

OCTOBER 29, 2019

China GDP and PMI Contraction A Risk Factor For Global Economy

Potential that China's economy will break sharply to the downside from its current gradual downward slope.

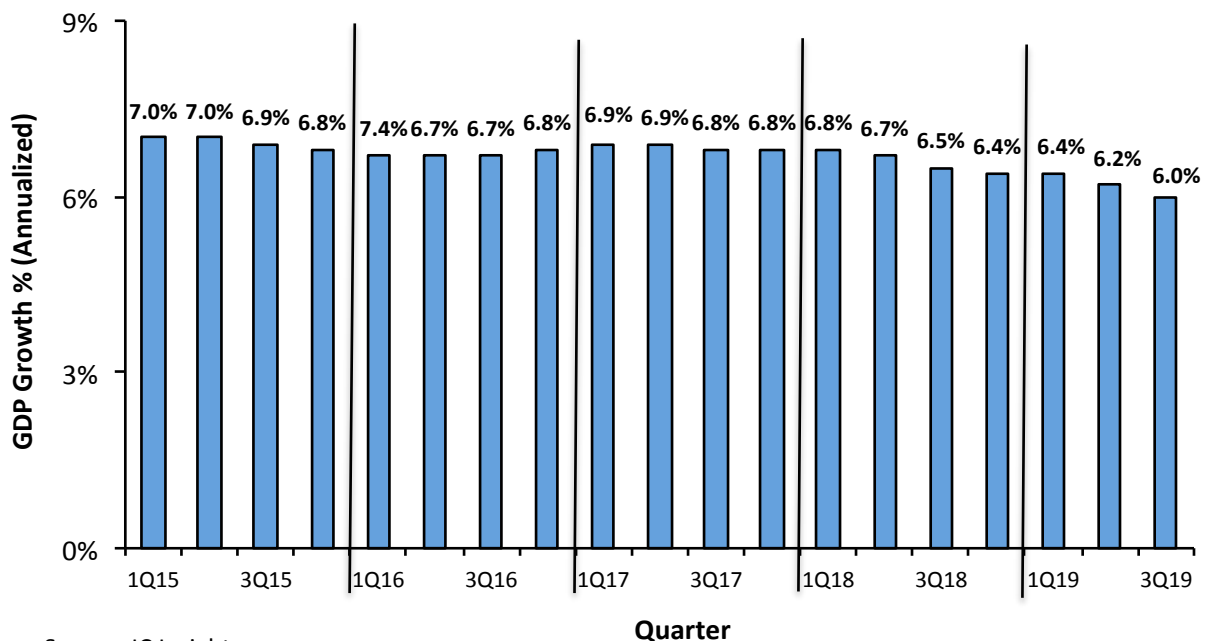
IC Insights recently released its *October Update to The McClean Report 2019*. Part of the update reviewed U.S. and China GDP and PMI trends in light of the current trade friction between the two nations.

Given that the global economy increased by a healthy 3.0% in 2018, it is difficult to comprehend that an economy growing 6% could be considered a risk factor for worldwide GDP growth this year. However, that is the case with China and it's slowing economic growth. Of concern is that China's quarterly economic growth rate will break sharply to the downside from its current gradual downward slope (Figure 1).

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1Q15 - 3Q19 China Quarterly GDP Growth



Source: IC Insights

Figure 1

China's 2017 GDP was 6.9% and it registered a slightly lower 6.6% in 2018. IC Insights forecasts further slowing in China's GDP growth rate to 6.1% this year (the latest IMF forecast released this month also calls for 6.1% growth this year while the World Bank forecast is for China's economy to register a 6.2% increase in 2019). Moreover, the World Bank in May of 2019 stated that its 2020 forecast for China's GDP growth rate is 6.1% while the October-2019-released IMF forecast for China's GDP growth rate in 2020 is 5.8%. It is interesting to note that China's quarterly GDP growth rate has ranged between 6.0% and 7.0% for almost five years.

Although most economists, and IC Insights, believe that China's economic growth will continue down its soft landing path over the next few years, there is concern about a possible hard landing for the Chinese economy due to the potential bursting of its over-inflated property market, the impact of stock market volatility on Chinese consumer's attitudes, or an abrupt slowdown in growth for its exports due to the trade war.

A hard landing for China's economy in the near future would be loosely defined as annual GDP growth of less than 6.0% this year or less than 5.5% 2020. The Chinese government estimates that China needs to add about eight million new jobs a year to sustain a GDP growth rate of near 6.0%, a task that is increasingly difficult to accomplish.

