
Outlook on the Chinese Economy

~Implications for the Global Economy and Markets ~

14 October 2016

Mizuho Research Institute

Katsuyuki Hasegawa, CFA

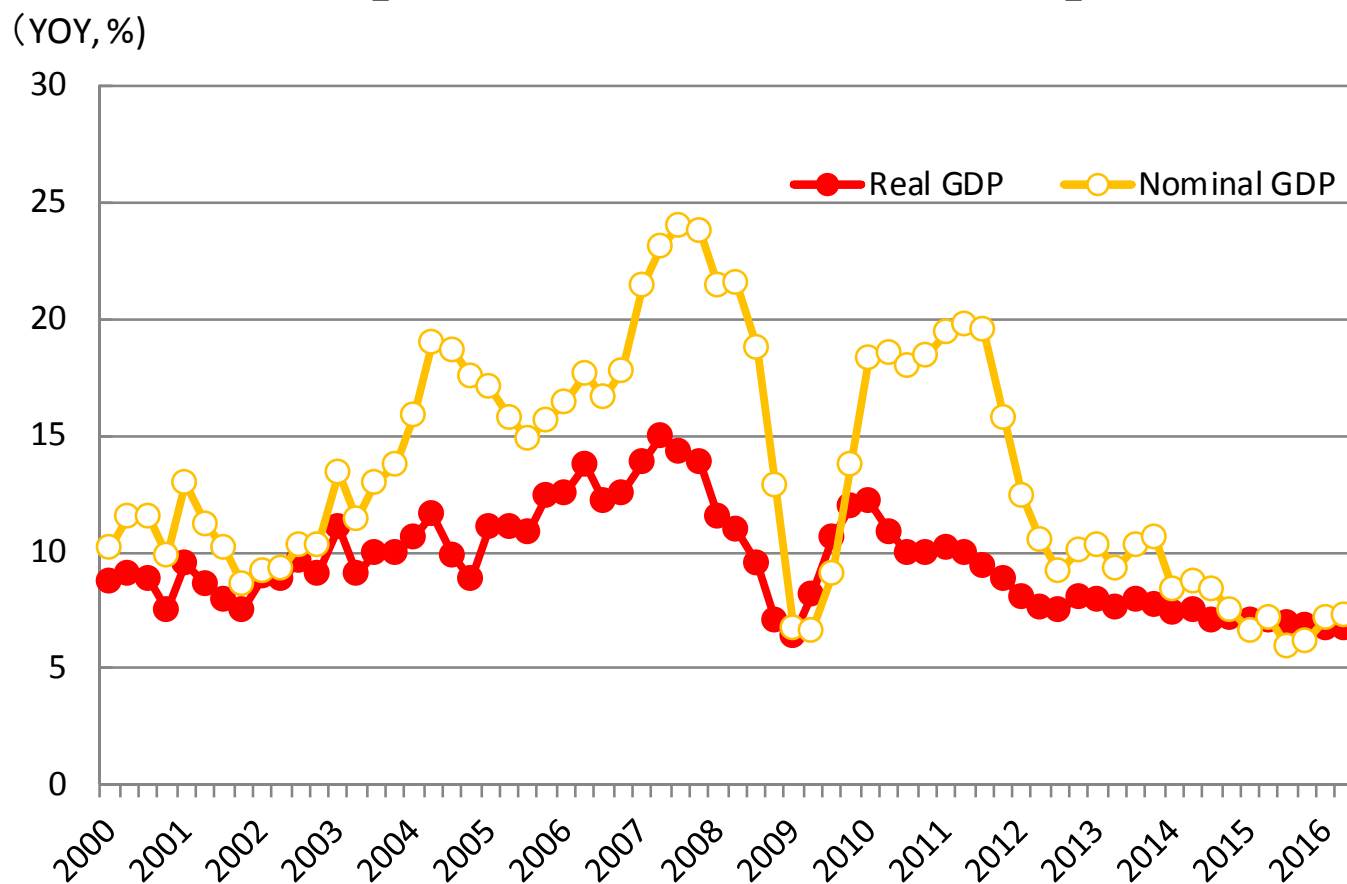
Chief Market Economist

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Slow Down of the Chinese Economy

