

Key Developments in Brief

Economic Development	Drivers of Growth	Risks
<ul style="list-style-type: none"> ▪ Predicted GDP growth of 6.5% in 2018 ▪ In 2017 growth exceeded the official target 	<ul style="list-style-type: none"> ▪ Service and modern production grow faster than average ▪ E-Commerce expanding fast ▪ Belt and Road Initiative opening up new markets 	<ul style="list-style-type: none"> ▪ Corporate debt, esp. state-owned enterprises ▪ US development: potential for intensified conflict about trade balance, risks through US tax reform
Price Levels	Foreign Trade	Labor Market
<ul style="list-style-type: none"> ▪ 2017 inflation at 1.6% ▪ Mild increase of inflation expected for 2018 	<ul style="list-style-type: none"> ▪ Foreign trade grew strongly in 2017 after two weak years 	<ul style="list-style-type: none"> ▪ Official unemployment rate at lowest level in many years ▪ Average salaries growth weakens slightly

Macroeconomic Indicators

<i>Growth in %</i>	2012	2013	2014	2015	2016	2017
GDP	7,7	7,7	7,4	6,9	6,7	6,9
Investment and Output						
Utilized FDI	-3,7	5,3	1,7	6,4	4,1	4,0
Fixed Asset Investment	20,6	19,6	15,7	10,0	8,1	7,2
Industrial Production	10,0	9,7	8,3	6,1	6,0	6,6
Price Levels						
Consumer Prices (CPI)	2,6	2,6	2,0	1,4	2,0	1,6
Producer Prices (PPI)	-1,7	-1,9	-1,9	-5,2	-1,4	6,3
Foreign Trade						
Exports	7,9	7,9	6,1	-2,9	-7,7	7,9
Imports	4,3	7,3	0,4	-14,2	-5,5	15,9

Source: National Bureau of Statistics

Economic Development

Based on the average forecast of several institutions, Chinese GDP growth will cool down moderately to 6.5%. This is slightly below the 2017 growth rate. This development underlines the long-term trend of a gradual shift to lower growth levels. GDP growth in 2017 was 6.9%, exceeding the official growth target (6.5%). The Chinese economy is on track to achieve the long-term goal of doubling economic output between 2010 and 2020.

One of the main drivers of economic growth will be the continuously expanding service sector. After years of rapid growth (8% in 2017) it now accounts for more than half of Chinese GDP. The transformation of the economic structure of China is also driven forward by political reforms which focus on expanding high-value manufacturing and sustainability. These reforms are intended to remedy some structural problems of the Chinese economy. However, there might be short-term distortions in industries with more traditional business models.

Fixed asset investments have grown slower than in the previous year. Yet, their growth level remains strong at 7.2% year-on-year. In the tertiary sector, education, healthcare, culture, sports, and entertainment attracted a double-digit growth of investment. Furthermore industries such as telecommunications equipment and computers (+25.3%), and the automotive industry (+10.2%, 5.7 percentage points higher than last year) displayed above average fixed asset investment growth.

Retail sales increased by 10.2% overall. Retail grew faster in rural areas than in cities (11.8% and 10.0% respectively). In absolute numbers, however, urban retail still accounted for approximately six times the revenue of rural retail.

China is the world's biggest e-Commerce market. Online retail saw another strong year with a 32.3% growth in sales. Growth exceeded last year's by 6 percentage points. E-Commerce now accounts for about 15% of all retail of consumer goods. This development will most likely continue in 2018.

Price Levels

Inflation increased slightly to 1.6%, but remains on a low level substantially below the inflation target of 3%. One important factor are food prices, which on average declined by 1.4%. On the other hand, services prices increased by 3%. For 2018, we expect to see a continuation of the trend of moderate inflation for consumer prices.

Producer prices soared by 6.3% in 2017 after five years of decline. Increasing energy prices for oil and coal factor strongly in this development. The trend weakened towards the end of the year: December exhibited the smallest increase last year in producer prices with 4.9% year-on-year. Rising producer prices may also push up consumer prices in the long-run.

Foreign Trade

Chinese foreign trade expanded substantially after two years of decline. Imports soared by 15.9% and exports by 7.9% compared to last year. Since fossil fuels and other raw material constitute about one fifth of Chinese imports, the price increase of these goods also entails an increase in value of imported goods. The value of exports, however, still exceeds the value of imports by a substantial margin. The trade surplus was 422.5 billion USD in 2017.

