

World Economic Trends

The 2013 Autumn Report

– Challenges Towards Stable Growth for China –
(Summary)

December 2013

Cabinet Office
Government of Japan

Purpose

- To analyze the current conditions of and the outlook for the economy in each country and region. Recovery of the world economy remains weak in 2013, while stability has been seen in some countries.
 - USA: The economy continues to be on a modest recovery trend, as consumption is increasing modestly, driven by factors including the improvement in employment conditions.
 - Europe: While the economy continues to exhibit weak movements, there are signs of a pick-up especially in Germany and the U.K.
 - Asia: In China, the pace of economic expansion is stabilizing. In ASEAN countries, the economy shows a gradual pace of recovery.
- To identify the long-term growth capability of China, as well as challenges towards a soft landing of its economy, and outline how the global economy will be affected as China enters a phase of stable growth.

Chapter 1. Trends in Each Country/Region

Section 1. Overview of the Global Economy

Section 2. U.S. Economy

Section 3. European Economies

Section 4. Asian Economies

Chapter 2. Changes in China's Growth Capability, and the Global Economy

Section 1. Towards Avoiding the Middle Income Trap

Section 2. Challenges Towards Soft Landing of the Economy

Section 3. The future of the Chinese Economy, and the Global Economy

Section 4. Conclusion

Chapter 1, Section 1. Overview of the Global Economy

- Global Economic Trends: Despite Continued Weakness in Recovery, Steadiness Can be Seen in Some Sectors -

- The world economy as a whole remains weak in its recovery, though steady movements can be seen in some developed countries and China. In the meantime, the economy is decelerating in some emerging countries. (Fig.1 - 2)
 - Inflation: Downside risks exist to inflation rates in Eurozone countries, on the back of various factors, including the delay in improvement of employment conditions. (Fig. 3)
 - Monetary conditions: Developed countries maintain an accommodative stance on monetary policy. Conditions are changing in emerging countries, due partly to the effect of the global financial market. (Fig. 4)