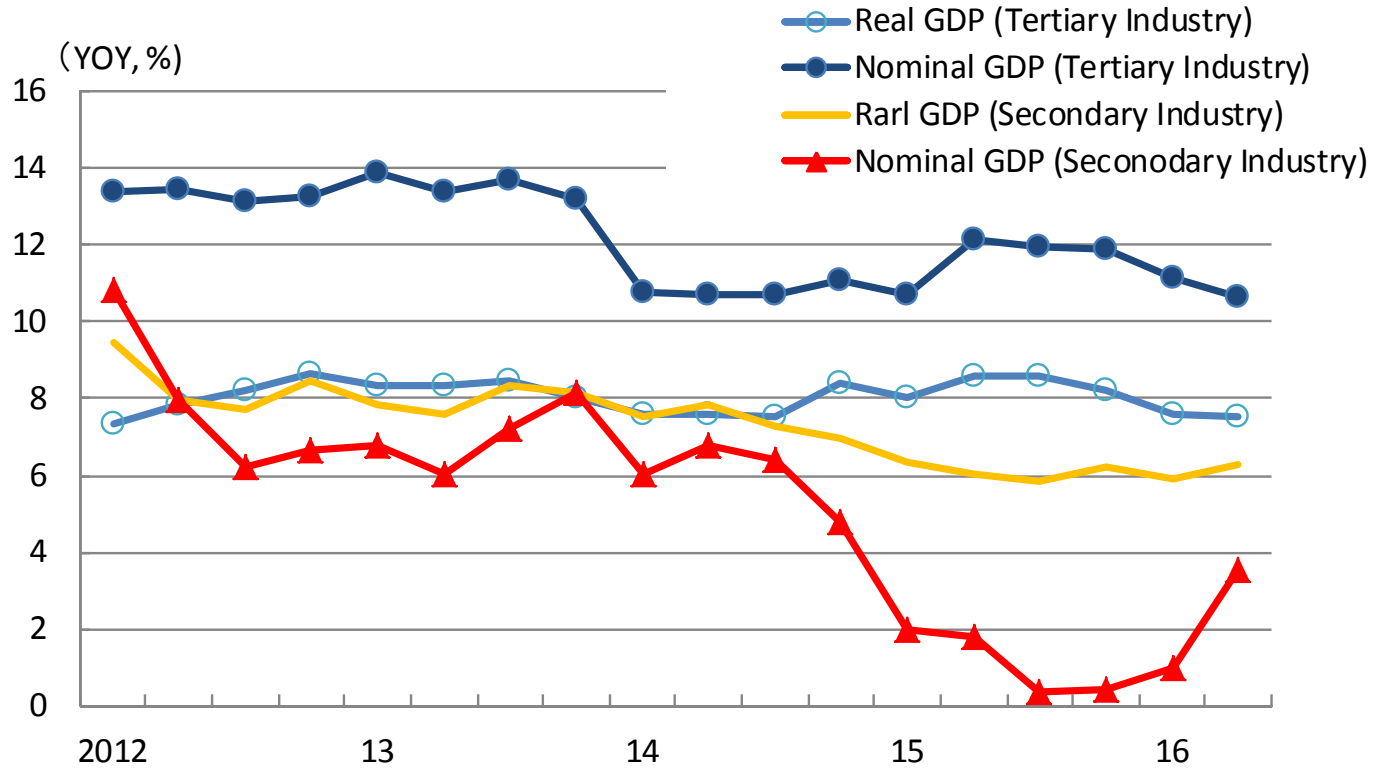
【 GDP Growth Rate in China 】



Source: National Bureau of Statistics of China, CEIC Data

Growth Rate by Sectors

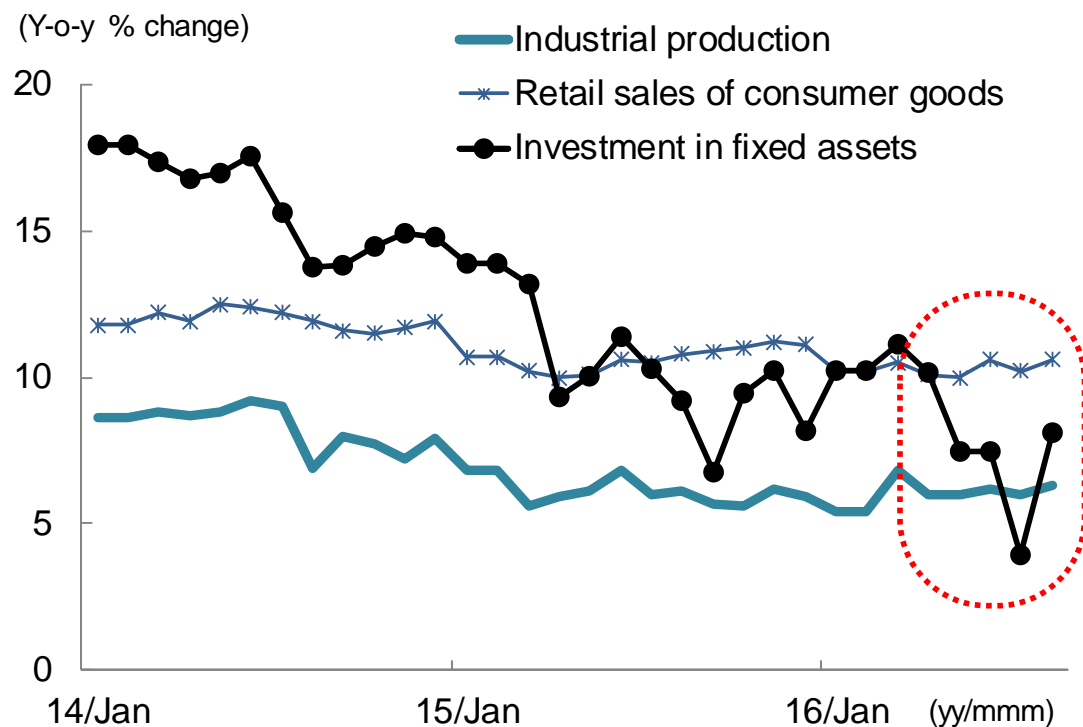
【 GDP Growth Rate in China 】



Source: National Bureau of Statistics of China, CEIC Data

Signs of Stabilization in the Chinese Economy

【 Key Economic Indicators 】

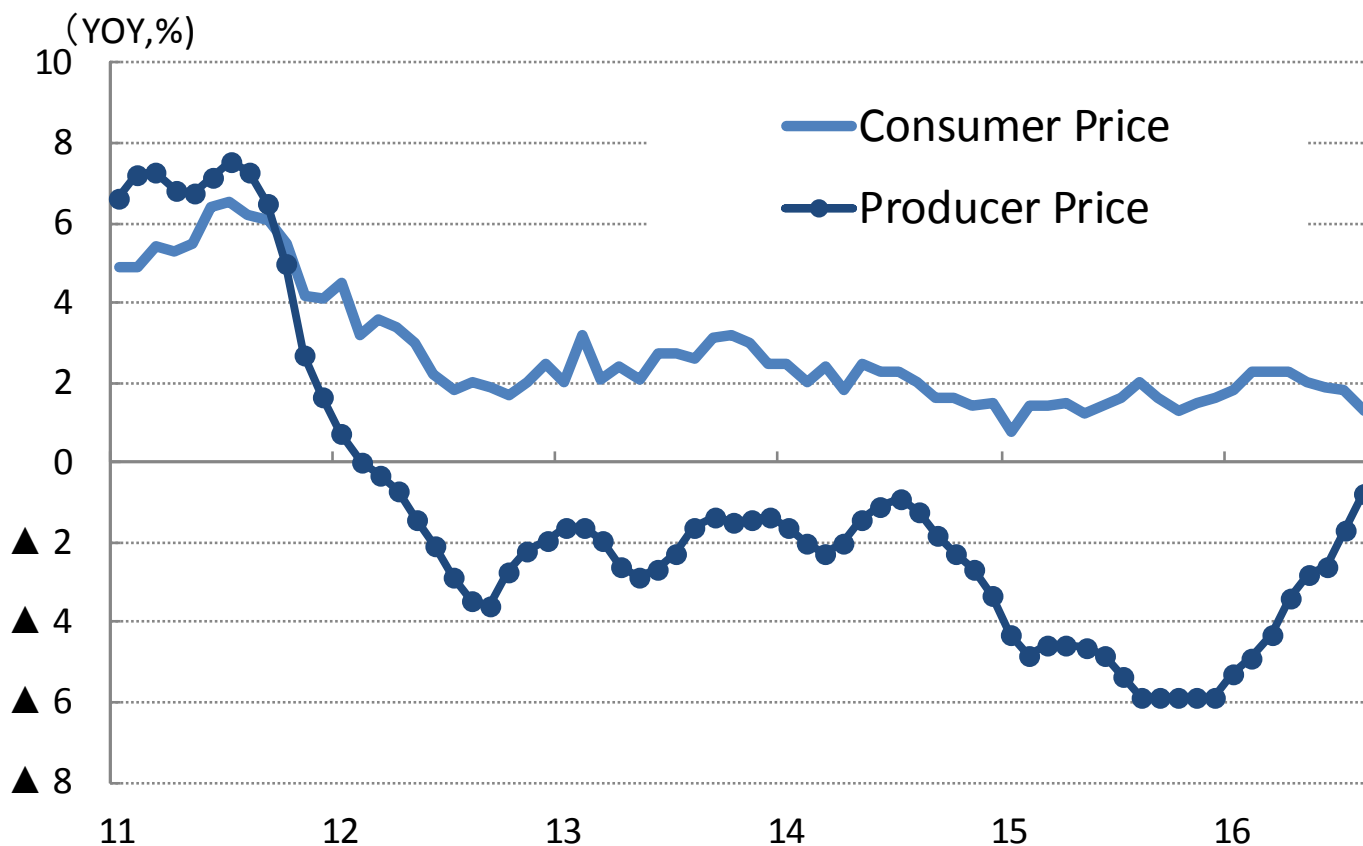


- Notes:
1. Readings on "industrial production", retail sales" and "investment in fixed assets" for January and February are changes over the year-ago of the Jan-Feb period.
 2. "Investment in fixed assets" is the cumulative total from the beginning of the year converted into a single month basis.
 3. "Industrial production" (real terms), "retail sales of consumer goods", "investment in fixed assets" and "exports" are in nominal terms.

Source: Made by MHRI based upon National Bureau of Statistics of China, CEIC Data..

