

The NewsLine

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Slowdown proceeding in controlled fashion so far

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As expected, economic growth in China slowed slightly in the first quarter 2014. We are sticking with our forecast of 7.4% real GDP growth in 2014 as a whole. This would mean that the world's second largest economy would record its weakest growth since 1990.

As China's National Bureau of Statistics announced today, real gross domestic product rose by 7.4% on a year earlier in the first quarter 2014, down from 7.7% in the fourth quarter 2013. The pace of expansion in fixed investment slowed further, up by a real 16.3% on a year earlier compared with an increase of almost 20% a year ago. Net exports are actually likely to have dampened growth. In nominal terms exports slipped by 3.4%, while imports rose by 1.6% (on a year earlier in each case). Assuming similar developments in foreign trade prices in the first quarter 2014 as in the final quarter 2013, with export prices falling slightly by 0.7% and import prices by around 1.5%, in real terms this means a drop in exports accompanied by an increase in imports.

So far the slowdown is proceeding in a very controlled fashion. However, should a downright slump loom, which we are not assuming, the Chinese government has the necessary instruments to hand to counter any such development. All told, we expect the Chinese economy to make a "soft landing". Over the rest of the year, positive impetus is likely to come from private consumption, buoyed by favorable wage and employment growth, and from exports, which should benefit from the pickup in world trade. In contrast, the momentum in investment activity is likely to ease further. All in all, we are sticking with our forecast of 7.4% real economic growth this year.

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Even though we are not expecting a “hard landing”, the economic challenges in our overall positive scenario are already considerable. This applies in particular to China’s financial system. Given healthy corporate earnings and the buoyant economic growth in recent years, the share of non-performing loans in overall lending was very low despite lively lending growth. With the economy now growing substantially more slowly than just a few years ago, default rates are likely to rise appreciably. This will affect not only traditional bank lending but also financial products in the shadow banking system, which last year already accounted for 30% of the total domestic financing volume.

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

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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.

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