

World Economic Trends II
<The 2022 Autumn/Winter Report>
—World Economy to Overcome Inflation—
(Summary)

February 2023
Cabinet Office, Government of Japan

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Section 1: Structure of Trade in ASEAN Countries

Section 2: ASEAN and the Trend of Reducing the Risk of Dependence on Certain Countries

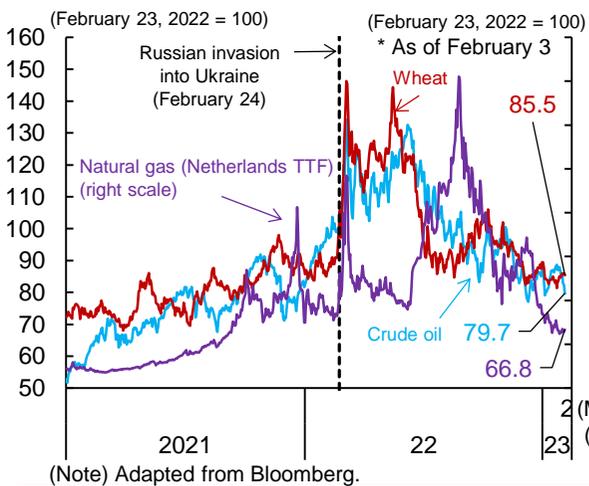
Section 3: Summary

About "World Economic Trends": This report, published since 2002, surveys and analyzes the trends of the world economy. This is the 41st issue.

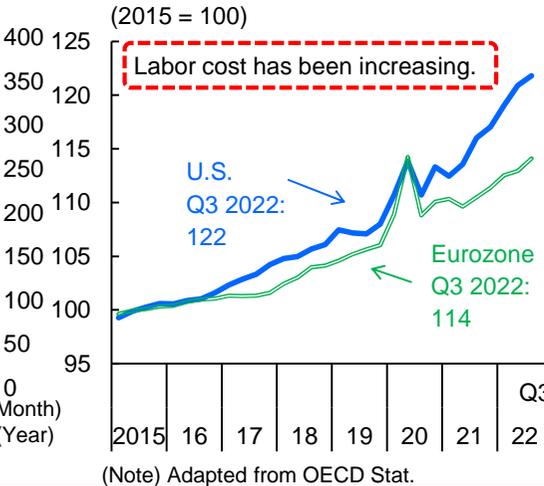
1-1 World Economy (1) (Price Trends)

- Commodity prices increased to the summer of 2022, due to economic activities resuming and the situation in Ukraine. Towards the beginning of 2023, though there were some concerns on gas supply, prices decreased due to expectations for natural gas procurement this winter in Europe and concerns about an economic slowdown.
- CPI had increased in line with commodity prices and labor cost developments. However, the increasing trend is leveling off in the Eurozone as well as in the U.S., due to the decrease in energy prices.
- In the U.S., services such as housing expenditure being the main contribution, housing expenditure may be influenced by a decline in home prices in the future (see the next page).
- The Eurozone countries have been implementing initiatives to secure energy in supply and demand sides in autumn and winter in 2022-2023, in spite of supply restriction.

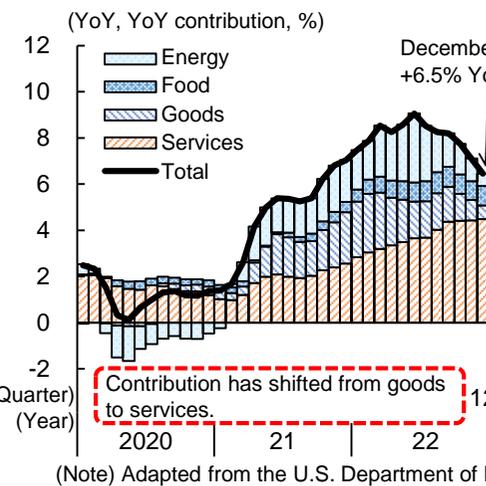
(1) International commodities market trend



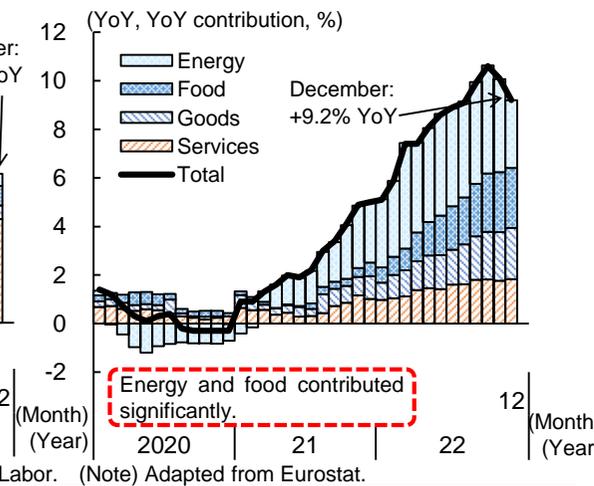
(2) Unit labor cost



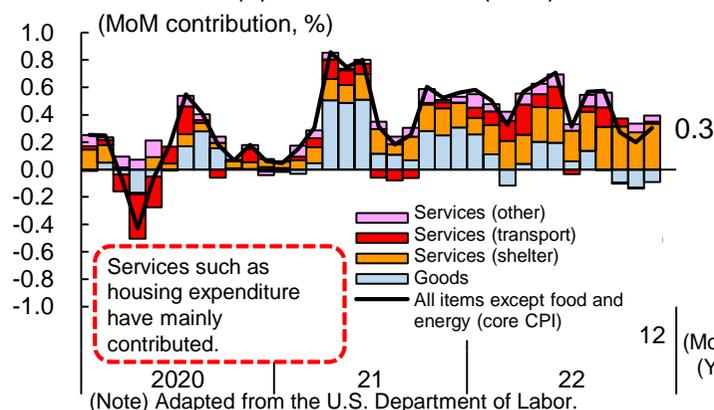
(3) CPI in the U.S.



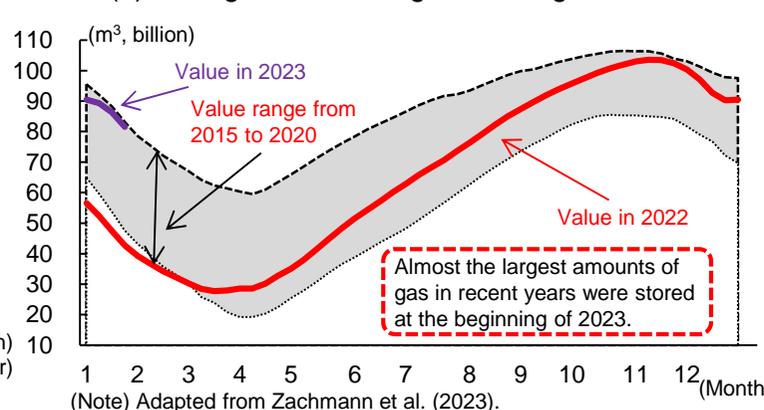
(4) CPI in the Eurozone



(5) CPI in the U.S. (core)



(6) Change in the storage level of gas in the EU



(7) Securing and saving energy in Europe

Securing (1) Germany:

- ◆ Operation of coal-fired power plants is resumed for a limited period. Nuclear power plants that are scheduled to cease operation at the end of 2022 are secured as a backup. One floating LNG facility started operation from December 2022.

Saving (1) EU:

- ◆ There is an obligation to make efforts to reduce gas consumption by 15% compared to the last 5 years by the end of March, 2023. If the balance between supply and demand tightens, the reduction will become compulsory.

Saving (2) Germany, France, etc.:

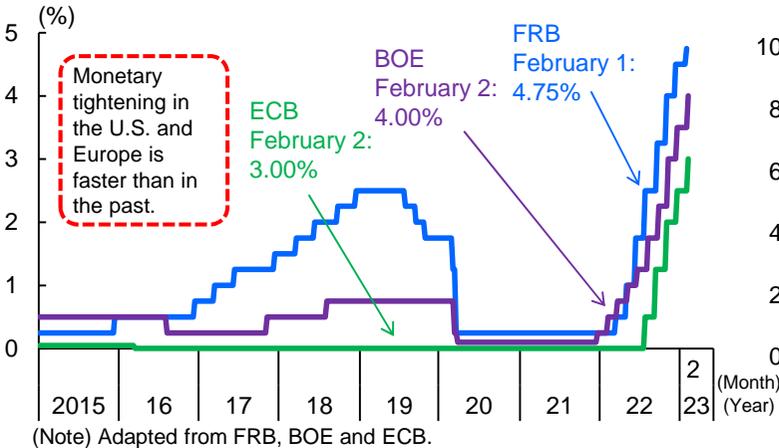
- ◆ The temperature of public buildings is set at 19 degrees Celsius at the highest, and restrictions are set on street lighting, etc.

