

Key Developments in Brief

Economic Development	Drivers of Growth	Risks
<ul style="list-style-type: none"> ▪ Predicted GDP growth of 6.5% in 2018 ▪ First quarter GDP growth strong at 6.8% 	<ul style="list-style-type: none"> ▪ Service and modern production grow fast ▪ Innovative environment ▪ Continuously high consumer spending 	<ul style="list-style-type: none"> ▪ Corporate debt, esp. state-owned enterprises ▪ Overcapacities ▪ Looming trade war with the United States
Price Levels	Foreign Trade	Labor Market
<ul style="list-style-type: none"> ▪ First quarter consumer inflation at 2.1% ▪ Producer price increases continue to slow down 	<ul style="list-style-type: none"> ▪ Foreign trade continues on growth trajectory ▪ Imports grow faster than exports ▪ Rare trade deficit in March 	<ul style="list-style-type: none"> ▪ Pressure on job creation ▪ Stable unemployment rate

Macroeconomic Indicators

<i>Growth in %</i>	2013	2014	2015	2016	2017	Q1 2018
GDP	7,7	7,4	6,9	6,7	6,9	6,8
Investment and Output						
Utilized FDI	5,3	1,7	5,6	-0,2	4,0	2,1
Fixed Asset Investment	19,6	15,7	10,0	8,1	7,2	7,5
Industrial Production	9,7	8,3	6,1	6,0	6,6	6,8
Price Levels						
Consumer Prices (CPI)	2,6	2,0	1,4	2,0	1,6	2,1
Producer Prices (PPI)	-1,9	-1,9	-5,2	-1,4	6,3	3,7
Foreign Trade						
Exports	7,9	6,1	-2,9	-7,7	7,9	14,1
Imports	7,3	0,4	-14,2	-5,5	15,9	18,9

Source: National Bureau of Statistics, Mofcom

Economic Development

In the first quarter, China's economy expanded 6.8% over a year before and by that kept up the robust growth rates of the previous two quarters. Despite a slight slowdown expected this year, the official growth target of 6.5% is well within reach. This would be the slowest growth rate in nearly three decades and is expected as the government puts a focus on financial system stability to control rising corporate debt and real estate speculation, as well as on cracking down on environmental pollution from industry.

The service sector accounted for 56.6% of the GDP in the first quarter. This share will be lower for the whole year due to seasonal adjustments, however, the tertiary sector's share in China's GDP increases each year. At 7.5% it grew stronger than both other sectors in the first quarter.

Consumer spending kept its overall growth momentum with an increase of 9.8% in the first quarter. Following a slight slowdown from late last year, it picked up again in March. Online retail sales in the first quarter have further accelerated over the same period last year to a growth rate of 35.4%. Online sales of physical goods now account for 16.1% of all retail sales, a steep rise when compared to the mere 10.6% share online sales held in the same period just two years earlier.

Industrial output started off strong in January/February and slowed significantly in March, concluding the first quarter with an average growth of 6.8%. While this aggregate Q1 growth rate was unchanged from the same period a year earlier, there were notable shifts in its composition: Manufacturing grew slower at 7.0 versus 7.4%. While machinery

production still grew above average, it couldn't keep up the higher growth rates of the year before which had started off a strong year for the sector. Output growth of the automotive sector slowed down significantly in the first quarter over the same period last year (15.3% to 6.8%), however the market picked up again in March with a 9.5% y-o-y increase. While the overall market share of new energy vehicles is still small, it is worth noting that their output surged with a paramount growth rate of 139.4% in the first quarter.

Fixed asset investment underlines the increasing importance of the service industry in China's economy. The total increase of 7.5% y-o-y in the first quarter was unevenly split between the secondary industry (2.0%) and the tertiary industry (10.0%) which make up the bulk of fixed asset investment.

The overall strong start into the year leaves room for the government to make headway on financial system stability and deleveraging policies, while also making it possible to curb real estate speculation and to further promote environmentally sustainable growth.

Price Levels

Consumer inflation saw a seasonal uptick in February, but has slowed again in March, closing with an overall value of 2.1% for the first quarter. Producer prices have softened continuously from October 2017, reflecting a weaker demand for industrial goods and supporting the view that an economic slowdown is inevitable. The downtrend is expected to continue throughout the year due to rising borrowing costs and a cooling property market.

