12.5 points). Although the managers surveyed continue to think there is a risk of an economic downturn in the next twelve months, far fewer now think this is likely (33% versus 53% in the previous quarter). At the same time the proportion who think an economic upturn is likely is 25%, a considerable increase on the previous quarter (12%).

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.

Government demand still crucial, domestic demand up

The most surprising changes to macroeconomic scores are on domestic demand, specifically on private consumption and private investment. Ratings for the next six months were well up in both categories. The overall score for private consumption is now 35.7 points, up from 23.7 points at the beginning of the year. The score for private investment showed an even bigger increase over the same period, from 11.8 points to 24.4 points, evidence that private domestic demand is recovering.

But government expenditure continues to be highly relevant for growth in China, with an overall score of 53.7 points. This suggests that government expenditure is still expected to rise, which could lead to rising public debt as it has in the past. It remains to be seen whether the Chinese economy can achieve stable growth in the foreseeable future without additional government stimulus packages.

Development of indicators concerning German companies in China

Managers' expectations of trade activities, production and sales are all down since the start of the year. There has been a particularly significant drop in expectations for sales of German: the overall score for expected sales fell from 27.6 points at the start of the year to 21.8. At the same time the positive balances on trade activities, production and sales show that these activities are expected to increase slightly. What's surprising is that ratings of activities by German companies in China are at odds with the upward trend on economic expectations.

Foreign acquisitions and investment activity in China by sector

The managers surveyed continue to view the information and telecommunication technology industries, services and consumer goods as top performers in terms of expected investments. They expect investment activities to increase considerably across all three industries.

What is particularly striking is the trend-bucking shift into positive territory in four industries. The change in sentiment is particularly marked in electronics: expectations jumped from a balance of –5.9 points at the start of the year to 15.4 points. And the outlook is just as favourable for the automotive (–11.4 points in the first quarter, now 6.3 points), machinery (–5.9 points in the first quarter, now 11.5 points) and chemicals sectors (–9.4 points in the first quarter, now 6.1 points).

Compared with expectations in the first quarter of 2016, the expectations on Chinese foreign activities (56.6 points in the first quarter, now 66.7 points) and particularly on Germany's importance as a destination for Chinese investment have risen (42.3 points in the first quarter, now 52.4 points). These figures are extraordinarily high for both sectors and mean that we can expect a significant increase in Chinese foreign investment.

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

Industry	Trend	Balance
Information/Communications	↑	54.1
Services	↑	52.5
Consumer goods	↑	33.8
Energy	↗	24.3
Banking/Insurance	↗	22.7
Electronics	↗	15.4
Machinery	↗	11.5
Retail	↗	10.5
Automotive	→	6.3
Chemicals	→	6.1
Construction	↓	-30.5
Steel/Metals	↓	-57.9

Sources: ZEW und PwC.

Trends in the regulatory environment

Ratings of the regulatory environment are down year on year in some key sectors. Forecasts on financing in particular are now much more cautious: scores fell from 29.2 points in the first quarter of 2016 to 6.6 points. On business approval requirements, the overall score fell to 1.3 points (previously 8.7 points). The forecast remains positive for both sectors. Ratings of the regulatory environment for public tenders, however, dropped from zero at the start of the year to -7.9 points.

There were only slight shifts in ratings for the other sectors (taxation, legal protection and intellectual property). Intellectual property, with an overall score of 9.5 points, is back in positive territory compared with the last survey.

Results of special question “Mobile payment systems in China and Germany”

China’s leading provider of mobile payment systems is increasing its presence in the German and European market. The special question asked managers for their assessment of consumer acceptance of mobile payment systems in Germany in general and the company’s opportunities in Germany.

47.2% of the managers surveyed think that customers’ willingness to use mobile payment systems is low or very low. Just 13.9% currently think acceptance of mobile payment systems is high in Germany. One reason for this could be a general mistrust of electronic financial transactions by Germany consumers.