Deflation in the Manufacturing Sectors

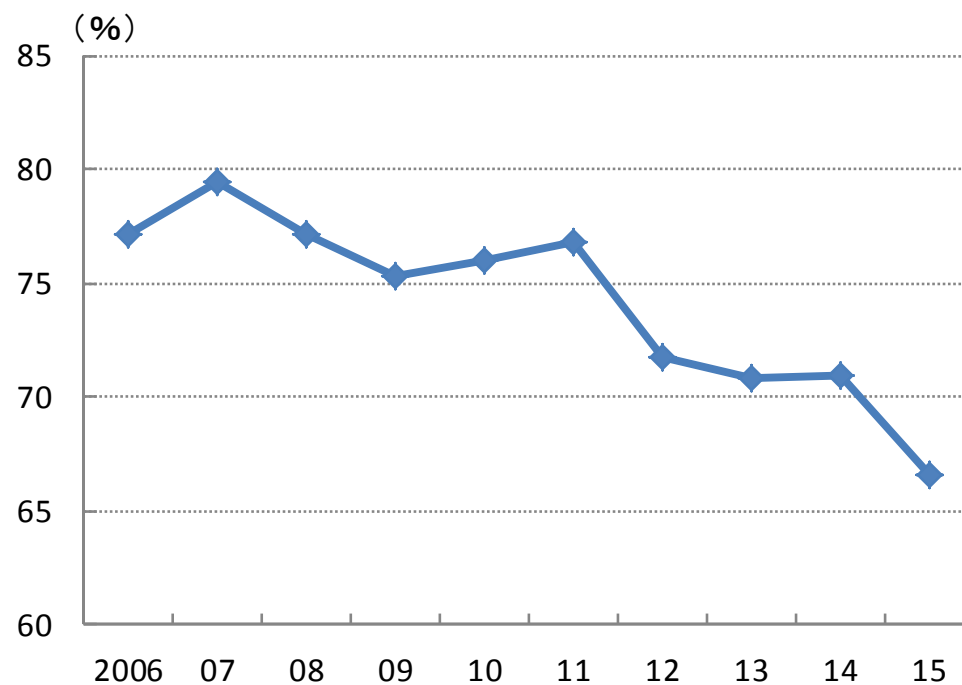
【Inflation Trends in China】



Source: National Bureau of Statistics of China, CEIC Data

Excessive Capacities and Declining Utilization

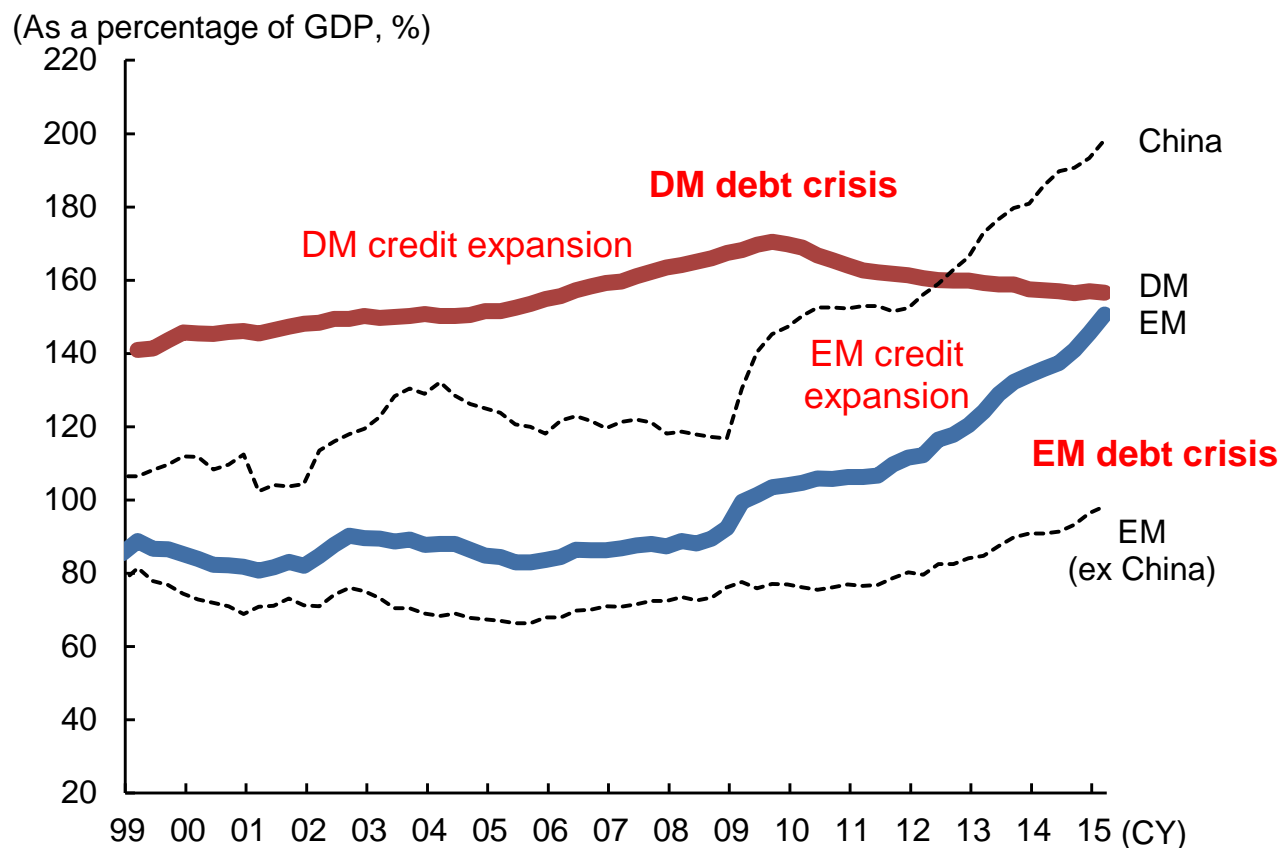
【Capacity Utilisation Rate in China】



Source: Made by MHRI base upon Chinese Entrepreneurs Survey System

Excessive Debts and Balance Sheet Adjustment in China

【 Rising private-sector debt in China and Emerging Market Countries 】



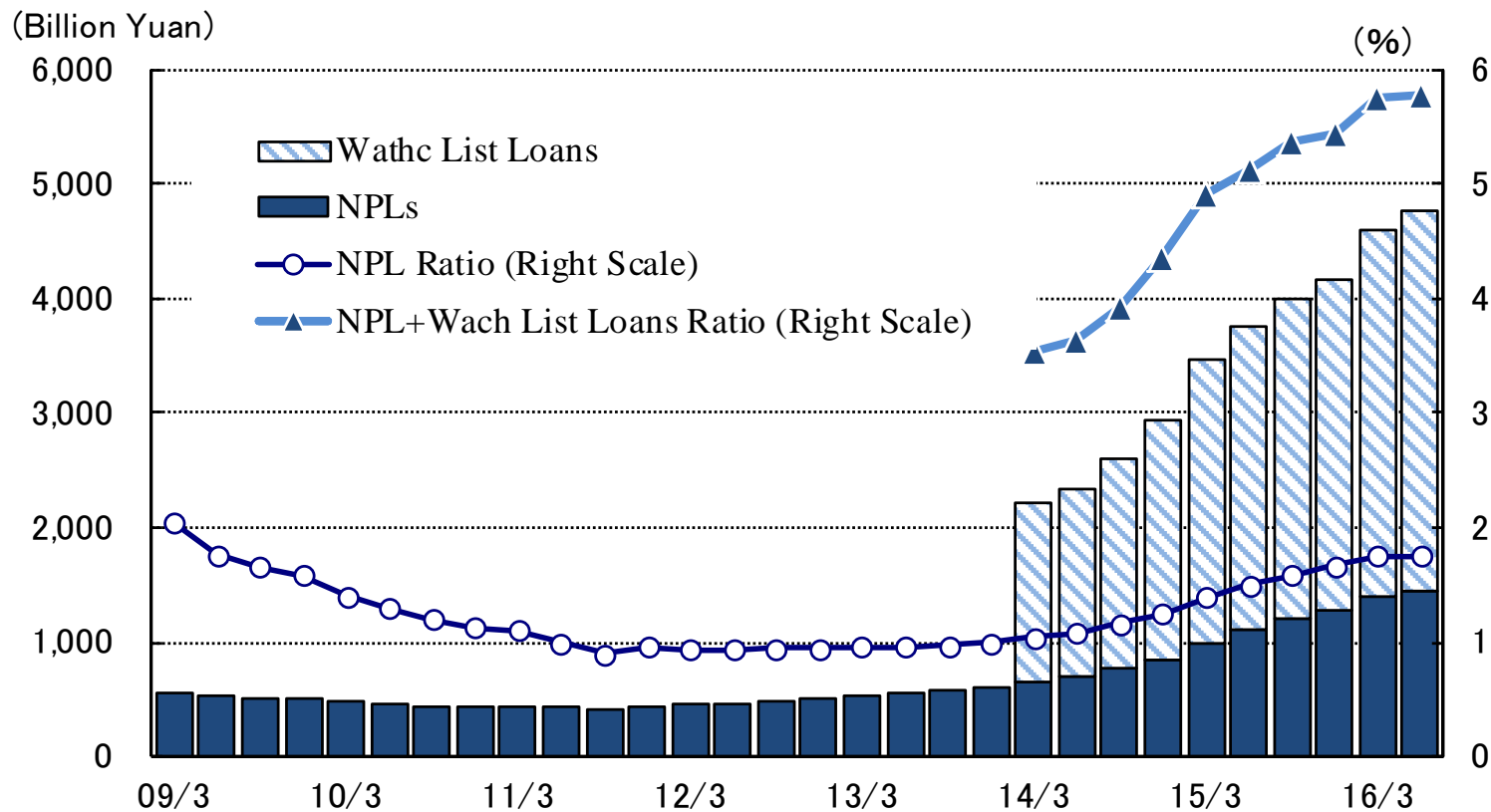
Note: "EM" refers to the total of China, India, Hong Kong, South Korea, Singapore, Thailand, Malaysia, Indonesia, Brazil, Russia, South Africa, and Turkey.

