



World Economic Trends I  
<The 2023 Spring/Summer Report>  
—Recovery of the U.S. and Development of India—  
(Summary)

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Cabinet Office, Government of Japan

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### Section 3: Summary

“World Economic Trends”: This report surveys and analyzes the trends of the world economy since 2002. This is the 42nd issue.

# 1-1 World Economy (1) (Economic Trends in the First Half of 2023)

- The economies of major developed countries in the first half of 2023 have generally remained steady, with the economy in the U.S. recovering independently, although Europe has been steady (Figure 1). The unemployment rate remains at a low level, and the labor market is tightened (Figure 2).
- In China, the normalization of economic activities is progressing with the convergence of the pandemic. However, the pace of the recovery of production and consumption is gradual due to the impact of the global semiconductor recession and the slow progress of the real estate market (Figure 3). The unemployment rate is at the highest level ever among youths (Figure 4).

Figure 1. GDP in major developed countries

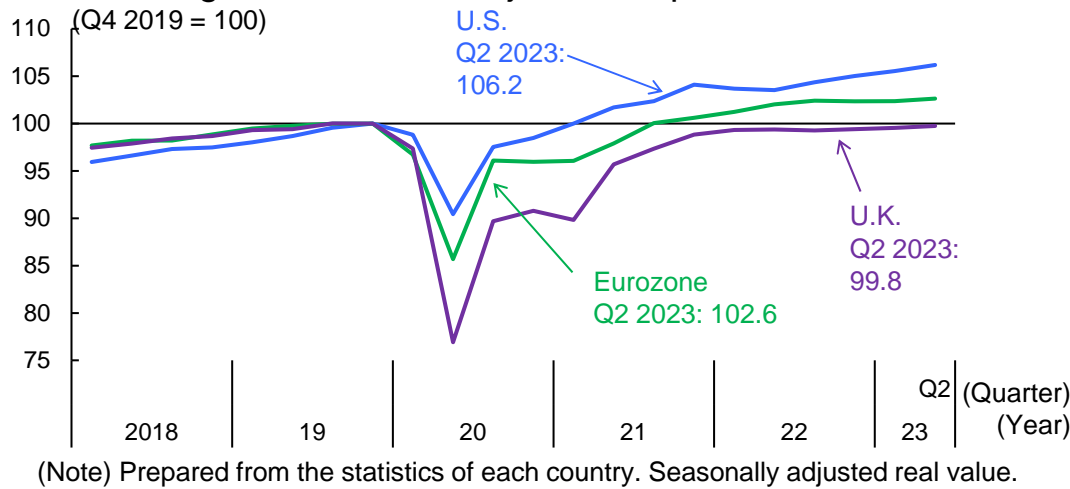


Figure 2. Unemployment rate in major developed countries

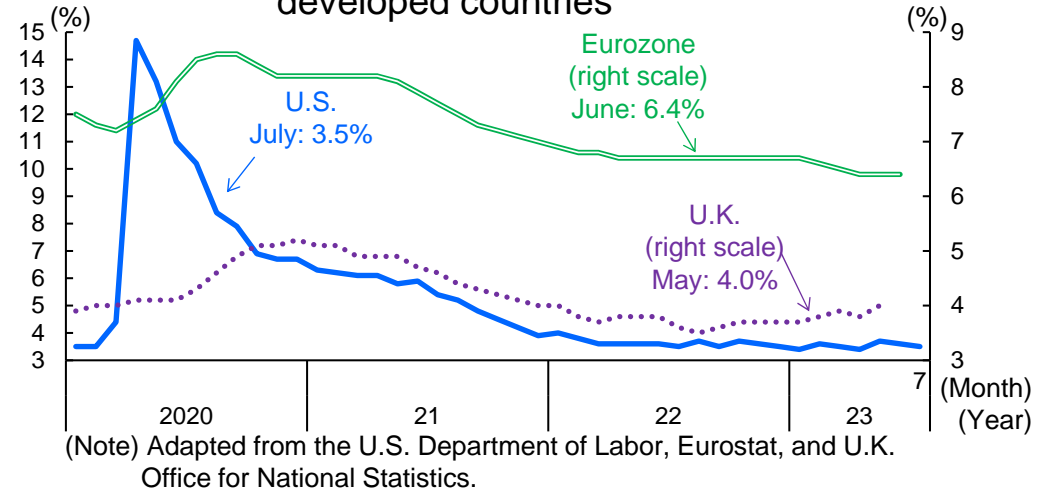


Figure 3. Production and consumption in China

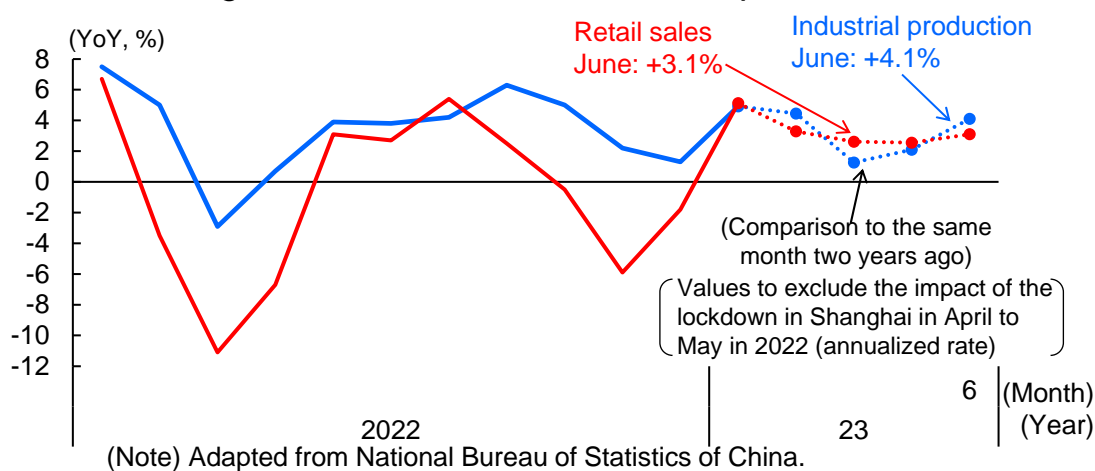


Figure 4. Unemployment rate in China

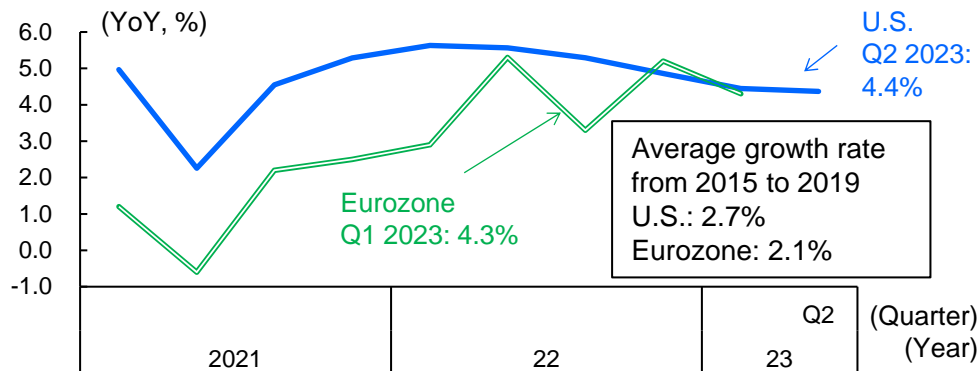


# 1-2 World Economy (2)

## (Difference in the U.S. and Europe: Wages/Employee Compensation and Consumption)

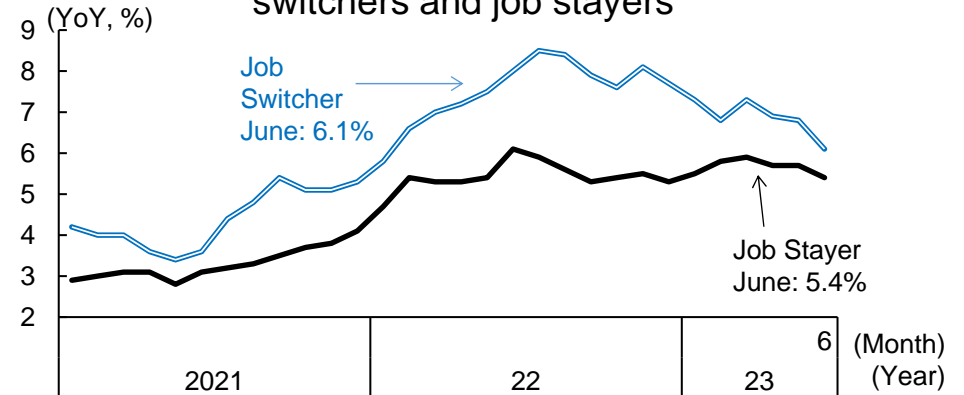
- Wages show a high appreciation rate with the tightening labor supply-demand market in both the U.S. and Europe (Figure 1). Wages have risen in the U.S. due to active job switching (Figure 2) and in the Eurozone due to labor negotiations following inflation (mentioned later).