The most important buyers of Chinese exports are the United States (19.0% of Chinese exports), the EU (16.4%) and the ASEAN (12.3%). The EU (13.3% of Chinese imports), ASEAN (12.8%), Japan (9.0%) and the US (8.4%) are the main suppliers of Chinese imports.

Sino-German bilateral trade developed analogously: German exports to China increased by 14.0%, imports from China by 6.6%.

Labor Market

The official urban unemployment rate was 3.9% at the end of 2017. This constitutes the lowest unemployment rate in 15 years, during which unemployment remained slightly above 4% with little fluctuation. For 2018 a change of the statistical methodology is planned which is intended to then better capture the true labor market conditions, e.g. also includes migrant workers who live and work in cities without household registration.

According to the Ministry of Human Resources and Social Security 13.51 million new jobs were created last year, 370,000 more than in 2016. It is expected that in 2018 up to 15 million new workers will enter the labor market, among those will be 8.2 million university graduates. Despite the demographic change, the number of graduates entering into the job market is increasing every year. Yet the shortage of skilled workers remains and some industries, e.g. coal mining and steel mills, are severely impacted by structural changes of the economy, which is likely to result in layoffs.

20 provinces and direct-controlled municipalities raised their minimum wage in 2017. On average, minimum wages were increased by 9.7%. This increase is slightly above the national average increase in salaries, which the “10th Labor Market & Salary Report 2017/18”

of the German Chamber predicts to be 8.4% in 2017. German companies expect an average increase of salaries of 5.9% for 2018.

Risks and Drivers of Growth

High corporate debt and a complex financial system entail risks for the future economic development. Corporate debt soared in the last ten years and has doubled since 2008. A substantial part of corporate debt is held by state-owned enterprises, which in many cases also struggle with overcapacities, constituting another risk for future economic performance.

Regulatory measures to stabilize the real estate market are proving effective. This trend is expected to continue in 2018.

US dissent about the bilateral balance of trade with China gained intensity over the last year. Particularly the US side is vocal about the desire to decrease the US trade deficit with China, which reached a new historic height in 2017. If further measures which decrease US demand for Chinese goods and services or hamper trade between the two countries are implemented, the economic growth in China might be adversely affected due to the eminent bilateral importance of the two economies. About one fifth of Chinese exports goes to the US market.

The US tax reform entails risks for the attractiveness of China as an investment location, could encourage capital outflows, and put downward pressure on the Renminbi. The restrictions of capital outflows are expected to continue in 2018.

The transformation towards a more service-based economy entails substantial potentials for future growth as the service sector will continue to grow above average in 2018 (2017:

China Economic Outlook 2018



8.0%). The continuing modernization of production facilities also supports economic growth. In particular the IT sector is expected to perform strongly after an increase of 26% in 2017.

Retail is expected to stabilize in 2018 on similarly high growth rates. Disposable income grew faster in 2017 with 7.3% than the economy overall. E-Commerce takes a particularly prominent position in this development.

Furthermore the Belt and Road Initiative (BRI) taps into new markets for Chinese products

and supports - next to other goals - the reduction of overcapacities.

