China Macroeconomic Situation and Outlook, 2012

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Summary

• China’s Premier announced a 7.5% GDP growth target, lower than the customary 8% target
• Slower long-term GDP growth in China does not necessarily mean slower demand for agricultural imports
• There may be deceleration of fixed asset investment.
• Consumption will continue growing but China is grappling with natural resource scarcity, favorable for agricultural imports
Most of China’s recent GDP growth came from investment in fixed assets: gross capital formation.

Source: ERS analysis of data from China National Bureau of Statistics
China’s consumption growth has been robust, just not as fast as investment growth. The average 7.7% annual growth in consumption since 1980 is very close to the Chinese Premier’s recent announced target of 7.5% for GDP growth.

Growth in investment is about three times faster than consumption growth

<table>
<thead>
<tr>
<th>Category (selected sectors)</th>
<th>Growth (percent)</th>
<th>Share of total (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National average</td>
<td><strong>23.8</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>Agriculture (not including farm households)</td>
<td>25.0</td>
<td>2.2</td>
</tr>
<tr>
<td>All Manufacturing</td>
<td>31.8</td>
<td>34.0</td>
</tr>
<tr>
<td>Primary agricultural processing</td>
<td>44.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Food manufacturing</td>
<td>23.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Beverages</td>
<td>40.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Textiles</td>
<td>30.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Apparel and footwear</td>
<td>43.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Real estate</td>
<td>29.7</td>
<td>25.1</td>
</tr>
</tbody>
</table>

Focus of investment spending is manufacturing and real estate. Relatively little investment in resource-based industries—agriculture and mining. Raw material supplies are increasingly being strained; prices and costs are rising.

**China Fixed Asset Investment by Sector, 2010**

- Manufacturing
- Real Estate
- Transportation and storage
- Water conservancy and environment
- Utilities
- Agriculture, Forestry, Fishing
- Mining
- All other sectors

China’s rising production costs push prices higher and create opportunities for imports. Since 2000, costs in Chinese currency are up 53%. Valued in U.S. dollars, costs are up 87%.

Cost of Producing a Kilogram of Grain in China

Index (2000 = 100)

Index based on U.S. dollar cost

Index based on Chinese currency cost

Exchange rate

Source: ERS calculations using data from China National Development and Reform Commission.
Some challenges facing China’s economic readjustment

- Processing capacity must be in sync with raw material supplies and demand for final products
  - In most industries, capacity outpaces raw materials
• Battle between big companies and small operators
  – Large, modern companies compete with numerous small operators with low overhead costs who flout rules
Demography: China’s baby boomers (born 1962-75) are now in their late 30s and 40s, peak age for working-consuming-saving. This accelerated growth and investment. These people will be moving into retirement with few children to support an expanding elderly population. Labor force growth is slowing.

Urban China: "Population Pyramid" 2005

Source: ERS analysis of China national Bureau of Statistics 1% sample of population Survey, 2005
For more information

- ERS China Briefing Room

- ERS China Agricultural Economic Database