

# Global Risk Watch Newsletter

## Chinese Economy – Becoming Uncontrollable?, etc.

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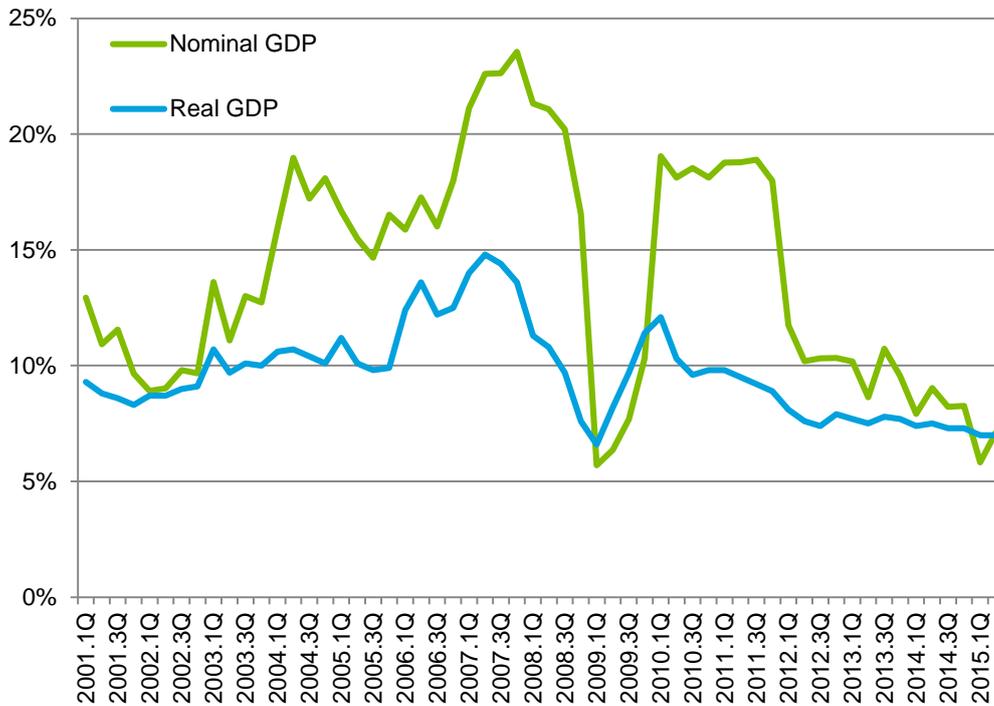
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### 3.Highlight of Indicator for this Month

#### **# Creeping Deflationary Risk in Chinese Economy (Koichi Iwai, Senior Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)**

In the past month, the slowdown of Chinese economy gained global attention. In every country, real GDP growth rate is most commonly used as the barometer of the macro economy. Chinese real GDP growth during 2Q 2015 recorded the same growth rate as the previous quarter (Q1) at 7.0% yoy and remained resilient at a glance. However, a hidden risk in the Chinese economy can be seen when compared with nominal growth figures. This indicator has gained significant attention in recent years as a mean to determine recent inflation trends.

**Real GDP vs. Nominal GDP (growth rate, yoy)**



The graph compares real and nominal growth rates in China. According to this, the real growth rate has been moving relatively stable, while the nominal growth rate has been following a clear downward trend since 2012, and plunged to a further low in 2015. 1Q is at 5.8% and 2Q at 7.1% respectively. Moreover, the nominal growth rate fell below the real growth rate in 1Q. This phenomenon has been the norm in Japan since the collapse of the bubble economy, and is referred to as a 'Meijitsu-Gyakuten (reversal between nominal and real growth rate)'.

This phenomenon shows a deflationary risk because the difference of nominal and real growth rates could be regarded as the approximation of changes in GDP deflator. The trends of nominal and real growth rates during the past years indicate a sharp decline in the growth of GDP deflator. Moreover, if nominal growth rate is more of a reflection of the people's actual sentiment (sentiment of increasing income) compared to the real growth rate, then the recent sharp decline in nominal growth rate suggests the likelihood that people in China feel less secure of economic growth.

Considering that this reversal has long plagued the Japanese economy, whether China will face the same risk for the coming years is certainly a critical point to foresee the world economy.

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