Postprint: 2017 Forecast of China' s Core Economic Indicators

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Abstract

In 2016, the downward momentum of China's economic growth moderated, with GDP growth remaining stable throughout the year at 6.7%. Prices continued the moderate upward trend from 2015, with the increase expanding compared to the same period in 2015, and the annual Consumer Price Index (CPI) was approximately 2.1%. It is projected that in 2017, China' s economy will exhibit a trend of "stable with slight decline, stable and improving," with annual GDP growth of approximately 6.5%. Prices will continue the moderate upward trend, with the annual CPI increase for 2017 at approximately 2.3%. Among the three major demand components, imports and exports will continue to register negative growth. In USD terms, total imports and exports are projected to decline by approximately 5.4% in 2017, with exports falling by approximately 6.9% year-on-year and imports falling by approximately 3.4% year-on-year. Consumption will maintain steady growth, with final consumption growth projected at approximately 9% in 2017. Investment growth will increase slightly, with fixed asset investment growth projected at approximately 8.5% in 2017.

Full Text

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Outlook" released by the Center for Forecasting Science, Chinese Academy of Sciences. Authors: Yang Xiaoguang (xgyang@iss.ac.cn), Yang Cuihong. Revised manuscript received: December 25, 2016.

Abstract

In 2016, the downward momentum of China' s economic growth slowed, with GDP growth remaining stable throughout the year at 6.7%. Prices continued the moderate upward trend from 2015, with the increase expanding compared to the same period in 2015, and the annual Consumer Price Index (CPI) reaching approximately 2.1%. It is projected that in 2017, China' s economy will exhibit a pattern of "stable with a slight decline, trending toward improvement," with annual GDP growth of around 6.5%. Prices will continue their moderate upward trend, with the annual CPI increase at approximately 2.3%. Among the three major demand components, imports and exports will continue to show negative growth. In US dollar terms, the total import and export volume is expected to decline by approximately 5.4% in 2017, with exports falling by about 6.9% and imports by about 3.4%. Consumption will maintain steady growth, with final consumption growth projected at around 9% in 2017. The investment growth rate will rise slightly, with fixed asset investment growth expected at approximately 8.5% for the year.

Keywords: economic growth, price, investment, consumption, foreign trade, forecasting
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Introduction

Since 2012, China's economic growth has exhibited a downward trend due to the slow overall recovery of the international economic situation, concurrent pressures from the "three-phase superposition" in China' s economy, and structural adjustments. Faced with this situation, the Chinese government timely initiated an economic transformation path. Through arduous efforts, the downward momentum of China' s economic growth has been mitigated. In the first three quarters of 2016, GDP grew by 6.7% year-on-year, and the fourth quarter and full-year GDP growth rate is expected to be 6.7%. Although this growth rate is the lowest since 2009, it still represents high growth globally, demonstrating the resilient growth momentum of China' s economy.

Looking ahead to 2017, both the world economy and China' s economy face considerable uncertainties. From an international perspective, events such as Trump's election in the United States, Brexit, and the Italian referendum demonstrate the rise of global trade protectionism and nationalism, creating significant uncertainty for global trade and the world economy. Overall, world economic recovery remains slow, and turbulence in emerging economies may intensify. From a domestic perspective, despite China' s economy achieving remarkable results in 2016 under complex domestic and international circumstances, with encouraging structural transformation effects and new growth momentum exceeding expectations, downward pressure on the economy remains substantial. Overcapacity in some industries and high leverage issues remain severe, and risks in the financial sector continue to accumulate. Faced with this complex situation, the Center for Forecasting Science of the Chinese Academy of Sciences has completed the "2017 China Economic Forecast and Outlook" report based on systematic analysis and quantitative calculations. This article summarizes the trends of core indicators related to economic growth, prices, investment, consumption, and import-export trade from that report.

1. Forecast of China' s GDP Growth Trend in 2017

Despite downward economic pressure, China' s economy achieved commendable results in 2016 overall, with stable economic operation, steady progress in transformation and structural adjustment, successful destocking and de-capacity efforts, improved corporate profitability, generally stable financial market performance, continuous increases in urban employment, and continued improvement in people' s livelihoods. These developments have laid a solid foundation for China' s economic growth in 2017. However, China' s economy as a whole remains in a downward trajectory, with some deep-seated structural problems still prominent. The old economic growth model, plagued by many deficiencies, maintains considerable inertia, while strong new economic growth drivers are lacking, and systemic economic and financial risks continue to accumulate.

In 2017, greater uncertainty for China's economy will come from external sources. Except for a few countries such as the United States and India, the world economy remains generally sluggish, with conservatism and populism rising in Western countries. The election of Trump as the new U.S. President has created significant uncertainty for China-U.S. relations and the external environment for China' s economic development.