"DM" refers to the total of the US, eurozone, UK and Japan.

Source: Made by MHRI based upon BIS.

Rising Non Performing Loans in China

【 Non Performing Loans (NPL) in China 】



Source: Made by MHRI base upon China Banking Regulatory Commission

Thoughts on the Size of the Potential NPL in China

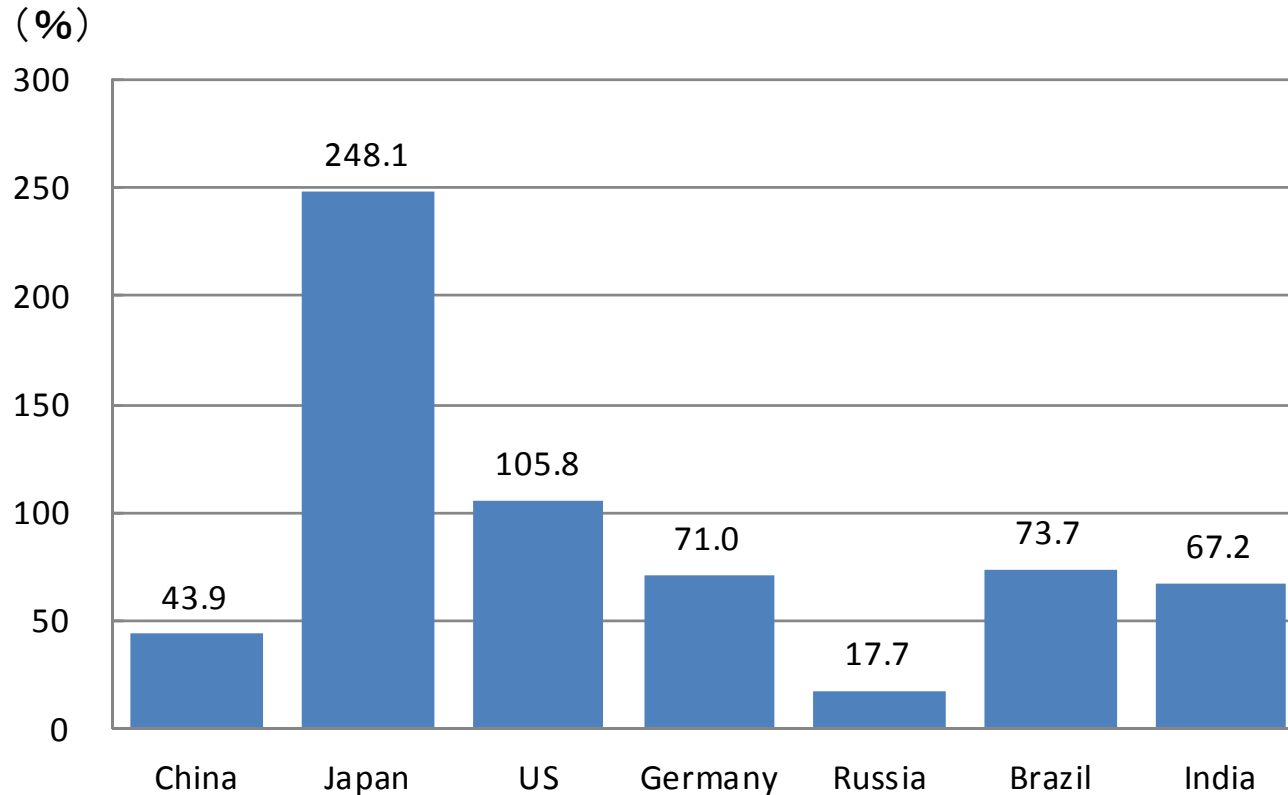
【 Debt-at-Risk in China (Calculation by IMF) 】

Industry	No. of Companies	Total Borrowings (US\$ millions)	No. of Companies at Risk	Debt-at-Risk (US\$ millions)	Debt-at-Risk over Total Borrowings (%)
Information Technology	377	147,229	71	12,576	9
Retail and Wholesale	321	157,113	73	55,145	35
Manufacturing	1,231	501,659	240	88,525	18
Leasing	43	5,342	6	142	3
Utilities	109	369,881	9	3,086	1
Steel	72	115,484	28	45,396	39
Construction Materials	43	59,841	9	11,625	19
Transportation	104	152,096	10	27,548	18
Mining	52	135,163	15	47,598	35
Energy	43	224,845	15	2,357	1
Real Estate	407	850,737	100	96,412	11
Others	69	55,558	14	1,642	3
Total	2,871	2,774,948	590	392,053	14

