

Osec Analysis

China still on the move

by:

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There are indeed some slowing signals, including property prices, but the economic growth is far from being slow and also the forecast for the next 12 months remains rather positive. More precisely in the third quarter 2011 the GDP growth has been 9.1% in yoy terms, slightly weaker than the expectations but nevertheless always considerable. According to analysts, industrial production during this period remained stable despite a certain slowdown in retail sales, though private consumption remains pretty solid. Also export volumes and labour market seems to remain rather solid. At the same time infrastructure investments are slowing. Considering the global environment these trends don't really come as a surprise and for 2012 it is nevertheless still forecasted a GDP growth above 8%. At the same time, unless social stability would come under threat, no expansion policy is expected in the near future. As for the inflation we are probably at a stage where it has peaked (July: 6.5% yoy) but not really eased. Food prices and wages continue to have a trend toward upside. It is expected that the consumer price index will stay between 5% and 6% for the next year. Unofficial targets could be to maintain a growth above 7% and inflation below 5%.

As for the weakening of the property sector, it is to note that about 60% of informal lending has been channelled in this sector and obviously this puts it at particular risk and exposure. Property transactions (primary and residential property sales) are now falling but at the same time inventory levels are rising. As a consequence property prices are starting to give signs of a decreasing trend. It could be of particular concern for the lending to property developers that so far have never experienced a negative market cycle: most likely many smaller developers will collapse in the next half year.

As a conclusion, despite some negative signals I would remain rather optimistic about the economic indicators in China for the next 12 month. And in any case, the SBH China faces at the moment a sharp increase of demands from Swiss companies in term of export consulting services. A large number of companies are setting up legal entities in China (Rep. offices, sales offices, Wofi, JV, etc.). The feedback received by these companies, despite the usual problems related to IPR issues, salaries raises, non-tariff barriers, the new social security just introduced, etc. , the mood is in general positive.