

World Economic Trends II

<The 2024 Autumn/Winter Report>

— The Structural Issue of China and Its Impact on the World Economy —

(Summary)

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This material has been tentatively prepared to explain the World Economic Trends.
For quotations and other purposes, please refer to the text of the World Economic Trends.

“World Economic Trends”: This report surveys and analyzes the trends of the world economy since 2002. This is the 45th issue.

1-1 Characteristics of Chinese Economy: Demographics and Trade Structure

- The size of the economy of China exceeded that of Japan in 2010 and is now the second largest in the world (Figure 1). In China, the proportion of consumption to GDP is smaller, while that of investment is higher than major economies (Figure 2).
- With the rapid decline in total fertility rate (Figure 3), the dependency ratio (ratio of the dependent population to the working-age population) increased after 2011 (demographic onus), and the total population turned to decrease in 2021 (Figure 4). Those two factors add downward pressure to future economic growth. The trend of housing stock increase is slowing down along with slow increase in the number of households (Figure 5).
- Trading partners used to be mainly consisted of advanced economies but are now becoming diverse, including emerging and developing economies, such as ASEAN countries (Figure 6).

Figure 1. Changes in nominal GDP in each country

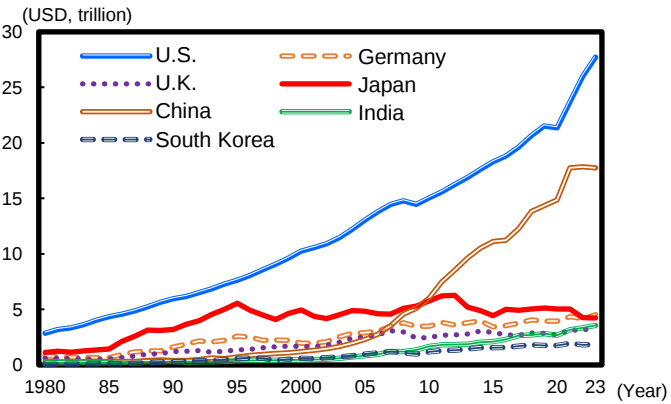


Figure 2. Composition of nominal GDP (expenditure approach)