- In the U.S. the increase in compensation of employees is outpacing inflation, and real incomes and consumption are gradually increasing. On the other hand, in the Eurozone, the increase in compensation of employees and inflation are generally at same pace, and real incomes and consumption remain generally steady (Figure 3).

Figure 1. Wage appreciation rate in the U.S. and the Eurozone



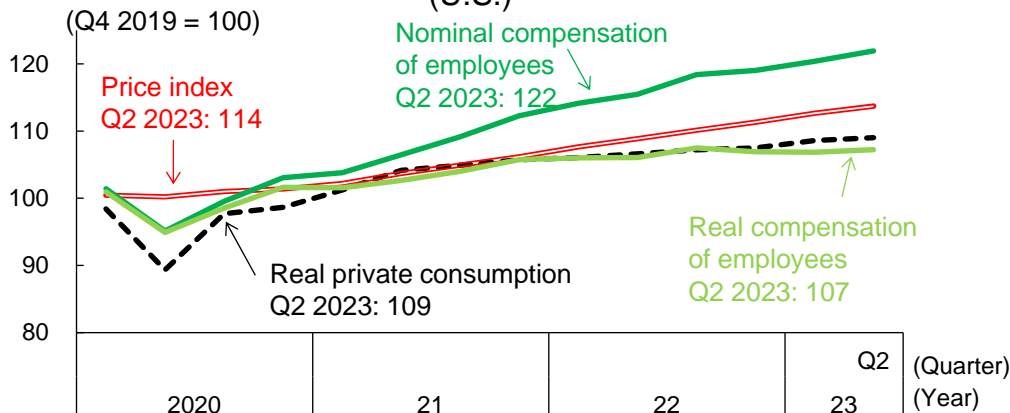
(Note) 1. Adapted from the U.S. Department of Labor, and Eurostat.  
2. Non-farm sector in the U.S., and the total for a single country in the non-farm sector in the Eurozone. Hourly pay.

Figure 2. Wage appreciation rate in the U.S. for job switchers and job stayers



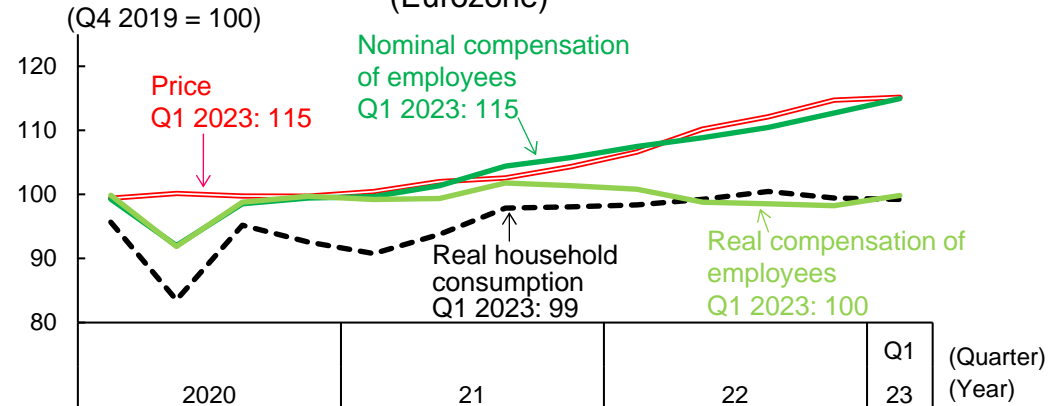
(Note) 1. Adapted from Federal Reserve Bank of Atlanta.  
2. Moving average for three months

Figure 3. Compensation of employees and private consumption (U.S.)



(Note) Adapted from the U.S. Department of Commerce. Seasonally adjusted.

(Eurozone)



(Note) Adapted from Eurostat. Seasonally adjusted.

# 1-3 World Economy (3) (Difference in the U.S. and Europe: Savings and Trading Gains/Losses)

- Further, in terms of excessive savings formed during the pandemic, consumption is supported by the progress in the use of savings in the U.S., while further accumulation could be observed in the Eurozone (Figure 1).
- Trading gains are being generated even after energy price drops in the U.S., while trade losses are generated in Europe (Figure 2).
- As mentioned above, differences in resilience can be observed in the U.S. and Europe in terms of wages, inflation, use of savings, and trade gains/losses.

Figure 1. Excessive savings by household (flow: nominal, stock: real)

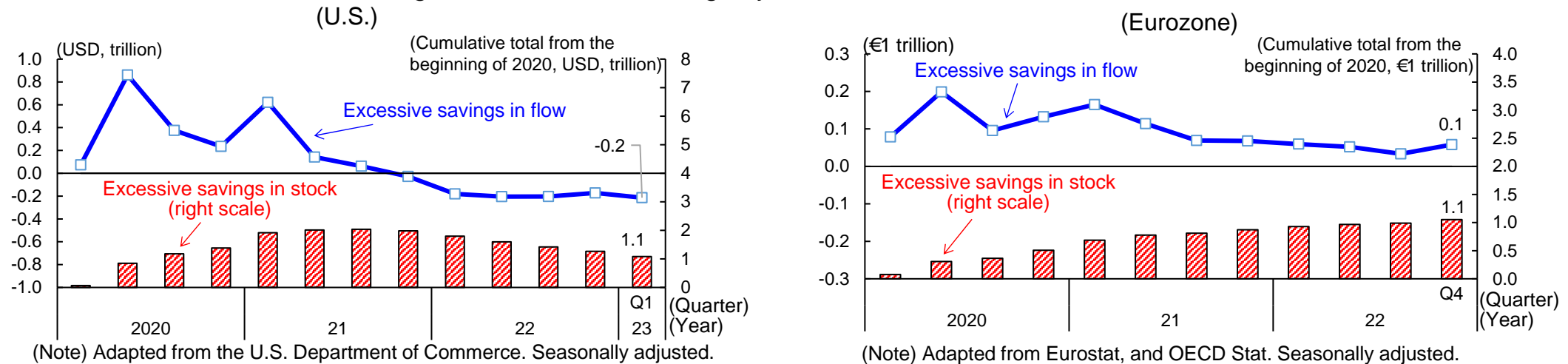
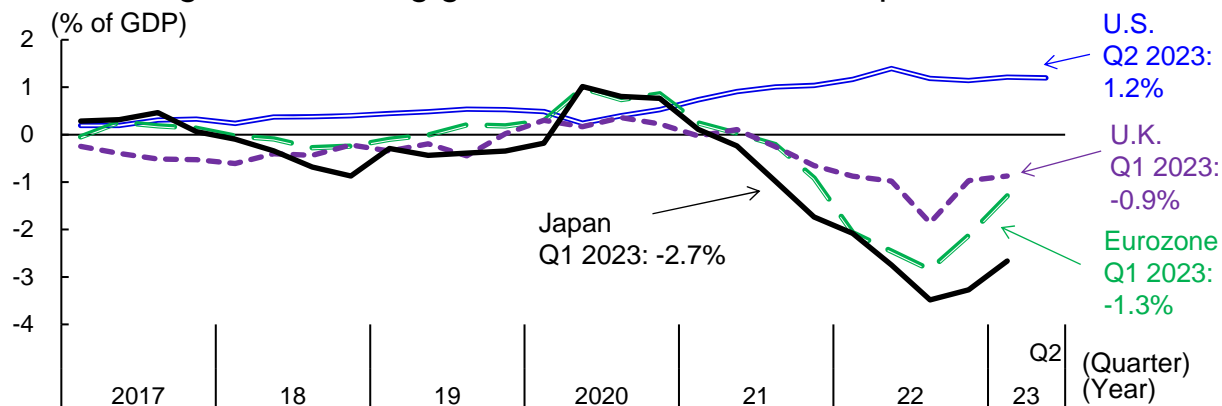


Figure 2. Trading gains and losses in developed countries



(Note) 1. Adapted from OECD Stat.  
 2. CY2015 chain-linked price. Seasonally adjusted real value.

