



China Macroeconomic Overview



Macroeconomic Thesis:

After doing research on a multitude of lagging, leading, and coincidental economic indicators, I believe that China is to the right of its trough in the current business cycle. My outlook for the near future is bullish and although the whole world is ravaging through the global pandemic, China has continued to post strong economic growth, providing for a positive outlook.

I chose to focus on China because it has the second largest nominal GDP in the world, and therefore, has a significant influence on the global economy. Furthermore, China is home to two of the top ten largest stock exchanges in the world, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

After researching economic data such as unemployment, consumer sentiments, inflation, and gross domestic product (GDP), I support a positive outlook on the Chinese economy. Unemployment has plateaued after elevated levels, consumers are becoming more confident in the economy, and inflation has actually decreased. Chinese GDP has also continued to grow, and although only posted 3.2% GDP growth in the past year, remained positive while many countries fell into the negative range. Overall, I have a confident outlook in a bullish economy for the near future, especially after being months past the trough of the business cycle.

Taking a look at geopolitical factors, the most variable factor is COVID-19. After being the epicenter of the world in the beginning of the pandemic, China has considerably reduced cases and are beginning to return to some sense of normalcy. This is the central cause of my bullish outlook for the future, as it is fueled by a strong recovery effort. Consumer spending also has drastically risen after falling due to nationwide lockdowns throughout 2020. However, Chinese growth may be impacted due to the hand it had in the global pandemic. Relations with the United States have been impacted due to the pandemic and therefore provide some bearishness as the United States are China's largest trading partner.

Economic Profile

Country	China
Currency	Renminbi
Population	1.398 Billion
Economy	Developed
GDP	¥14.34 trillion
GDP per capita	¥10,262
Largest Trading Partner	United States

Market Outlook

Point in Economic Cycle	Right-of-Trough
Outlook	Bullish

China GDP Growth (%)



GDP Growth of China, Percent Change from Year Ago, Prev 10 Years
(Source: St. Louis Federal Reserve)

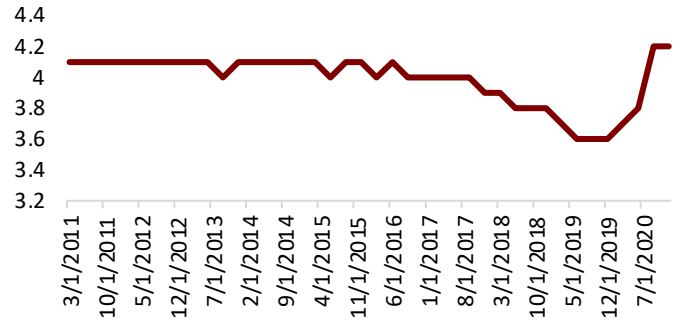


Economic Indicators

Unemployment:

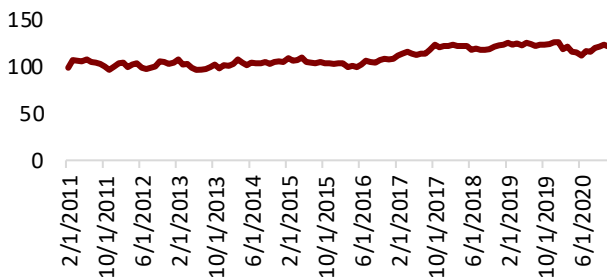
The urban unemployment rate is the percentage of the labor force without a job. It is a lagging indicator, meaning that it generally rises or falls in the wake of changing economic conditions, rather than anticipating them. After reaching lows of 3.6% in 2019, unemployment spiked to 4.2%, where it has plateaued for most of 2020. However, unemployment was circulating around 4% for the past decade, something that has remained fairly consistent. Other countries had far more drastic increases in unemployment from the pandemic. As the economy reopens in China and Coronavirus cases, this number will certainly trend downward and could potentially reach all-time lows.