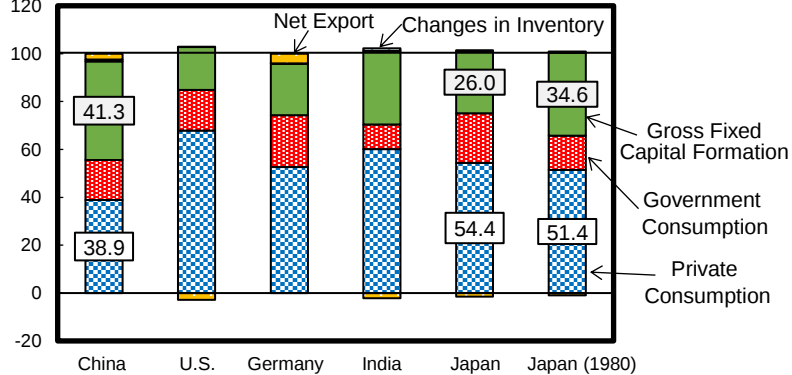


Figure 3. Total Fertility Rate

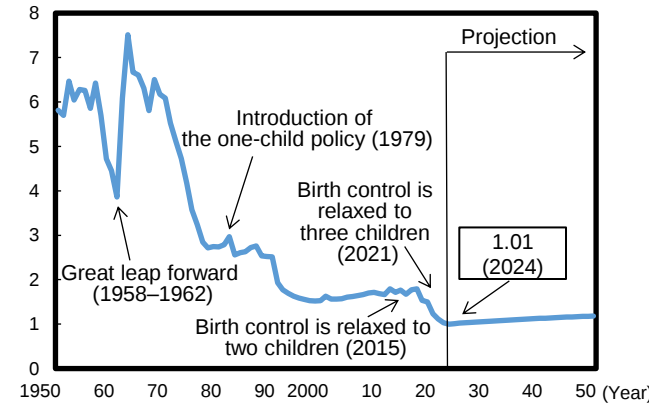


Figure 4. Total population and working-age population

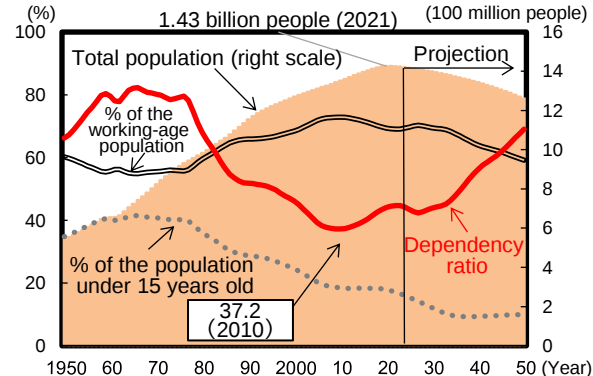


Figure 5. Number of households and residential floor space

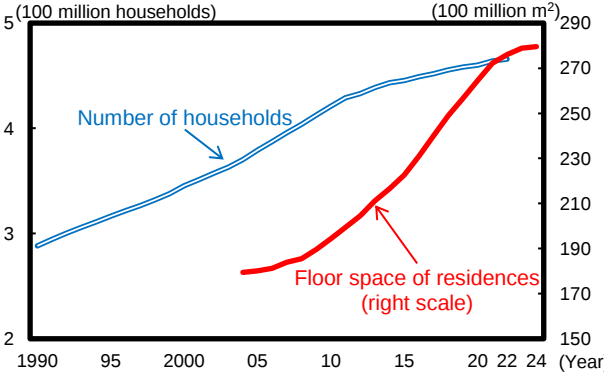
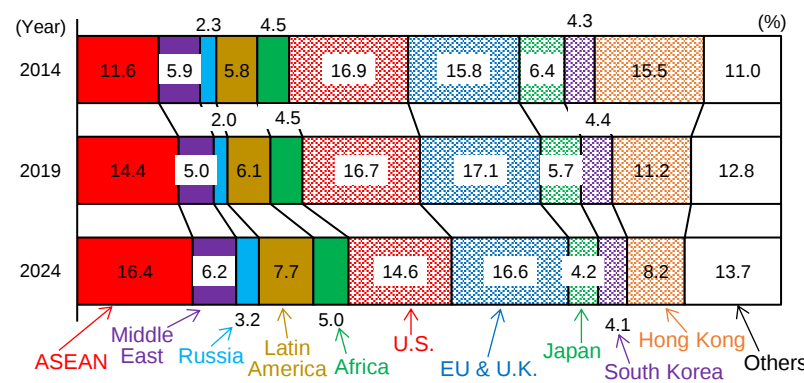


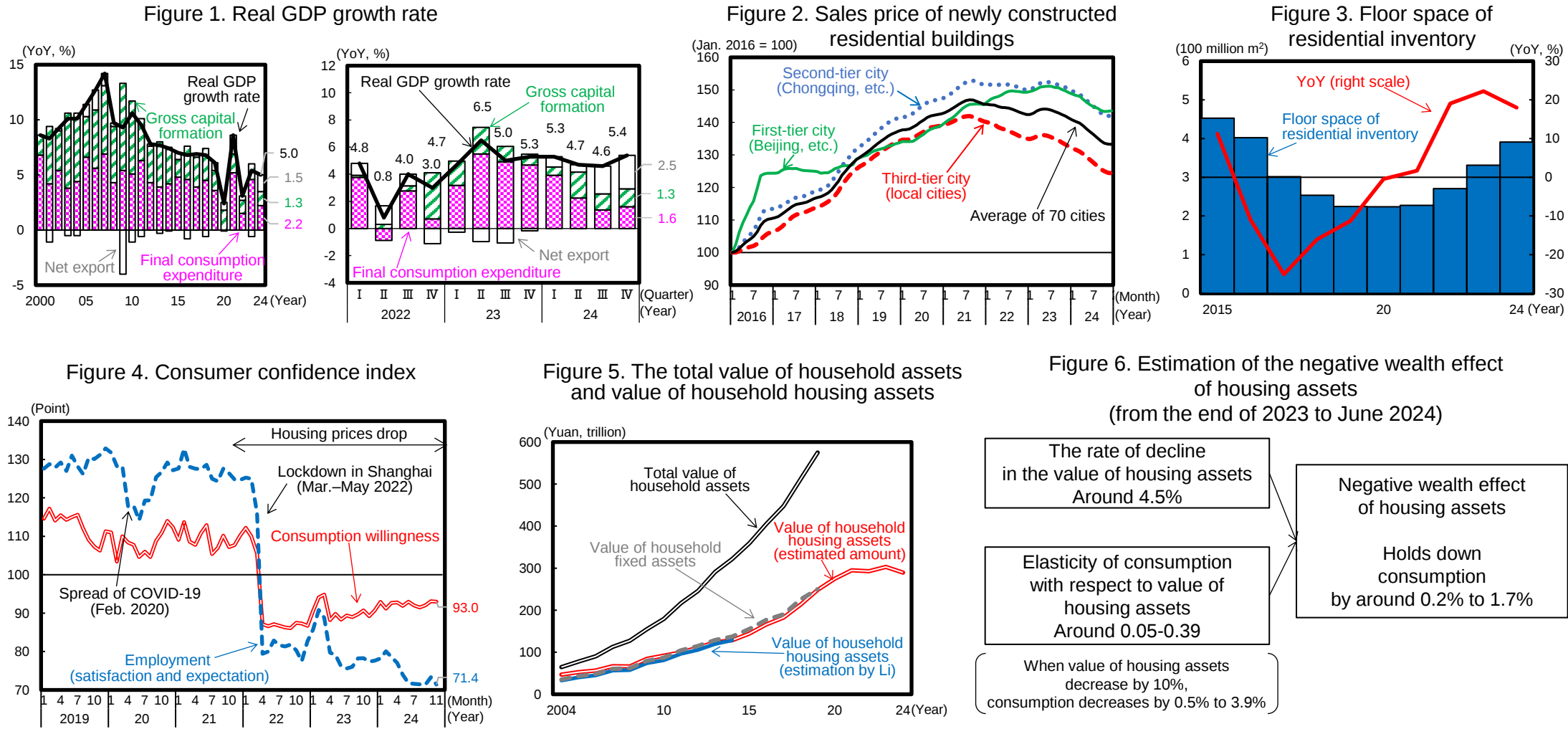
Figure 6. Changes in China's trading partners



(Sources) (Figure 1) IMF (2024). Based on the market rate. The numbers for India are for the fiscal year. (Figure 2) National Bureau of Statistics of China, U.S. Department of Commerce, Federal Statistical Office of Germany, Ministry of Statistics and Programme Implementation of India, and Cabinet Office. Composition ratio of nominal GDP in 2023. Ratio of the numbers for India are for the fiscal year. (Figures 3 and 4) "World Population Prospects 2024" by United Nations. The numbers up to 2023 are estimates and for 2024 and after are medium variants. (Figure 5) National Bureau of Statistics of China. The numbers used for the floor space of residences are year-end numbers (as of the end of June for 2024) as well as tentative calculation. (Figure 6) General Administration of Customs of the People's Republic of China.

