

This newsletter is translated from the Japanese edition distributed on July 23rd.
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

From the US to Emerging economies via China: Financial Crisis Express is finally departing?, etc.

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3. Highlight of Indicator for this Month (Trends & Topics)

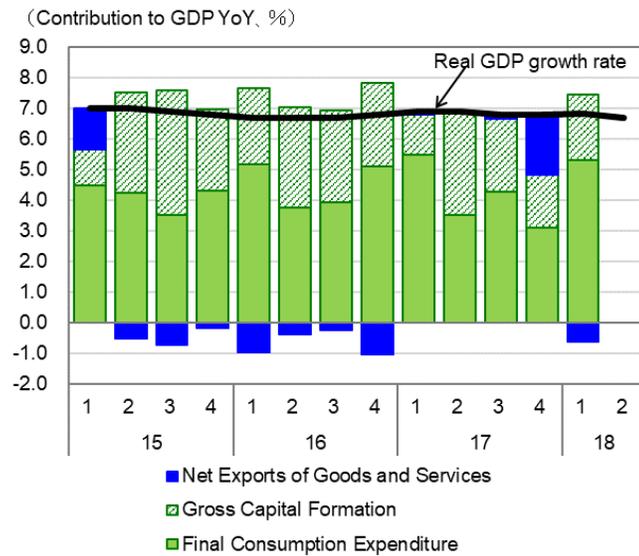
Is China strengthen its efforts to prop up the business environment? (Toshikazu Kumagai, Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

As attention swirls around the US/China trade war, concerns are growing about the future of the Chinese economy. The 2Q GDP growth rate was down slightly from 1Q to 6.7% (Figure 1) but this rate is still quite high. Moreover, when looked at QoQ the 2Q growth was actually at +1.8%, an acceleration from 1Q +1.4%.

Looking at the monthly statistics (Figure 2), we can see that both investments and consumption are slowly losing their vigor. Investment is denoted by fixed capital investments while consumption is denoted by retail sales – looking at both YoY we can see the growth rate shrinking and the slackening of domestic demand. Both of these could form the basis of a Chinese economic slowdown. We can also see the impacts of Chinese monetary tightening. The share of social capital coming from non-bank sources, part of shadow banking, is currently shrinking (Figure 3).

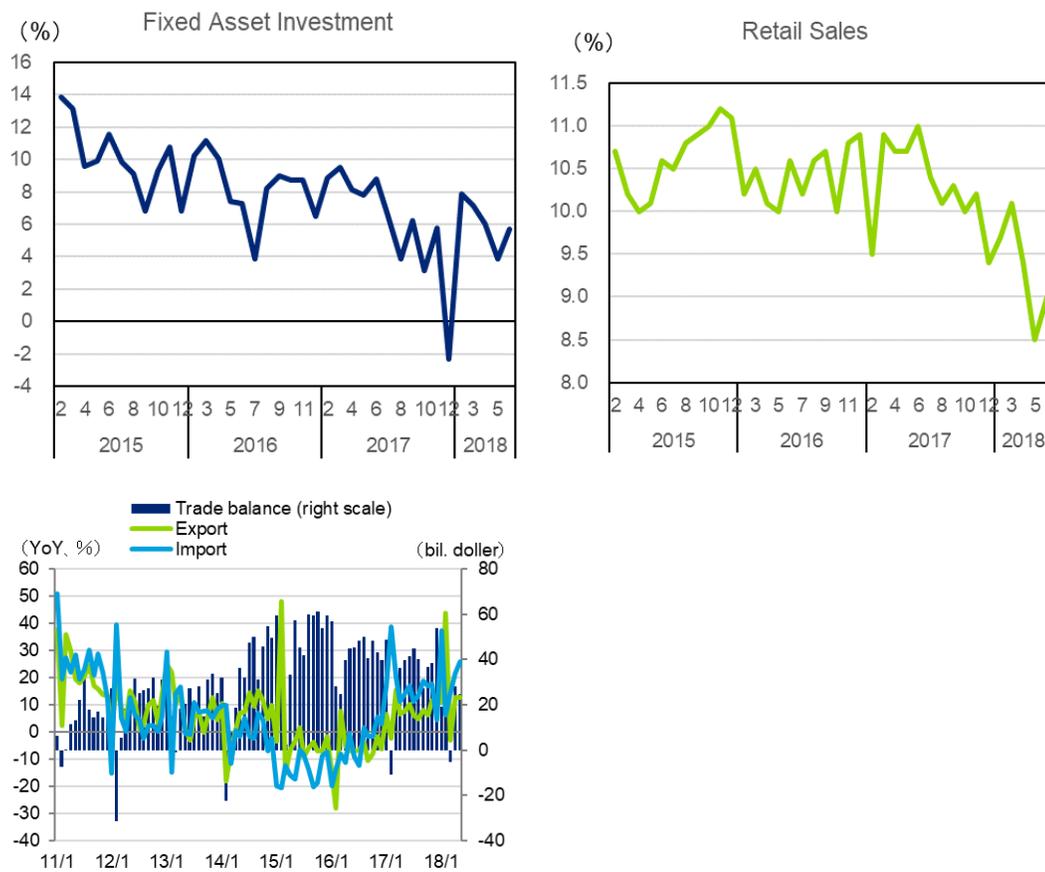
The Chinese economy met the government's target growth rate (6.5%) in the first half of the year. However as internal demand is expected to stagnate further, it will be interesting to see what the Chinese government does to correct the economy's overcapacity, how to tackle monetary tightening, and to what extent it props up the business climate.

Figure 1. Real GDP Trend



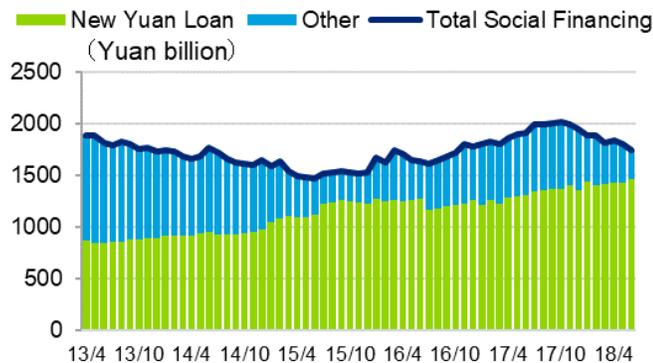
Source: National Bureau of Statistics of China, DTT Analysis

Figure 2. The state of investments and consumption



Source: National Bureau of Statistics of China, Bloomberg, DTT analysis

Figure 3. Social Capital



Source: Bloomberg, DTT analysis

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