Fig. 1 Real GDP Growth Rate of the G20 Countries

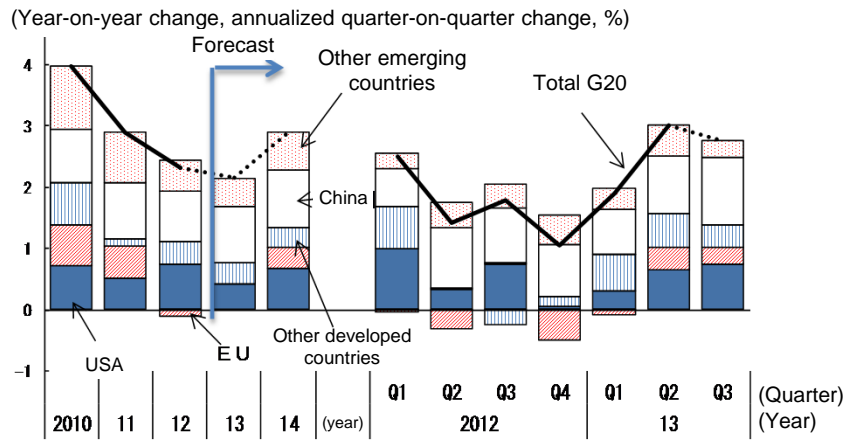


Fig. 3 Inflation Trends in Developed Countries

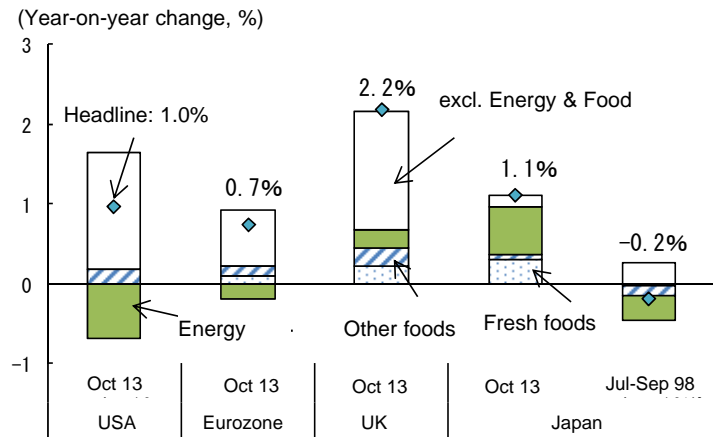


Fig. 2 Trends in World Production and Trade

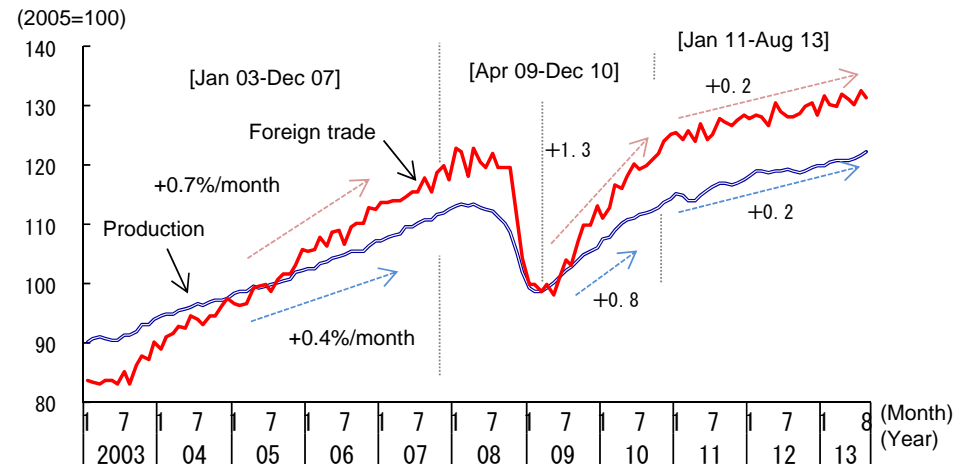
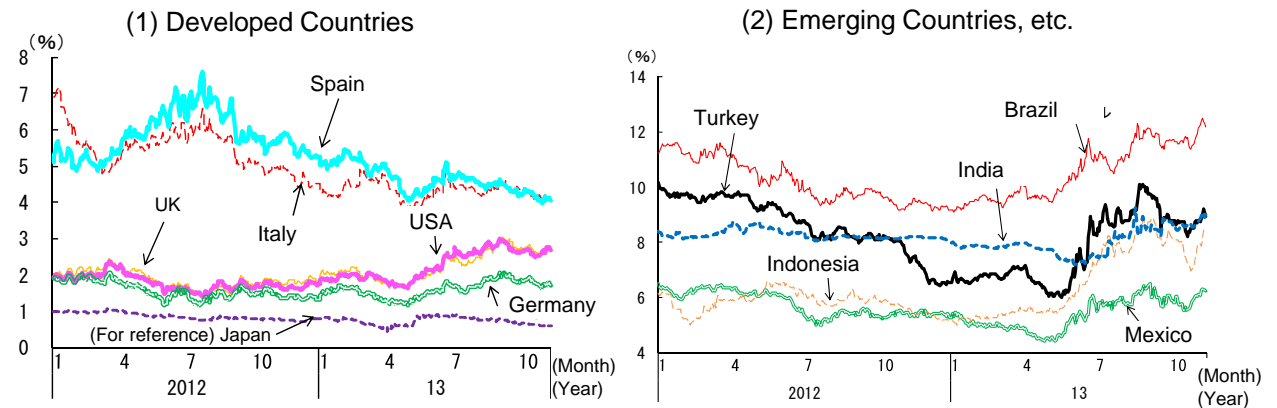


Fig. 4 Long-Term Interest Rates in Major Countries



Chapter 1, Section 1. Overview of the Global Economy – Global Monetary Easing and Various Economic Policies –

- In developed countries, the U.S. is on a modest recovery trend ahead of other regions, while Europe also exhibits signs of a pick-up. Monetary policy has been accommodative since 2011. (Fig. 5 - 6)
- In emerging countries, where concerns about capital outflow has risen on the back of rising concerns about tapering of monetary easing in the U.S. since May 2013, stock prices and exchange rates have fallen significantly. (Fig. 7 - 8)

Fig. 5 Comparison of Economic Status of the US and Europe (i)