1-2 Recent Economic Trends in China (1)

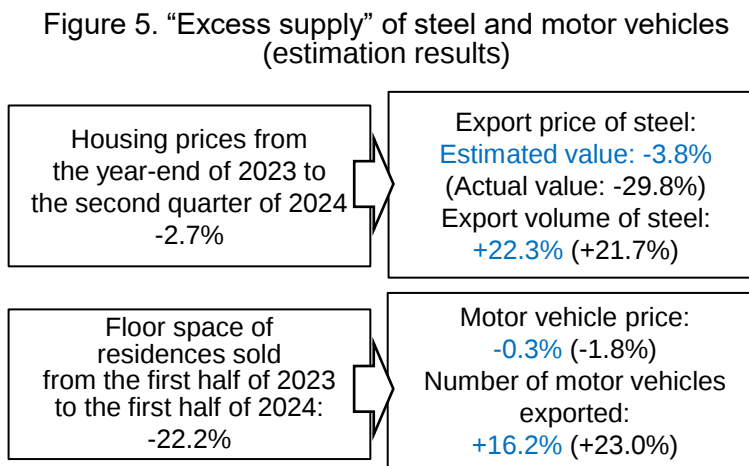
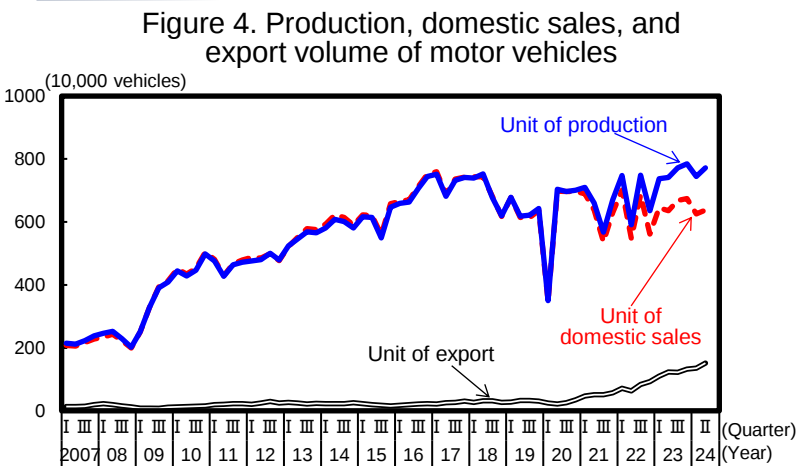
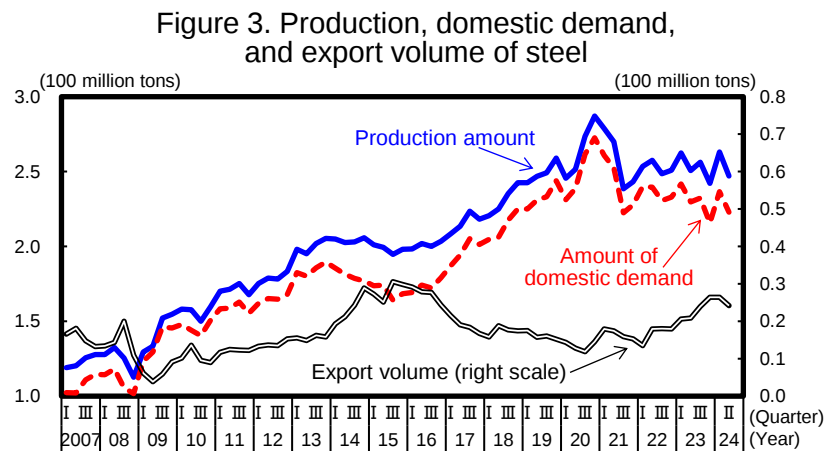
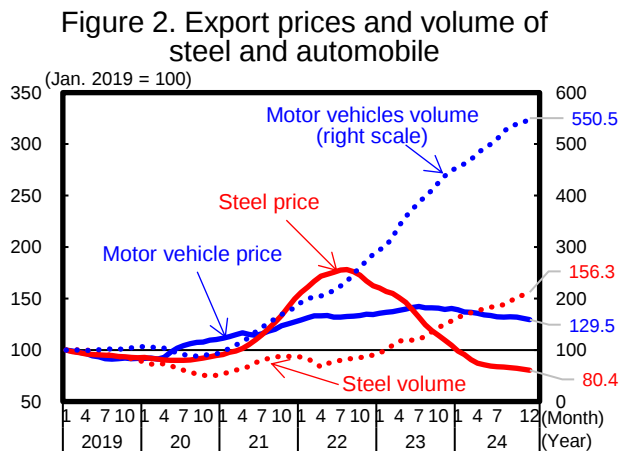
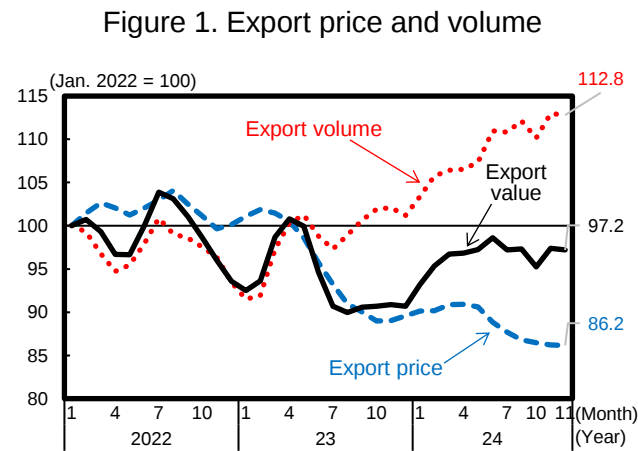
➤ While the real GDP growth rate in 2024 was 5% as targeted, domestic demand stagnated, with the contribution of consumption halving from the previous year. Then the contribution of external demand increased (Figure 1). With the continued stagnancy of the real estate market and falling residential building prices (Figure 2) and increasing residential inventory (Figure 3), consumer sentiment remains stagnant (Figure 4), and it is considered that the decrease in the value of household housing assets (Figure 5) is leading to a negative wealth effect and is curbing consumption (Figure 6).