Source: IMF

China Should Have Will and Means to Tackle the Problem

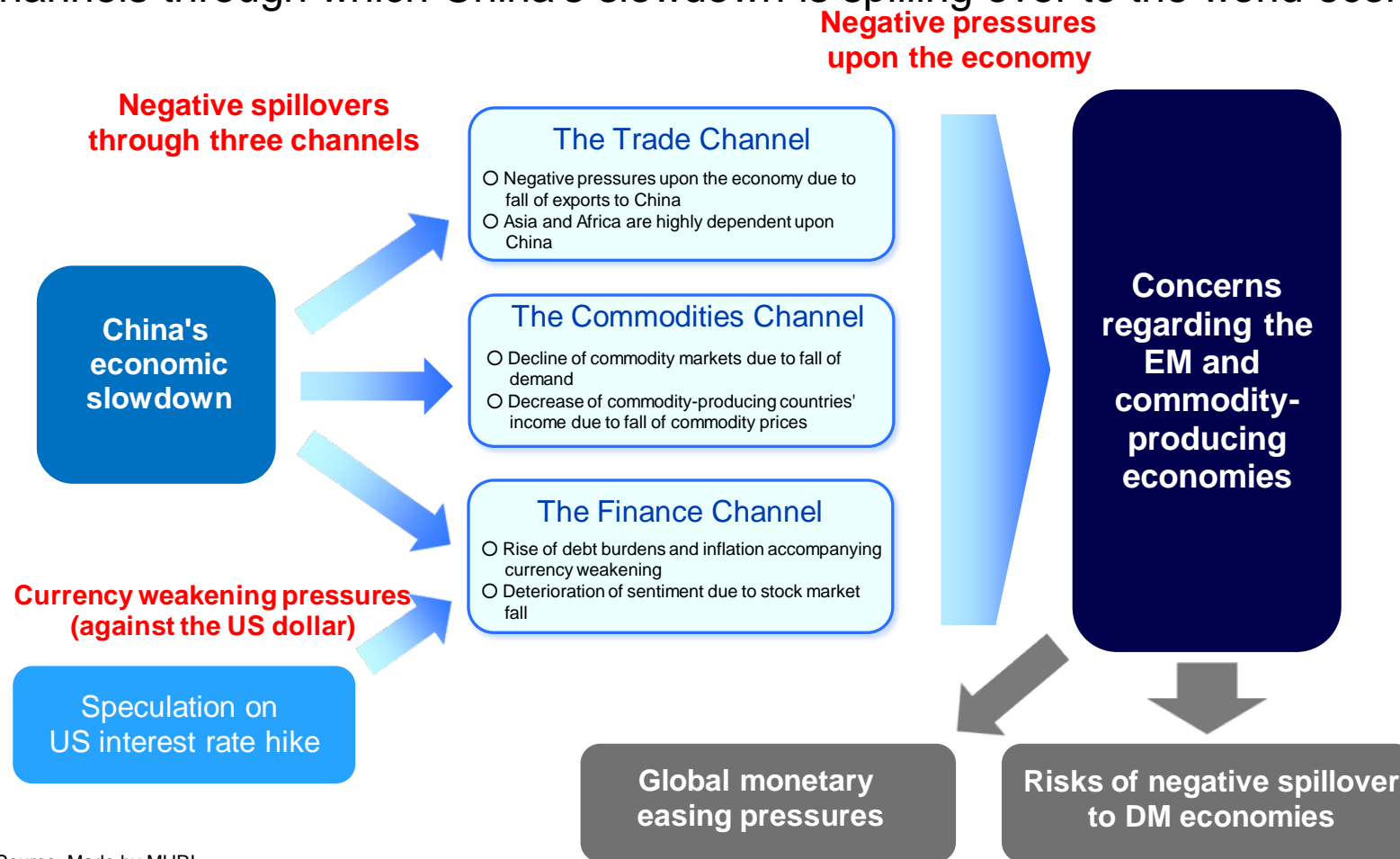
【 General Government Debt / GDP Ratio 】



Source: IMF, Fiscal Monitor, April 2016

3 Channels of Spillover Effects of China Slowdown

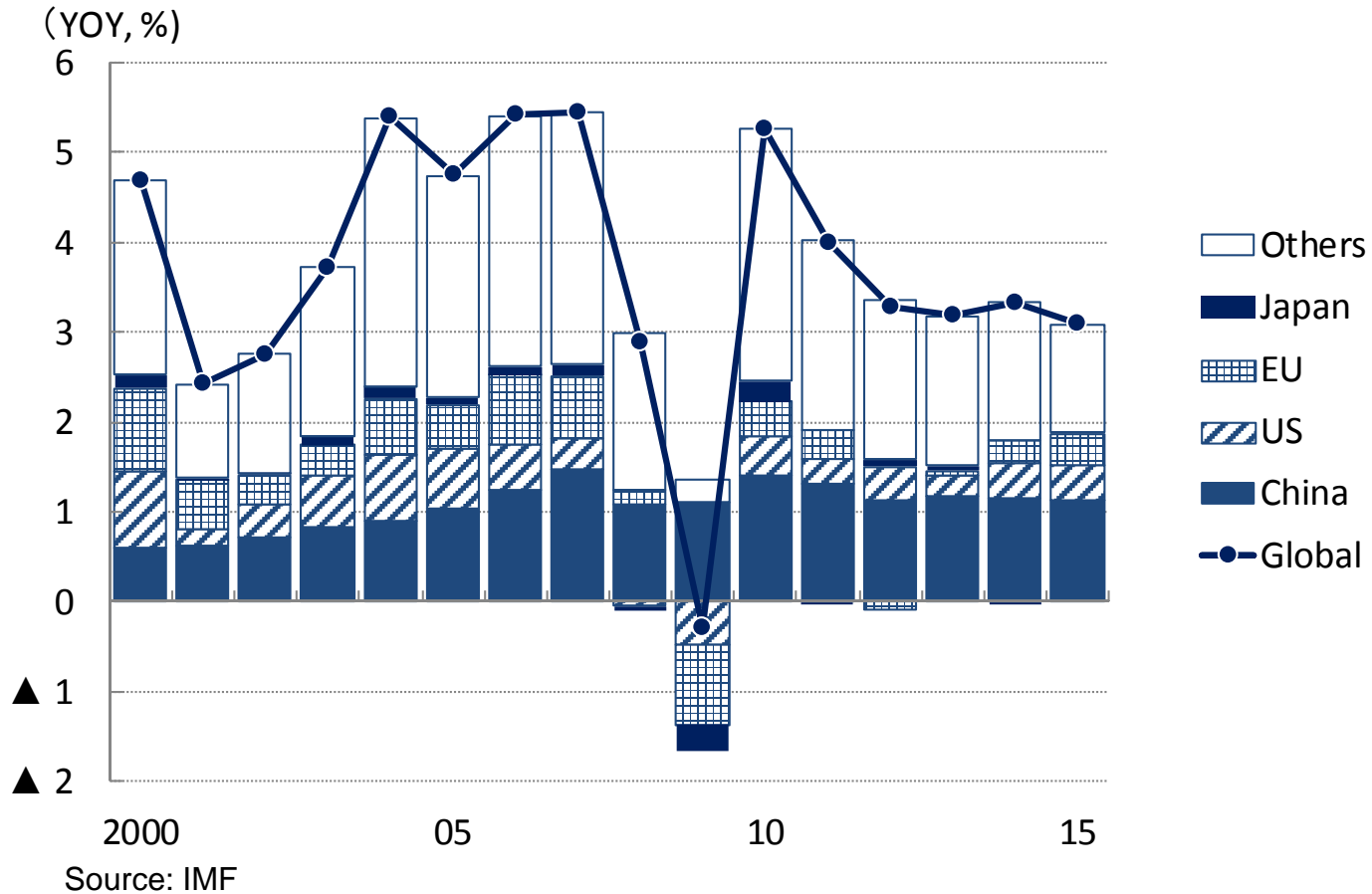
【 Channels through which China's slowdown is spilling over to the world economy 】



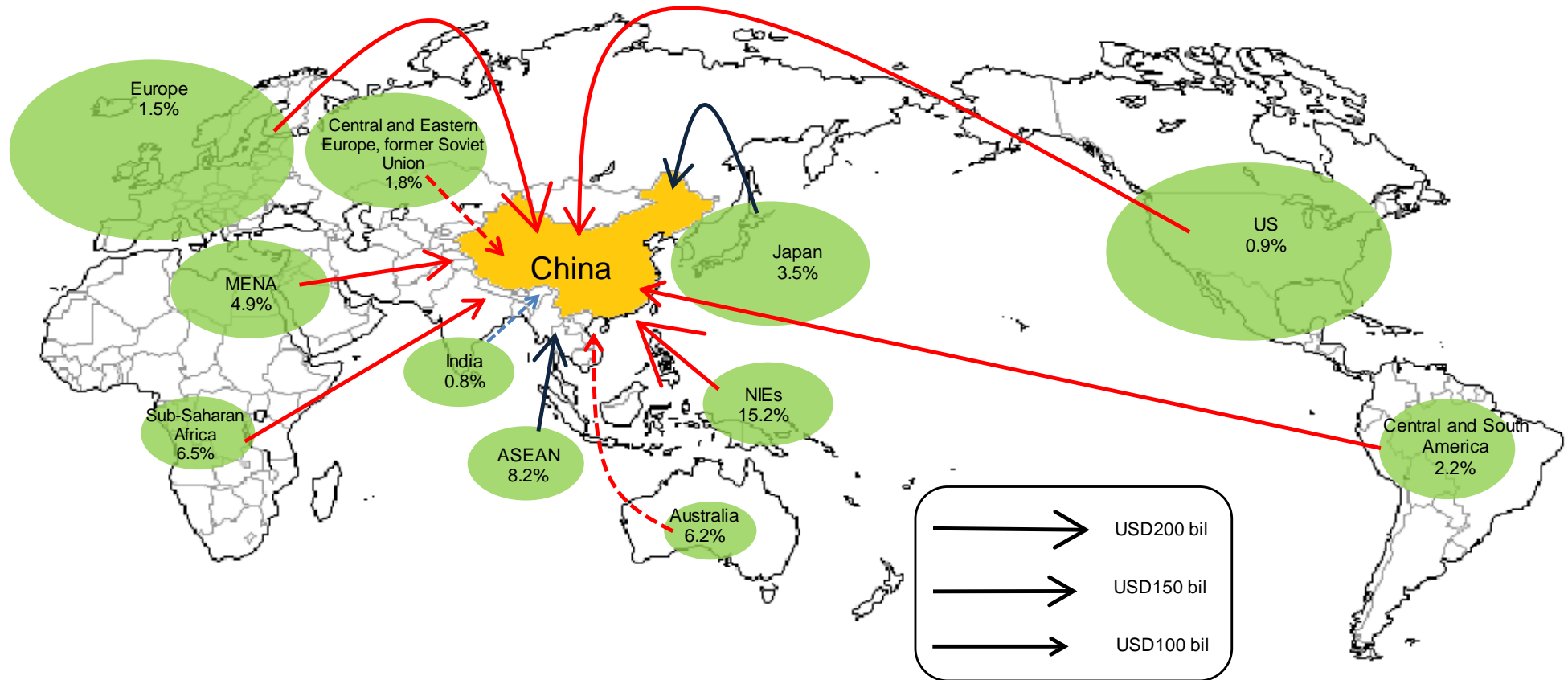
Source: Made by MHRI.