(Note) Prepared from the materials of each government.

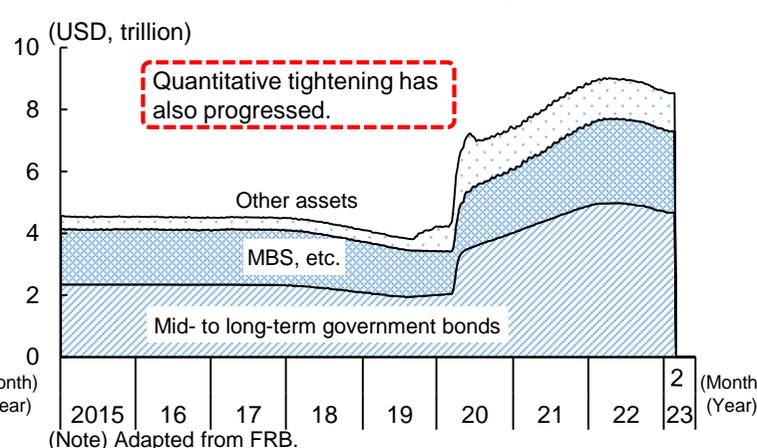
1-2 World Economy (2) (Global Monetary Tightening and Impact Thereof)

- To cope with inflation, monetary tightening has progressed in terms of both interest rates and quantity in the U.S. and Europe. Current monetary tightening in the U.S. and Europe has been faster than in the past. Long-term interest rates were increasing by around October 2022, they have been generally stable recently.
- In the U.S., housing demand has weakened and home prices have declined.
- In the financial market, there have been some fluctuations, including the growing spread of government bond yields between Germany and some other countries in the Eurozone, and the increasing volatility of the government bond market. The market might be stable recently, but it should be carefully watched.

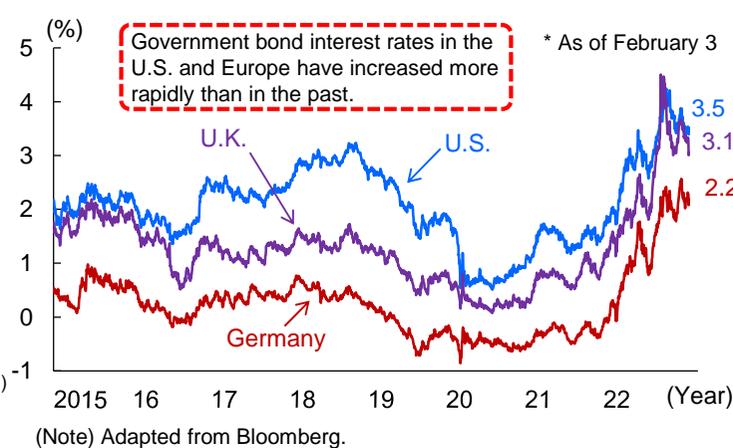
(1) Policy interest rates in the U.S. and Europe



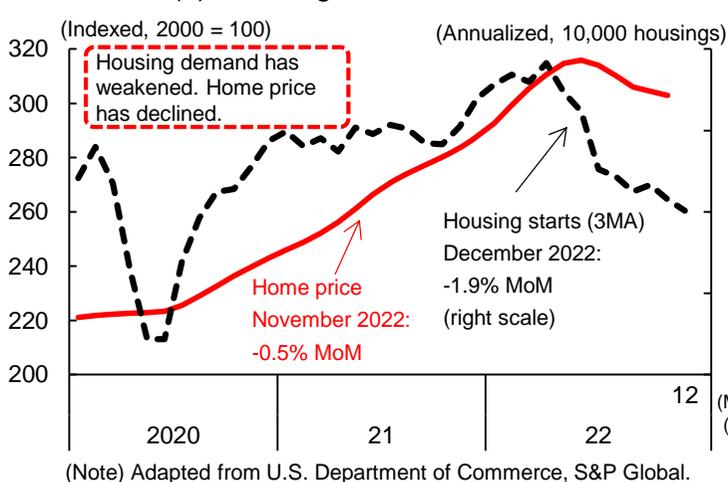
(2) Balance of FRB holdings



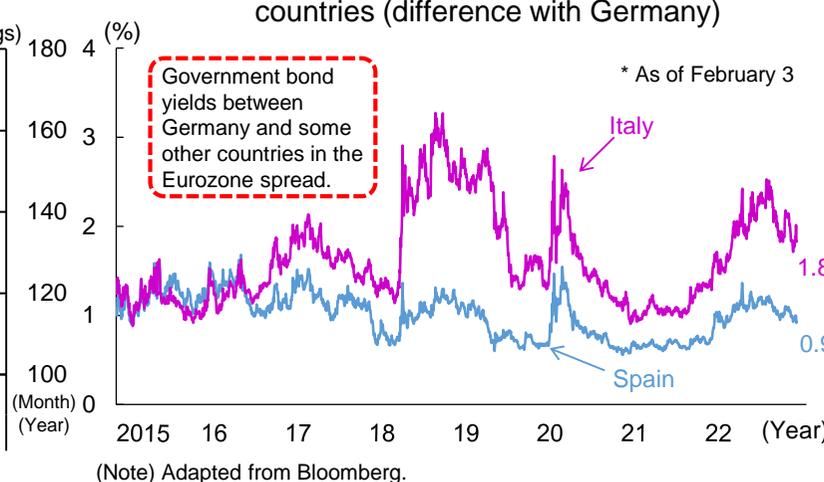
(3) 10-year government bonds in the U.S. and Europe



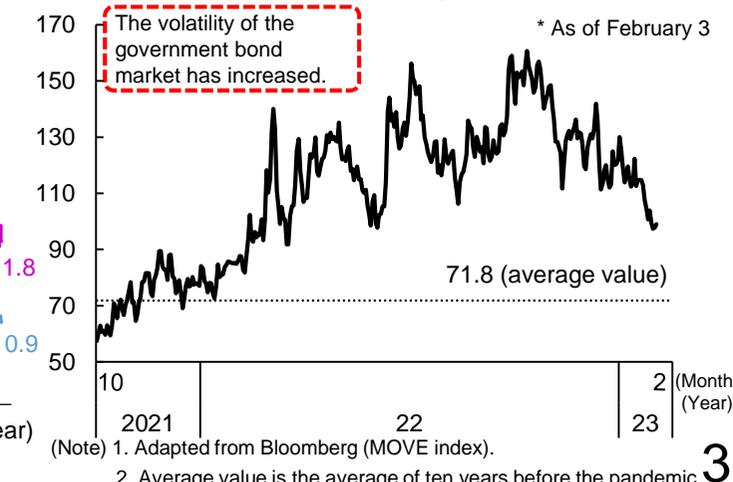
(4) Housing market in the U.S.



(5) Government bond yields of Eurozone countries (difference with Germany)



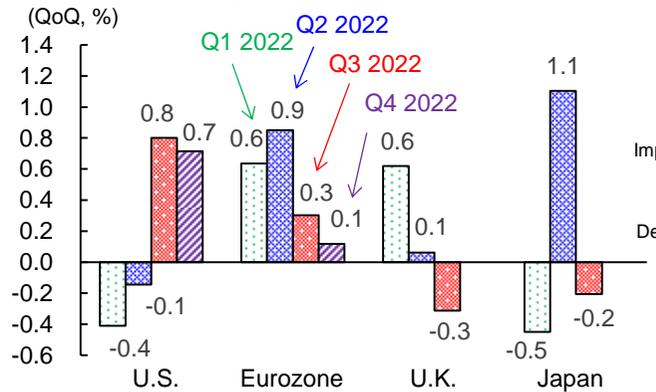
(6) Volatility of the U.S. government bond



1-3 World Economy (3) (Economic Trends through the Latter Half of 2022)

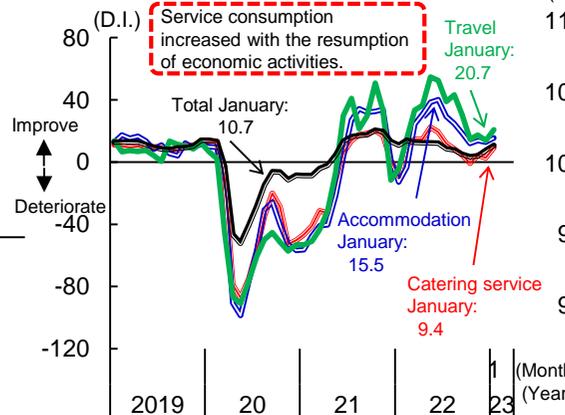
- The world economy through the latter half of 2022 has steadily held, with positive growth in the fourth quarter in the U.S. and Eurozone, under downward pressure from inflation and monetary tightening.
- In the background, there were: (1) recoveries in private service consumption such as travel and catering and capital investment, along with the resumption of economic activities, (2) employment stabilization, (3) shoring-up effect of measures against infection, and (4) measures against price surges.
- It must be noted that income has flowed into the U.S. and flowed out from Europe due to changes in terms of trade caused by the rise in resource prices and dollar appreciation.

