Connor Bugni | HGT #3 | China

Sources:

1. *China's Consumer Prices Jump by the Most in More Than Two Years* – CNBC (Cheng)
2. *Worries About Inflation in China Have Been Overhyped* – The Economist (Economist)
3. *China's Q3 Jobless Rate Falls to 5.4%, Stabilizing Trend to Persist Amid Policy Support* – Global Times (Global)
4. *China Q3 GDP Growth Tops Forecasts but Meaningful Rebound Elusive* – Reuters (Zhang)
5. *What We Just Learned About China's Economy* – BBC (Liang)

Introduction: China is the second-largest economy in the world. Primarily operating in industries including agriculture, technology, raw materials, manufacturing, and imports/exports, there is a wide array of support underlying China's economic success and unprecedented GDP growth over the past few decades. While China's status as an emerging market has enabled greater development opportunities than other Western countries have seen, it has also exposed its economy to greater volatility and general risk. Today, China, like much of the rest of the world, is continuing to recover from the Covid-19 pandemic. Although economic recovery is well underway, there still exist significant risks to China's economy in the near-term. Several of these key risks include the CCP's zero-tolerance policy regarding covid cases, softening real estate demand, and lackluster future government policy to bolster the economy. In conjunction with the pros brought by re-opening, these factors suggest China's economy is unlikely to outperform Western nations, like the United States, for the remainder of 2022, and is unlikely to outperform itself historically. Given the inherent resiliency of China's industries, there will likely be mediocre GDP growth for 2022, and more significant growth will be achieved in 2023. This outlook can change as more information regarding President Xi's agenda becomes public over time.

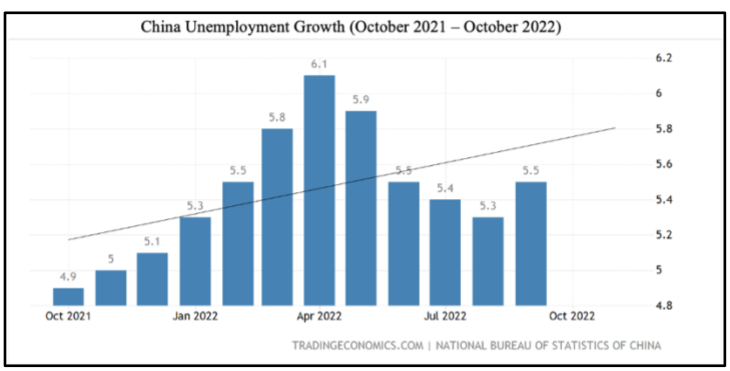
Facts:

- Consumer Price Index (CPI) in China increased by 2.8% in September, year-over-year (Cheng)
- Consumer-price inflation has averaged 2.3% per year over the past 20 years (Economist)
- Producer Price Index (PPI) rose by 0.9% in September, the slowest growth since January 2021 (Cheng)
- Exports grew by 5.7% in September, which is the slowest pace since April (Zhang)
- Urban unemployment for Q3 was 5.4%, with youth unemployment at 17.9% and down 2% since July (Global)
- China's economy grew by 3.9% in Q3 year-over-year (Liang)
- Xi Jinping was confirmed for his 3rd 5-year term in October 2022 (Liang)

Analysis: Looking first at inflation, it's evident that for the 12-months ending September 2022, the CPI increased by 2.8% (Cheng). This is in contrast with the 20-year average annual inflation rate of 2.3% and the government established limit on inflation at 3% (Economist). Even though China is experiencing higher-than-average inflation, it is well within the boundaries accepted by the CCP, and it is not an immediate cause for economic concern. The PPI, on the other hand, only saw an increase of 0.9% in

September 2022, which fell short of the forecasted 1% (Cheng). This slow growth may be indicative of a decline in domestic and international consumer demand, thus suggesting a weakening market for consumer goods. Of course, when people are spending less money, it is a bad sign for the economy, as uncertainty is higher. Expanding our view to exports, one of China's largest industries in its role as the manufacturing hub of the world, we can see these grew by 5.7% in September on an annual basis. While this growth is noteworthy at first glance, it must be considered that China is an emerging market, so they are able to yield higher growth than developed Western nations, like the United States. In this context, 5.7% exports growth is subpar, as China has consistently seen double-digit exports growth in preceding years (Zhang).

The decrease in growth rate for exports can be attributed to the zero-tolerance policy still in effect across urban China, effectively shutting down major cities to safeguard against Covid-19 outbreaks. These policies have significant impacts on the supply chain and overall success of China's economy, yet the CCP has stated it is committed to the safety of its people first and foremost (Liang), thus we are unlikely to see this policy lifted any time soon. Fortunately, while exports are down, so is unemployment as of the most recent data. Urban unemployment has declined by roughly 20 basis points since July, landing at only 5.4% in September 2022. Furthermore, and not as good, youth unemployment is at 17.9%, which is historically high, but down 2% since July (Global). While unemployment rates are high relative to past records, they are trending in the right direction, which bodes well for labor demand and the economy.



Finally, and perhaps most importantly, Xi Jinping was confirmed for a third consecutive 5-year term in October 2022. President Xi has demonstrated a tendency to pursue ideological policies at the expense of economic growth. Given the current volatility of the global economy and China's onshore difficulties with Covid, consumer demand, and real estate slumping (Zhang), President Xi may elongate the recovery of the economy by putting economic growth on the backburner. It is impossible to tell where the economy is headed until more information about President Xi's agenda is established over the coming months.

Lessons Learned: By assessing the traditional key economic indicators, like GDP growth, unemployment, and inflation, China seems to have an okay economy. It is not performing as well as in the past, but it is still seeing slow growth on most fronts. Even the metrics that are less than ideal, such as unemployment, are headed in the right direction and on route to improve, especially throughout 2023. The rate at which China's economy improves will be largely dependent on the government and the measures it takes to buoy markets. The CCP have already implemented policies to support the real estate market, which has been declining rapidly. It is possible President Xi will not work towards a growth-oriented economy in the near-term- he has proved adamant on keeping Covid-19 policies in place. Considering the above information for and against the health of China's economy, it is only reasonable to project low to mid-single-digit growth over the next year, with pace improving in 2023.

Implications: China is no small country, and the world needs its resources to function. Equally, China needs the world to support its economy through trade. This symbiotic relationship will be hampered in the near-term by supply chain disruptions and politics, with the former being, in part, a consequence of the latter. Xi Jinping's continued control in China increases the likelihood we see Covid-19 restrictions continue. Effectively, the zero-tolerance policy is damaging to economies everywhere since so many other markets rely on China for its manufacturing. Ultimately, sentiment from international investors will likely remain depressed for the time being, and international investment will be cautious of flowing into China, if not avoided altogether. People do not like uncertainty, and there is quite a bit of it in China at this moment. While the outlook for China's economy is not bad, there are significant opportunity costs in other parts of the world that simply outweigh the risk premiums currently offered in China. The economy is essentially neutral, with a bias towards the positive. In practice, better returns can be found in other parts of the world.