# 1-4 World Economy (4) (Price Trends)

➤ The pace of consumer price inflation in the U.S. and Europe has slowed, following the drop in energy prices (Figure 1). However; (1) The appreciation rate of service prices in the U.S. remains at a high level, excluding lowered medical insurance premiums and the decline in transportation cost due to the drop in energy prices (Figure 2). (2) Although the labor cost is increasing in both the U.S. and Europe, wage appreciation is maintained in the Eurozone while the economy is at a standstill, and the rise in labor costs is adding further upward pressure on the prices of goods and services (Figure 3). These are indicating continued monetary tightening to reduce the inflation rate.

Figure 1. Consumer price index

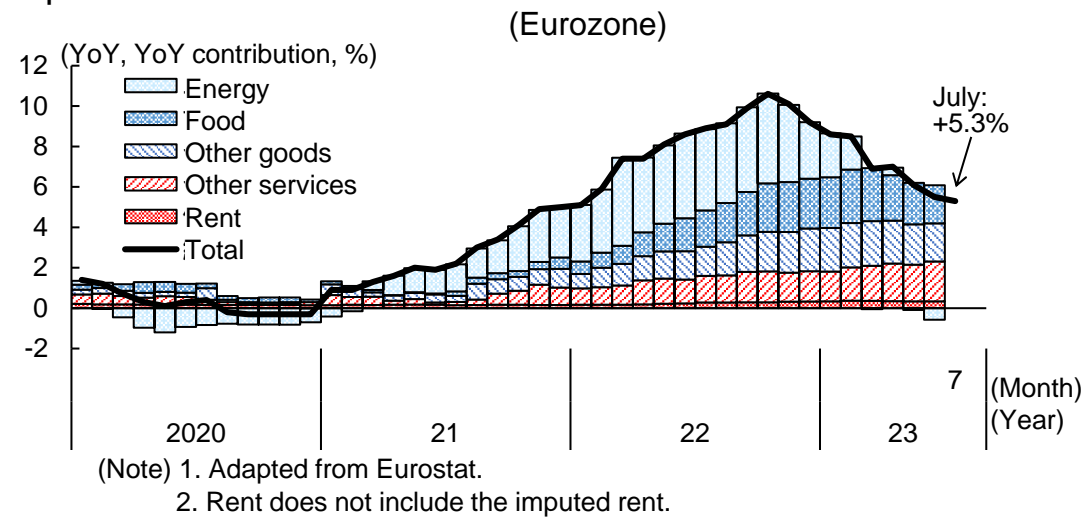
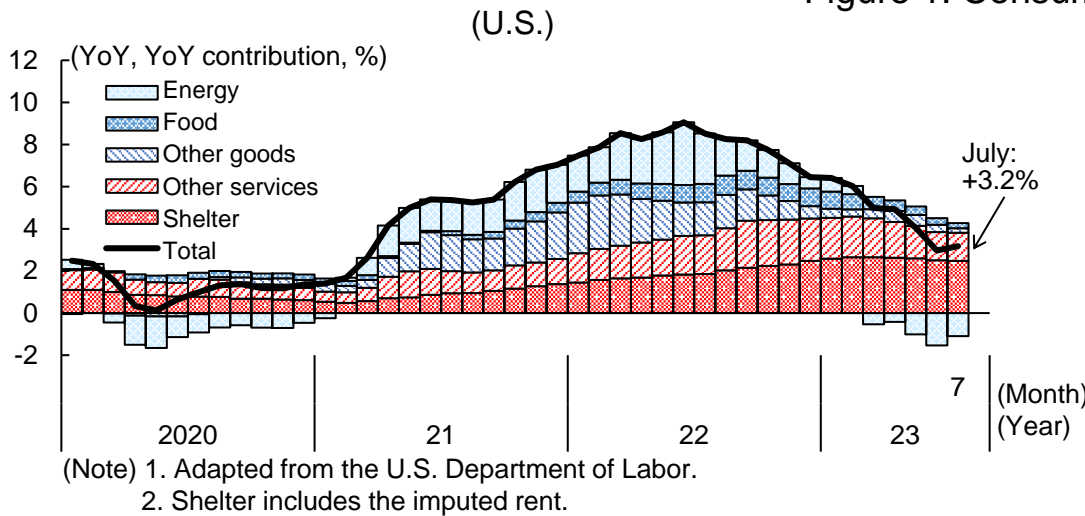


Figure 2. Breakdown of "Other services" in the CPI in the U.S.

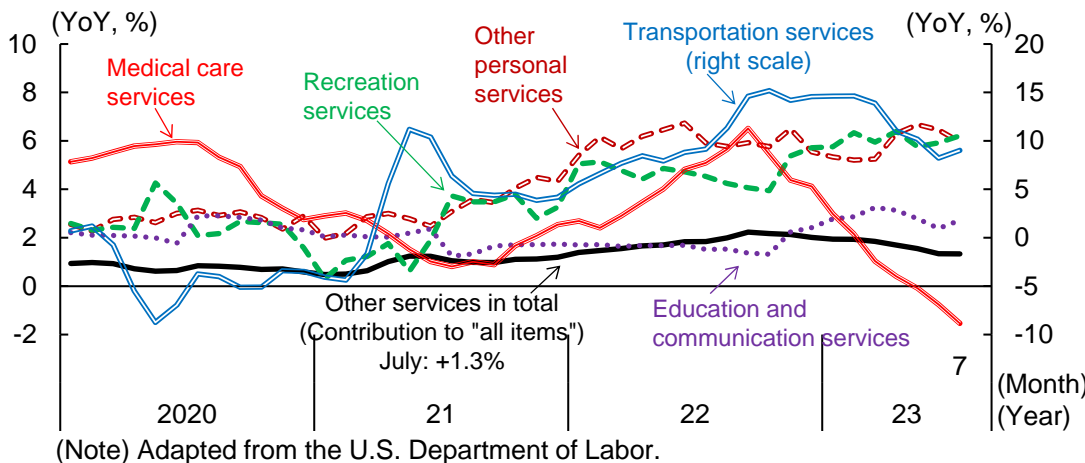
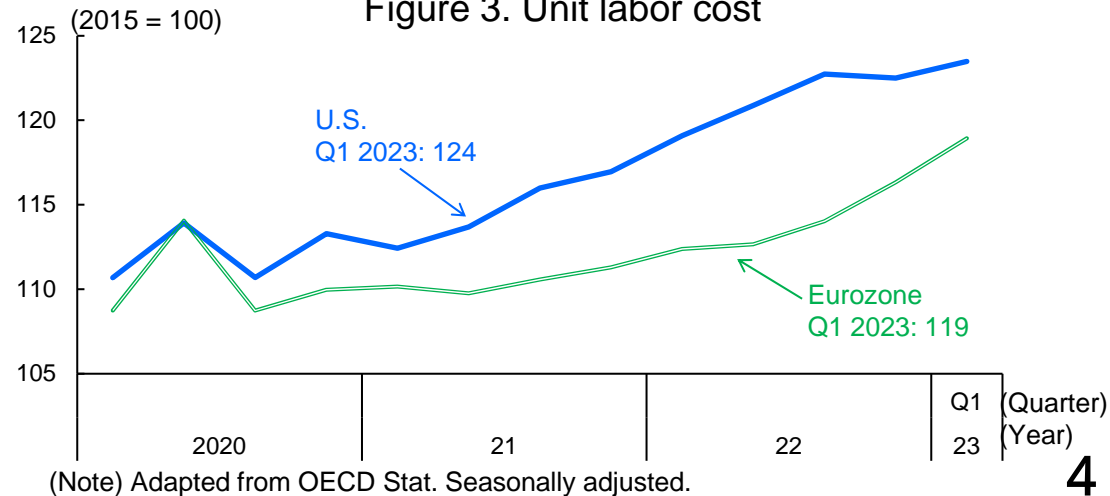