(Sources) (Figures 1 to 4) National Bureau of Statistics of China. (Figure 3) Floor space of residential inventory stock size is as of December each year. (Figure 5) National Bureau of Statistics of China, National Institution for Finance & Development, and Li (2018).

1-3 Recent Economic Trends in China (2)

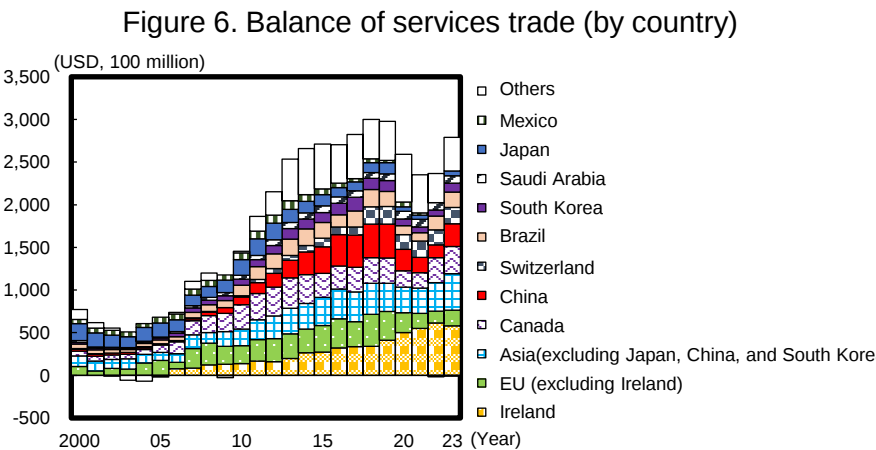
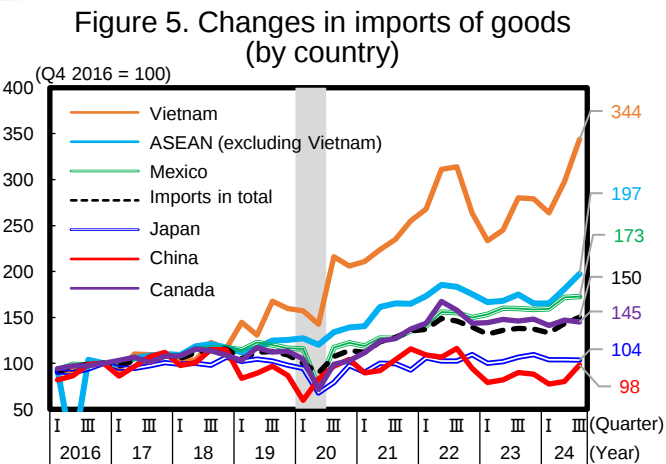
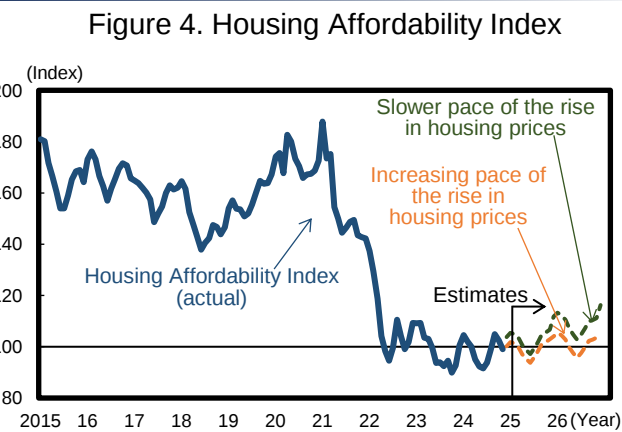
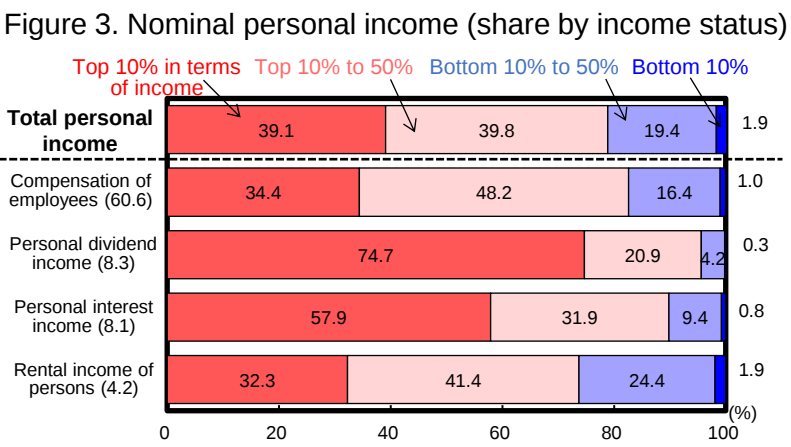
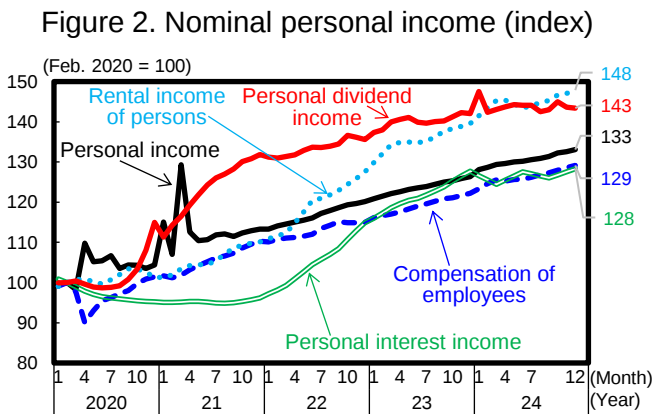
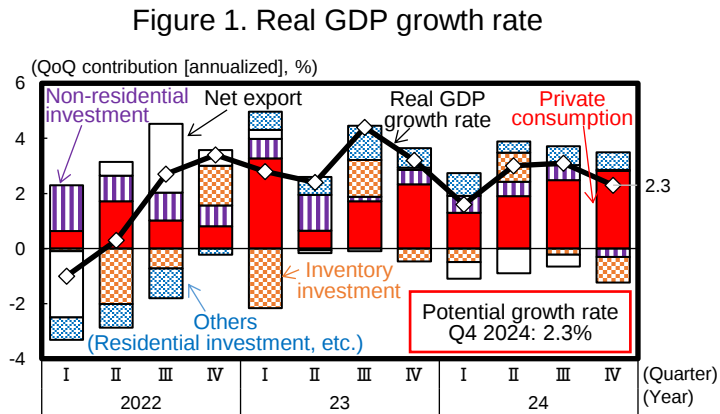
- In contrast to domestic demand, the export volume increased gradually along with export price fall (Figure 1). The trend is particularly notable for automobile including EVs and the steel (Figure 2). This trend has been pointed out by the U.S. and European countries as an “excess supply.” For example, the production amount of steel and motor vehicles is increasing despite the recent stagnation in domestic demand, which suggests the possibility that an amount corresponding to the excess of supply is being exported (Figures 3 and 4).
- Based on the estimation of supply/demand functions, it is estimated that the sluggish domestic demand due to the stagnation of the real estate market will foster a decline of export prices and an increase in export volume (Figure 5). The increase in China’s steel exports may lead to a falling price and decline in real GDP in economies where the steel industry is thriving (Figure 6).