(1) Real GDP growth rates in major economies



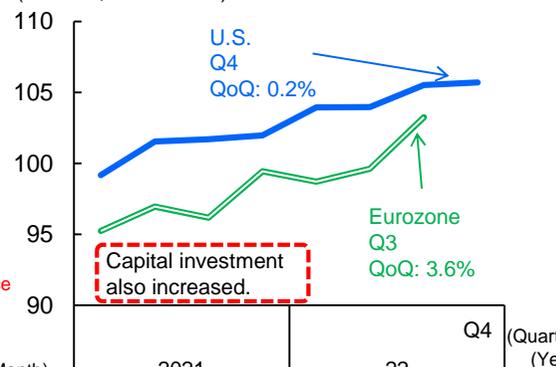
(Note) Adapted from "National Accounts of Japan" by Cabinet Office, U.S. Department of Commerce, Eurostat, and U.K. Office for National Statistics.

(2) Business confidence in the service sector in the Eurozone



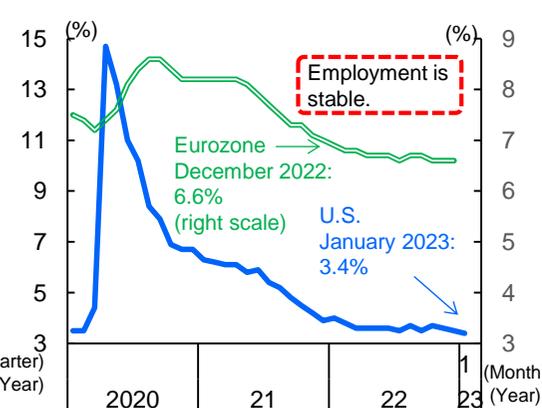
(Note) Adapted from the European Commission.

(3) Capital investment in the U.S. and Europe



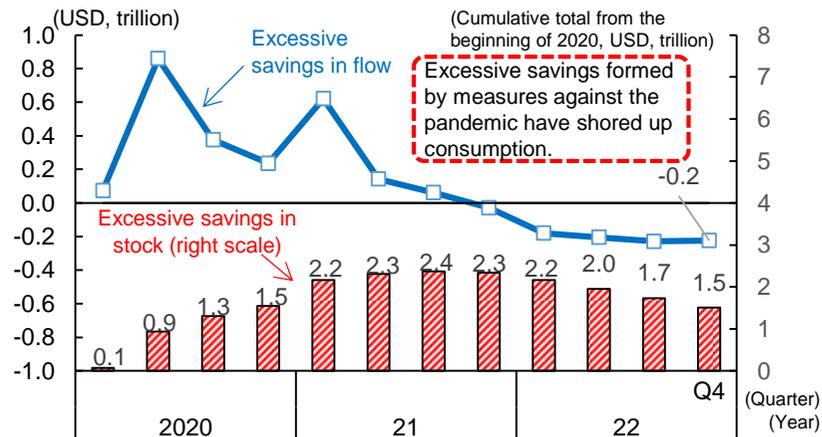
(Note) Adapted from U.S. Department of Commerce, Eurostat. Data of the U.S. are business fixed investment. Data of Eurozone are gross fixed capital formation.

(4) Unemployment rate



(Note) Adapted from U.S. Department of Labor, Eurostat, and U.K. Office for National Statistics.

(5) Excessive household savings in the U.S.



(Note) Adapted from U.S. Department of Commerce.

(6) Measures against prices surge in Europe

Germany:

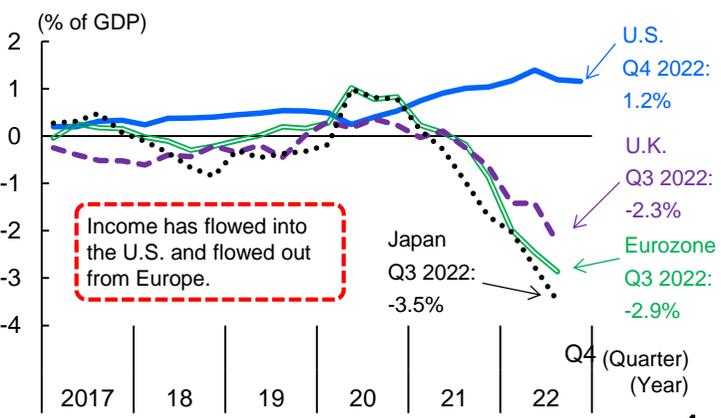
- ◆ Temporary benefits worth about 58,000 yen per household have been paid to assist with heating expenses from September 2022.
- ◆ It is scheduled to allow all households to use up to a certain amount of electricity/gas at a fixed price from March 2023 (Energy Price Brake).

U.K.:

- ◆ Reduces the amount of consumers' electricity expenses by about 66,000 yen from October 2022.
- ◆ Temporary benefits of about 150,000 yen are paid to lower-income households in 2023.

(Note) Prepared from the materials of each government.

(7) Trading gains and losses in developed countries

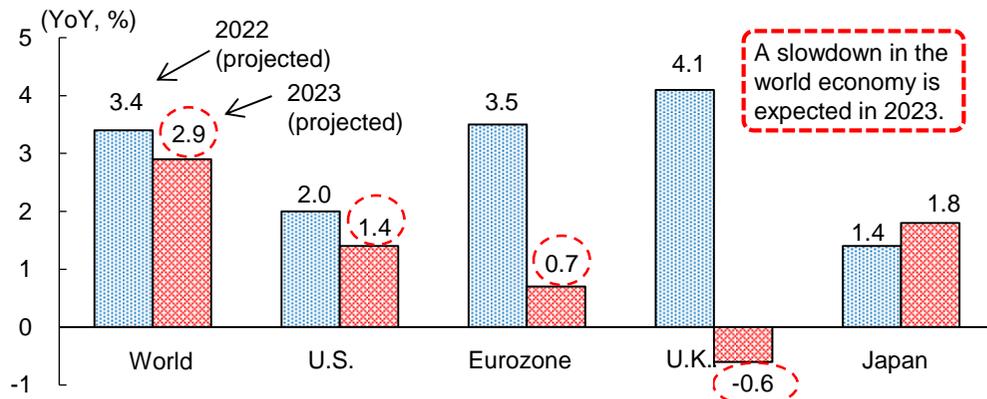


(Note) 1. Adapted from OECD.Stat, Bloomberg. 2. CY2015 chain-linked price. Seasonally adjusted.

1-4 World Economy (4) (World Economic Outlook and Risks)

- According to the outlooks by international organizations, a slowdown in the world economy is expected in 2023. The confidence index in 2022 shows the possibility that a slowdown has already begun.
- Possible risk factors in the future are: the impact of fast monetary tightening, securing energy contingent to the prolonged crisis in Ukraine, suppression of economic activities in China due to geopolitical factors, the re-spread of infection in China, and the deterioration in the real estate market. Attention should continue to be paid to these factors.

(1) Growth forecasts by IMF



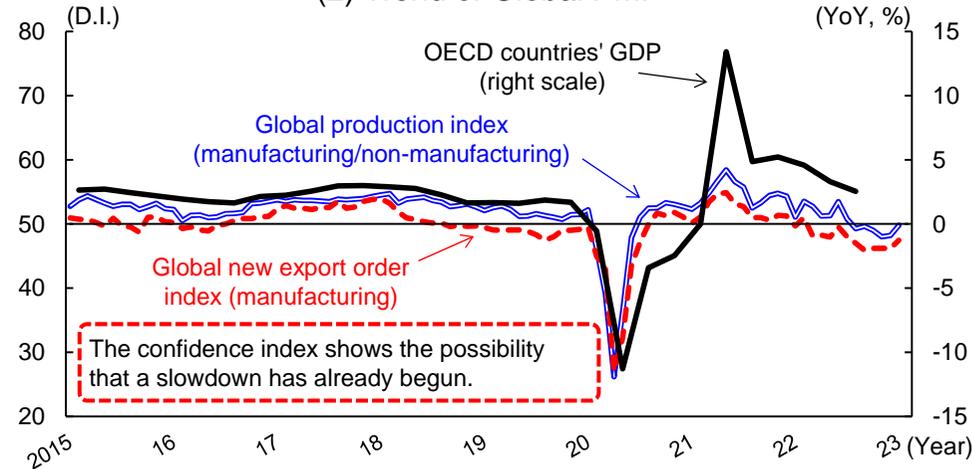
(Note) Adapted from "World Economic Outlook" (January 2023) by IMF.

