

China's current economy shows improvement, but with uncertainty over its future growth

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The latest Chinese economic indicators generally show an improvement. In November, China's retail sales and industrial production accelerated to +10.8% YoY and +6.2% YoY, respectively, and its both manufacturing and non-manufacturing Purchasing Manager's Index (PMI) showed an increase (see table 1). In particular, Chinese exports were up by 0.1% YoY in November (versus down by 7.5% YoY in October), the first upturn in eight months, which came as a positive surprise. It is difficult to simply conclude that exports returned to an upward trend given the effect of one extra business day this year versus November 2015. The RMB has depreciated by about 10 % from its peak in the middle of 2015, against the US dollar as well as a basket of currencies. Considering this, it is not surprising that exports start to show signs of bottoming out (see chart 1).

On the other hand, there is high uncertainty as to China's future exports. Under the terms of China's WTO Protocol of Accession in December 2001, WTO members for the first 15 years of China's membership were allowed to calculate antidumping (AD) duties against China based on comparable market-based prices or costs in third countries. The number of AD cases launched against China accounts for about 20% of total AD cases in the world. Therefore, China had high expectations on the expiration of the above-mentioned WTO agreement clause in December 2016. However, the US and the EU have not agreed to change the way to calculate AD tariffs on China, arguing that China is not entitled to automatic "market economy status". In response to this, China filed a complaint against the US and the EU at the WTO. Moreover, uncertainty lingers over to what extent the new US administration will tighten the restrictions on imports from China.

The Central Economic Work Conference (an annual meeting held in China which reviews its economic performance current year and sets the national agenda for its economy for the following year) took place in December 14 to 16. At the conference, Chinese leaders have concluded to continue efforts to push forward supply-side structural reforms, a core economic policy of the Xi Jinping administration, aiming to cut overcapacity particularly in the steel and coal sectors, as well as to eliminate zombie companies. Besides, Chinese policymakers at the conference highlighted curbing a property bubble by warning about the trends in property purchase for speculation. Meanwhile, a proactive fiscal policy has been proposed at the conference, suggesting that the government will continue to support the economy through increasing infrastructure investment. It is vital for China to achieve economic stability in 2017, which is an important year for the government due to the holding of the National Congress of the Communist Party every five years, for sustaining steady growth going forward. In this regard, we believe that the government has made a reasonable decision to maintain a certain level of public spending in response to the structural reforms and restrictions on property investment domestically, as well as global uncertainties.

Table 1: Main Monthly Economic Indicators (China)

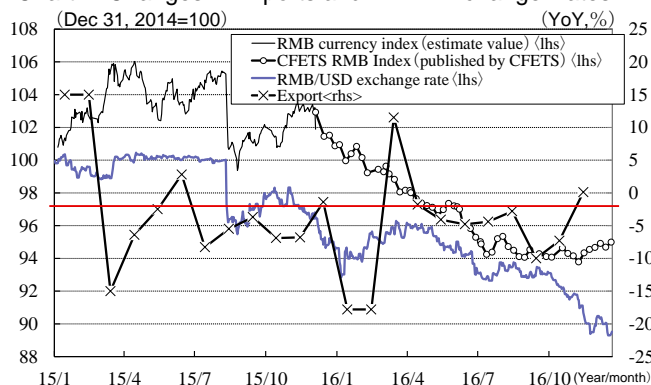
	Jul	Aug	Sep	Oct	Nov
Exports (YoY, %)	▲ 6.2	▲ 3.6	▲ 10.2	▲ 7.5	0.1
Imports (YoY, %)	▲ 12.6	1.5	▲ 1.8	▲ 1.4	6.7
Fixed Assets Investment (YTD, YoY, %)	8.1	8.1	8.2	8.3	8.3
Retail Sales (YoY, %)	10.2	10.6	10.7	10.0	10.8
Industrial Production (YoY, %)	6.0	6.3	6.1	6.1	6.2
Manufacturing PMI	49.9	50.4	50.4	51.2	51.7
Non-manufacturing PMI	53.9	53.5	53.7	54.0	54.7

Note: 1) Manufacturing PMI and Non-manufacturing PMI data are from the China National Bureau of Statistics.

2) Shadowed portion indicates lower growth rates or decline in indicators from previous months.

Source: China National Bureau of Statistics, BTMJ

Chart 1: Changes in Exports and RMB Exchange Rates



Note: 1) The RMB currency index (estimate value) is calculated by using the prevailing exchange rates of the RMB against currencies included in the CFETS RMB Index and the exchange rates published by CFETS.

2) The export data for the months of January and February is calculated based on a total export volume in those two months to correct for statistical distortions arising from Chinese New Year.

Source: China Foreign Exchange Trade System (CFETS), General Administration of Customs of the

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