The assessment also impacted on ratings of the company’s market opportunities in Germany, although the managers surveyed still think the company’s chances are better than the opportunities for mobile payment systems generally. 36.8% stated that the company had a good or very chance of successfully introducing its payment system in Germany. This contrasts with 29% who rate the company’s chances of success as relatively poor or even very poor. The reasons for this, according to the managers, include the issue of culture and trust with respect to data protection and dealing with new, unknown financial service providers.

This upbeat assessment of the company’s prospects is surprising when compared with the market opportunities for mobile payment systems in general. This appears to be due to the fact that all the managers surveyed think China is far further ahead on technological development in this sector. 63.4% of those surveyed think the development status of mobile payment systems is considerably more advanced in China than in Germany.

Fig. 2 How do you rate the development status on mobile payment systems compared with Germany?

in %

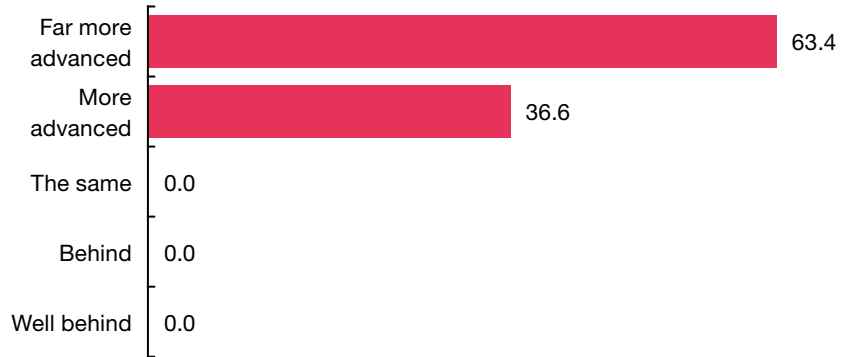


Fig. 3 How do you rate market opportunities in Germany?

in %

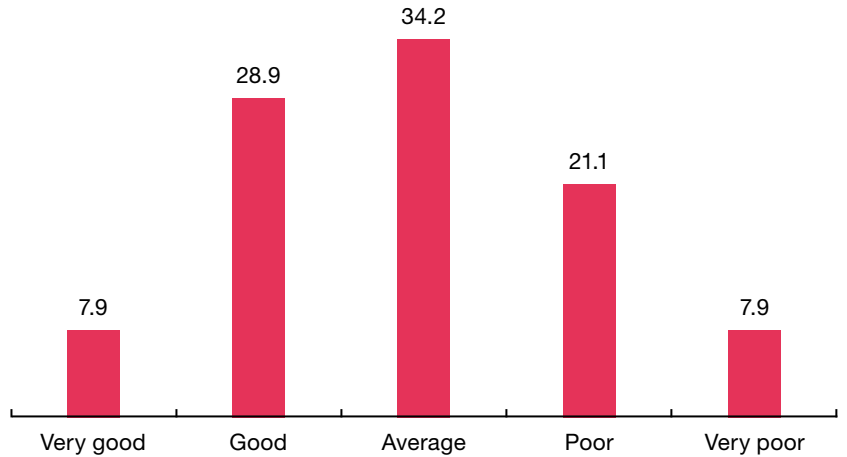


Fig. 4 How do you rate acceptance of mobile payment systems in Germany?