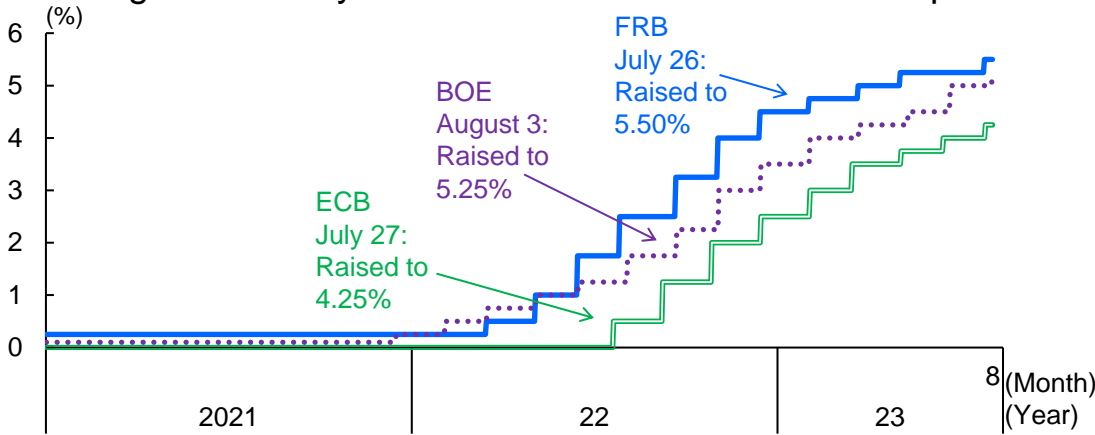
Figure 3. Unit labor cost



# 1-5 World Economy (5) (Monetary Tightening and Financial Markets)

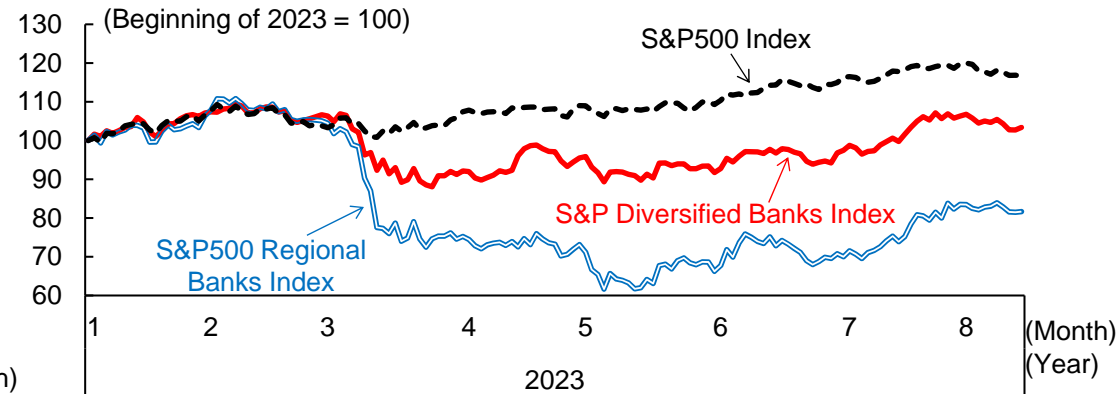
- Central banks in the U.S. and Europe maintain monetary tightening (Figure 1). In the U.S., the management of local banks continues to receive a harsh evaluation from the market, following bank failures in March (Figure 2).
- While monetary tightening is continuing, lending standards for companies are becoming even tighter, and the loan balances are decreasing. Loans for real estate peaked in early June and have remained generally unchanged since then. Loans in general are also showing sluggish growth, indicating the possibility of a stagnation of economic activities (Figure 3).

Figure 1. Policy interest rates in the U.S. and Europe



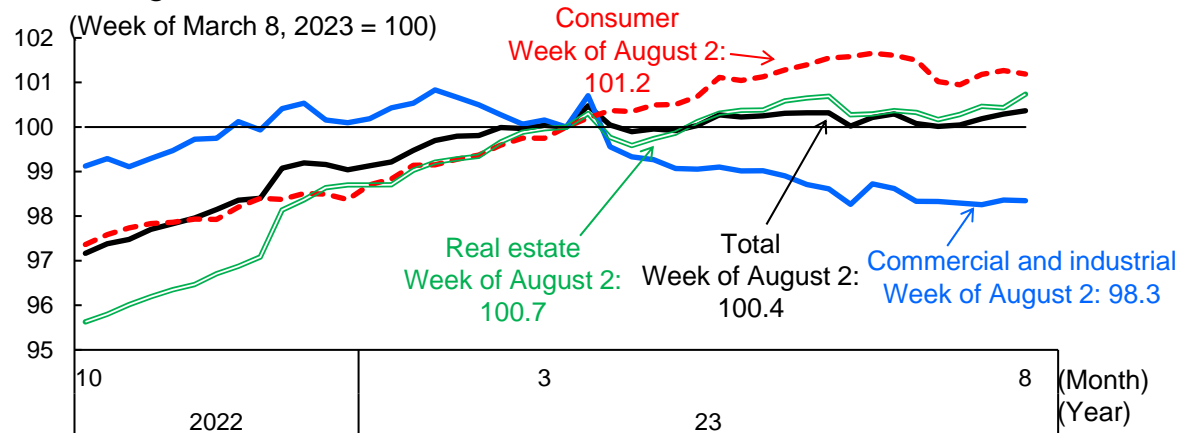
(Note) Adapted from FRB, BOE and ECB.

Figure 2. Stock prices of banks in the U.S.



(Note) Adapted from Bloomberg. Data up to August 11.

Figure 3. Breakdown of loans balances in banks in the U.S.



(Note) 1. Adapted from FRB. Data up to August 2.

2. The composition ratio of loan balances as of August 2 is: real estate 45%, commercial and industrial 23%, consumer 16%, other 17%.

# 1-6 World Economy (6) (Corporate Debt in the U.S.)

- In the U.S., the ratio of corporate debt to GDP is increasing, exceeding the level seen at the time of the Global Financial Crisis (Figure 1).
- Corporate bonds account for a large part of such corporate debt, but loans are also increasing. The majority of lenders are lenders other than depository institutions within the U.S. (such as commercial banks in the U.S.) (Figure 2). Many of the loans from lenders other than banks in the U.S. are made through securitization, and lenders (holders of the securitized products) are various investors within and outside the U.S. The balance of securitized products is increasing (Figures 3 and 4).