China as the Engine of the Global Growth

【 Global GDP Growth Rate 】



Trade Channel: Global Dependence on the Export to China



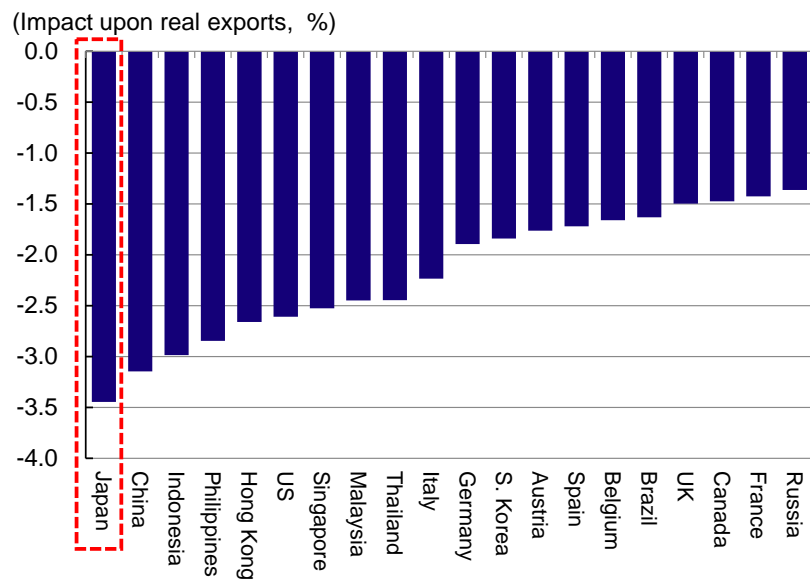
Note: China-bound exports of each of the regions are based upon the value of China's imports. The dark blue line indicates that the pace of increase has accelerated from the previous year, the red line indicates that the pace of increase has slowed from the previous year, and the broken red line indicates a decrease from the previous year. The values of each of the regions are the percentage of China-bound exports in nominal GDP.

Sources: Made by MHRI based upon IMF.

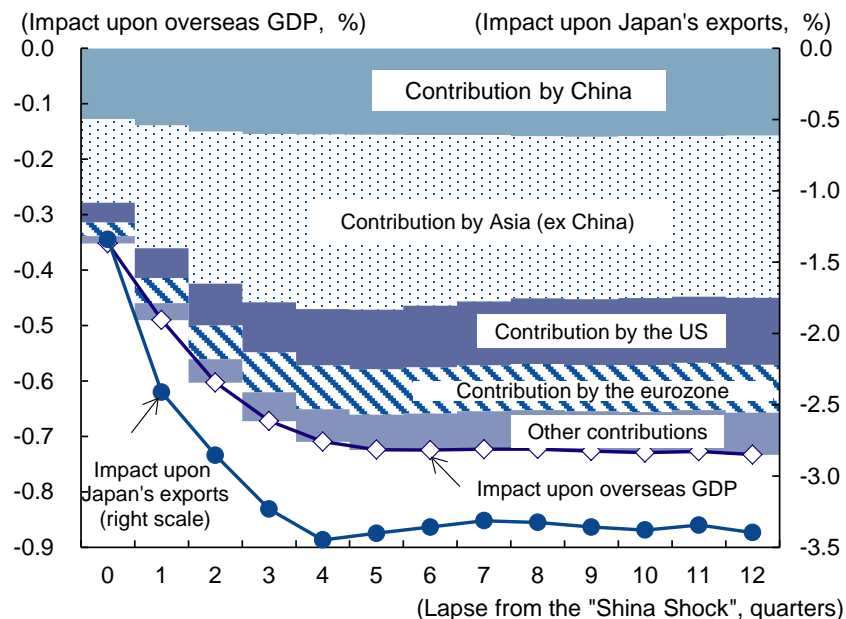
Impact of Slowdown in China on Global Exports

【 The spillover from China's economic slowdown (Global VAR) 】

< The spillover to real exports of major countries (one year on) >



< Impact upon overseas GDP and Japan's exports (cumulative) >

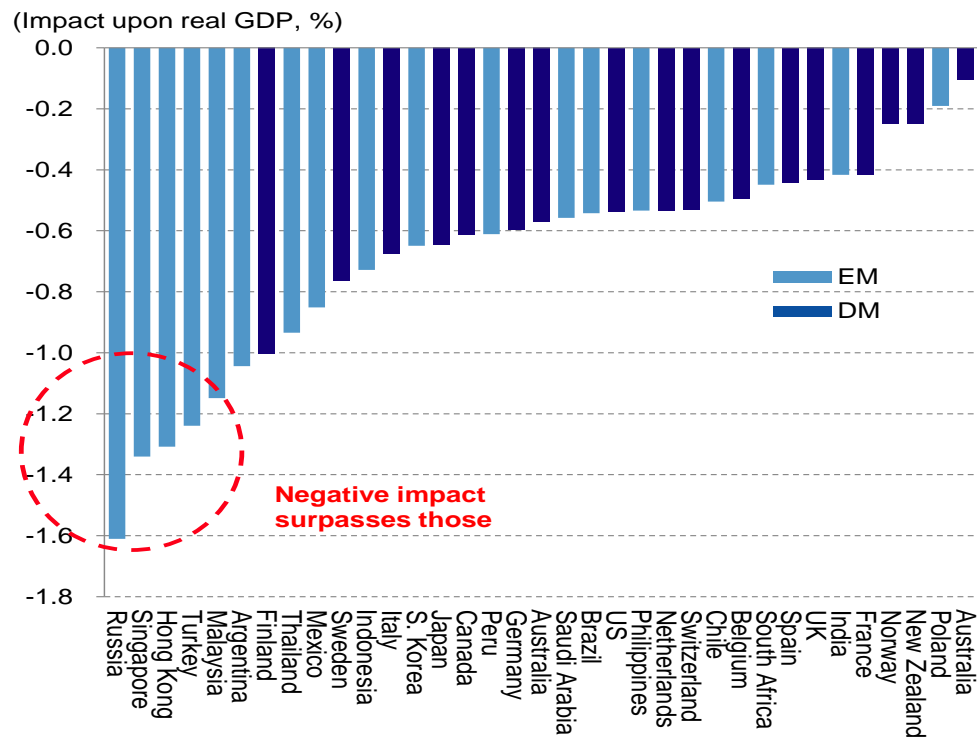


Notes: 1. The size of the "China Shock" assumes that China's GDP is subject to a one-standard-deviation negative impact (China's GDP falls by approximately 0.7% one year on).
 2. The impact upon overseas GDP is the impact upon total GDP of the countries weighted by the value of exports from Japan.

Source: Made by MHRI based upon Smith, L.V. and A. Galesi (2014), "GVAR Toolbox 2.0" (<https://sites.google.com/site/gvarmodelling/gvar-toolbox>), L. Gauvin and C. Rebillard (2015) "Towards Recoupling? Assessing the Global Impact of a Chinese Hard Landing through Trade and Commodity Price Channels", and others.

Overall Impact of China Slowdown on the Global Economies

【 Impact upon real GDP (one year following the “China Shock”.)

