'This newsletter is translated from the Japanese edition distributed on November 26th.
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

That which follows in the shadow of populism, etc.

Global Risk Watch Vol.44
5 December 2018

==

≪index≫

1. # That which follows in the shadow of populism (Tsuyoshi Oyama)
2. # Development in cross-border financial regulation (Shiro Katsufuji)
3. # The durability of China's economic stimulus (Toshikazu Kumagai)
4. Seminars, Conferences & Publications

==

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

 # The durability of China's economic stimulus (Toshikazu Kumagai, Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

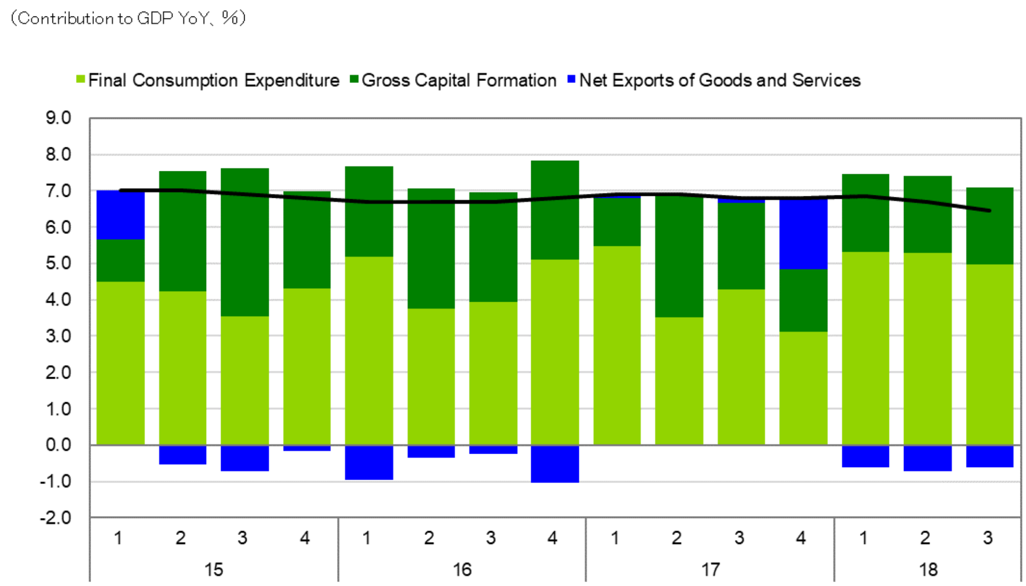
There is a growing concern that Chinese economic slowdown would precipitate a greater world-wide sharp economic slowdown. China's July - September GDP rate stagnated (down from April-June) to 6.5% YoY (Figure 1). Looking at the breakdown, net exports or investments (which up to this point had been protected from the effects of the trade war) are relatively flat, but the impacts have been felt in the shrinking consumption growth. While we haven't yet seen net exports fall off after a rush to purchase before tariffs take effect, the future of this trend is very unclear.

This year's growth target was set at 6.5% (the same as 2017), and despite issues with overproduction and the need to curtail debt, overall the pace of growth was to plan. However, as the opinion that the trade war between the US and China would be protracted became more common, production and investment meant for export shrank. Now, there is a growing opinion that these factors will put downward pressure on the Chinese economy.

On the other hand, when we look at the numbers by month we can see a domestic consumer spending and domestic/foreign demand stagnating due to the trade war but fixed capital investments by month appear to be speeding up (Figure 2). By sector, we can see that investment into manufacturing, real estate, and communication/transportation (which shows the effects of infrastructure investment) is very robust. Looking more closely at manufacturing, iron/steel production accumulation (often an indicator of overproduction) for January – October has grown precipitously year on year and may induce a correction in the future (Figure 3). Based on these trends we can predict that global GDP growth may gradually slow, and we may be staring a wider structural correction in the face. There are those who believe that the pace of economic stimulus efforts need to be reined in. Of course, such decisions and the timing of said action depend greatly on the political stability of each country.

We do not know to what degree foreign demand will stagnate and is remains important to watch and listen to government officials for clues on how and for how long economic stimulus will continue.

Figure 1: Real GDP Growth in China (Contribution by Component)



(Note: Data before 2014 is denoted in CY)
(Source: National Bureau of Statistics of China, DTT Analysis)