Figure 1. Household and corporate debt in the U.S. to GDP

Figure 2. Issuance of corporate bonds, loans from U.S. banks/others

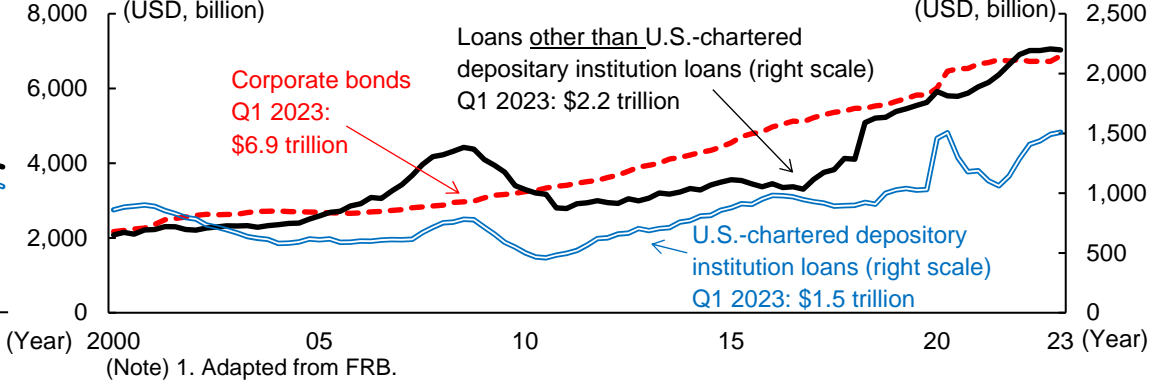
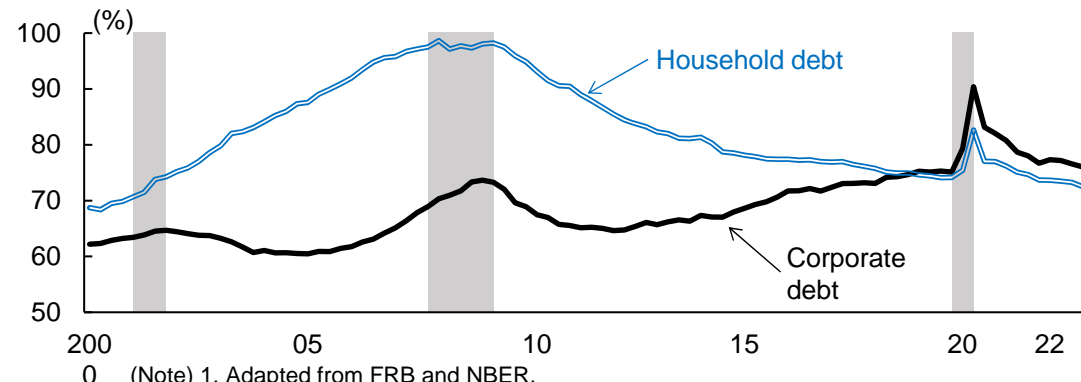
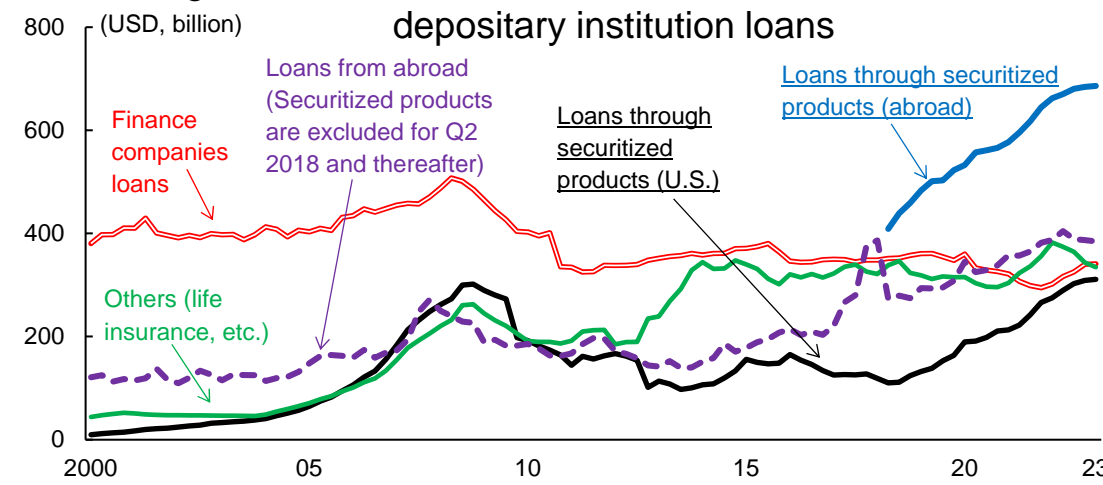


Figure 3. Breakdown of loans other than U.S.-chartered depository institution loans

Figure 4. Balance and the holders of the securitized loans (CLO)



- Balance as of the end of 2022: About \$1 trillion
- Major holders
  - Low-risk products: Life insurance, overseas banks (Europe, Asia), pension funds, U.S. banks
  - Middle and high-risk products: Hedge funds, private equities, other funds

- (Note) 1. Adapted from FRB.  
 2. Finance companies are non-bank money lending businesses. Others include life insurance and investment trusts.  
 3. Loans through securitized products are mainly loans through the Collateralized Loan Obligation (CLO).  
 4. With the improvement of the accuracy of data reporting from the second quarter of 2018, the amount financed to U.S. companies from abroad via CLO is disclosed as an independent item.



# 1-7 World Economy (7) World Economic Risks

➤ Risk factors that require a close watch in the future include the impacts of monetary tightening in the U.S. and Europe on the financial and capital markets, insolvencies of financial institutions and local governments due to the stagnation of the real estate market in China, increase of the unemployment rate among youths in China, and the impact of the U.S.-China trade friction.

Figure 1. Major risk factors for the world economy

**Impacts of monetary tightening in the U.S. and Europe:**

- ◆ There is concern about the excessive volatility of the financial and capital markets through the drop in prices of securitized products.
- ◆ In the U.S., ratio of capital investment to GDP remains high compared to the difference in interest rates, and there is concern regarding the sudden decrease in capital investment (Figure 2).

**Stagnation of the real estate market in China:**

- ◆ There is concern about the insolvencies of local banks and local governments through the increase of non-performing loans (Figure 3).

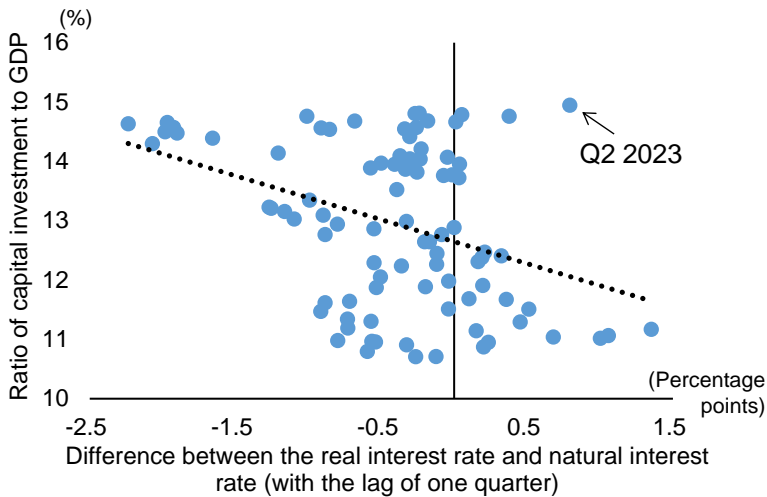
**The increase of the unemployment rate among youths in China:**

- ◆ There are concerns about the stagnation of productivity and the further slowdown of growth with the deterioration in quality of human resources. It will also affect the population structure.

**Impact of U.S.-China trade friction:**

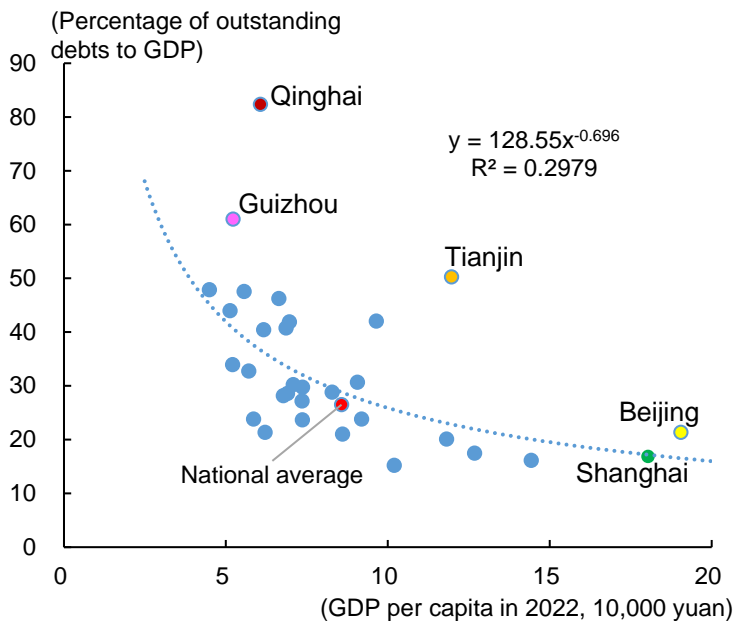
- ◆ There is concern about the U.S.-China decoupling in terms of trade and procurement in the areas of semiconductors, batteries, etc. (Figure 4)

Figure 2. Correlation between capital investment and interest rates in the U.S.