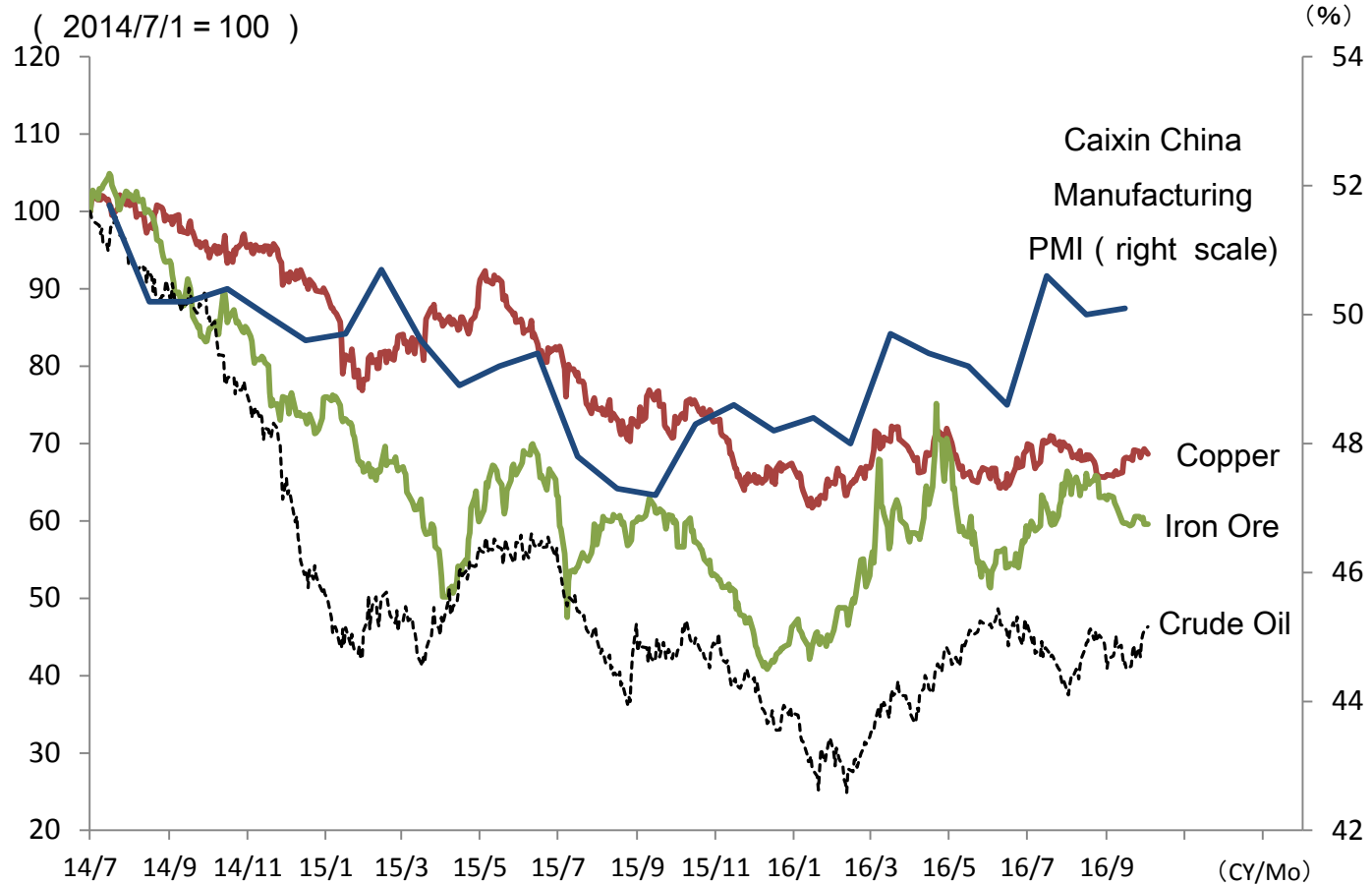


Note: Cumulative impact one year following the “China Shock”. The size of the “China Shock” assumes that China’s GDP is subject to a one-standard-deviation negative impact (China’s GDP falls by approximately 0.7% one year on).

Source: Made by MHR based upon Smith, L.V. and A. Galesi (2014), “GVAR Toolbox 2.0” (<https://sites.google.com/site/gvarmodelling/gvar-toolbox>), L. Gauvin and C. Rebillard (2015) “Towards Recoupling? Assessing the Global Impact of a Chinese Hard Landing through Trade and Commodity Price Channels”.

Commodity Channel: End of Commodity Super Cycle

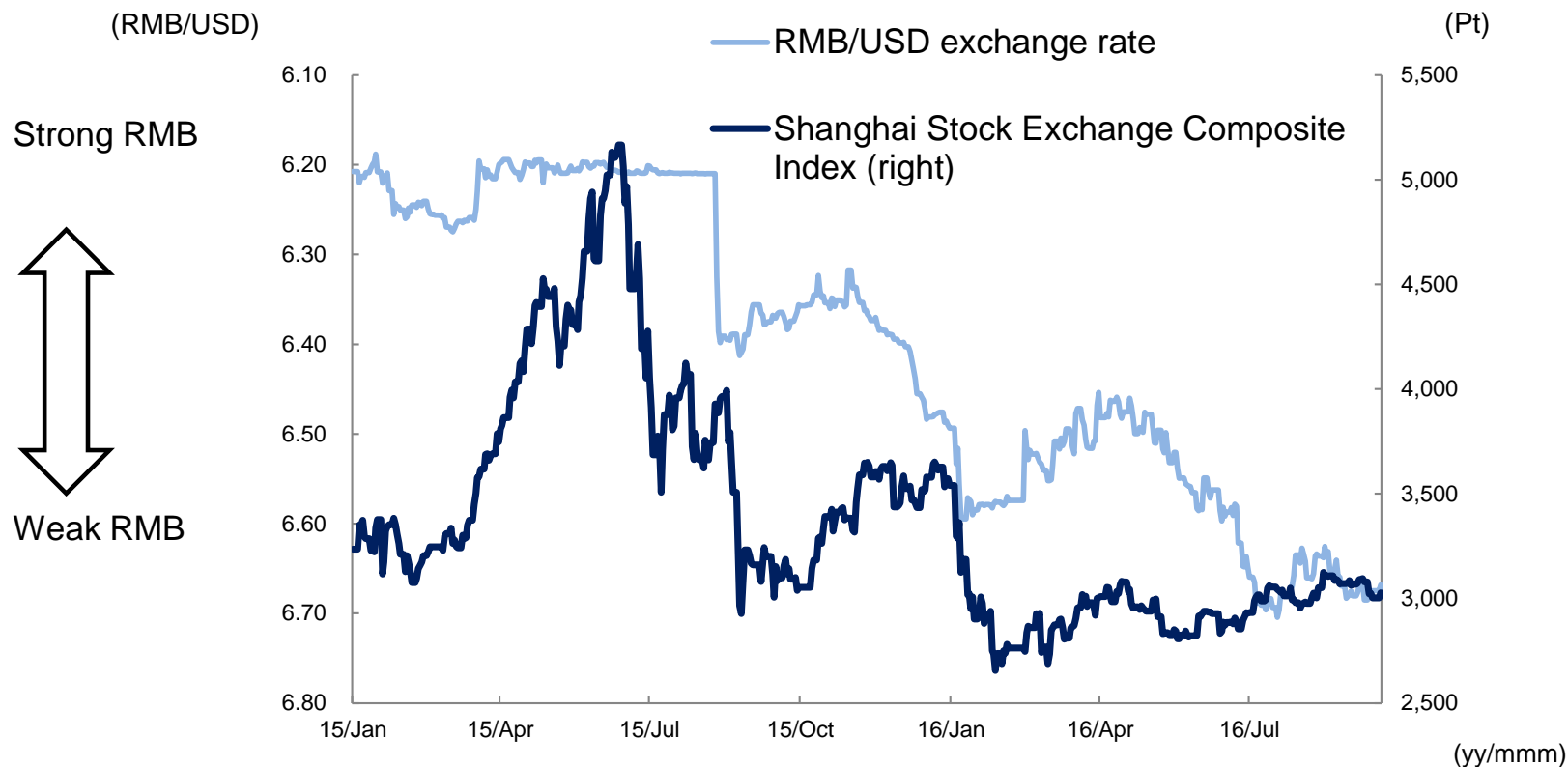
【 Business conditions in China and commodity markets 】



Note: Crude oil expressed in terms of WTI, iron ore in terms of China's import price, and copper in terms of LME 3-mo futures
 Source: Made by MHRI based upon Bloomberg.