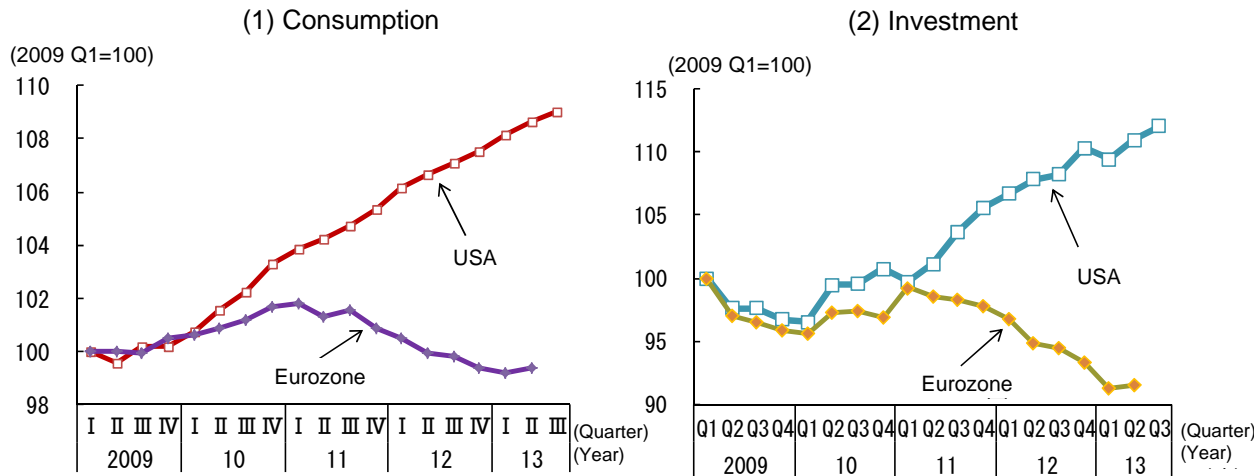


Fig. 6 Comparison of Economic Status of the US and Europe (ii)