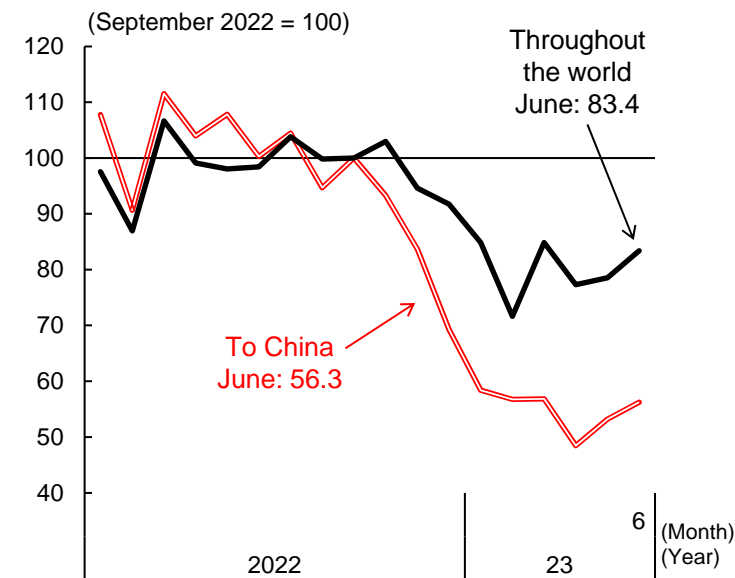
(Note) Adapted from the U.S. Department of Commerce, Federal Reserve Bank of New York, and Bloomberg. The period covered by the statistics is from the first quarter of 2000 to the second quarter of 2023. The results of the statistics show the ratio of capital investment to  $GDP_t = 0.13 - 0.76R_{t-1}$ , and the adjusted coefficient of determination of 0.14. The explained variable is the real private fixed investment (excluding residential investment) divided by real GDP. Explanatory variable R is calculated by extracting the natural interest rate from the real market interest rate. The moving average for two months is used for the real market interest rate and the natural interest rate.

Figure 3. Outstanding debts and GDP per capita in each region in China (2022)



(Note) Adapted from National Bureau of Statistics of China.

Figure 4. Export of semiconductors from U.S.



(Note) 1. Adapted from the U.S. Department of Commerce.  
2. Based on customs clearing, unadjusted for nominal values.

# 2-1 Development of India's Economy (1) (Growth potential: demographics)

- India's population size will become the largest in the world by 2023. In contrast to China, where the growth is slowing down with the progress of population aging, the pace of the aging of population in India remains gradual. The constraints on growth may be relatively small (Figures 1 and 2).
- Attention from Japanese companies is also increasing with expectations for the market size and growth potential of India (Figure 3).
- In India, the reallocation of the labor force to sectors with higher productivity, such as the manufacturing and service industries, is progressing, albeit gradually. However, more than 40% of the labor force still works in the agricultural sector. Further, productivity growth rate of each industry is higher in China. India needs to continue improving productivity (Figure 4).

Figure 1. Trends in world population

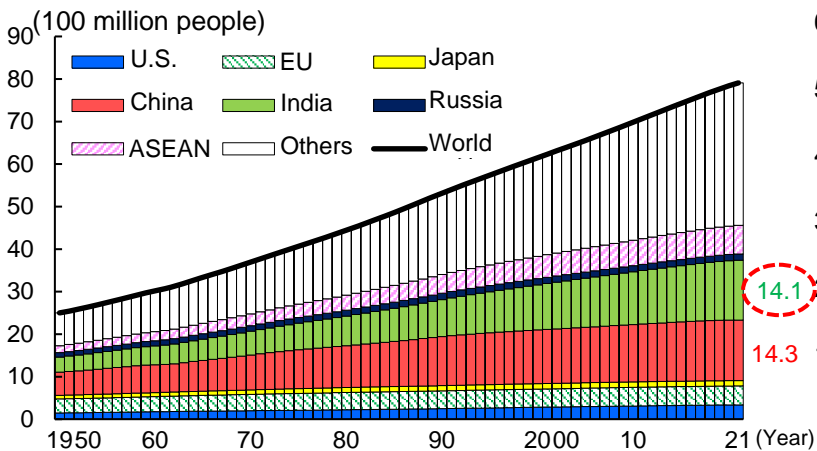


Figure 2. Dependent population ratio and breakdown

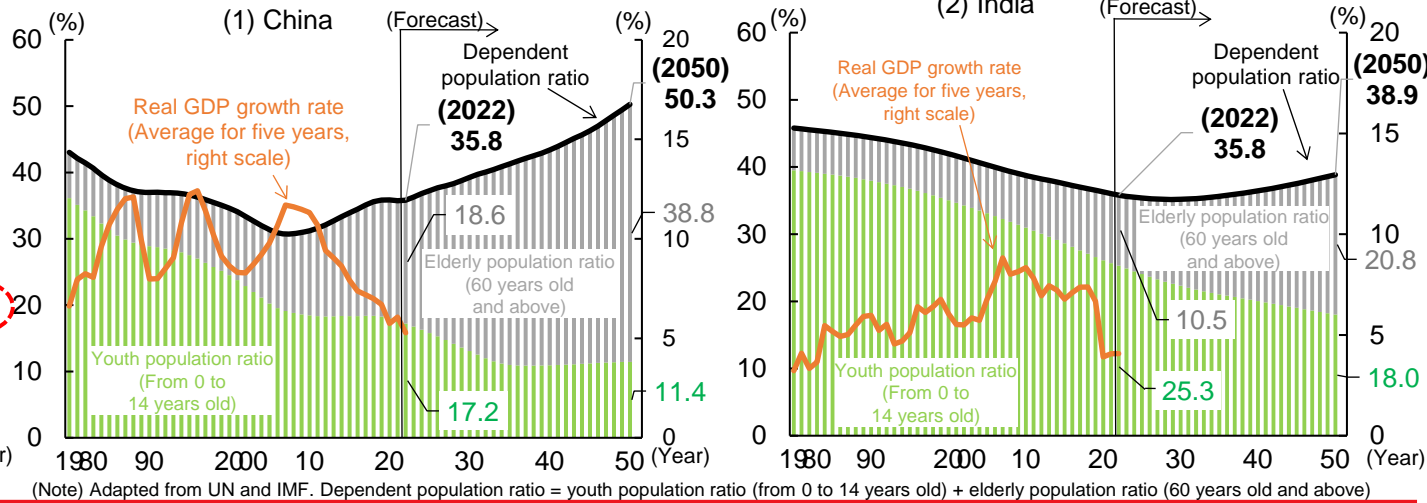


Figure 3. Countries/regions where Japanese companies are intending to expand their business abroad (ranking)