Based on domestic and international economic conditions and model calculations, it is projected that GDP growth in 2017 will be slightly lower than the 6.7% recorded in 2016[1]. Overall, the economy will develop steadily throughout 2017. In the first quarter, due to factors such as a lower base period, GDP growth is projected to be approximately 6.6%. In the second and third quarters, as the delayed effects of real estate regulation from 2016 gradually manifest and external factors impact China' s foreign trade, economic growth will decline somewhat, with projections of around 6.4%. Following the central government' s "stabilizing growth" measures, growth will stabilize and rise slightly in the fourth quarter, reaching approximately 6.5%.

From the perspective of the three major industries, the growth rate of value-added in the primary industry is projected to be approximately 3.7% in 2017, an increase of 0.1 percentage points from 2016. The value-added growth rates of the secondary and tertiary industries are expected to be 6.0% and 7.5% respectively, both decreasing by 0.1 percentage points from 2016 (Table 1).

From the perspective of the three major demand components, the contribution rates of final consumption, gross capital formation, and net exports to China’ s GDP growth in 2016 are estimated at approximately 70%, 36%, and -6% respectively (Table 2), driving GDP growth by 4.5, 2.4, and -0.4 percentage points respectively. Compared with 2016, the contribution rate of final consumption will see a slight increase, while that of gross capital formation will decline.

2. Forecast of China’ s Price Trends in 2017

In 2016, CPI continued the moderate upward trend from 2015, with the increase expanding compared to 2015. The direct cause of the expanded CPI increase in 2016 was the cyclical rise in prices of fresh vegetables and meat and poultry products, with overlapping upward cycles that drove rapid CPI growth in the short term. Meanwhile, sustained rapid increases in healthcare and service prices provided long-term support for CPI growth. However, upstream price indices—the Producer Price Index (PPI) and the Purchasing Price Index for Industrial Producers (PPIRM)—both declined, with the decrease narrowing compared to 2015, before rebounding in September and October 2016 respectively. The overall low level of upstream prices suppressed the rapid upward momentum of CPI, keeping it in a moderate upward trend throughout the year.

In the first three quarters of 2016, PPI and PPIRM continued the downward momentum from 2015, but the decline narrowed, turning from decline to increase in September and October respectively. The downward inertia of PPI and PPIRM in the first three quarters was mainly caused by the slow recovery of the international economy, China’ s economic growth in a downward trajectory, and overcapacity issues. However, the rebound in commodity prices, led by crude oil, significantly curbed the decline in PPIRM and PPI. The real estate sales boom and infrastructure construction dominated by state-owned capital stabilized investment growth, while de-capacity and de-stocking efforts yielded remarkable results, forming strong constraints on the downward trend of PPIRM and PPI. The rebound and rise in international commodity prices played a significant role in driving the recovery of China’ s PPIRM and PPI.

In 2017, on the one hand, factors such as China’ s overall macroeconomy continuing to stabilize, consumption and investment growth rates remaining level with 2016, a loose liquidity environment and proactive fiscal policy, slow recovery of the world economy, continued rebound in international commodity prices, and the RMB being in a depreciation channel will constitute upward pressure on price levels. On the other hand, factors including public lack of confidence in the macroeconomic outlook, the gradual manifestation of differentiated real estate regulation effects, and persistent downward pressure on macroeconomic growth will exert significant restraint on overall price levels. Additionally, uncertainties regarding international multilateral investment and trade agreements, world economic trends, international affairs, and natural climate conditions increase the variables in 2017 price trends. Taking all factors into consideration[2], it is projected that China’ s CPI will maintain a moderate upward trend overall in 2017, with an increase 0.2-0.3 percentage points higher than in 2016, while PPI and PPIRM will see significant improvement over 2016. The annual CPI increase is expected to be around 2.3%, with PPI and PPIRM rising approximately 2.4%. The CPI trend will be stable in the first half of the year, with increases rising in the second half, while PPI and PPIRM will follow a pattern of rising first then falling throughout the year.

3. Forecast of China's Import and Export Situation in 2017

In 2016, the slow recovery of the world economy and persistent weakness in international market demand created a challenging environment for China' s foreign trade. In response, the Chinese government introduced further policy measures to support stable growth and structural adjustment in foreign trade. Overall, imports and exports showed a stabilizing and improving trend. From January to November 2016, national imports and exports totaled 21.8 trillion RMB, a decrease of 1.2%. Exports amounted to 12.5 trillion RMB, down 1.8%, while imports reached 9.4 trillion RMB, down 0.3%, with the decline narrowing significantly compared to the same period in 2015.