Foreign Trade

Building on an already high base, Chinese foreign trade further expanded in the first quarter of the year. Exports grew by 14.1% and imports by 18.9% in US-Dollar terms.

In January and February, growth figures were highly volatile which can be attributed to the effects of the Chinese New Year. In March, exports fell by 2.7% y-o-y which led to a rare trade deficit, while potential effects of US tariffs on Chinese goods are not yet reflected in this data.

German-Chinese trade relations were off to a strong start in 2018. Data for the first month of the year shows a growth of 16.8% of German exports to China, while imports from China grew by 13.4%.

Labor Market

The surveyed unemployment rate in urban areas in March stood at 5.1%, down 0.1 percentage points from a year earlier. The number stems from an upgraded methodology which differs from the previously published registered rate (close to 4% during the last 15 years). The new method is intended to better capture the true labor market conditions, e.g. also includes migrant workers who live and work in cities without household registration. However, rural areas are not included in this rate.

Job pressure remains strong as 8.2 million university graduates are expected to enter the labor market in 2018 and an additional 9.7 million unemployed people and redundant workers need to find jobs. 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. the coal and

steel sectors, are severely impacted by structural changes of the economy and the reduction of overcapacities, which leads to lay-offs.

The per capita disposable income in the first quarter went up 6.6% in real terms (after deducting price factors). Rural incomes increased slightly faster than urban households, however urban households' incomes are still 2.55 times higher than those of their rural counterparts.

Risks and Drivers of Growth

The main risks are related to financial system stability which the government has taken a strong stance to tackle following the 19th Party Congress in October 2017. So far, policy is making cautious progress, reducing leverage in the most risky parts of the financial system, such as shadow banking, while keeping credit to the real economy flowing. However, the government's efforts to stabilize the financial system will eventually affect economic development.

Overcapacities pose another risk to further economic growth. While these predominantly occur in the state-owned sector, it is also the state-owned sector that holds a major part of the corporate debt. This makes the consolidation of state-owned enterprises another priority for the administration.

The first quarter of 2018 was further characterized by a looming trade war with the United States. While such a scenario would negatively affect China's economy, it would also have an impact on third countries and would likely bring along a cooldown of global demand. In addition to the trade conflict, the Chinese Yuan has seen a strong first quarter which puts further pressure on China's exports.

China Economic Update

Q1 2018



The government aims to shape the process of economic transformation and slower - but more sustainable - GDP growth by stimulating and supporting a range of developments: China implements policies to move further up the value chain (Made in China 2025), moves towards a more service based economy, and supports the further development of an innovative economic environment, e.g. by strongly promoting artificial intelligence. Consumer spending carries much of China's GDP, with final consumption contributing 77.8% to economic growth in the first quarter.