(3) Major risk factors for the world economy

<p>Impacts of rapid monetary tightening:</p> <ul style="list-style-type: none"> ◆ Concerns about excessive demand restraint triggered by additional monetary tightening. ◆ Concerns about financial market fluctuation, including the growing spread of government bond yields among some of Eurozone countries and the increasing volatility of the government bond market. 	<p>Suppression of economic activities in China due to geopolitical factors:</p> <ul style="list-style-type: none"> ◆ According to questionnaires among U.S. companies in China, there are concerns about lost sales (45%), shift in suppliers (37%), delay or cancellation of investment in China (36%), etc. due to US-China trade friction.
<p>Securing energy contingency to the prolonged crisis in Ukraine:</p> <ul style="list-style-type: none"> ◆ It is necessary to increase the amount of LNG imports in preparation for the complete blocking of gas produced in Russia. On the other hand, there are concerns that it is difficult to improve the gasification and storage capacity of LNG in the short term. ◆ In order to secure the sufficient level of gas storage next winter, it is essential to stably reduce gas consumption this winter. 	<p>Re-spread of infection in China and the deterioration of the real estate market:</p> <ul style="list-style-type: none"> ◆ There are concerns about an economic downturn due to the prolonged impact of the spread of infection. ◆ There are concerns about the stagnation of real estate business and repercussions on relevant industries. There are concerns that growth will be suppressed in the mid-to long-term with the further deterioration of the fiscal conditions of banks and regional governments, due to the prolongation of the problem.

(Note) Prepared from the materials of each government, the US-China Business Council.

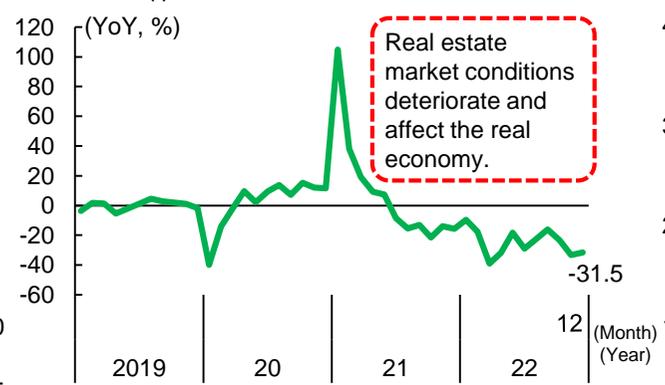
(2) Trend of Global PMI



(Note) Adapted from OECD, Stat, J.P. Morgan, S&P Global.

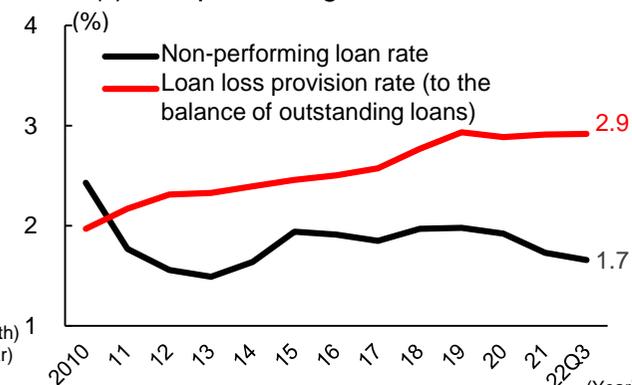
(4) The real estate problem in China

(i) Real estate sales area



(Note) Adapted from National Bureau of Statistics of China. Adjusted to the single-month value. Accumulated figures are used for January-February.

(ii) Non-performing loan rate in banks



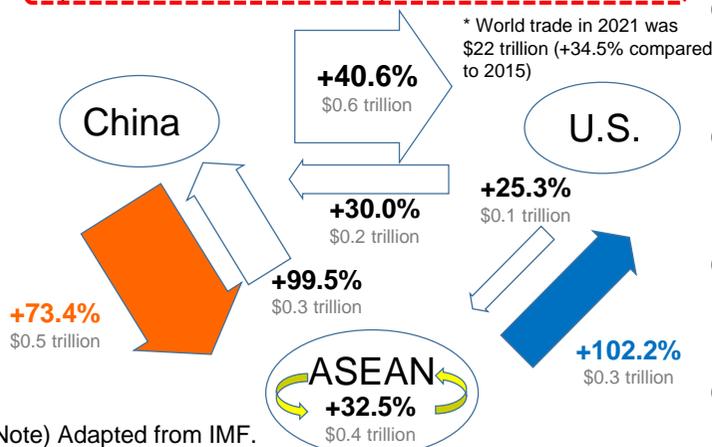
(Note) Adapted from People's Bank of China, Banking and Insurance Regulatory Commission (CBIRC). The latest value is the data as of the end of September, 2022.

2-1 Trade Structure in ASEAN Countries (1) (Quantitative Expansion and Qualitative Shift)

- In global trade, the presence of ASEAN has been increasing. The share of Vietnam is increasing rapidly among exports from ASEAN to the U.S. Export items are shifting from commodities/light industry products to mechanical products. The "World's Factory" is expanding from China to ASEAN.
- Trade items of ASEAN are increasingly being sophisticated. However, the shift towards high value-added process in the global value chain is still under way.
- Since the escalation of the US-China trade conflict, exports from ASEAN to the U.S. have increased further. Some movements indicate that some exports from China to the U.S. are via ASEAN.

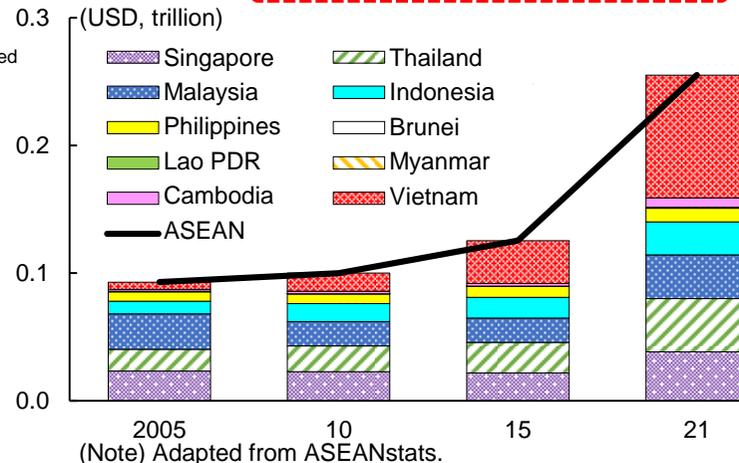
(1) Import/export of ASEAN, etc. in 2021 and comparison with 2015

ASEAN's imports from China increased by 1.7 times and exports to the U.S. doubled compared to 2015.



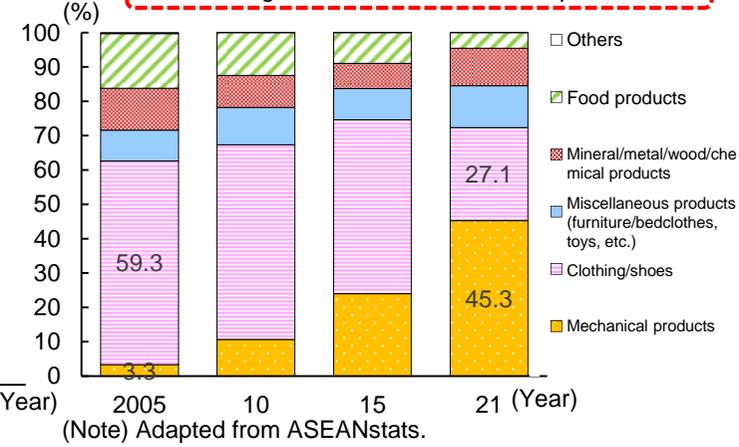
(2) Exports from ASEAN countries to the U.S.

The share of Vietnam is increasing rapidly among exports from ASEAN to the U.S.



(3) Shares of exported items from Vietnam (to the U.S.)

Exported items from Vietnam to the U.S. are shifting from clothing/shoes, etc. to mechanical products.



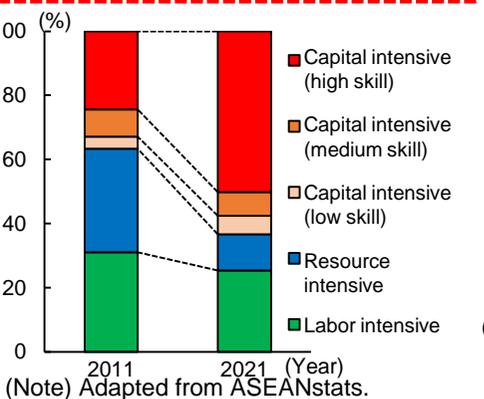
(Note) Adapted from IMF.

(Note) Adapted from ASEANstats.

(Note) Adapted from ASEANstats.

