

NOT QUITE A CHINA SHOCK

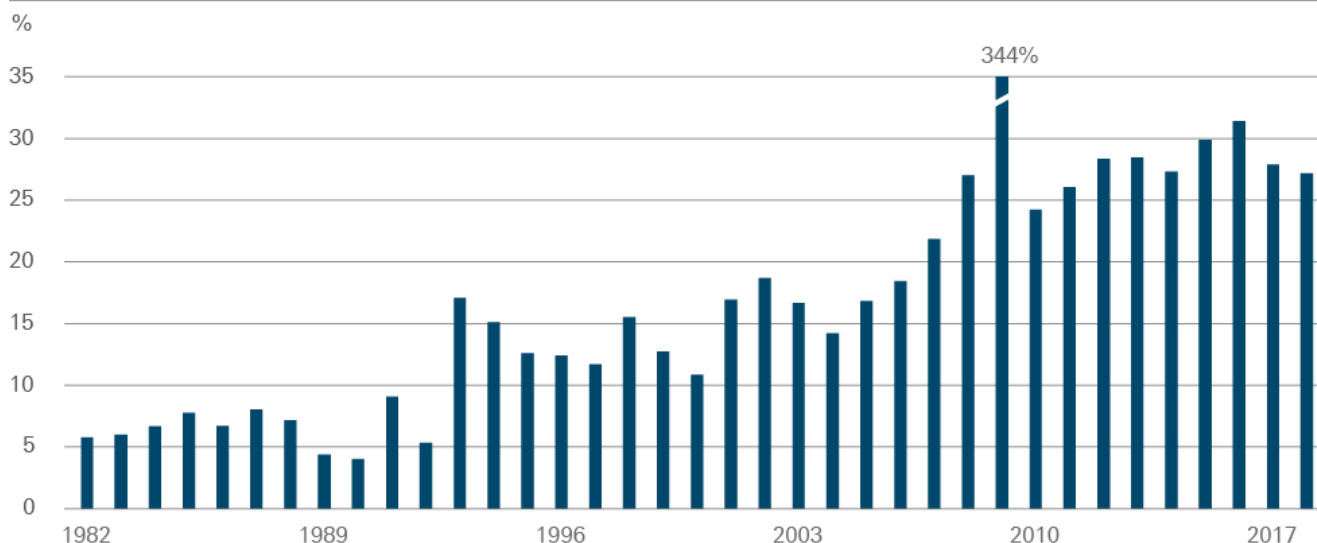
Coverage of China's 2018 growth rates is overly pessimistic

Right after China released its 2018 growth figures, negative headlines started to pour in – some calling the numbers "shocking" and some talking about a "dramatic slump in growth." In our view, those comments are a bit overdone, especially as the reported figures were exactly in line with analysts' consensus estimates. The analyst community, in turn, appears to have wisely followed the official forecasts from Beijing: early in 2018, the Chinese State Council had formulated a growth target of 6.5%. Accordingly, at the beginning of 2018 there was already talk of the "lowest growth rate since 1990," a statement that is now being repeated with just as much dismay. Given a final outcome of 6.4% growth for the fourth quarter and 6.6% for the entire year, the forecasts from Beijing proved to be highly accurate again.

From another perspective, the excitement in the news seems to be exaggerated, too. Today's Chart of the Week takes a look at China's contribution to global economic growth. Over the past decades, China's share of global growth has risen from 3% in the 1980s to over 25%. Hence, more than a quarter of every dollar in additional global gross domestic product (GDP) originates from China. Over the past ten years, China's share has remained more or less

constant, although China's annual growth rate has fallen from over 10% to 6.6% over the same period. The reason? Its economy is simply much larger than it used to be.

At present, there is growing talk that Beijing could formulate a growth target of 6% to 6.5% for this year. Hence, the Middle Kingdom might again turn out to be a haven of stability in a world of otherwise weakening economic prospects, as Xueming Song, China Chief Economist at DWS, emphasizes. In one year's time, however, a further weakening of Chinese growth rates could still make big headlines again. Skeptics – and one should always remain skeptical in view of the incredible degree to which Chinese economic figures match Beijing's targets – might ask why so many Western companies are explaining weaker quarterly figures and a softer outlook with weakening demand from China. Xueming Song points out that China is targeting consumption and services – i.e. the domestic economy – with its current economic stimulus, while foreign companies used to benefit mainly from investments in infrastructure and machinery in the past. The scope for classic capital investment programs is diminishing in the face of overcapacities and a rapid rise in debt – as even Beijing's leadership has been acknowledging in recent years.



■ China's contribution to global economic growth

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 1/22/19

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GLOSSARY

Overcapacity

Overcapacity relates to an economy's production factors that are not being used as supply exceeds demand

Gross domestic product (GDP)

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

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