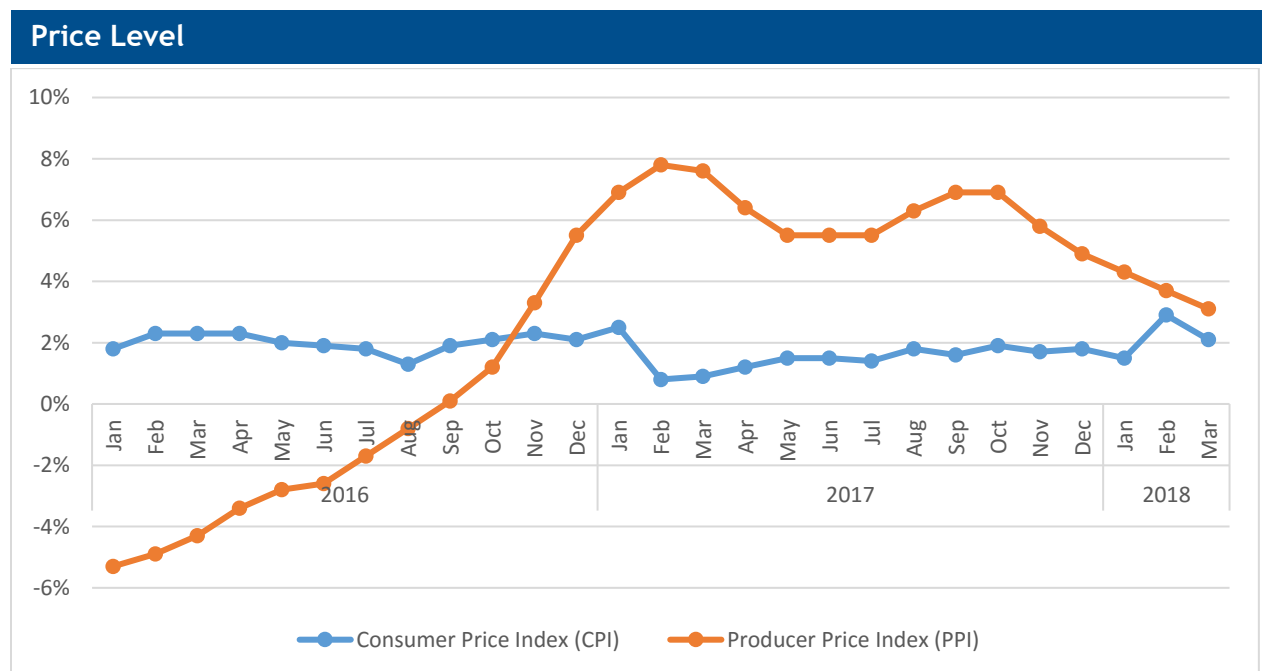
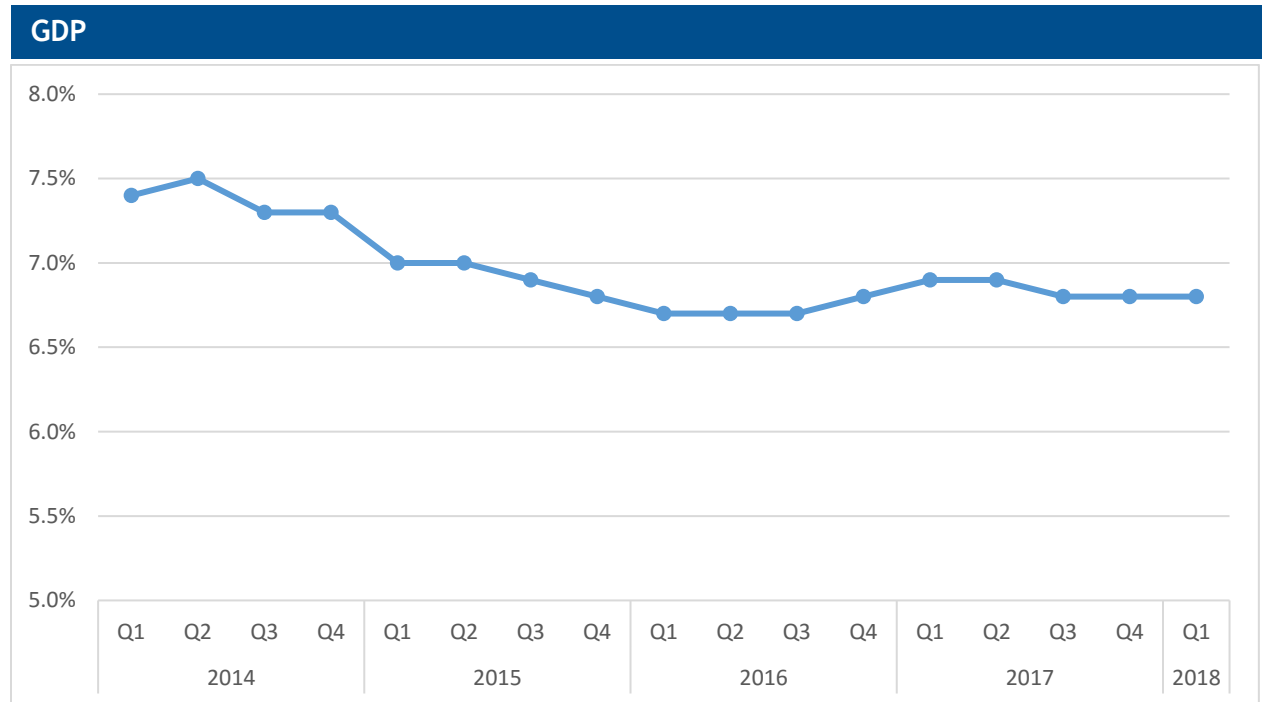
While this high share is not expected to persist through the year, retail sales will likely remain very strong and a key growth driver.