Figure 2 depicts China's PMI trends from 3Q12 through 3Q19. Since 3Q12, China's PMI has remained in a narrow 2.3 point bandwidth (49.5-51.8).

In 2017, China's PMI figures came in above 51.0 in every quarter, a result that was last seen in 2010. **Although China's PMI figures were ≥ 51.0 during the first three quarters of 2018, the country's PMI number dropped below 50.0—the demarcation line between growth and contraction—to 49.9 in 4Q18 and remained below 50.0 for the first three quarters of this year.** Moreover, China's quarterly PMI has been below 50 ever since the U.S. implemented the first round of tariffs on Chinese exports in 3Q18.

Overall, the low level of China's PMI figures, as well as concerns about the possible continuation of the current trade war, have created a significant amount of anxiety over the health of the Chinese economy in the fourth quarter of 2019. Without a trade deal between the U.S. and China, this index is likely to stay below 50 as the worldwide economy continues to slow.

China PMI Trends (3Q12-3Q19)

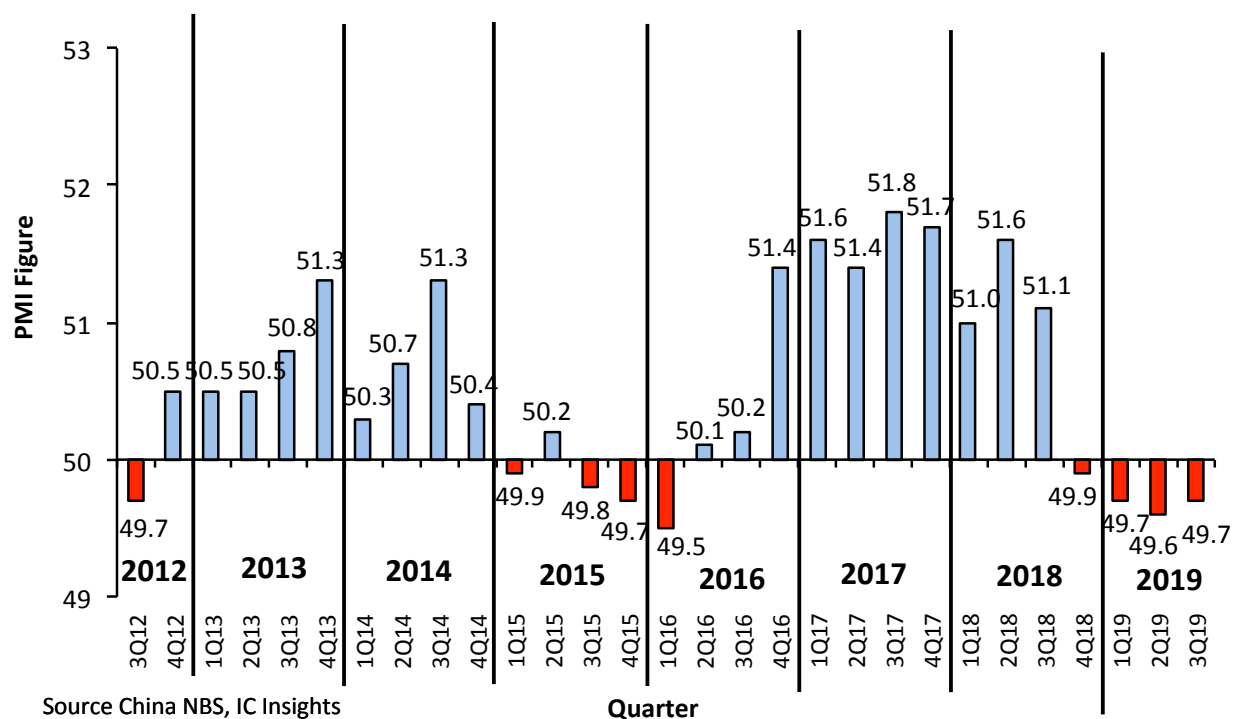


Figure 2

Report Details: *The McClean Report 2019*

Additional details on the global economy and its impact on the IC market are provided in *The McClean Report—A Complete Analysis and Forecast of the Integrated Circuit Industry*. A subscription to *The McClean Report* includes **free** monthly updates from March through November (including the 200+ page *Mid-Year Update*), and **free** access to subscriber-only webinars throughout the year. An individual-user license to *The McClean Report* is priced at \$4,990 and includes an Internet access password. A multi-user worldwide corporate license is available for \$7,990.

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