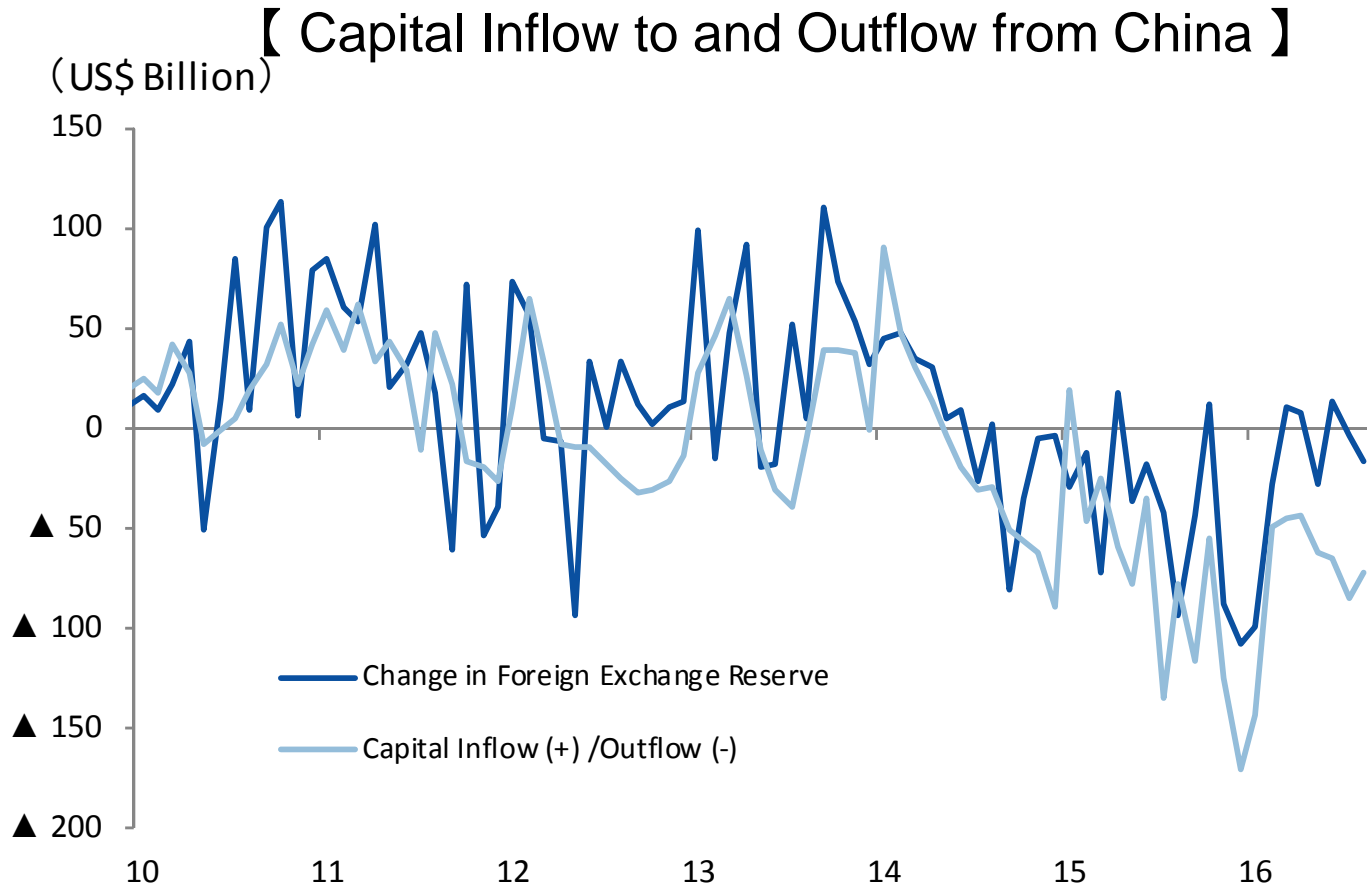
Financial Market Development in China

【 RMB Exchange rate and Shanghai Stock Index】



Source: Made by MHRI based upon Bloomberg.

Concerns for the Capital Outflow from China



Source: Bloomberg

Our Main Scenario for the Chinese and Global Economy

Calendar year	(Y-o-y % change)				(% point)			
	2014 (Actual)	2015 (Actual)	2016 (Forecast)	2017 (Forecast)	2016 (Forecast as of August)	2017 (Forecast as of August)	2016 (Breadth of change from August)	2017 (Breadth of change from August)
Total of forecast area	3.5	3.4	3.2	3.6	3.2	3.6	-	-
Japan, US, Eurozone	1.6	2.1	1.3	1.6	1.3	1.6	-	-
US	2.4	2.6	1.4	2.2	1.4	2.2	-	-
Eurozone	1.1	2.0	1.5	1.1	1.5	1.1	-	-
Japan	-0.0	0.5	0.5	0.7	0.5	0.7	-	-
Asia	6.4	6.1	6.0	6.0	6.0	6.0	-	-
China	7.3	6.9	6.6	6.5	6.6	6.5	-	-
NIEs	3.4	1.9	1.9	2.2	1.8	2.2	0.1	-
ASEAN5	4.6	4.8	4.8	4.6	4.7	4.6	0.1	-
India	7.0	7.2	7.6	7.5	7.7	7.6	-0.1	-0.1
Australia	2.7	2.5	2.8	2.5	2.7	2.5	0.1	-
Brazil	0.1	-3.8	-3.2	1.0	-3.4	0.8	0.2	0.2
Russia	0.7	-3.7	-1.2	1.0	-1.2	1.0	-	-
Japan (FY)	-0.9	0.8	0.6	0.9	0.6	0.9	-	-
Crude oil price (WTI, USD/bbl)	93	49	42	45	42	45	-	-

Note: The total of the forecast area is calculated upon the 2014 GDP share (PPP) by the IMF.

Sources: Made by MHRI based upon International Monetary Fund (IMF) and statistics of relevant countries and regions.

Long Term Trend & Outlook on the Global Economy

Calendar year average	1996~2000 (Actual)	2001~2005 (Actual)	2006~2010 (Actual)	2011~2015 (Actual)	2016~2020 (Forecast)
Global real GDP growth rate	3.8	3.9	4.0	3.5	3.6
Total of forecast area	3.7	3.7	3.8	3.5	3.6
Japan, US, Eurozone	3.2	2.0	0.7	1.3	1.7
US	4.3	2.5	0.8	2.0	2.1
Eurozone	2.8	1.5	0.8	0.6	1.4
Japan	0.9	1.2	0.4	0.6	1.0
Asia	5.8	7.2	8.5	6.5	6.0
China	8.6	9.8	11.3	7.8	6.5
NIEs	5.1	4.3	4.3	2.9	2.0
ASEAN5	2.3	5.1	5.3	5.1	4.4
Indonesia	0.2	5.1	6.2	5.5	4.7
India	6.0	6.8	8.3	6.5	7.6
Australia	4.1	3.4	2.7	2.7	2.5
Brazil	2.2	2.9	4.5	1.0	0.4
Russia	1.8	6.1	3.7	1.2	0.3
Japan (FY average)	0.8	1.2	0.3	0.6	1.0

Sources: Made by MHRI based upon International Monetary Fund (IMF) and statistics of relevant countries and regions.

Note: The total of the forecast area is calculated upon the 2013 GDP share (PPP) by the IMF.

Takeaway Message

- *The Chinese economy is slowing down and is facing with the structural change of its economic system.*
- *While soft landing is our main scenario, we should, however, be aware of;*
 - *The slowdown could last for years to come.*
 - *The market should be very sensitive to the development in China and the scenario for the hard landing.*
- *In the event of rapid deceleration and the rising risk of hard landing in China, the global economy and financial markets would be greatly damaged due to*
 - *Trade channel*
 - *Commodity channel*
 - *Financial channel*

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