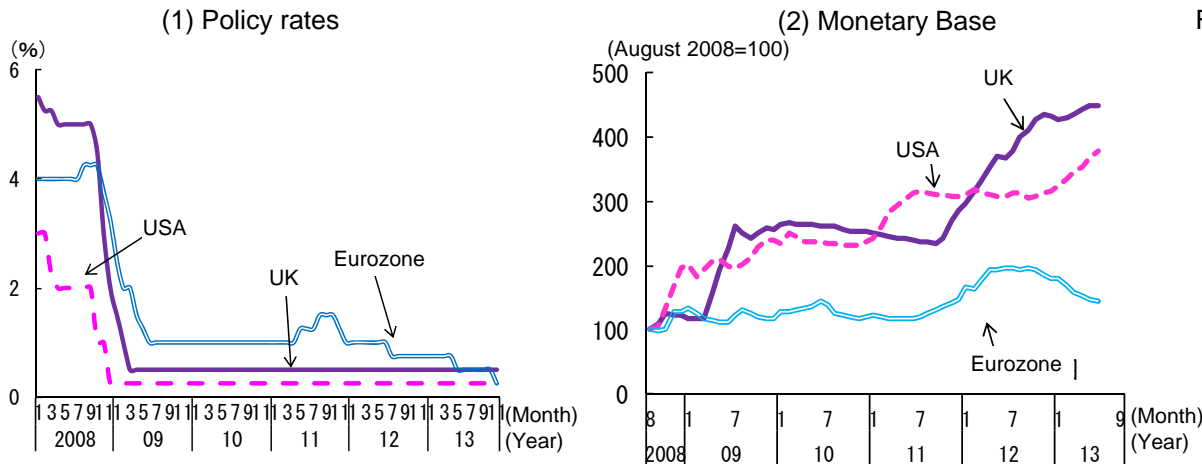


Fig. 7 Foreign Exchange Trends in Major Emerging Countries

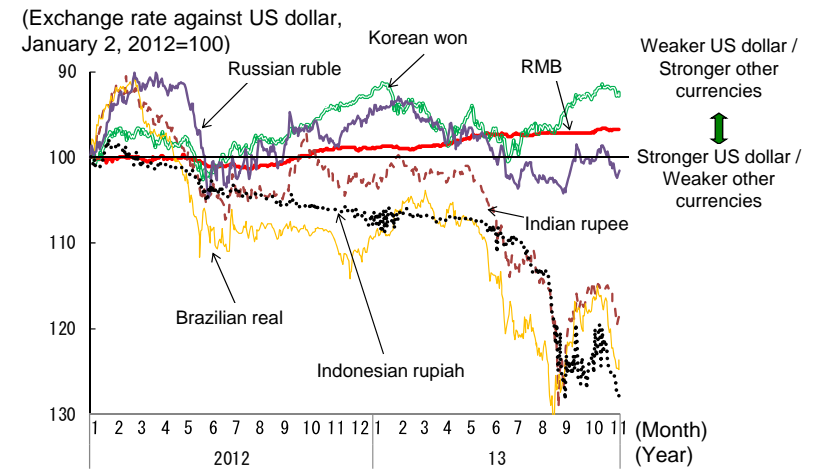


Fig. 8 Overview of Financial Conditions of Major Emerging Countries

	Maximum change in exchange rate (from May 22)	Current account balance (% of GDP)	Foreign exchange reserves (% of GDP)
Indonesia	▲ 19.2	▲ 3.2	13.3
India	▲ 24.1	▲ 5.1	16.1
Brazil	▲ 19.7	▲ 3.2	15.6
Turkey	▲ 11.8	▲ 6.7	15.4
Thailand	▲ 8.4	0.4	49.6
Russia	▲ 7.1	2.2	26.6

Chapter 1, Section 2. U.S. Economy – Modest Recovery Trend Continues –

- Consumption remains on a modest upward trend driven by the improvement in employment conditions, the progress in household balance-sheet adjustments, and other factors. (Fig. 9 - 11)
- Residential investment has been almost flat owing to factors such as the rise in the interest rate. (Fig. 12)
- The corporate sector shows signs of a modest pick-up in capital investment as a result of solid corporate profits and the improvement in business sentiment reflecting expectations toward improvement in overseas demand. (Fig. 13 - 14)

Fig. 9 Unemployment Rate

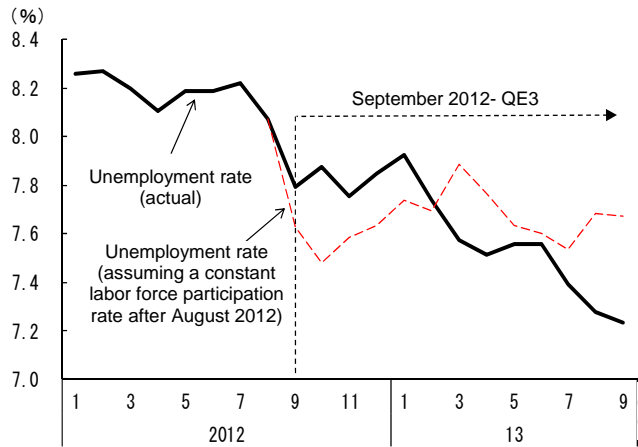


Fig. 10 Disposable Income

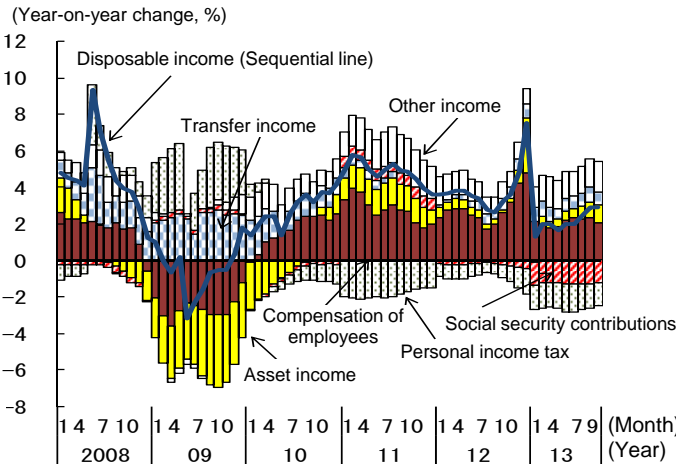


Fig. 11 Household Balance Sheet Adjustment (Debt Outstanding, % of Total Assets)