(4) Ratio of items exported from Vietnam (On export value basis)

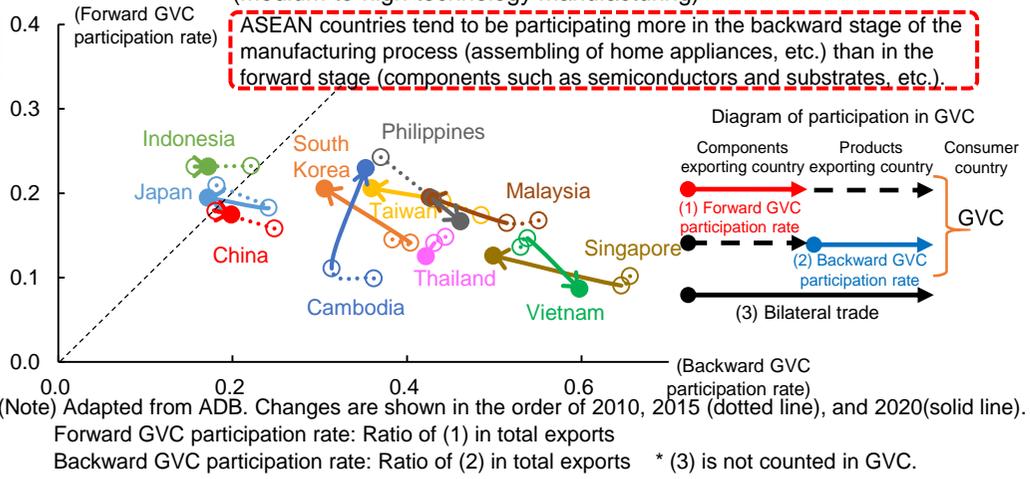
The ratio of capital-intensive goods (high skill) is large among recent exported items, reflecting the progress of industrial advances.



(Note) Adapted from ASEANstats.

(5) Participation rate in the global value chain (Medium-to-high-technology manufacturing)

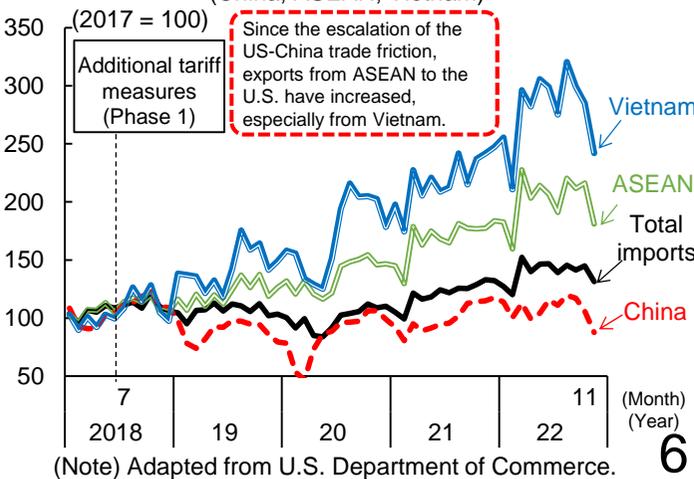
ASEAN countries tend to be participating more in the backward stage of the manufacturing process (assembling of home appliances, etc.) than in the forward stage (components such as semiconductors and substrates, etc.).



(Note) Adapted from ADB. Changes are shown in the order of 2010, 2015 (dotted line), and 2020 (solid line). Forward GVC participation rate: Ratio of (1) in total exports. Backward GVC participation rate: Ratio of (2) in total exports. * (3) is not counted in GVC.

(6) Changes in exports to the U.S. (China, ASEAN, Vietnam)

Since the escalation of the US-China trade friction, exports from ASEAN to the U.S. have increased, especially from Vietnam.

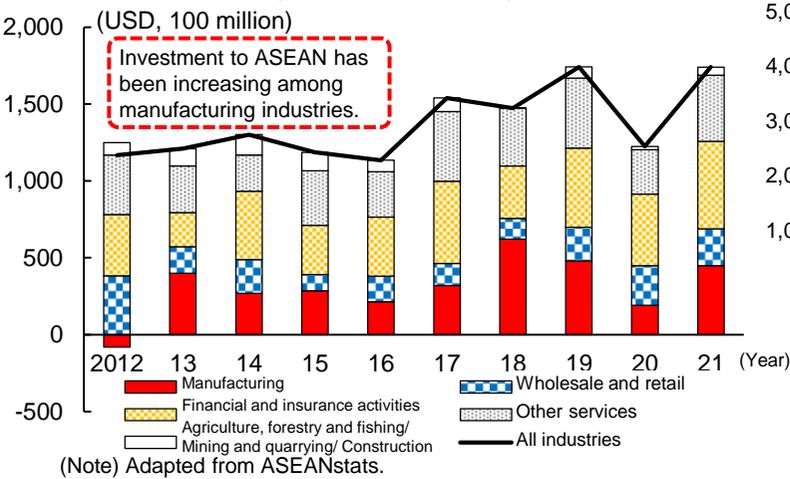


(Note) Adapted from U.S. Department of Commerce.

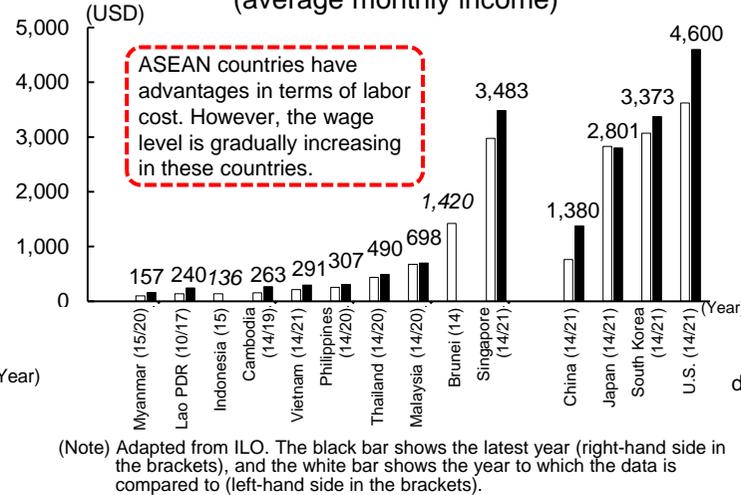
2-2 Trade Structure in ASEAN Countries (2) (Trend of Reducing the Risk of Dependence on Certain Countries)

- So far, Foreign Direct Investment (FDI) toward ASEAN has been increasing. In the background, there is superiority in terms of labor cost compared to China and other countries. Consequently, exports of semiconductor-related items from ASEAN to the U.S. are increasing significantly. On the other hand, imports of components in the region largely depend on China.
- Under such circumstances, some U.S. companies in China are taking a "China Plus One" investment strategy considering the risk of supply chain disruption due to the spread of infection in China in spring 2022. Nonetheless, with the trade dependency of ASEAN on China being high, it is important to pay attention to risks through the supply chain. Also, because wages are gradually increasing too in ASEAN countries, cost advantages may change in some countries in the future, which should be kept in mind.

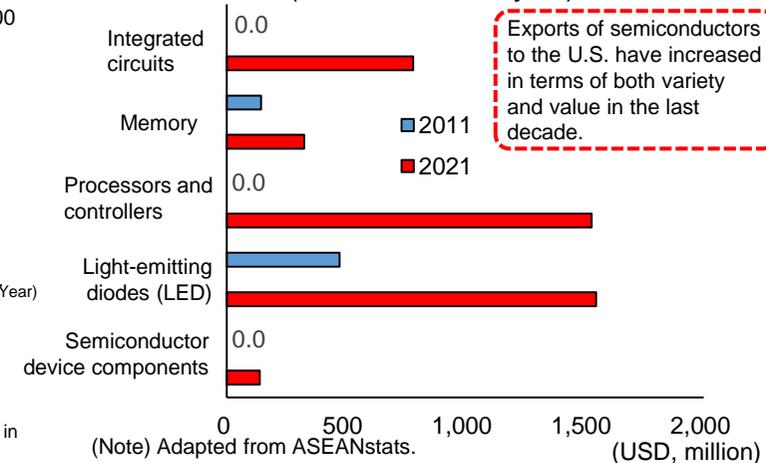
(1) Foreign direct investment to ASEAN (by flow and industry)