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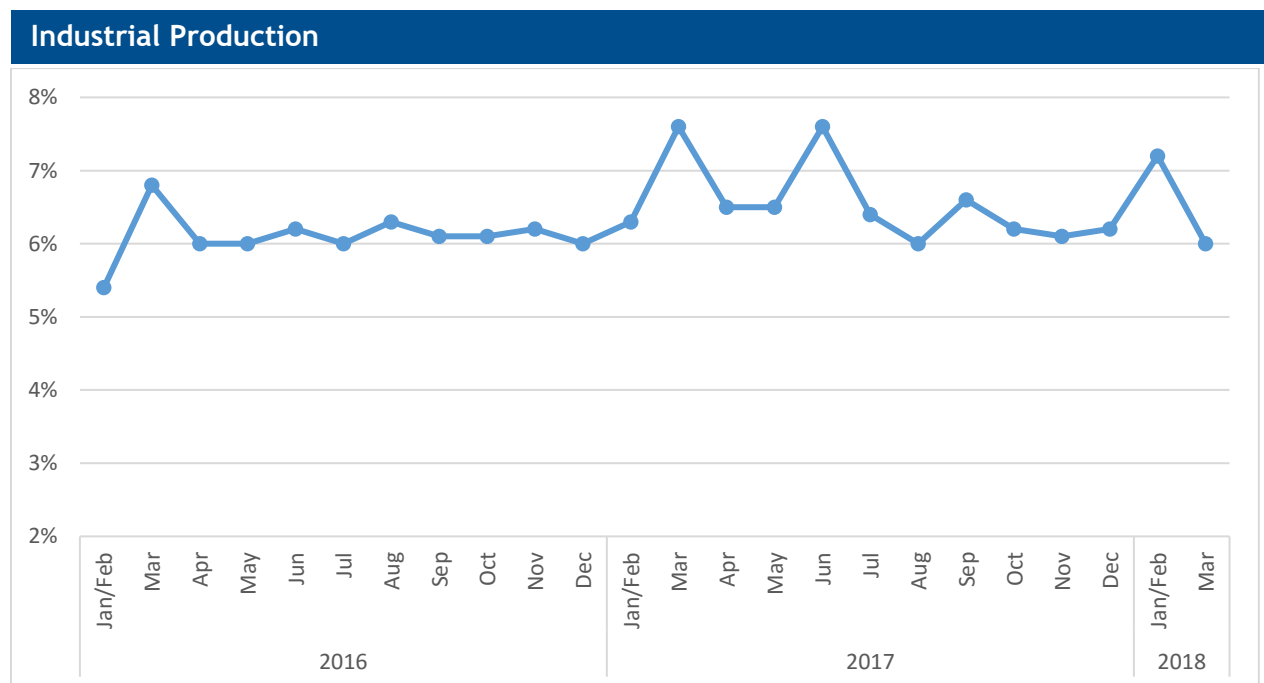
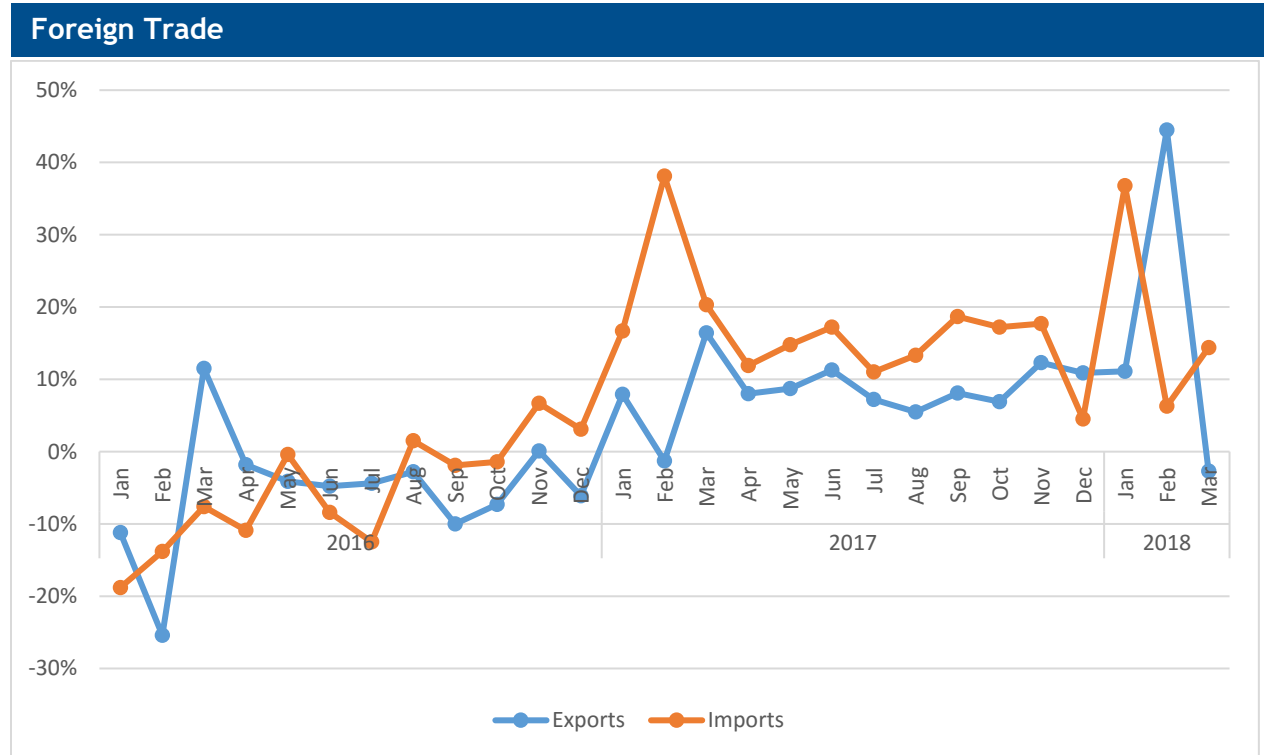
Key Economic Indicators