in %

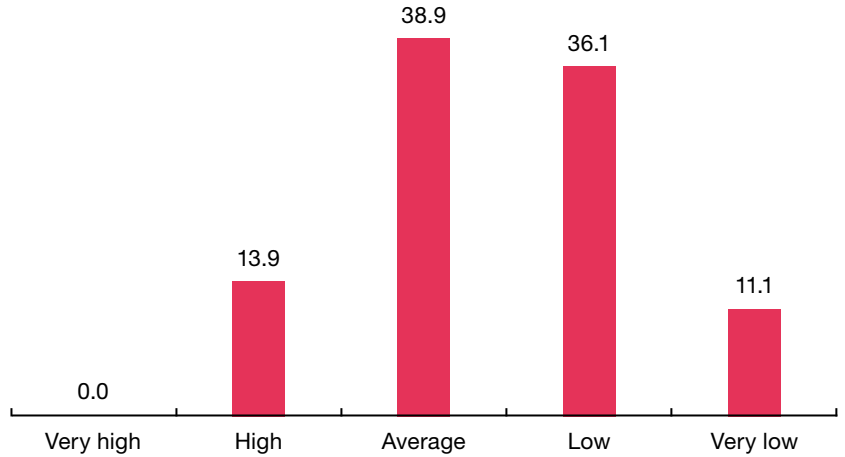
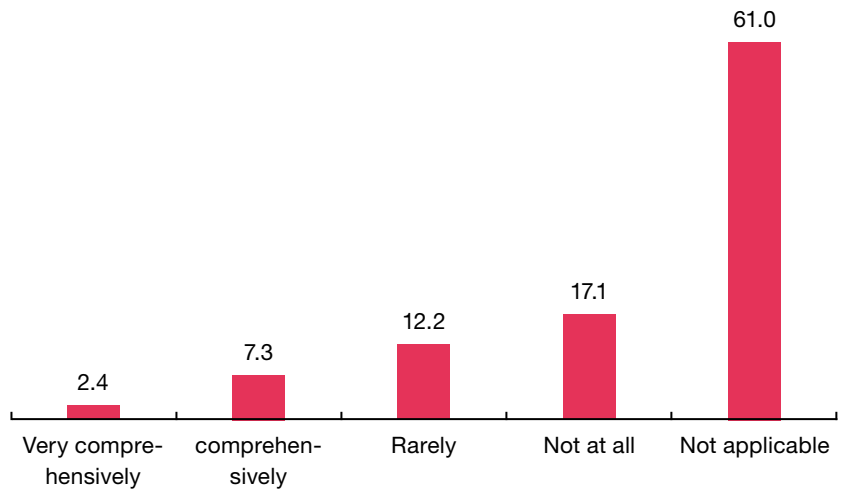



Fig. 5 Does your company already provide a mobile payment option?

in %



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

Current overall macroeconomic situation						
	very good	good	normal	bad	very bad	balance
China	2.3	29.5	40.9	27.3	0.0	3.4
Eurozone	0.0	9.1	63.6	25.0	2.3	-10.2
USA	0.0	32.5	65.0	2.5	0.0	15.0
Economic expectations (12 months)						
	improve	slightly improve	no change	slightly worsen	worsen	balance
China	6.8	25.0	34.1	31.8	2.3	1.1
Eurozone	0.0	23.3	53.5	23.3	0.0	0.0
USA	0.0	10.5	60.5	26.3	2.6	-10.5
Probability of the development of the overall macroeconomic situation in China over the next 12 months						
						
■ improve ■ not change ■ worsen						
Macroeconomic indicators for China (6 months)						
	increase	slightly increase	no change	slightly decrease	decrease	balance
Inflation	11.4	40.9	34.1	13.6	0.0	25.0
Interest rates	0.0	7.1	38.1	52.4	2.4	-25.0
Public debt	36.4	59.1	2.2	2.3	0.0	64.8
International debt	9.8	43.9	43.9	2.4	0.0	30.5
China's FDI inflow	9.5	11.9	23.8	47.6	7.1	-15.5
China's FDI outflow	29.3	56.1	9.8	4.9	0.0	54.9
China's import activity	7.0	25.6	32.6	30.2	4.7	0.0
China's export activity	4.7	16.3	37.2	39.5	2.3	-9.3
Chinese imports from Germany	7.3	19.5	29.3	43.9	0.0	-4.9
Chinese exports to Germany	4.9	19.5	48.8	26.8	0.0	1.2