(Sources) (Figure 1) CPB Netherlands Bureau for Economic Policy Analysis. Moving averages for three months, seasonally adjusted. (Figure 2) General Administration of Customs of the People's Republic of China. Moving average for 12 months. (Figure 3) National Bureau of Statistics of China, and General Administration of Customs of the People's Republic of China. Seasonally adjusted by the Cabinet Office. Amount of domestic demand is the amount of production less the amount of exports. (Figure 4) China Association of Automobile Manufacturers, and General Administration of Customs of the People's Republic of China. Seasonally adjusted by the Cabinet Office.

2-1 World Economy (1) (Macroeconomic Trends in the U.S.)

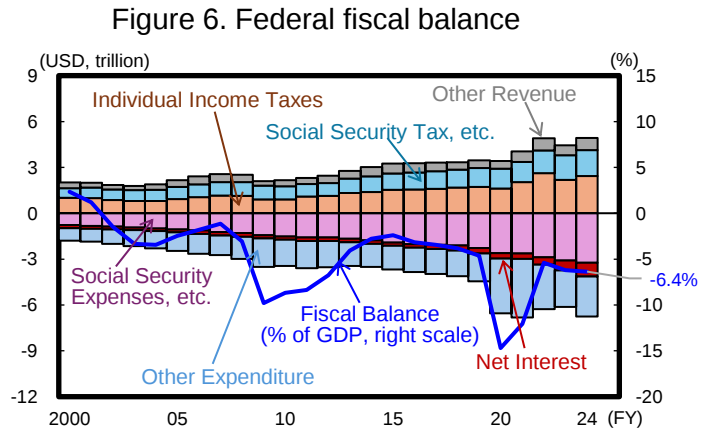
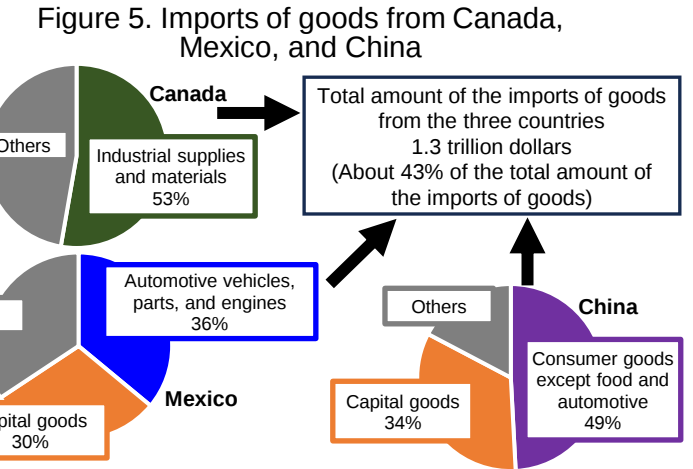
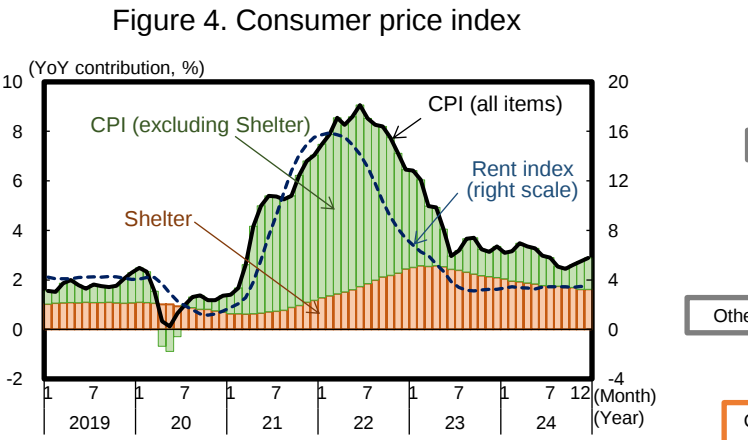
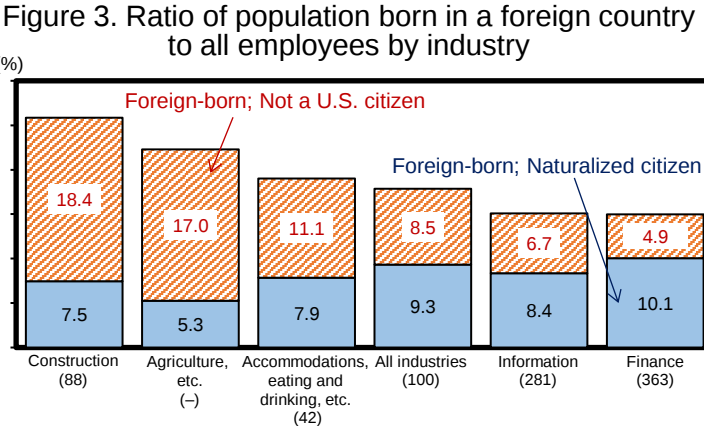
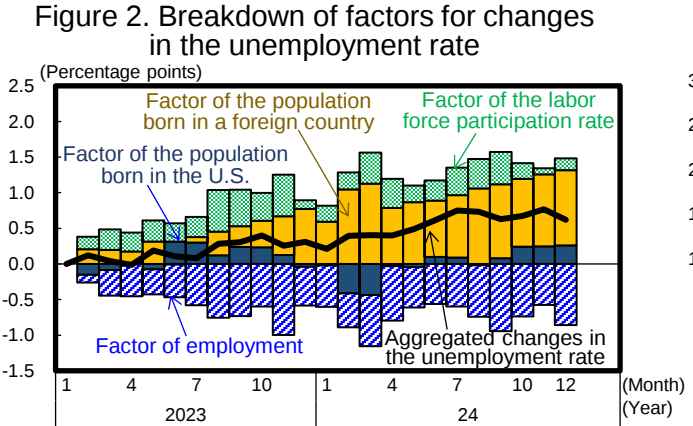
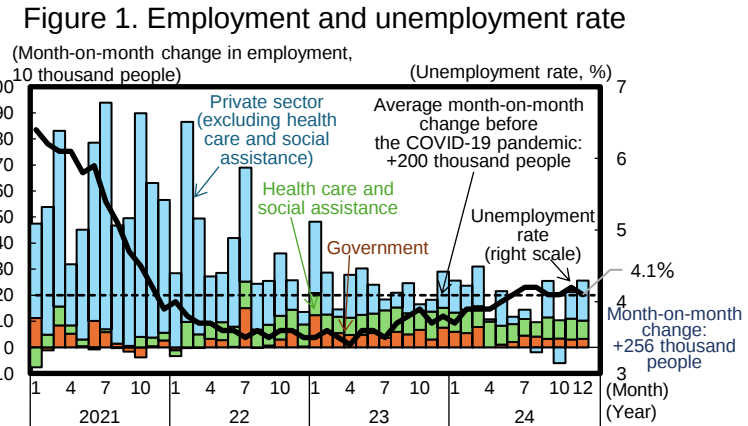
- The U.S. economy shows continuous expansion, mainly driven by private consumption (Figure 1). As for personal income, dividend income earned by the top 10% in terms of income accounts for a share of 75% of total dividend income. It shows that the high-income group enjoys a larger benefit of economic growth after the COVID-19 pandemic (Figure 2 and 3).
- Housing prices continue to rise. Even with slowing down housing price hike and policy interest rates cut, the cost of purchasing housing may still be larger compared to the pre-pandemic period in two years (Figure 4).
- Looking at imports of goods by country, while import China remains unchanged, imports from ASEAN countries (particularly Vietnam) is increasing (Figure 5). The balance of service trade continues to be positive. The service trade surplus is particularly large against Ireland and is increasing since the 2010s (Figure 6).