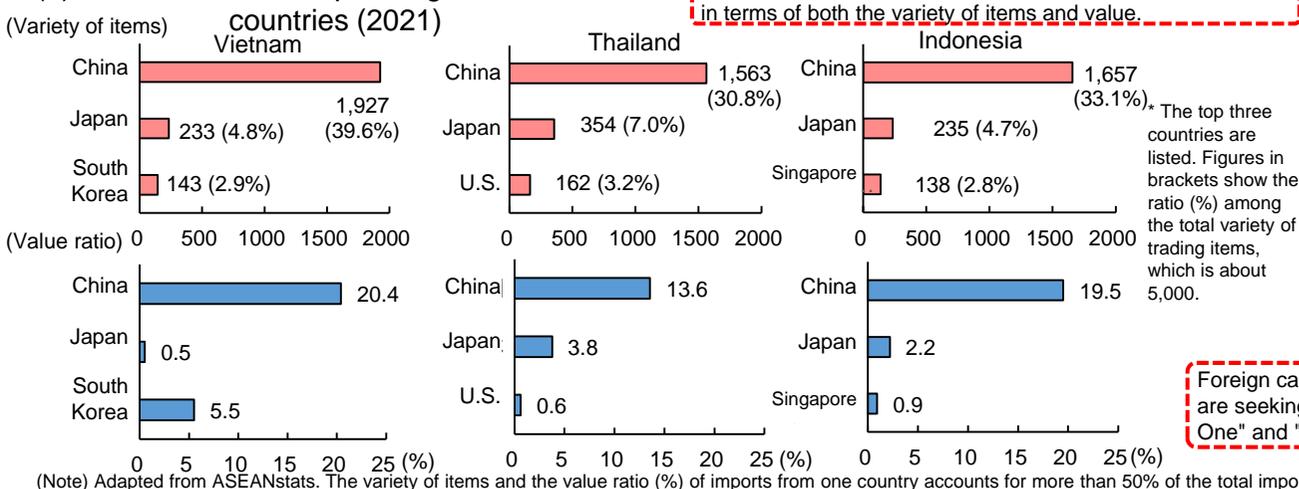
(2) Wage levels in ASEAN countries, etc. (average monthly income)



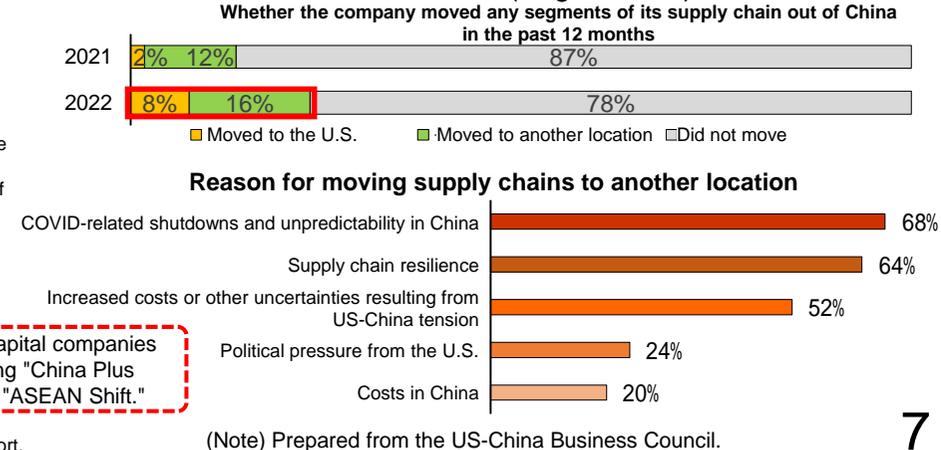
(3) Semiconductor-related exports to the U.S. (the case of Malaysia)



(4) Concentration of imported goods to certain countries (2021)

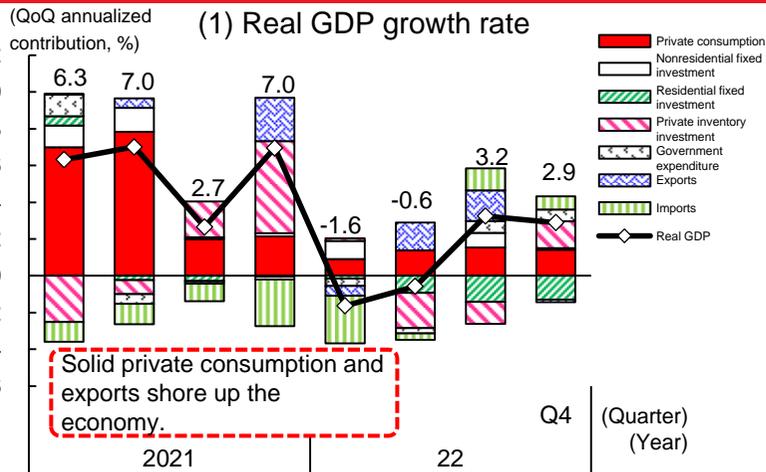


(5) Questionnaire survey targeting U.S. companies in China (August 2022)

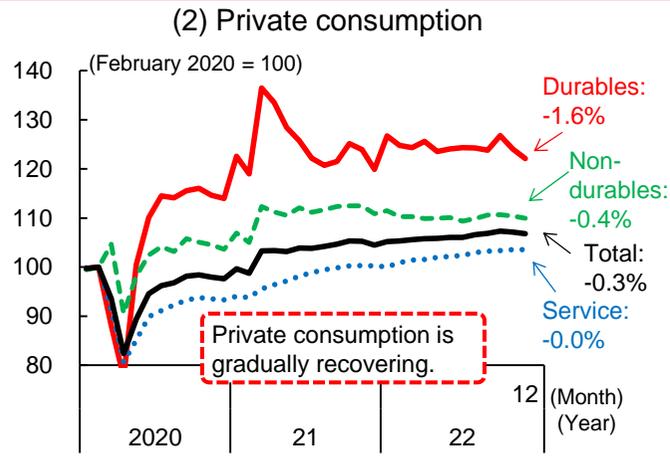


(Reference 1-1) Economic Trends in Major Regions [U.S. economy]

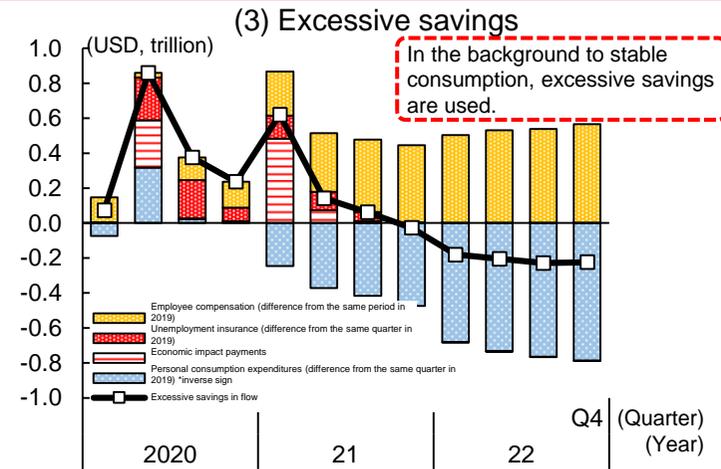
- The U.S. economy gradually recovers in the latter half of 2022. Private consumption and export steadily hold.
- Employment is stable, the labor market is tightening, and labor shortages and high wage increases are continuing.
- Mortgage loan rates rise sharply in response to rapid monetary tightening. In a situation where further monetary tightening is expected in the future, the impact on the economy needs to be closely watched, including that on the housing market.



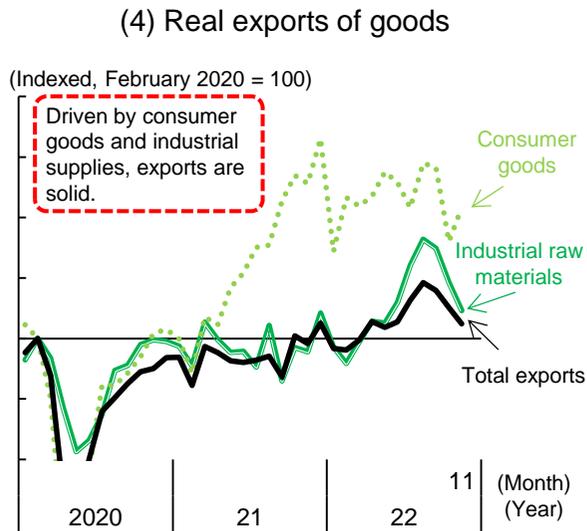
(Note) Adapted from U.S. Department of Commerce.



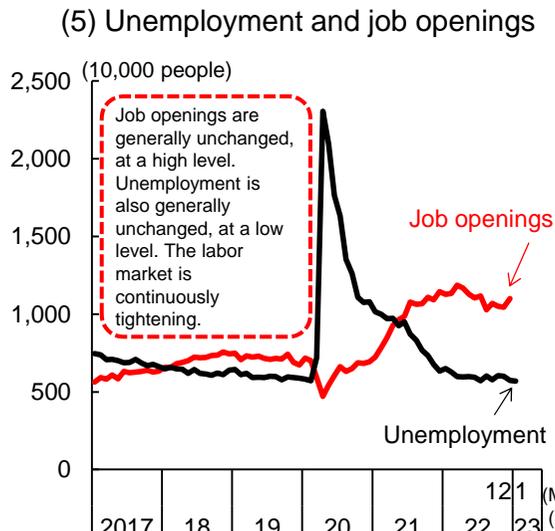
(Note) Adapted from U.S. Department of Commerce.