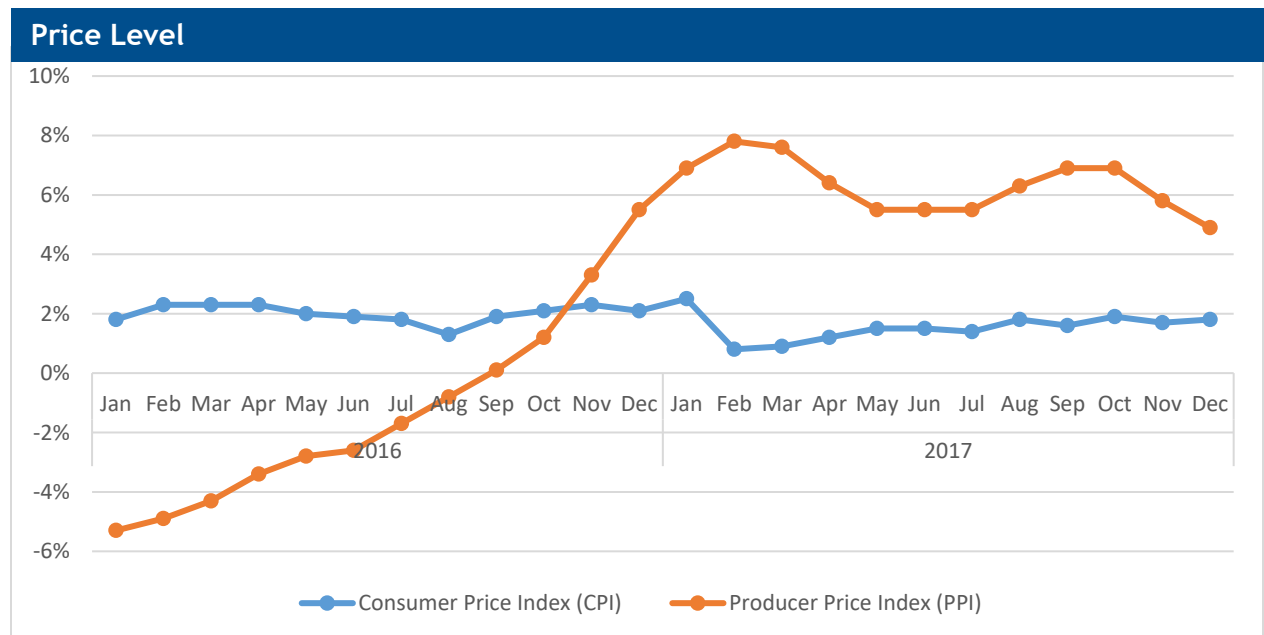
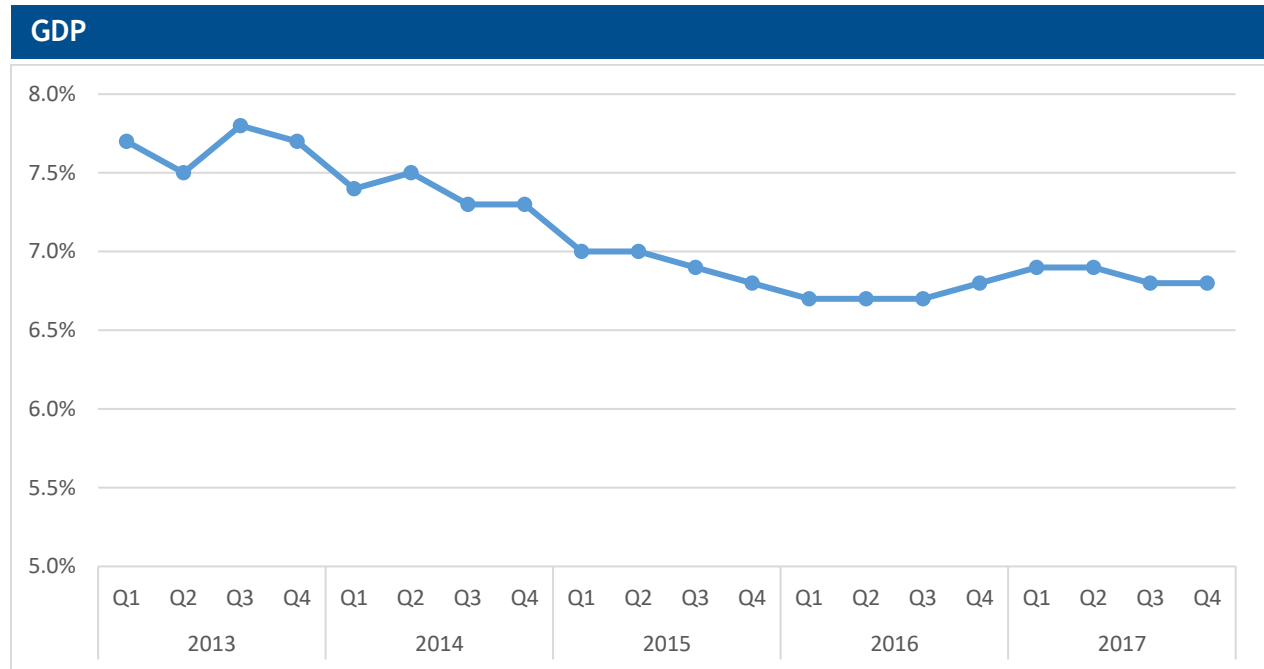
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