China Urban Unemployment Rate (%)



China Reported Urban Unemployment Rate, Prev 10 Years (Source: Bloomberg)

China Consumer Confidence Index



Consumer Confidence Index, Prev 10 Years (Source: Bloomberg)

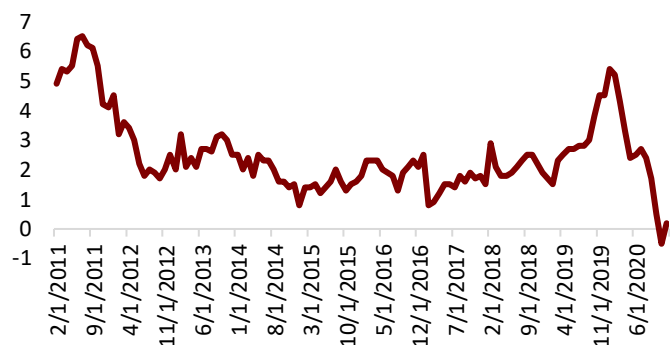
Consumer Confidence Index (CCI):

The consumer confidence index tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. This number has remained consistently over 100 for the past decade, and although fell in 2020 due to the pandemic, never reached record lows. China recovered well from the pandemic and, as a result, consumers have been able to go back to some form of a normal life. Although the Chinese economy struggled in 2020, consumers were still confident about the economy and this sentiment continues to grow positively as 2021 begins, particularly as consumers regain confidence in their ability to maintain income levels.

Consumer Price Index (CPI):

The Consumer Price Index (CPI) is a benchmark for inflation. It compares the prices of goods year to year by using a specific basket of goods. If CPI is growing, this is an undesirable trait because if inflation is high, interest rates will also increase to counter inflation. The recent decrease in CPI can be attributed to the pandemic and its impact on consumer spending. CPI turned negative in the latter stages of 2020 to -0.5% change from the previous year, but recently turned positive again to a 0.2% change from the previous year. Inflation is something that is closely watched, and the recent deflation has worked for the strength of the economy.

China CPI YoY (%)



Consumer Price Index, Percent Change from Year Ago, Prev 10 Years (Source: Bloomberg)



Geopolitical Factors

COVID-19 and Foreign Relations

The COVID-19 pandemic, which has been traced back to Wuhan, a Chinese city, has ravaged the globe for a year. Vaccine distribution continues to struggle throughout the nation, but the country has seen a drastic decrease in cases. As China has led recovery efforts and many residents have returned to their everyday lives, countries such as the United Kingdom, the United States, and India have continued to struggle with Coronavirus deaths and cases. China's relations with these countries have deteriorated throughout 2020 and have potential to impact the Chinese economy moving forward. These tensions may discourage multinational companies from making further investments in China, which could impact the growth of local businesses. The United States has previously threatened a crackdown on Chinese tech companies within their borders, which could hamper trade relations with China's largest trade partner.

Chinese Foreign Direct Investment

China, who was long ranked number 2 behind the United States in foreign direct investments, crossed the country in 2020 as the COVID-19 pandemic continues to shift the global economy eastward. China saw a 4% increase in direct investments by foreign companies, as the United States' foreign direct investments fell by 49%. Former American President Donald Trump encouraged American companies to establish operations in the United States and leave China as the main country for operations. However, with a new Administration in place in the US and a steady flow of investments into China, investors are likely to remain cautious with capital and continue to pour money into China.

Labor Practices

Many world powers including the United Kingdom and United States have been outspoken about unethical labor practices in Chinese provinces and this issue continues to persist into the new decade. A camp in Uighur has been known to enslave minorities to pick cotton and perform work in unsanitary conditions with unethical wages. These countries have threatened to halt imports from that portion of China if they are not provided with proof of a correction in Chinese labor practices in the area. The United Kingdom has also threatened to fine China if this issue continues to persist. The Chinese government must demonstrate a way to continue exports without exploiting workers and to uphold ethical labor practices if the country wants to continue to inch closer to the United States for the largest global economy.

Chinese Foreign National Security Risks

A point that was discussed earlier was risks with Chinese technology and products in foreign countries. Many world powers such as the United States, United Kingdom, and other European nations have restricted business with various technological companies, particularly Huawei, a Chinese telecommunications giant. These countries have been scrambling to find local companies to replace Huawei's services. Although China and Huawei have claimed that these are political moves, these products and services produce a significant security risk. Similar to the issue with Chinese labor practices, China and its enormous companies must find a way to prove their effectiveness to foreign nations without posing any security risks, something that has been haunting China for decades. As Huawei continues to primarily operate locally, these businesses will continue to stunt Chinese economic growth unless they find a way to solve these geopolitical issues.