Looking ahead to 2017, the pace of global economic recovery remains difficult, with trade protectionism making a strong comeback and the globalization process facing new challenges. The normalization of U.S. monetary policy, Europe' s fragmentation risks, Japan' s 困境 of deflation and growth stagnation, and emerging markets' difficulty in breaking through growth resistance will keep global trade in a depressed state, negatively impacting international demand for China' s export growth. On the import side, global commodity prices are expected to see a moderate upward trend in 2017, with limited pulling effect on imports from price factors. The domestic economy remains in a downward channel with weak internal demand, and the continued relocation of processing trade is reducing processing trade imports. Taking into account both domestic demand and fluctuations in international commodity prices, import growth in 2017 appears unpromising.

Assuming no major changes in domestic and international economic conditions, the main forecast results for China's imports and exports in 2017 are as follows[3]: Growth rates for both import and export values in the second half of 2017 will be higher than in the first half, showing a trend of low growth early and higher growth later. The total import-export value will continue to show negative growth, but the decline will narrow slightly compared to 2016. It is projected that in 2017, China' s total import-export value will decrease by approximately 5.4% year-on-year, with exports falling by about 6.9% and imports by about 3.4%. The trade surplus is expected to be around US$450 billion. Import growth is expected to turn positive in the fourth quarter of 2017.

China' s foreign trade situation in 2017 still faces considerable uncertainty. During his campaign, U.S. President-elect Trump repeatedly accused China of dumping goods in the U.S. and "stealing" American jobs, claiming he would designate China as a currency manipulator and impose 45% tariffs on Chinese goods after taking office. On December 21, 2016, Trump announced the establishment of the White House National Trade Council, appointing Peter Navarro from the University of California, Irvine as its director. Navarro is one of America’ s toughest trade “hawks” on China, making the risk of China-U.S. trade confrontation in 2017 extremely serious. Trump’ s tough policies toward China may extend beyond trade to political and military domains. Due to America’ s global influence, some of China’ s trading partners may follow the U.S. strategy, deteriorating China’ s foreign trade environment. Additionally, rising domestic operating costs in China and changes in international capital flow patterns brought about by a strong U.S. dollar could both lead to the outflow of China’ s foreign trade industries, causing declines in processing trade exports. These numerous uncertainties make the direction of China’ s foreign trade in 2017 full of variables.

4. Analysis and Forecast of China’ s Investment and Consumption Situation in 2017

Regarding investment, since early 2016, the characteristic of China’ s economy stabilizing amid moderation has gradually become apparent, with continuous realization of the transition between old and new growth drivers and ongoing optimization of the economic structure. The declining trend in the cumulative growth rate of China’ s fixed asset investment has also been curbed. From January to November 2016, national fixed asset investment (excluding rural households) reached 53,854.8 billion RMB, an increase of 8.3% year-on-year.

Looking ahead to 2017, we believe the trend of fixed asset investment stabilizing amid moderation and improving while stable will continue. The trajectory of fixed asset investment in 2017 will be mainly influenced by the following factors: (1) The momentum of private investment will continue, with policies to promote private investment for “stabilizing growth” being introduced continuously. The central government’ s recent regulation of leveraged buyouts in capital markets and wealth management products will help channel more funds toward the real economy, promoting investment growth in the real economy; (2) The layout of new urbanization and the “Belt and Road” initiative will sustain the momentum of infrastructure PPP projects, with sufficient motivation from governments at all levels to promote investment growth; (3) Improved market conditions and better business performance provide guarantees for stable investment growth; (4) The Central Economic Work Conference concluded on December 16, 2016, which put forward new positioning and work arrangements for the real estate market, will contribute to the stable development of the real estate industry and stable growth in real estate investment. Overall, the rapid decline in fixed asset investment growth in 2016 has ended, and a basic bottoming-out and stabilization has been achieved. The possibility of fixed asset investment growth showing stability with an upward trend in 2017 is relatively high, with the annual growth rate projected at approximately 8.5%[4].

Regarding consumption, affected by slowing foreign trade and investment while consumer spending increased, China' s total retail sales of consumer goods maintained steady growth in 2016. From January to November 2016, total retail sales of consumer goods reached 30,056.0 billion RMB, an increase of 10.4% year-on-year, slightly lower than the same period in 2015. In the first three quarters of 2016, the contribution rate of final consumption expenditure to economic growth was 71.0%, an increase of 13.3 percentage points compared to the same period in 2015. The importance of consumption in national economic development is strengthening. Looking ahead to 2017, the economic growth trend of stabilizing amid moderation and improving while stable will sustain Chinese residents' consumption enthusiasm. The desire of urban and rural residents to improve their quality of life remains strong, stable real estate growth will help stimulate consumption demand in related industries, and new consumption patterns such as internet consumption will continue to flourish. Overall, China' s final consumption will maintain a stable growth trend. Based on analysis of the changing trends in total consumption and its structure, as well as major influencing factors, and using the itemized summation forecasting method, it is projected that China' s final consumption will grow by approximately 9% nominally year-on-year in 2017, basically level with the 2016 forecast[5].