(Sources) (Figure 1) U.S. Department of Commerce, and U.S. Congressional Budget Office. (Figure 2) U.S. Department of Commerce. (Figure 3) U.S. Department of Commerce. The numbers are as of 2023. The numbers in () are the share of each item in the total personal income in 2023. (Figure 4) National Association of Realtors. Estimation by the Cabinet Office. Covered period is since December 2024. (Figure 5) U.S. Department of Commerce, and NBER. Shadowed parts represent recession periods. (Figure 6) U.S. Department of Commerce. Nominal figures.

2-2 World Economy (2) (Trends in Labor Market, Price, Monetary Policy and Finance in the U.S.)

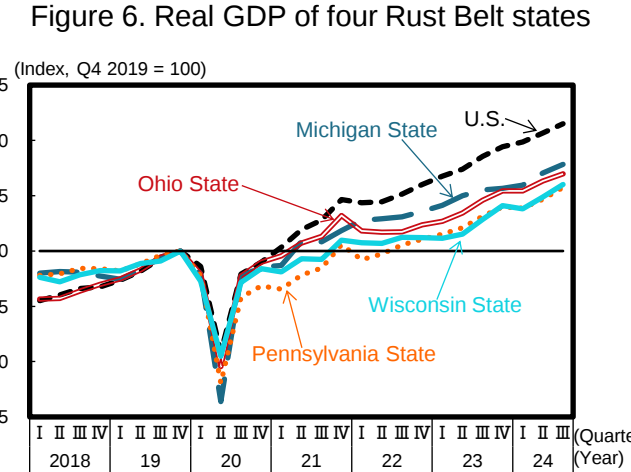
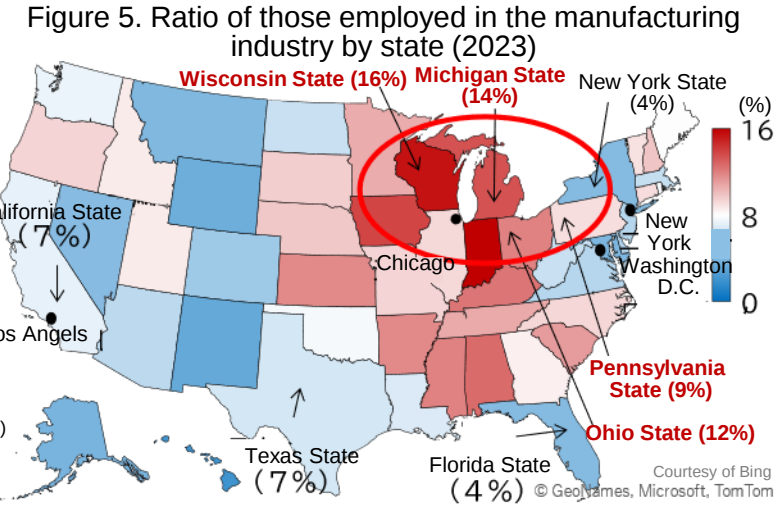
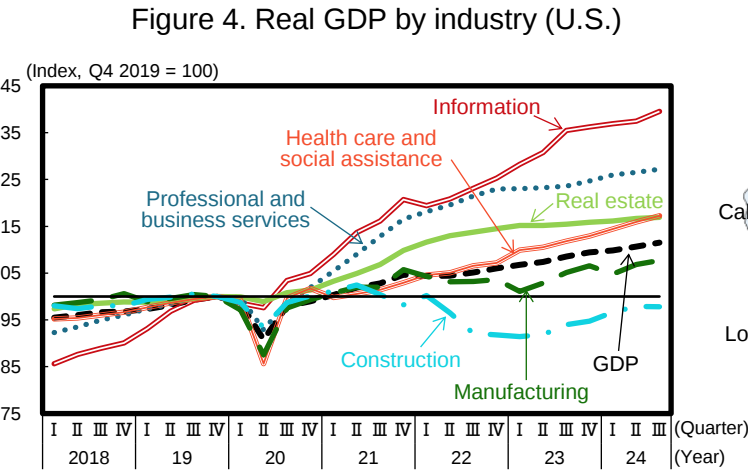
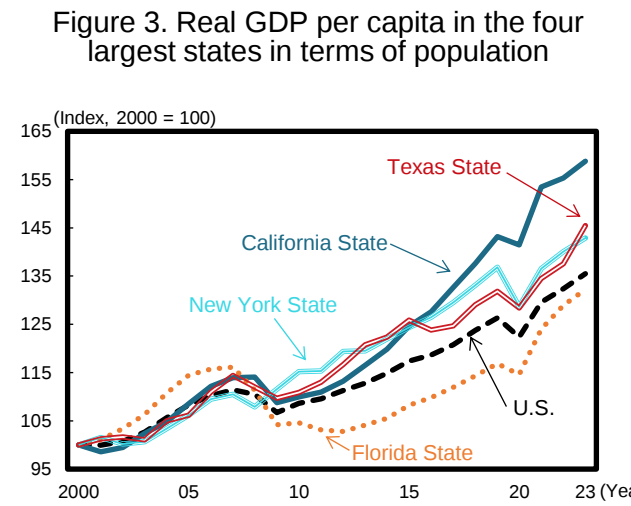
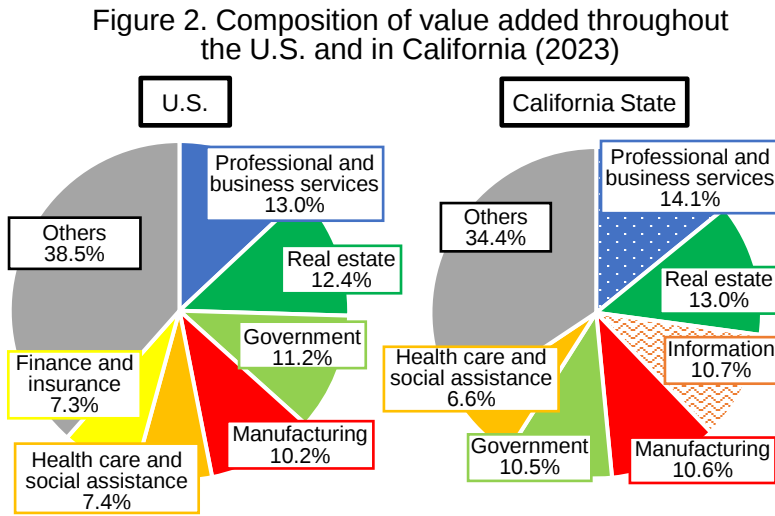
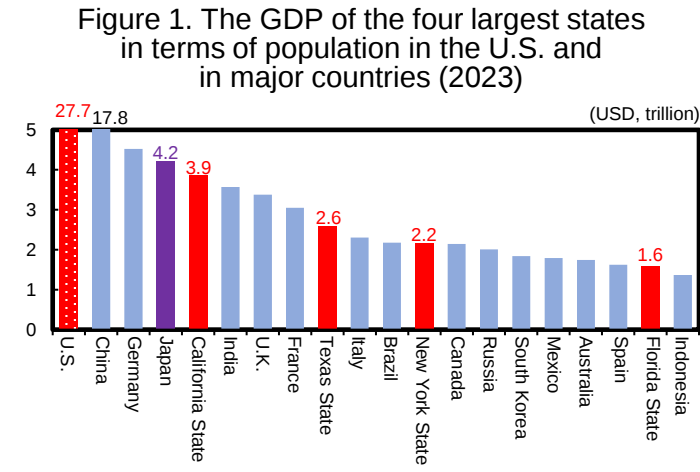
- Employment is gradually increasing, with the unemployment rate generally unchanged (Figure 1). Labor market slacking is underway since 2023, mainly due to the increase in the population born in a foreign country (Figure 2). Strict immigration policies will have a negative impact in the construction and agriculture (Figure 3).
- While the pace of decrease in shelter cost is slow, leading indicators suggests a further decrease in shelter cost hike (Figure 4). Imports of goods from Canada, Mexico and China accounts for about 40% of the total imports (Figure 5). It will be necessary to keep a close eye on the impact of future trade policies on prices, consumption, etc. in coming months.
- The long-term interest rate remains at a high level even after the round of policy rate cuts implemented since September 2024. Also due to the increase in net interest, the fiscal balance of the Federal government is deteriorating (Figure 6).



