

The NewsLine

April 15, 2016

} MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

CHINA

Priority back on stabilization

Gregor Eder
Phone +49.69.24431-3358
gregor.eder@allianz.com
Allianz SE
<https://www.allianz.com/economic-research/en>



The “controlled growth slowdown” continued in the first quarter of 2016. With real GDP growth of 6.7% on a year earlier, the increase was the lowest for seven years. Without the policy measures taken to boost the economy in the short term, the slowdown would doubtless have been sharper. Although the latest economic data point to a stabilization at the end of the first quarter, overall the trend towards appreciably more moderate growth is likely to continue. We still see average real GDP growth of 6.5% in 2016, after 6.9% in 2015.

At the beginning of this year fears that the Chinese economy might slow down faster than expected prompted turmoil on the international financial markets. In recent weeks these fears have subsided appreciably. And the latest economic data do indeed point to a stabilization in economic momentum at the end of the first quarter. In March the Caixin purchasing managers’ index for the manufacturing sector jumped by 1.7 points. At 49.7 points the index is currently only marginally below the 50-point expansion threshold. Sentiment in the services sector has also improved palpably. The corresponding purchasing managers’ index rose by one point to stand at 52.2 points. The latest figures on industrial production and retail sales are also slightly more upbeat. In March production rose by 6.8% on a year earlier, the steepest rise since June last year. Towards the end of the quarter retail sales also picked up somewhat more strongly than in the preceding two months.

For years now economic policy has resembled a balancing act. On the one hand, the declared aim of the Chinese leadership is to pursue the structural shift away from an export- and investment-led growth model to a consumption-based model, while simultaneously tackling the macroeconomic imbalances that have built up in recent years. But at the same time the

The NewsLine

April 15, 2016

government is endeavoring to stabilize short-term economic development in order to avoid an excessive slowdown in growth and the related social costs. These two goals are not always compatible. Our impression is that the government is currently giving priority to short-term stabilization ahead of structural reforms.

All told, we think the monetary and fiscal policy measures already taken and still in the drawer will suffice to keep the Chinese economy on the path of a “controlled growth slowdown” at least in the short term. For 2016 as a whole we continue to see real GDP growth of 6.5%.

These assessments are, as always, subject to the disclaimer provided below.

ABOUT ALLIANZ

Together with its customers and sales partners, Allianz is one of the strongest financial communities. About 85 million private and corporate customers insured by Allianz rely on its knowledge, global reach, capital strength and solidity to help them make the most of financial opportunities and to avoid and safeguard themselves against risks. In 2015, around 142,000 employees in over 70 countries achieved total revenues of 125.2 billion euros and an operating profit of 10.7 billion euros. Benefits for our customers reached 107.4 billion euros.

This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an aging society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.