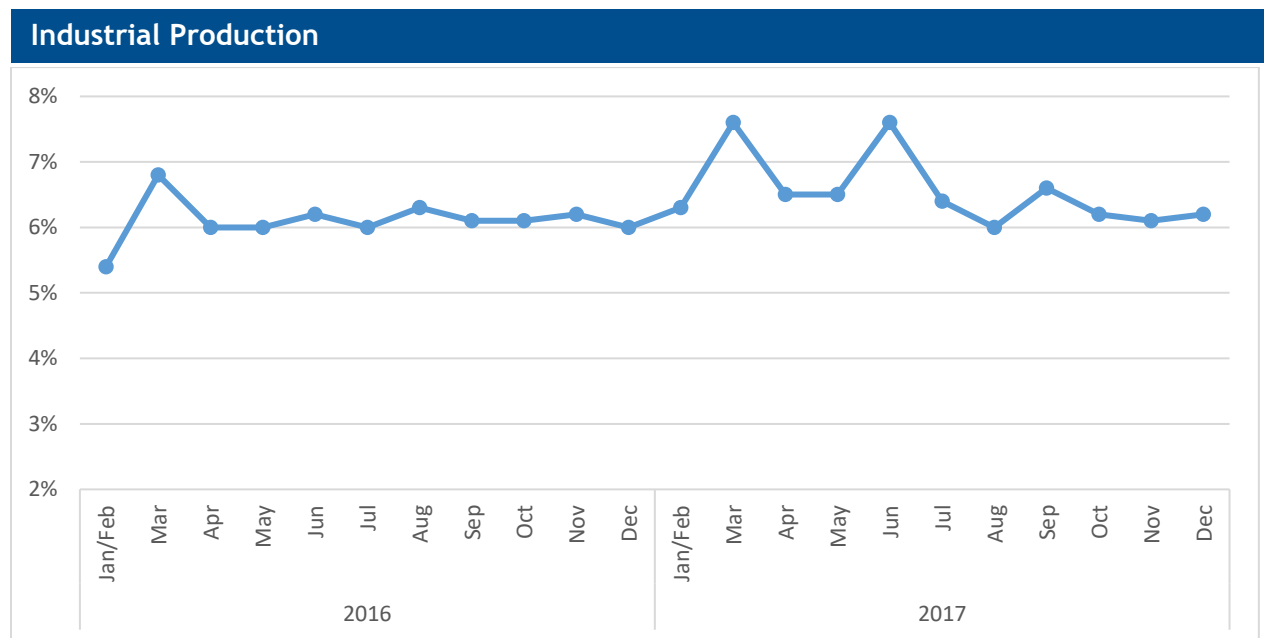
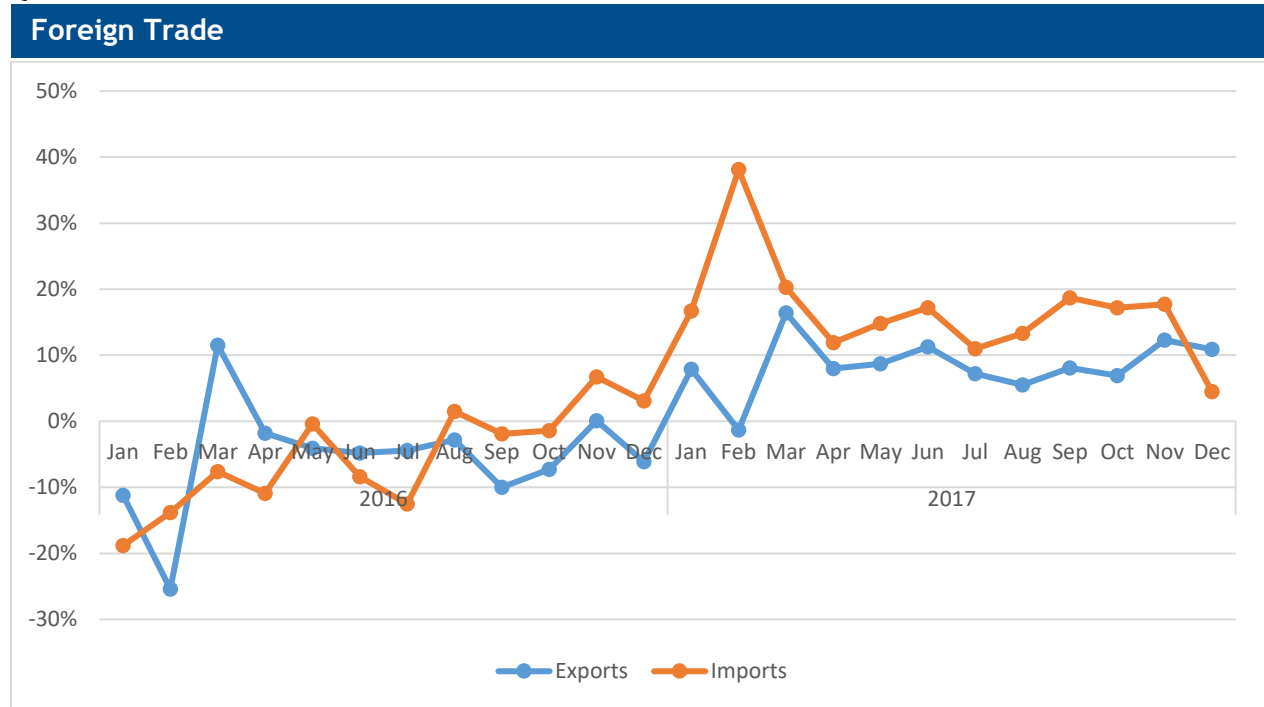
Key Economic Indicators