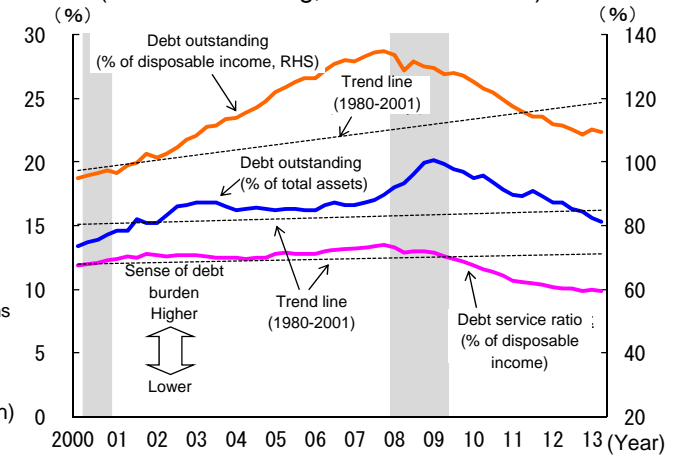


Fig. 12 Trends in Housing Starts and Permits

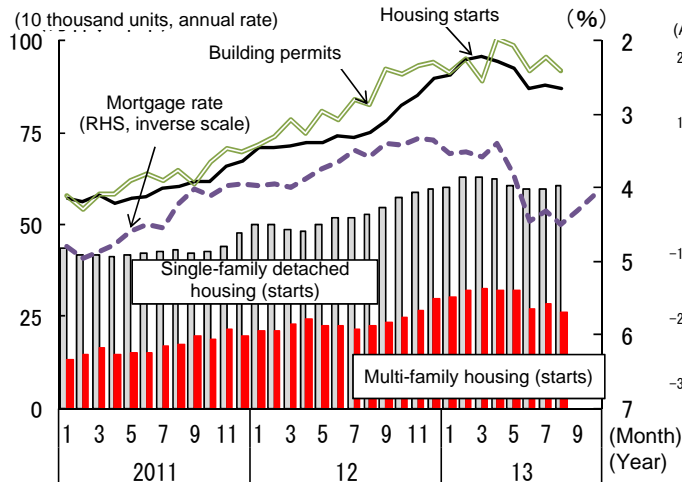


Fig. 13 Private Capital Investment and Core Capital Goods Orders

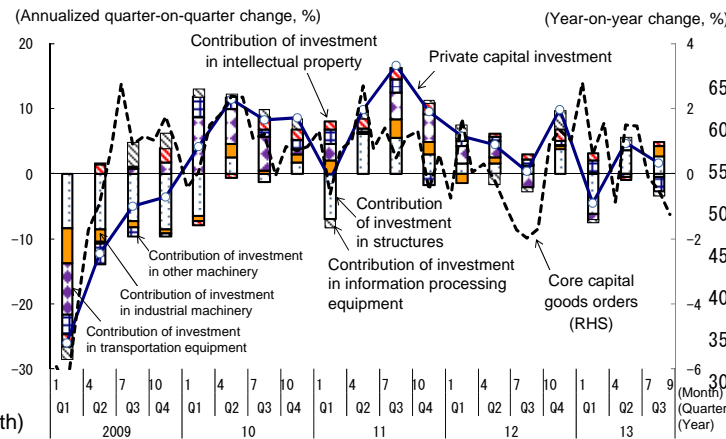
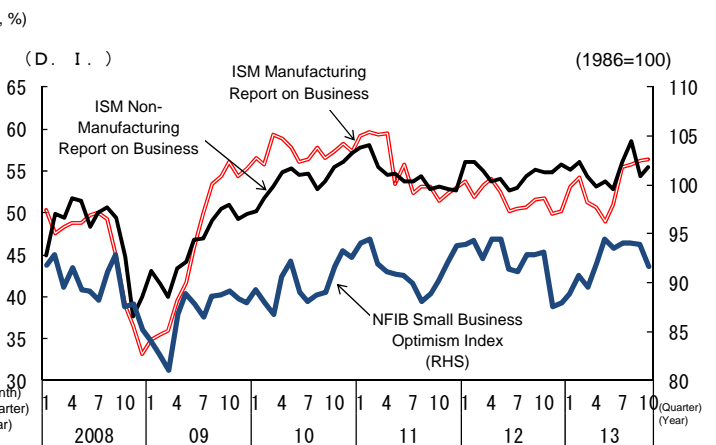


Fig. 14 Business Sentiment Indices



Chapter 1, Section 2. U.S. Economy – Search for Exit Strategies of Fiscal and Monetary Policies –