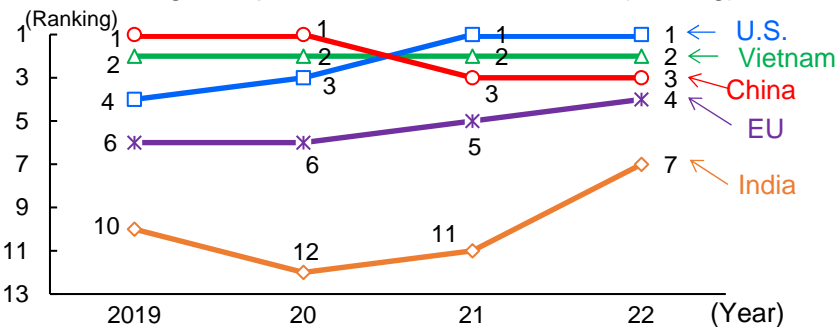
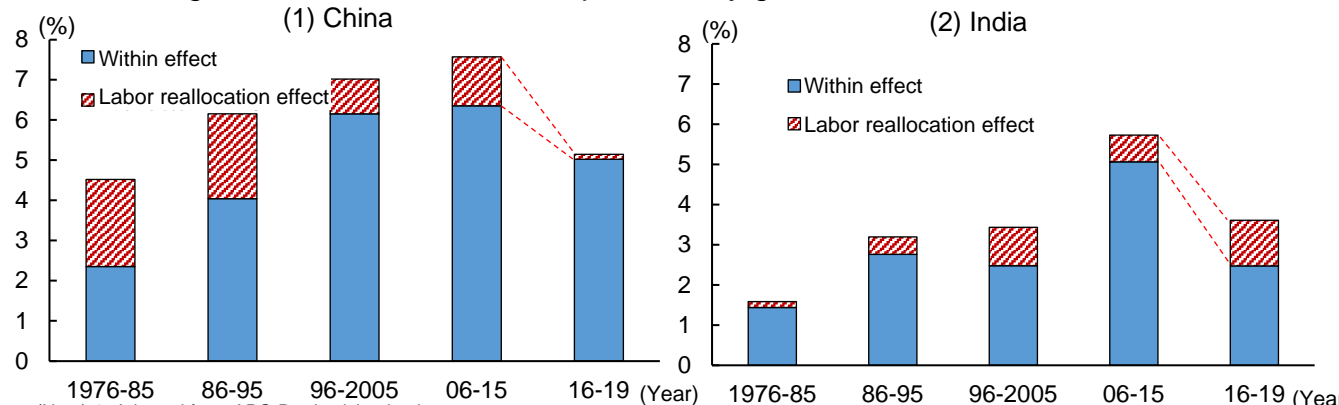


Figure 4. Breakdown of labor productivity growth rate into factors



(Note) 1. Adapted from JETRO.  
2. Ranking based on the number of companies that selected responses "there is already a business base abroad, and we intend to further expand business" and "although there is no business base now, we wish to newly enter the market in the future," along with the reason for selection.  
3. The survey period is the end of each year (the latest survey is from November to December 2022, with 1,230 responding companies in total).

## 2-2 Development of India's Economy (2) (Challenges in Trade Structure)

- Unlike China, the trade balance of India is negative, and the service balance is positive (Figures 1 and 2).
- The characteristics of the export of goods: high ratio of primary products, slow shift from light industry to machine products. Also, in terms of the intensity of production factors (capital/labor/resources), the share of resource-intensive products remains high (Figures 3 and 4).
- The characteristics of goods imports: the presence of China is increasing in terms of both items and amounts. In particular, the ratio of machine products and other capital-intensive products is high. The key factor will be attracting GVC by: (1) reinforcing production capacity within the country and (2) building up exporting capacity utilizing imported capital-intensive goods (Figures 5 and 6).

Figure 1. Current account of China

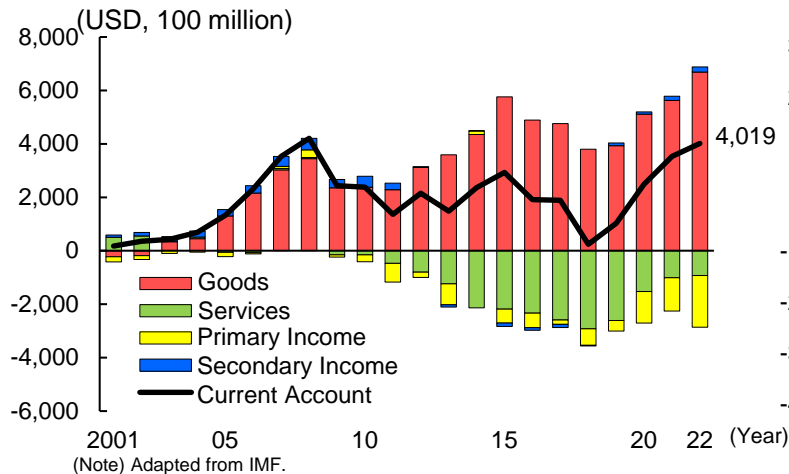


Figure 2. Current account of India

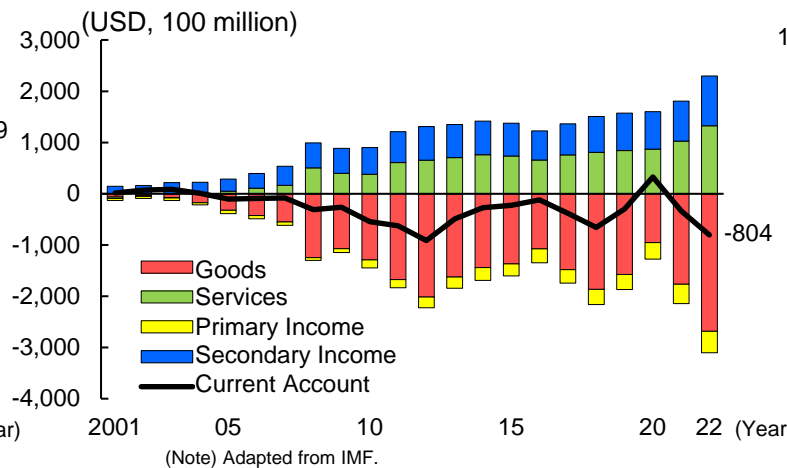


Figure 3. Export of goods from India (Share by items)