Growth rate in percent on year-on-year basis, except PMI (index)
Quelle: NBS



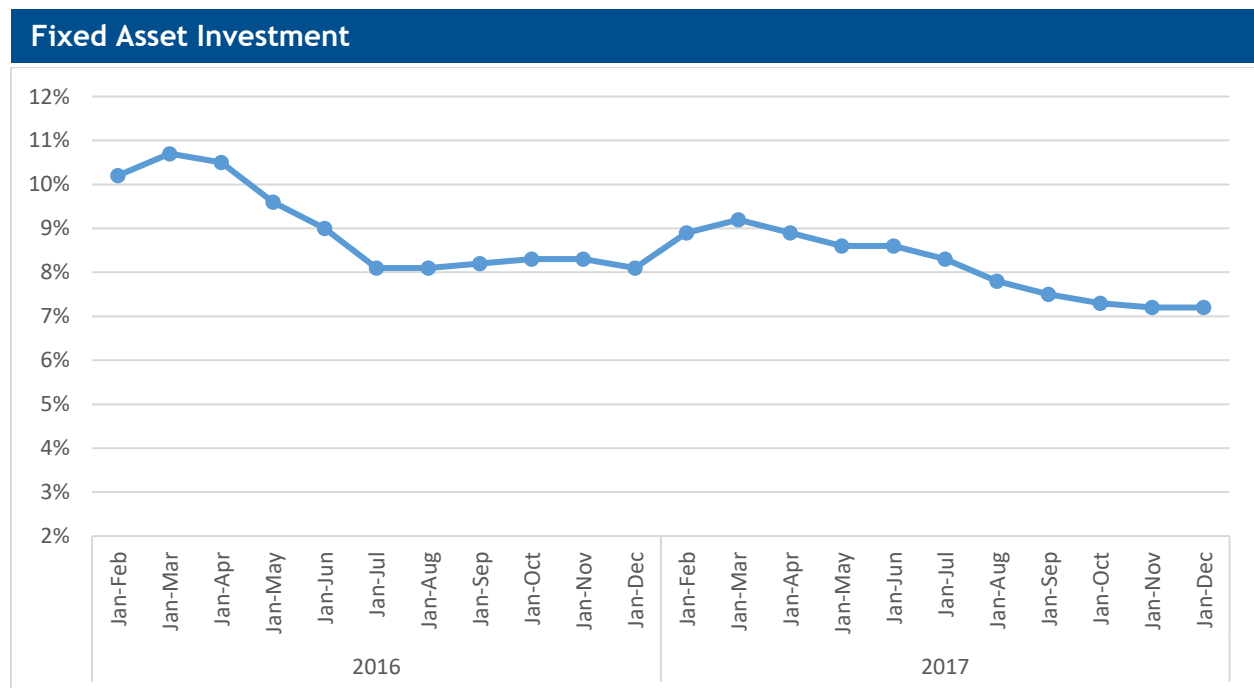
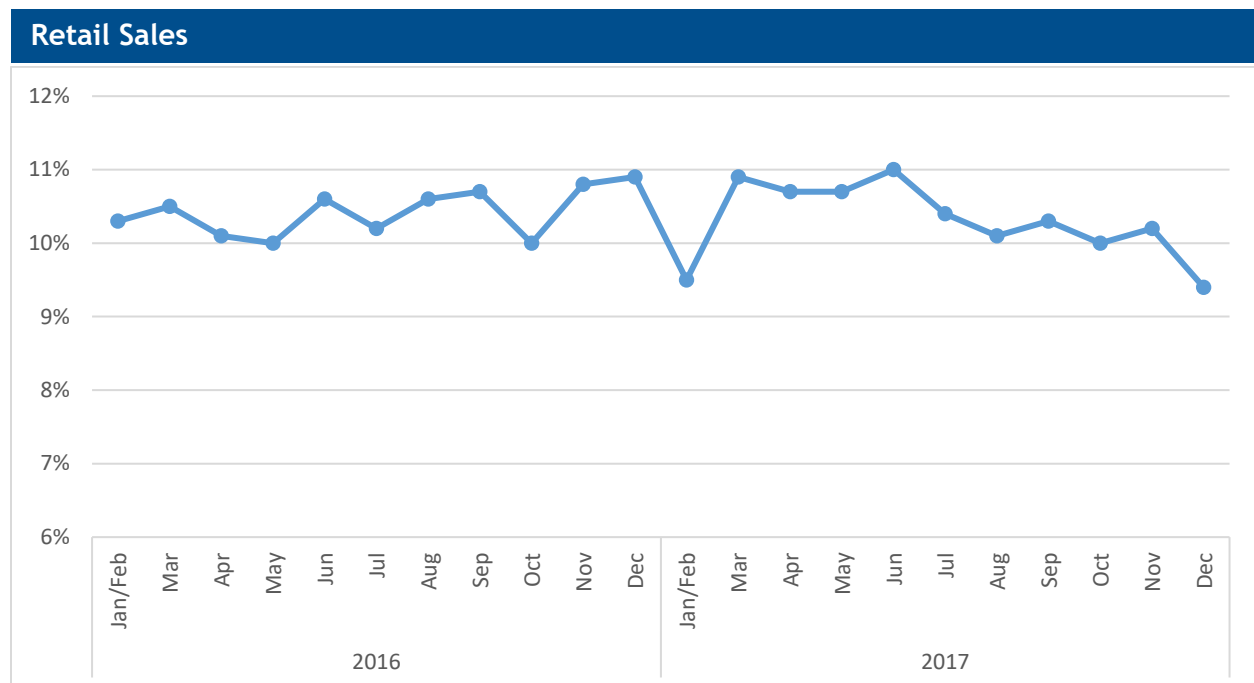