Figure 2: Fixed Asset Investment

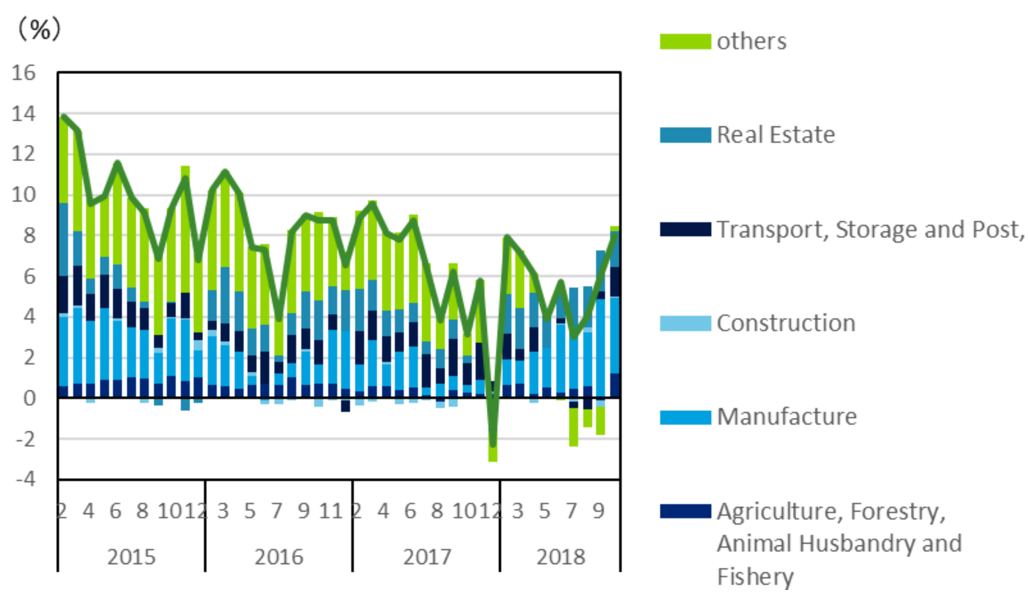
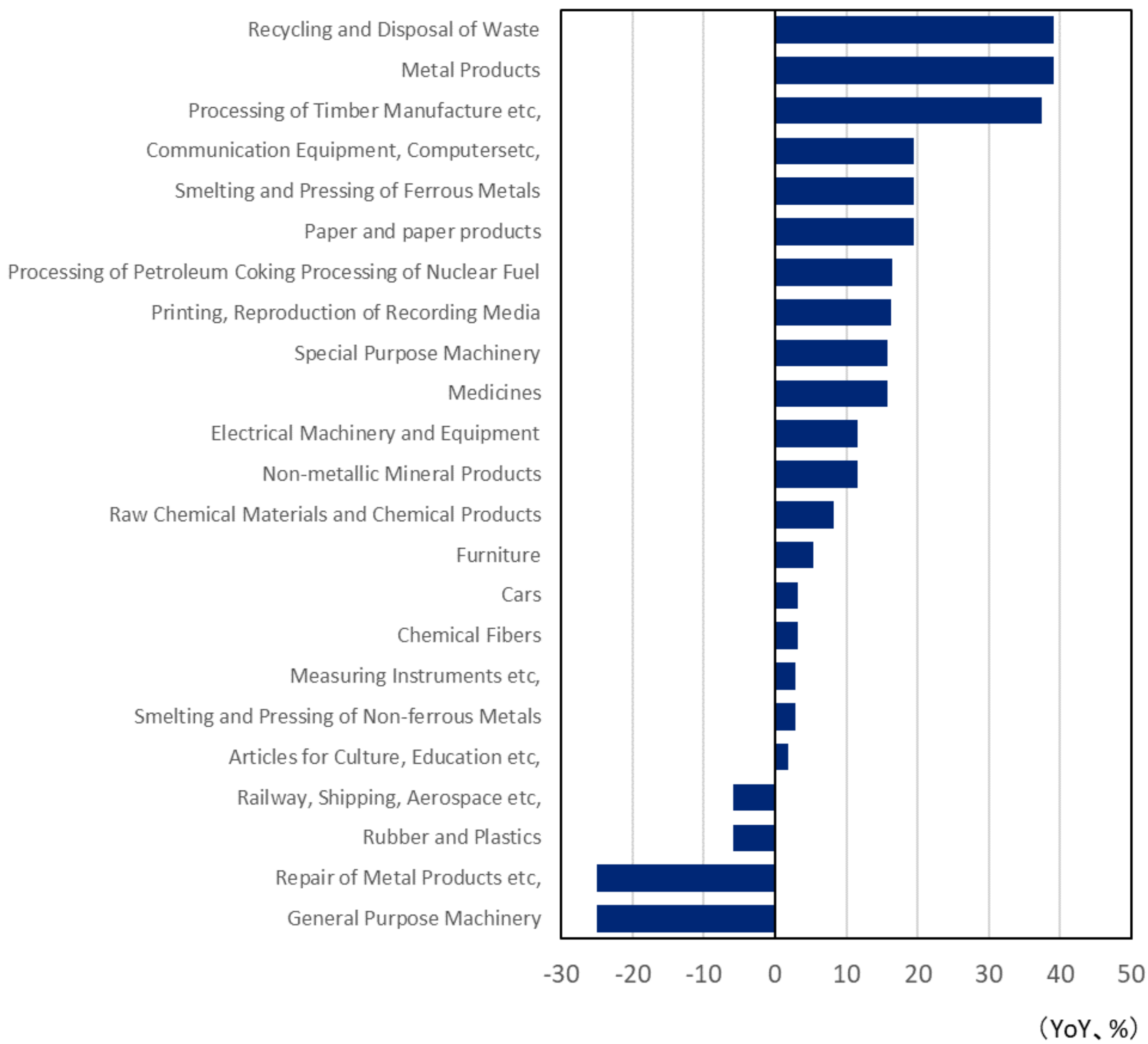


Figure 2: Manufacturing Fixed Asset Investment (Jan-Oct cumulative YoY)



Source: National Bureau of Statistics China, DTT analysis