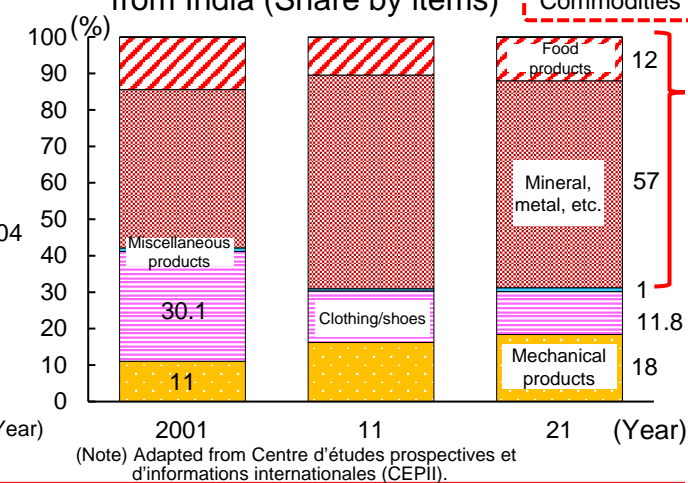


Figure 4. Ratio of goods exports by the intensity of items

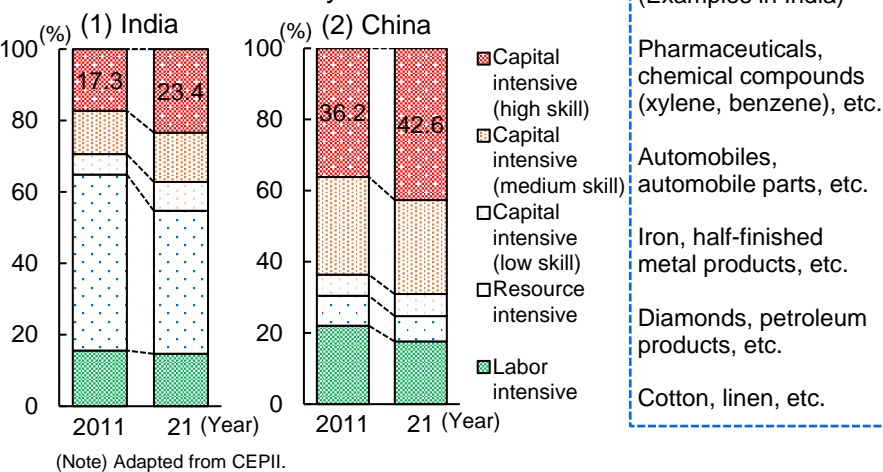


Figure 5. Concentration of the import of goods to certain countries from India

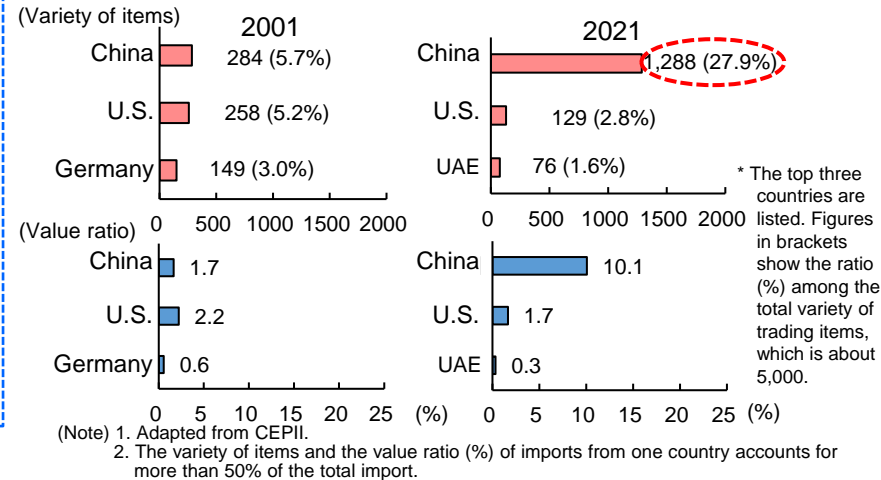
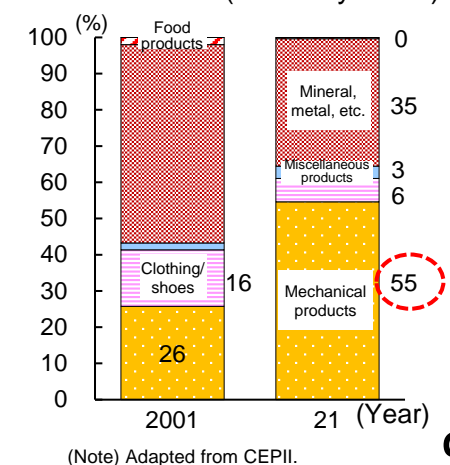


Figure 6. Import of goods from China to India (Share by items)



## 2-3 Development of India's Economy (3) (IT Service and Foreign Direct Invest Expanding the Potential)

- India has an advantage in service exports. About 90% of exports in IT and business service sectors are destined to the U.S. and Europe (Figures 1 and 2).
- The advantage of IT is also exerted within the country. The utilization of advanced IT systems realizes (1) rapid progress in cashless payment, and (2) progress in tax system reform (Figures 3 and 4).
- Direct investment into India has been accelerating since the launch of the Modi Administration in 2014. Investment comes largely from the U.S. and Europe, and in IT-related sectors (Figure 5).
- Key points to realize further growth will be the promotion of (1) the activation of the domestic manufacturing industry with the induction of foreign capital, (2) further development of the IT service industry, and (3) improvement of productivity and reallocation of the labor force through investment in education, etc.

Figure 1. Service exports from India (by industry)

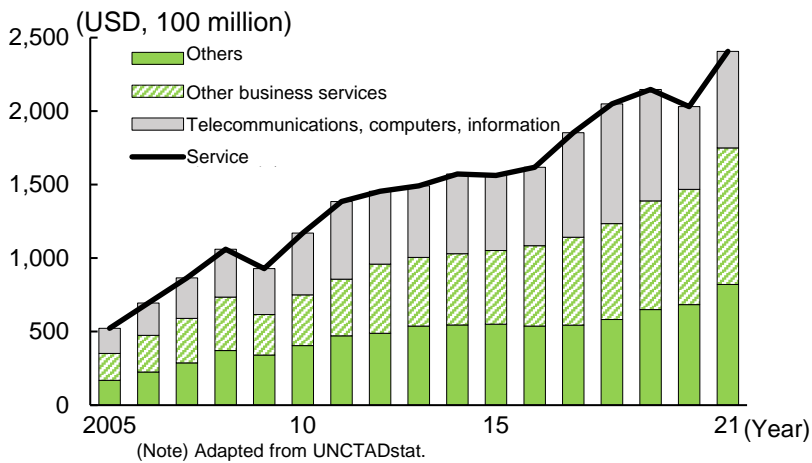


Figure 2. Share of the destination of IT/business service exports from India

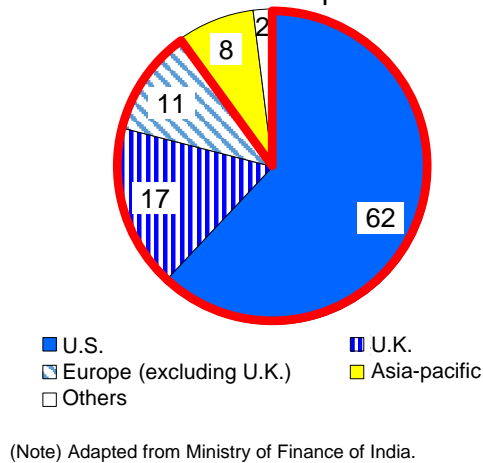


Figure 3. Retail electronic payment settlements in India

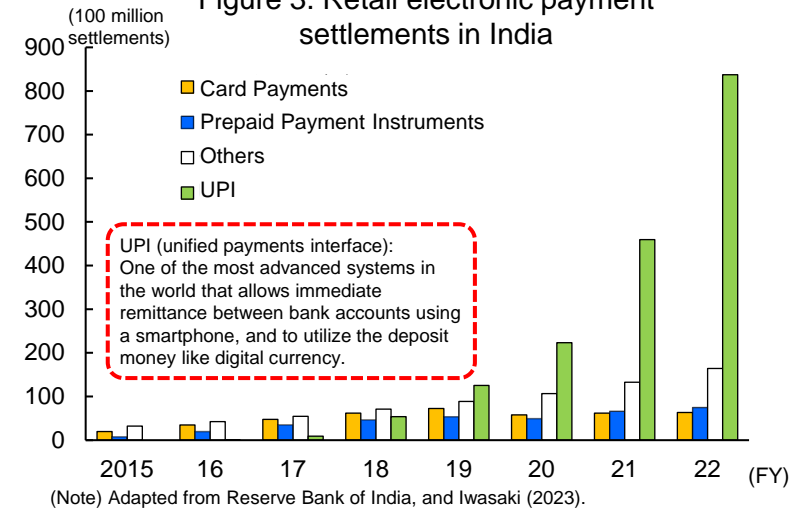


Figure 4. Goods and services tax revenue

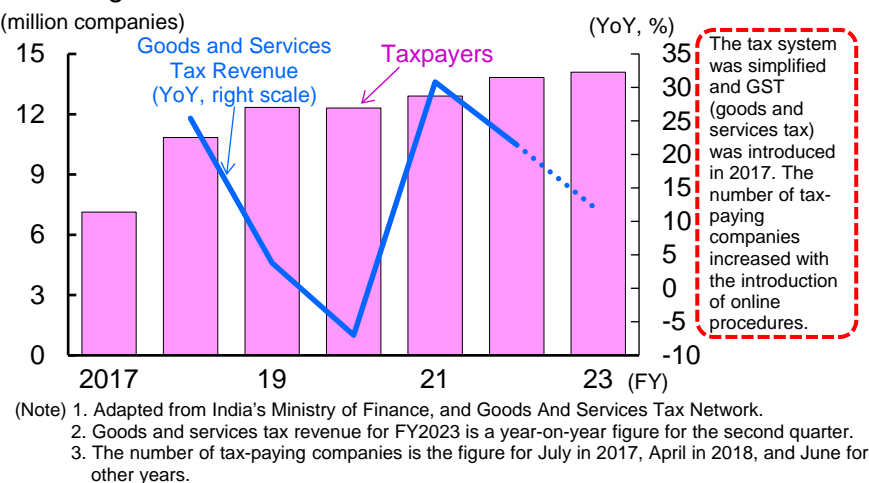


Figure 5. Direct investment into India (flow)