- Fiscal deficits have been reduced dramatically owing mainly to the implementation of the automatic spending cuts. Negotiations on the 2014 budget turned extremely difficult in October 2013, resulting in the shutdown of federal agencies and other problems. Tension could rise again since there is a significant chasm between Republicans and Democrats. (Fig. 15 - 17)
- Following Chairman Bernanke's comments in May 2013 which suggested tapering of asset purchases, overheating of the financial market has improved as evidenced by the sudden drop in issuance of high-yield bonds and some other factors, while interest rates have risen. (Fig. 18 - 19)

Fig. 15 Fiscal Deficit Trends

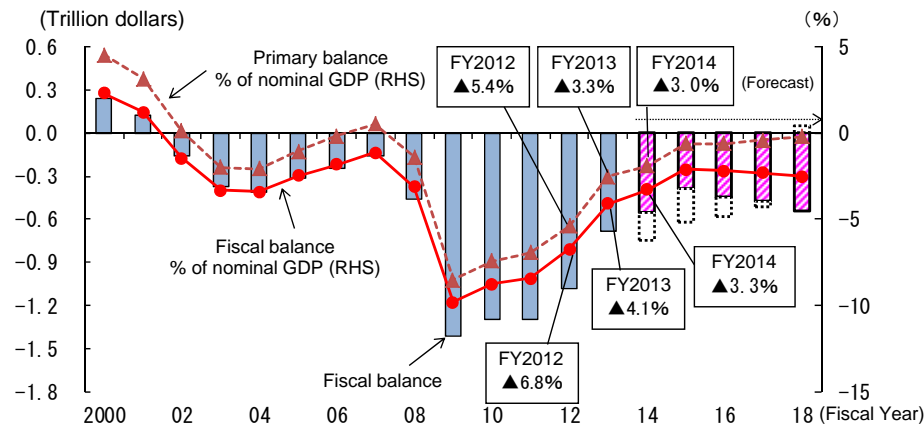


Fig. 16 Provisional Draft Budget, etc.

- ◎ Summary of the enacted bill
 - Funding the government through January 15 at current spending levels
 - Suspending the debt ceiling until February 7, 2014
 - Providing retroactive pay for furloughed federal employees
 - Requiring stricter income verification for subsidies to individuals under Obamacare etc.
- ◎ Others
 - Agreed to call for a joint committee of both Houses to discuss the fiscal 2014 budget, medium- to long-term fiscal consolidation, and other issues, and to report the outcome to Congress by December 13

Fig. 17 Debt Outstanding and Debt Ceiling

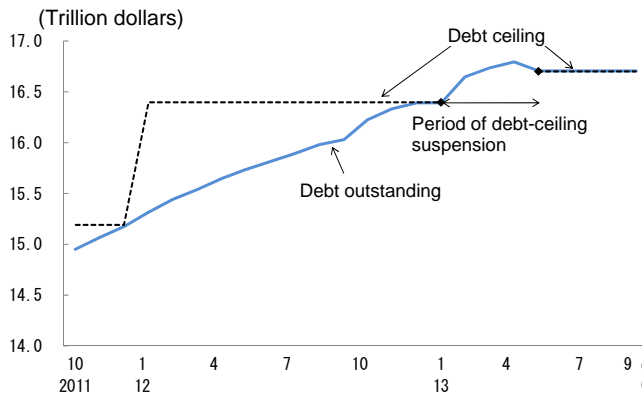


Fig. 18 Issuance of High-Yield Bonds

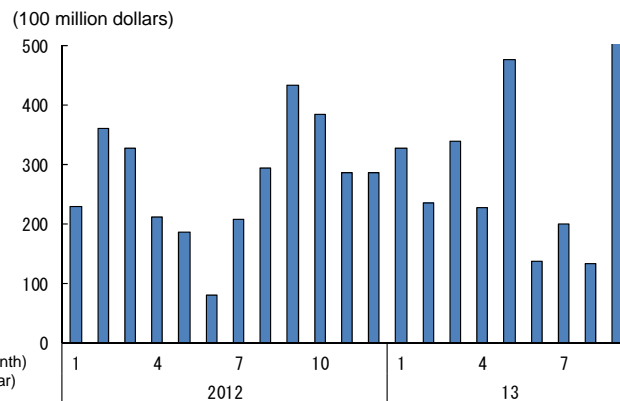


Fig. 19 Trends in Mortgage Rate, etc.