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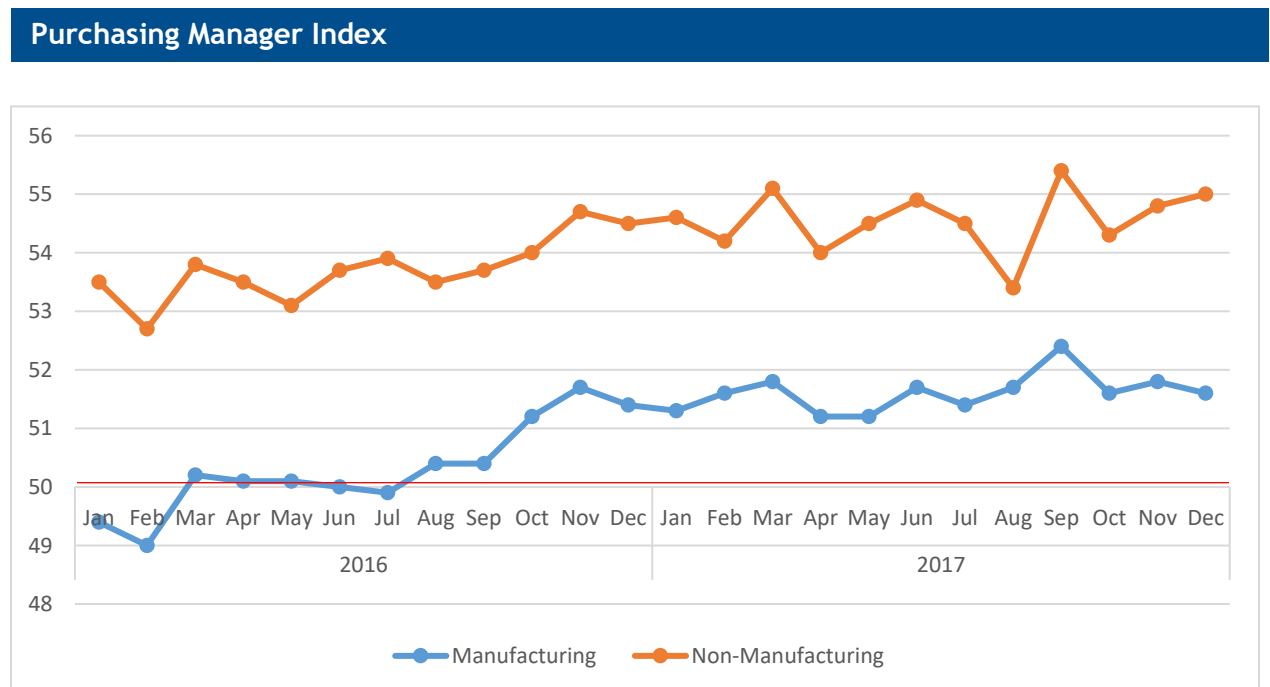
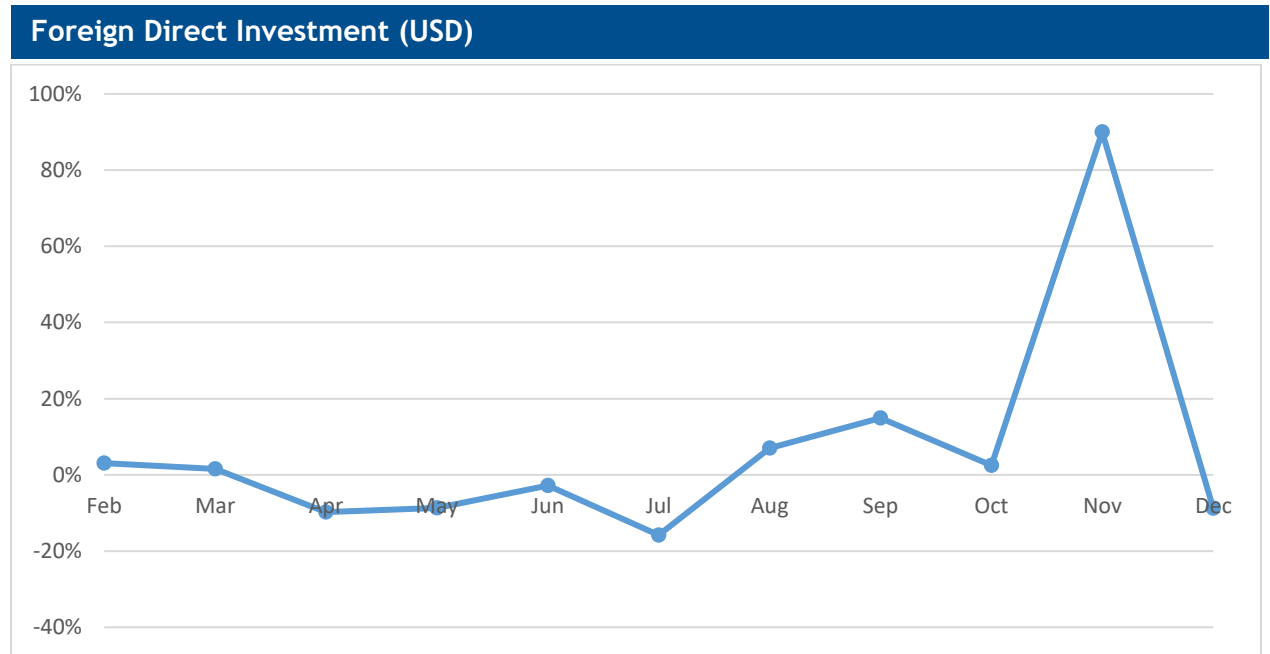
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An index above 50 indicates expansion, while an index below 50 indicates contraction