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



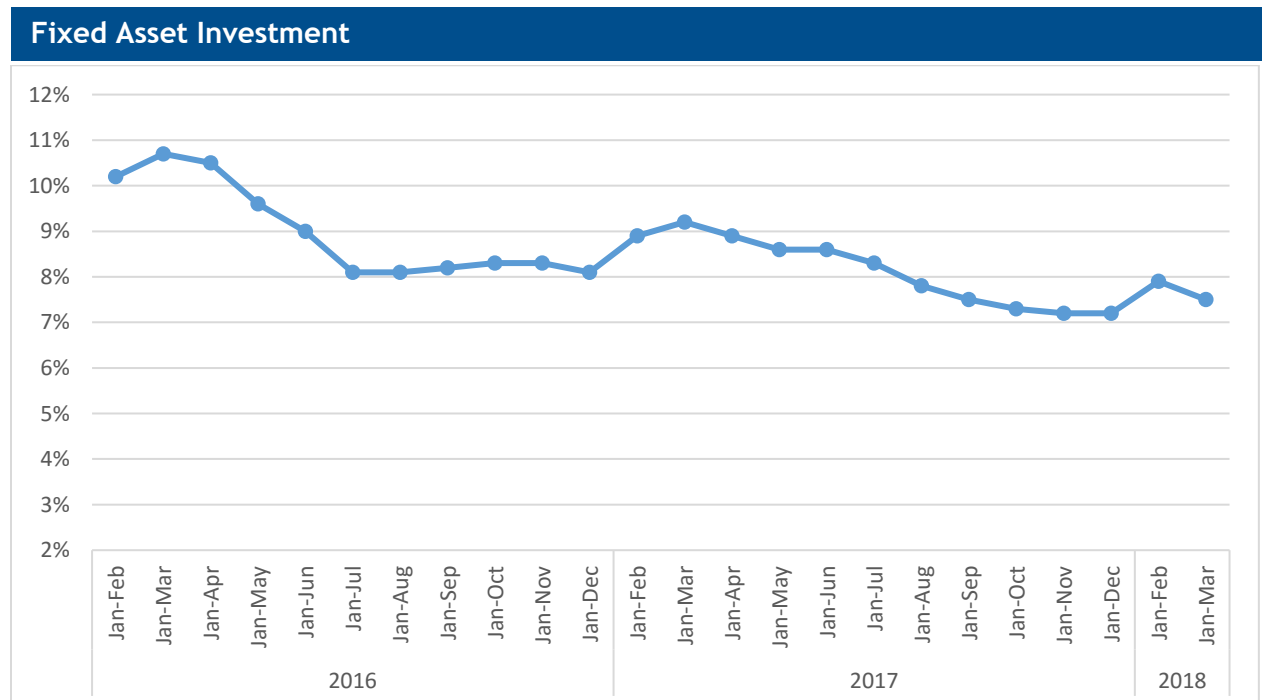
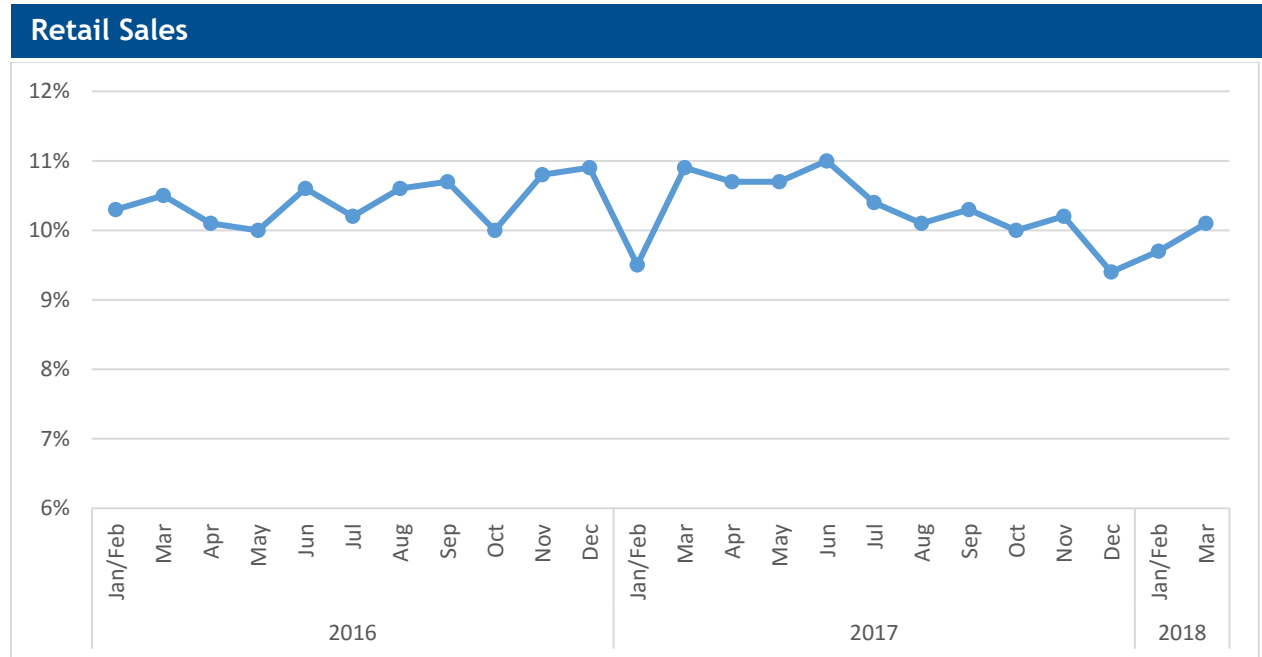
