

# The NewsLine

May 23, 2013

MACROECONOMICS FINANCIAL MARKETS ECONOMIC POLICY SECTORS

## CHINA

### Downside risks for Chinese economy increasing

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Sentiment in the Chinese economy deteriorated more sharply than expected in May. The purchasing managers' index for the manufacturing sector conducted by HSBC and Markit slipped by 0.8 points to 49.6 points. That is the lowest level for seven months.

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A look at the performance in the individual sub-components of the index reveals negative surprise potential for economic development in the months ahead: the "new orders" sub-index is heading down, whereas the sub-index "stocks of finished goods" is pointing up. Given shrinking order books, numerous Chinese companies are evidently producing for stocks.

Together with other economic data in recent weeks, such as industrial production and retail sales, this paints a picture of a fragile economic upswing. The domestic economy is losing steam and at the same time the global economic environment remains difficult for China, which in turn is reflected in the performance of foreign trade.

Against this backdrop we have trimmed our forecast for economic growth this year from 8.3% to 7.8%. But we are not expecting a hard landing. Although the Chinese government only recently stressed that it was not prepared to stoke the economy with new stimulus packages, we believe that, should a sharp slump loom, the Chinese government would in this event launch corresponding countermeasures. It still possesses the necessary fiscal firepower.

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In 2012, around 144,000 employees in over 70 countries achieved total revenue of 106.4 billion euros and an operating profit of 9.3 billion euros (restated on January 1, 2013 due to a change in accounting standard and presentation).

Benefits for our customers reached 89.2 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.

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