Current Analysis and Forecast for China: China: Economy fast on track

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Very high GDP growth in the first quarter of 2010

Source: National Bureau of Statistics, PRC.
Investment growth slowing down

Components of GDP growth

![Chart showing components of GDP growth](chart.png)

**Source:** China Statistical Yearbook 2009; China Daily, 16 April 2010.
Private consumption remains strong

Source: China Monthly Statistics, National Bureau of Statistics, PRC.
Exports expanding vigorously – pre-crisis levels reached again

Source: China Monthly Statistics, National Bureau of Statistics, PRC.
Relative importance of the real estate sector in China

- The real estate sector accounts for 25% of total investment in fixed assets in China
- Fixed asset investment takes an average share of 40% in GDP
- High contribution of fixed asset investment to GDP growth: 2009: 92%, 1st quarter 2010: 58%
- The real estate sector is an important employer and has a significant impact on many upstream and downstream industries
- Mortgage loans and loans to the real estate sector come up to 18% of all outstanding loans
Fighting the real estate bubble

- Real estate prices started to accelerate strongly in the second half of 2009
- End of 2009 / beginning of 2010: first government measures taken to contain the real estate market
- April 2010: further regulations introduced to control speculation, e.g. more stringent downpayment requirements for mortgage loans, higher interest rates for second home loans, credit ban on third or above home purchases
- Reserve requirement ratio raised three times to rein in excess liquidity
- Discussion on the introduction of a property tax
Development of the real estate sector

![Graph showing real estate investment growth rates from Jan-08 to Apr-10]

Consequences of the recent regulations

- Property sales in May dropped significantly
- But price developments still ambiguous
- Decline of stock prices, especially those of real estate developers
- Risk: the regulations may lead to a downward spiral in the real estate market which could dampen GDP growth and raise unemployment significantly
Declining stock prices

Uncertainties regarding the future of foreign demand

- Budgetary consolidation in Europe
- Weak exchange rate of the euro (appreciation of the yuan versus the euro)
- High and persistent unemployment in the USA
- Shares in Chinese exports (January-April 2010):
  - EU: 18.6%
  - USA: 17.2%
Revaluation of the yuan versus the euro

Average exchange rate yuan - US dollar - euro

- Yuan per 1 USD
- Yuan per 1 EUR
- USD per 1 EUR (right scale)

May-07 Aug-07 Nov-07 Feb-08 May-08 Aug-08 Nov-08 Feb-09 May-09

Rising inflationary pressure

Source: China Monthly Statistics, National Bureau of Statistics, PRC.
Strikes and spreading wage demands

- May 2010: 1900 workers at Honda Parts Manufacturing Co. in Foshan, Guangdong, went on strike
- After three weeks: wages were raised by 24% on average (67€ at minimum)
- Strikes and wage demands are spreading to other branches (e.g. electronics) and provinces (e.g. Jiangsu, Shanghai, Shandong)
- Political signal: strikes were reported by the official media; wage negotiations took place between the management and elected workers’ representatives instead of official trade union representatives
- Minimum wages raised in 14 provinces by more than 20%
Thank you for your attention!