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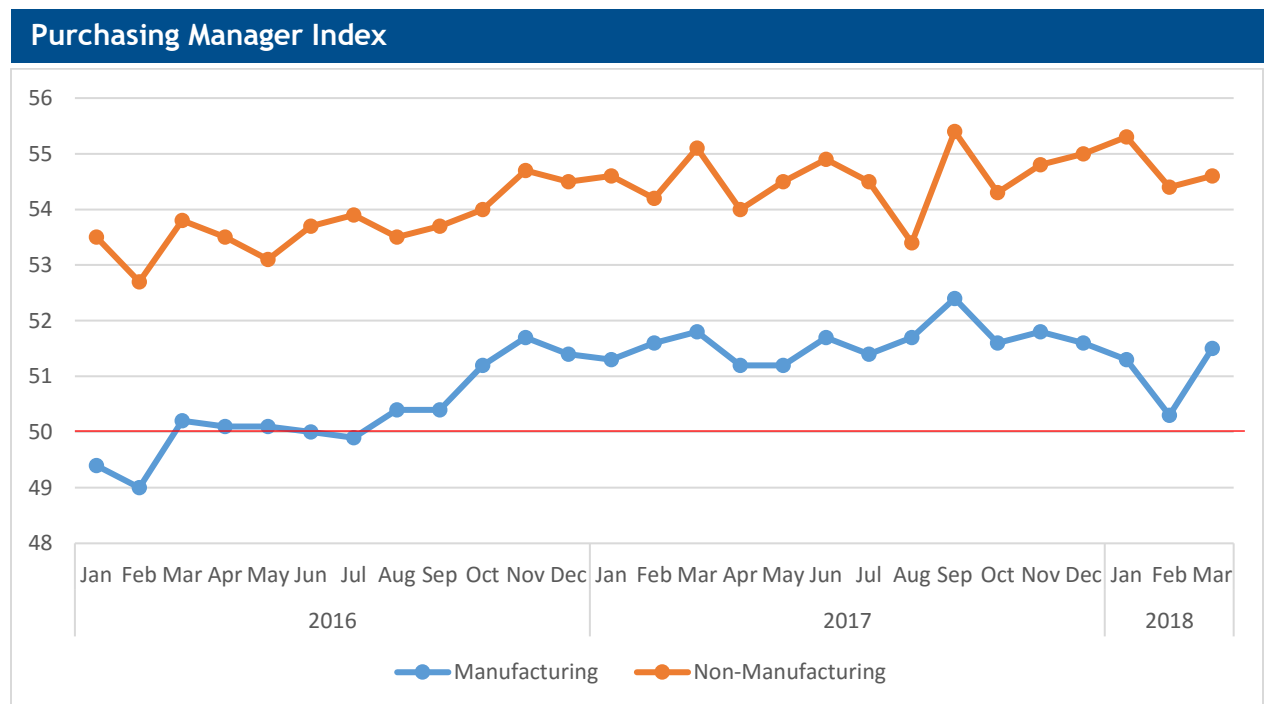
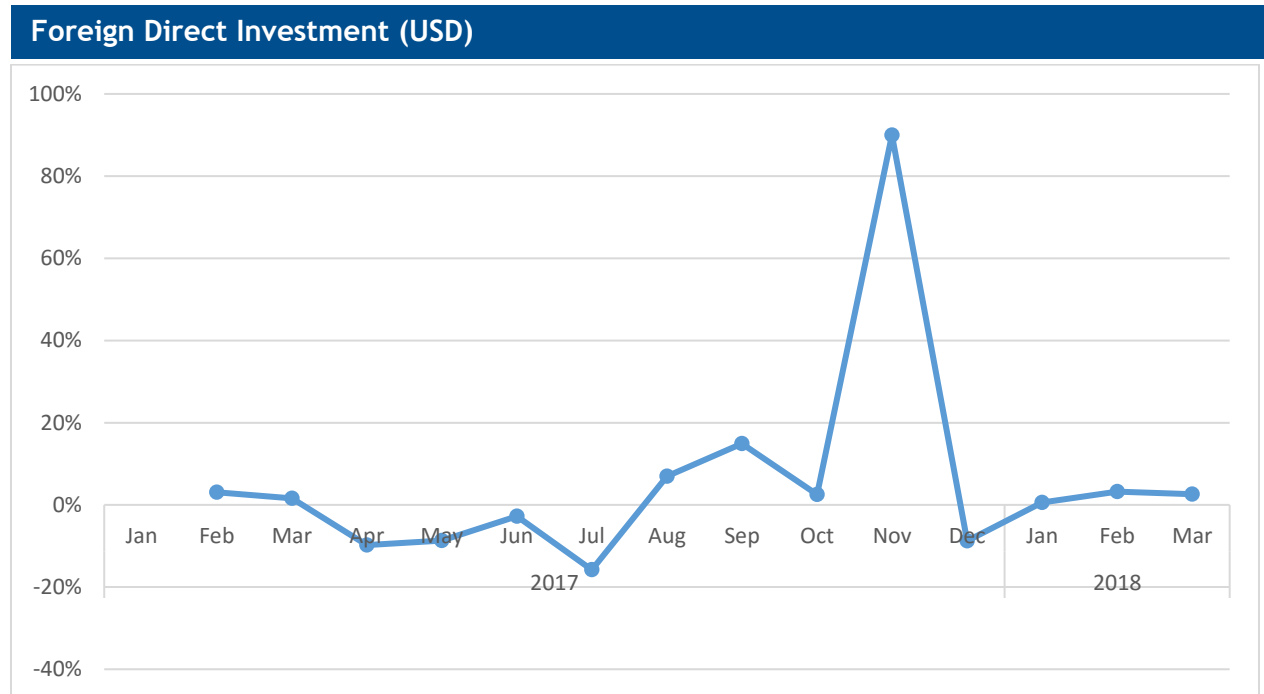
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An index above 50 indicates expansion, while an index below 50 indicates contraction