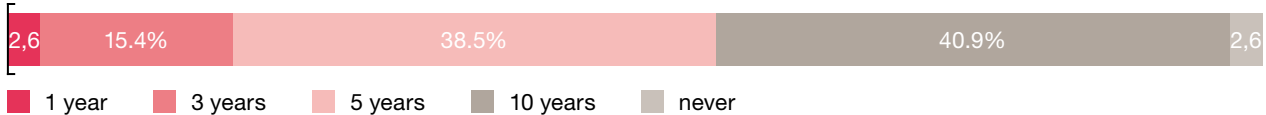
Investment activities in China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
Banking and Insurance	15.2	39.4	27.3	12.1	6.1	22.7
Automotive	15.0	27.5	17.5	35.0	5.0	6.3
Chemicals	6.1	27.3	42.4	21.2	3.0	6.1
Steel/Metals	5.3	0.0	13.2	36.8	44.7	-57.9
Electronics	12.8	28.2	38.5	17.9	2.6	15.4
Machinery	12.8	30.8	33.3	12.8	10.3	11.5
Consumer goods	20.0	37.5	32.5	10.0	0.0	33.8
Information and telecommunication technology	27.0	56.8	13.5	2.7	0.0	54.1
Construction	4.9	12.2	14.6	53.7	14.6	-30.5
Retail	7.9	28.9	44.7	13.2	5.3	10.5
Energy	20.0	22.9	42.9	14.3	0.0	24.3
Services	25.0	57.5	15.0	2.5	0.0	52.5
Indicators of German companies in China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
Trade activities	11.4	31.4	31.4	22.9	2.9	12.9
Production	5.4	40.5	32.4	16.2	5.4	12.2
Sales	10.3	46.2	25.6	12.8	5.1	21.8
Workforce	5.0	25.0	50.0	17.5	2.5	6.3
Mergers & Acquisitions activities within China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
	17.5	62.5	12.5	5.0	2.5	43.8
Chinese M&A activities abroad (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
	45.2	45.2	7.1	2.4	0.0	66.7
Germany's importance as an investment destination (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
	28.6	47.6	23.8	0.0	0.0	52.4

Domestic demand in China (6 months)	increase	slightly increase	no change	slightly decrease	decrease	balance
Average wages	31.0	59.5	7.1	2.4	0.0	59.5
Unit labour costs	28.6	52.4	11.9	7.1	0.0	51.2
Private capital investments	9.8	43.9	34.1	9.8	2.4	24.4
Private consumption	14.0	54.8	19.0	11.9	0.0	35.7
Private savings rate	0.0	19.5	46.3	34.1	0.0	-7.3
Public spending	31.7	43.9	24.4	0.0	0.0	53.7
Regulatory environment (6 months)	improve	slightly improve	no change	slightly worsen	worsen	balance
Financing	2.6	26.3	60.5	2.6	7.9	6.6
Business approval requirements	0.0	35.9	35.9	23.1	5.1	1.3
Public tenders	2.6	7.9	63.2	23.7	2.6	-7.9
Taxation	2.5	15.0	57.5	20.0	5.0	-5.0
Legal protection	2.4	19.5	61.0	12.2	4.9	1.2
Intellectual Property	0.0	23.8	71.4	4.8	0.0	9.5

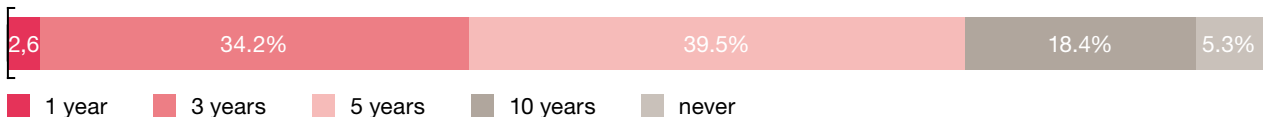
The RMB exchange rate will noticeably become more flexible within...



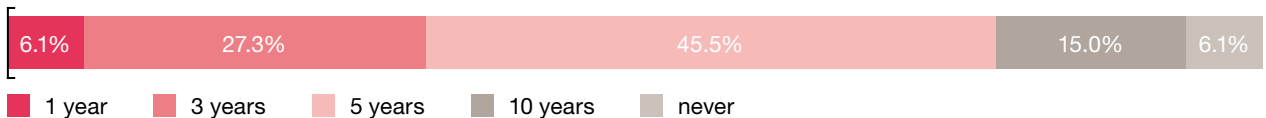
Full convertibility of the RMB



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 September survey for the ZEW-PwC-China Economic Barometer was conducted during the period from 05. September to 15. September 2016. 47 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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