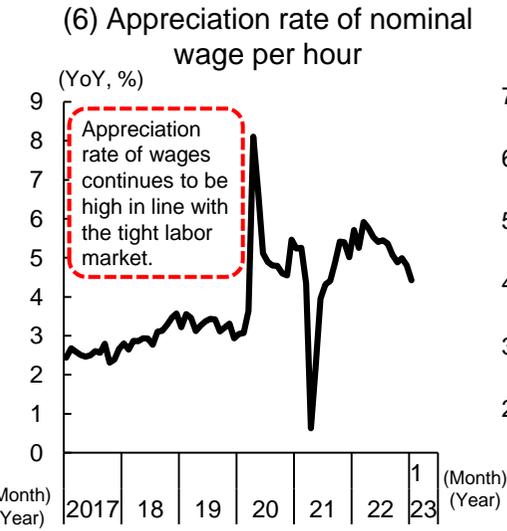
(Note) Adapted from U.S. Department of Commerce.



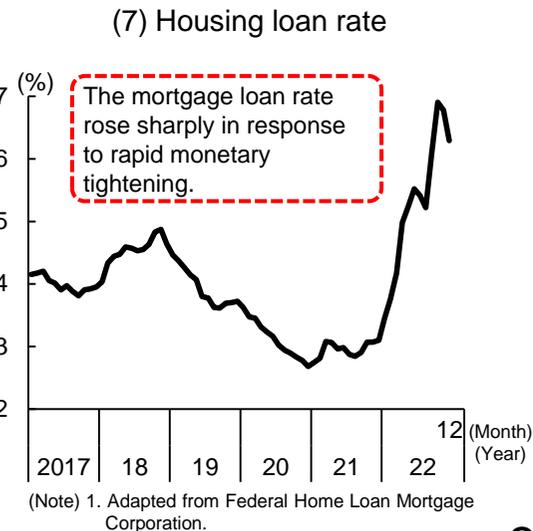
(Note) Adapted from U.S. Department of Commerce.



(Note) Adapted from the U.S. Department of Labor.



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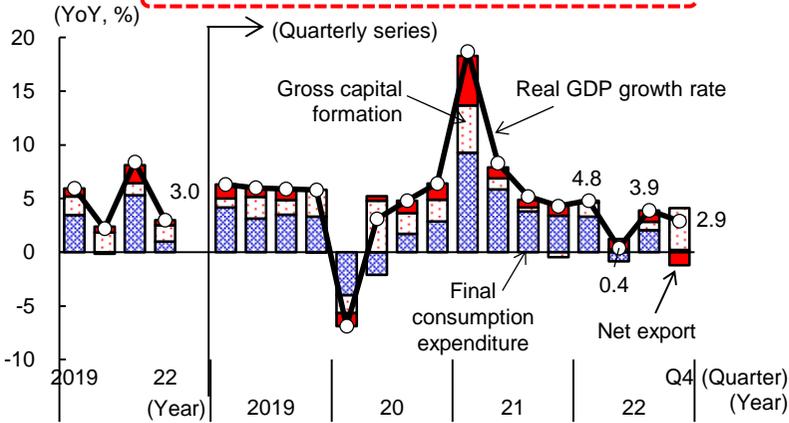
(Note) 1. Adapted from Federal Home Loan Mortgage Corporation.
2. Monthly average of the 30-year mortgage loan rate.

(Reference 1-2) Economic Trends in Major Regions [China's Economy]

- China's economy has been on a recovery trend since the lockdown in Shanghai in April-May 2022 was lifted. The trend is led by investments in infrastructure following the acceleration of the issuance of local special bonds. On the other hand, with the prolonged debt problems of real estate companies, real estate development investment has become even worse. Real estate-related sectors, which account for about 30% of GDP, are sluggish.
- The service sector and others slowed down with the re-spread of infection in November. Along with the relaxation of containment measures and the downsizing of the PCR test system, the future outlook is unclear.
- The trend of the falling birthrate is accelerating with the COVID-19 pandemic, and international organizations are downwardly revising the population forecast. Long-term GDP growth in China may be lower than previously predicted.

(1) Real GDP growth rate

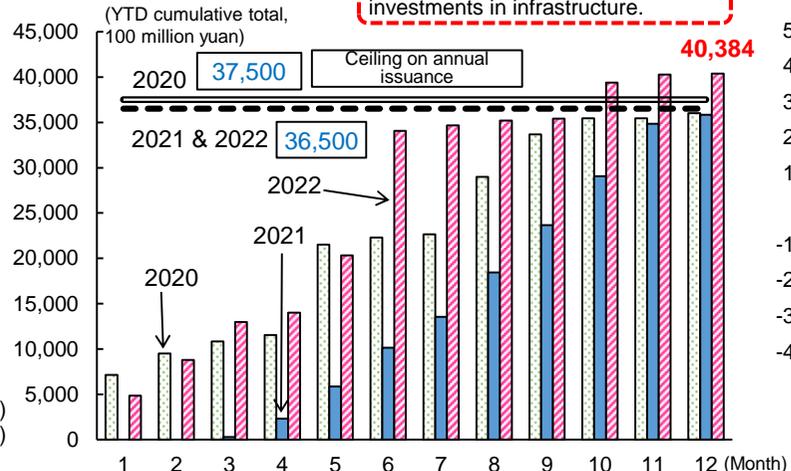
Following the lifting of the lockdown in Shanghai, GDP showed a recovery trend in the latter half of 2022.



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

(2) Issuance of local special bonds

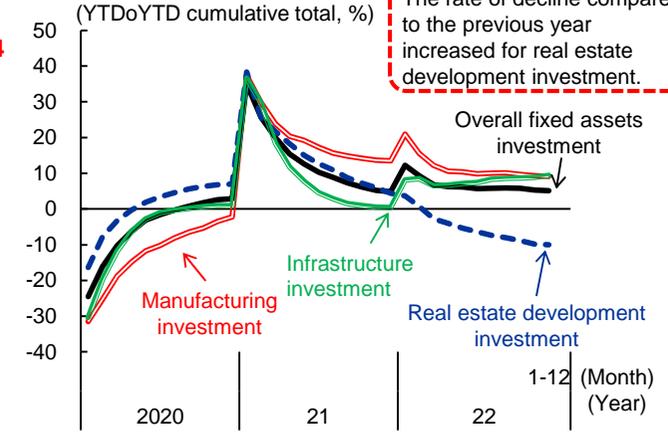
The issuance of special bonds was accelerated from midyear to expand investments in infrastructure.



(Note) Adapted from Ministry of Finance of the People's Republic of China.

(3) Fixed assets investment

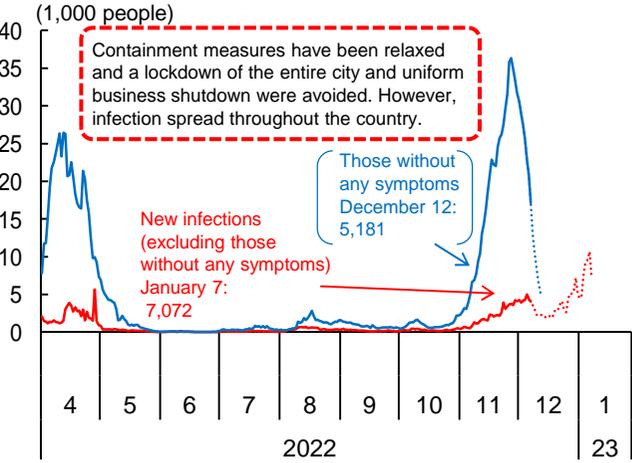
Investment in infrastructure has been largely increasing. The rate of decline compared to the previous year increased for real estate development investment.



(Note) 1. Adapted from National Bureau of Statistics of China. 2. Actual amount (share) has been undisclosed since 2018.

(4) Number of newly confirmed COVID-19 cases

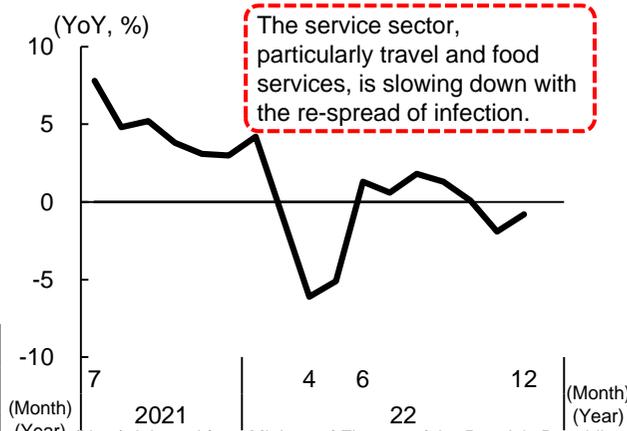
Containment measures have been relaxed and a lockdown of the entire city and uniform business shutdown were avoided. However, infection spread throughout the country.