5. Policy Recommendations

To ensure stability in China' s economy in 2017, efforts should focus on implementing the spirit of the Central Economic Work Conference at the end of 2016, deepening economic system reform, building an open, orderly, and competitive market environment, streamlining administration and delegating power, improving the property rights protection system, enhancing political governance, and fully mobilizing the people' s enthusiasm for wealth creation. Continued efforts should be made to strengthen de-capacity and de-leveraging, adjust the economic structure, enhance innovative nation-building, guard against systemic risks, and properly respond to changes in the international situation to create a favorable external development environment. Specifically, the following areas require focused attention.

5.1 Actively and Prudently Conduct Real Estate Regulation to Prevent Sharp Economic Growth Decline

The real estate industry is characterized by its exceptionally long industrial chain, and its development plays an important role in China' s economic growth. The substantial increase in real estate sales in 2016 drove the development of many industries and increased central and local government fiscal revenue. According to preliminary calculations by the National Bureau of Statistics, the real estate sector' s contribution to economic growth was around 8% in the first three quarters. Given the substantial rise in real estate prices in some cities, mainly first- and second-tier cities, many cities began implementing a series of measures to regulate the real estate industry starting in October 2016. We believe that moderate regulation of the real estate industry is necessary, but regulatory measures must be appropriate and properly calibrated, with careful assessment of both positive and negative effects beforehand. It is necessary to continue encouraging and protecting rigid demand, namely housing purchases by first-time homebuyers and those seeking to improve their living conditions, with preferential treatment and support in taxation and credit. Lessons should be learned from Hong Kong’ s experience in solving housing problems for low- and middle-income residents, implementing the principle of “everyone has housing to live in” rather than “everyone owns housing.” Faced with a large number of families with housing difficulties, particularly over 200 million migrant workers and their families, the government’ s primary task in housing security is to solve the housing problems of those without homes or with housing difficulties by developing low-rent housing. Furthermore, it is necessary to change the current situation in China’ s real estate regulation, which emphasizes demand-side control while neglecting supply-side control. Demand-side control should be combined with supply-side control, and short-term regulation should be integrated with long-term regulation, properly managing the relationship between real estate and economic development.

5.2 Maintain Basic Stability of the RMB Exchange Rate to Prevent Excessive Capital Outflow and Reduce Trade Risks

Affected by factors such as China’ s declining economic growth, continuous decline in foreign trade volume, moderate recovery of the U.S. economy, expectations of U.S. interest rate hikes, and the trade protectionist policies of the U.S. President-elect, expectations for RMB depreciation have further intensified. In recent years, China’s export decline has been mainly influenced by weak overseas demand. RMB depreciation against the U.S. dollar not only fails to help promote China’ s export growth but also brings relatively obvious negative shocks to China’ s import and export trade, inducing capital outflows and affecting China’ s economic transformation and stable development. Therefore, we recommend: (1) Strengthen guidance for foreign trade enterprises on exchange rate risks, actively guide enterprises to adjust asset allocation, effectively match asset and liability structures, and actively take measures to resolve the financial burden on foreign trade enterprises with large foreign debt caused by RMB exchange rate fluctuations, guarding against cash flow risks; (2) Actively guide domestic and international market expectations, manage expectations properly, maintain basic stability of the RMB exchange rate, attach importance to the impact of exchange rate fluctuations on China’s foreign trade, and guard against continued shrinkage of foreign trade that would further intensify RMB depreciation expectations; (3) Enhance the international influence of the RMB, promote cross-border trade settlement in RMB, and reduce enterprises’ exchange rate risks.

5.3 Adopt Multiple Effective Measures to Encourage Enterprises to "Go Global" and Build a Global Production Network Centered on China

As trade protectionism rises worldwide, particularly in developed European and American countries, and traditional global value chains continuously shrink in this "reverse" globalization period, the Chinese government should adopt effective policies to encourage domestic enterprises to leverage their own advantages, establish a global presence, and build a new type of global value chain centered on China. It should adhere to the "Made in China 2025" strategy, encourage entrepreneurship and technological innovation, enhance the international competitiveness of China' s industries, and utilize both international and domestic resources through vertical specialization to build a global production network centered on China, realizing the transformation from a large economy to an economic powerhouse.

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Note: Figure translations are in progress. See original paper for figures.