(Note) Adapted from the National Health Commission, China.

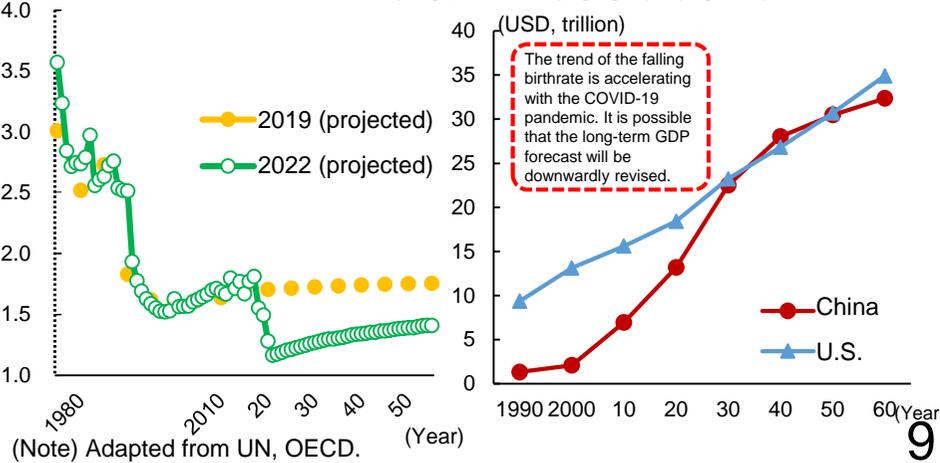
(5) Service industry production

The service sector, particularly travel and food services, is slowing down with the re-spread of infection.



(Note) Adapted from Ministry of Finance of the People's Republic of China, and National Bureau of Statistics of China.

(6) Birthrate in China and the long-term forecast of GDP in the U.S. and China

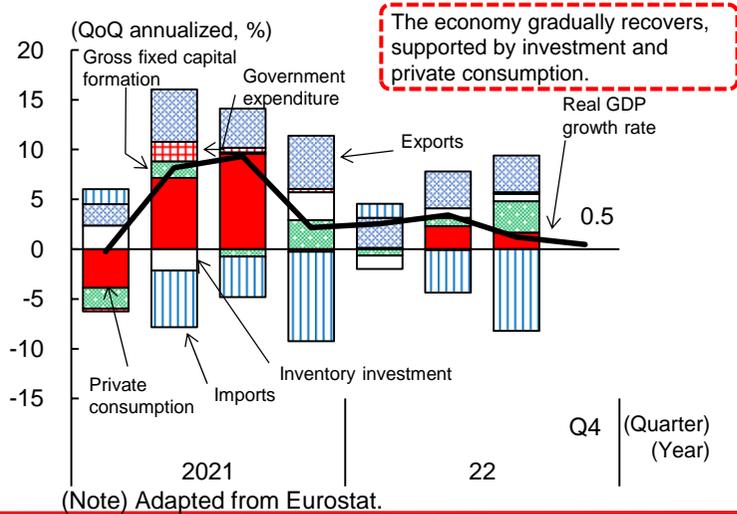


(Note) Adapted from UN, OECD.

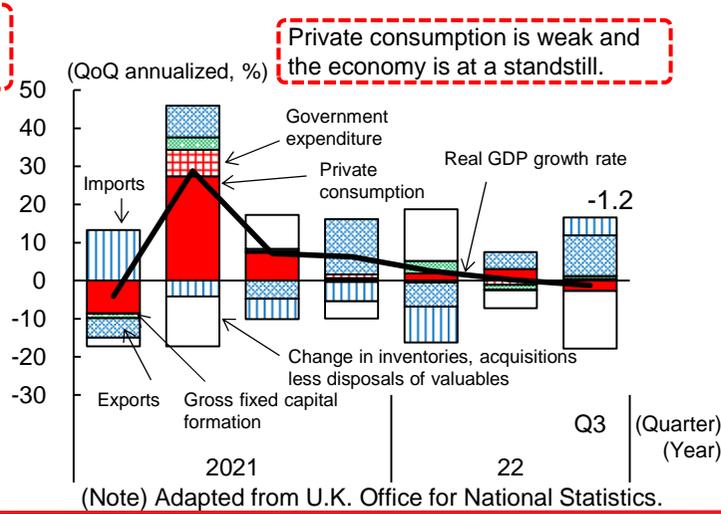
(Reference 1-3) Economic Trends in Major Regions [European Economy]

- In Europe, the economy gradually recovers, with the real GDP growth rate in the Eurozone showing an increase for seven consecutive quarters. On the other hand, the economy in the U.K. is at a standstill, marking negative growth in the third quarter.
- While employment keeps recovering, there is downward pressure on consumption due to price surges. Production is affected by restrictions in energy supply and rising prices.

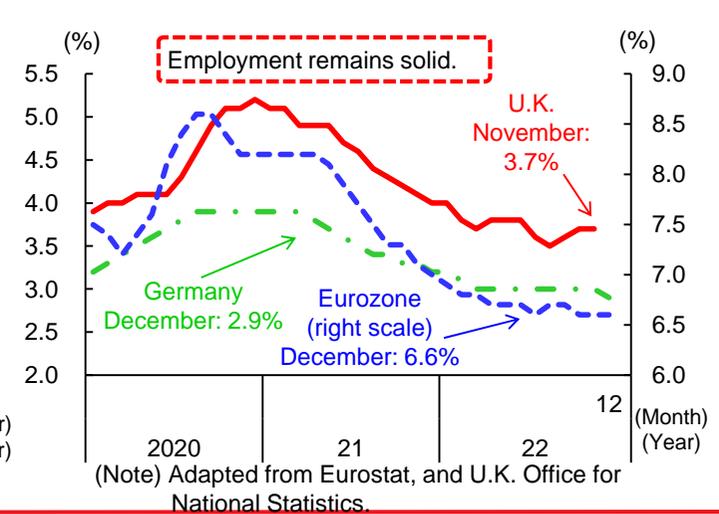
(1) Eurozone real GDP growth rate



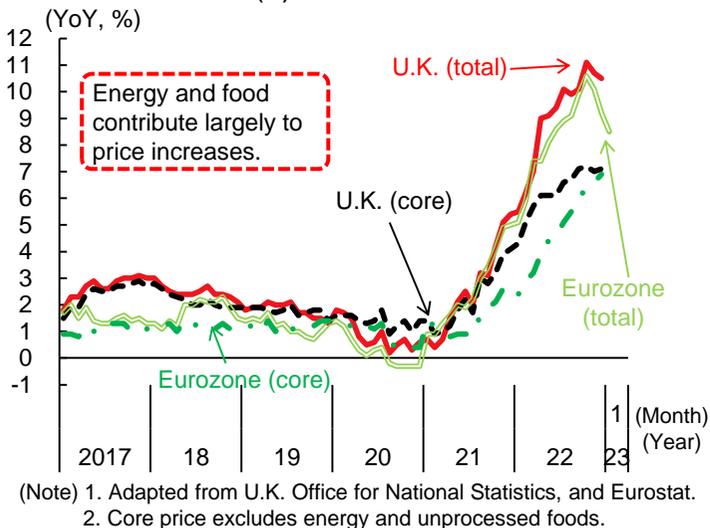
(2) U.K. real GDP growth rate



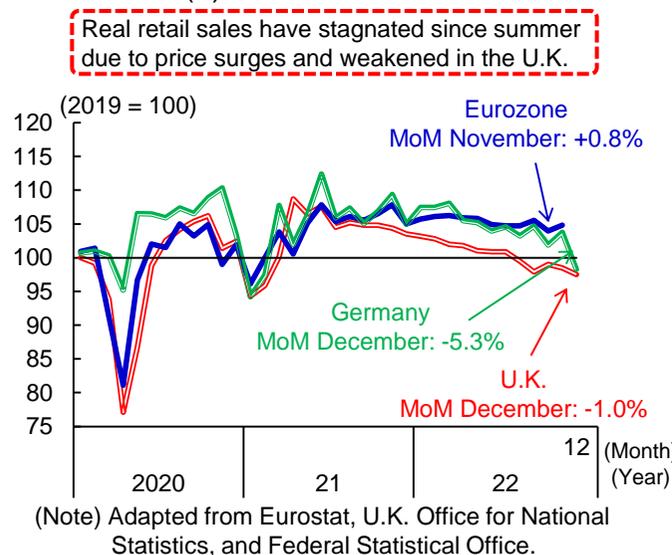
(3) Unemployment rate



(4) Prices



(5) Real retail sales



(6) Industrial production