(Sources) (Figure 1) U.S. Department of Labor. "Average month-on-month change before the COVID-19 pandemic" is the average of month-on-month change from May 2014 to February 2020. (Figure 2) U.S. Department of Labor. Estimated by the Cabinet Office. (Figure 3) U.S. Department of Commerce, and U.S. Department of Labor. The numbers are as of 2023. Non-U.S. citizens include those having permanent resident status, temporary visitors, refugees, and illegal immigrants. The numbers in () are value added per employee. It is the index setting the value added per employee in all industries excluding agriculture, forestry and fisheries, hunting, and mining as the benchmark of 100. (Figure 4) U.S. Department of Labor, and Zillow. (Figure 5) U.S. Department of Commerce. The numbers are as of 2023. A balance of payments basis. Imports of merchandise are the imports of general merchandise. (Figure 6) U.S. Department of the Treasury, and U.S. Department of Commerce. Social Security Expenses, etc. include social security expenses, Medicare, and insurance.

2-3 World Economy (3) (Economic trends in the U.S. by Industry and by State)

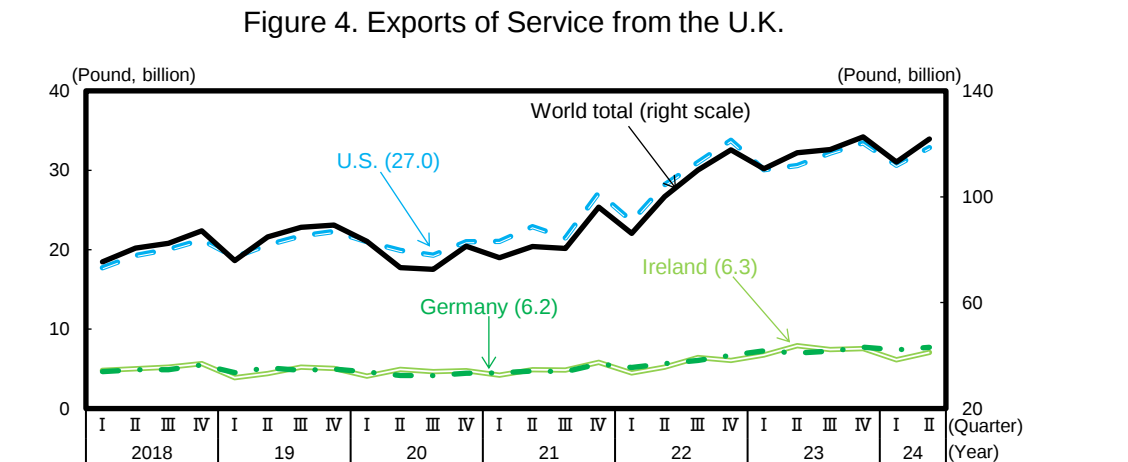
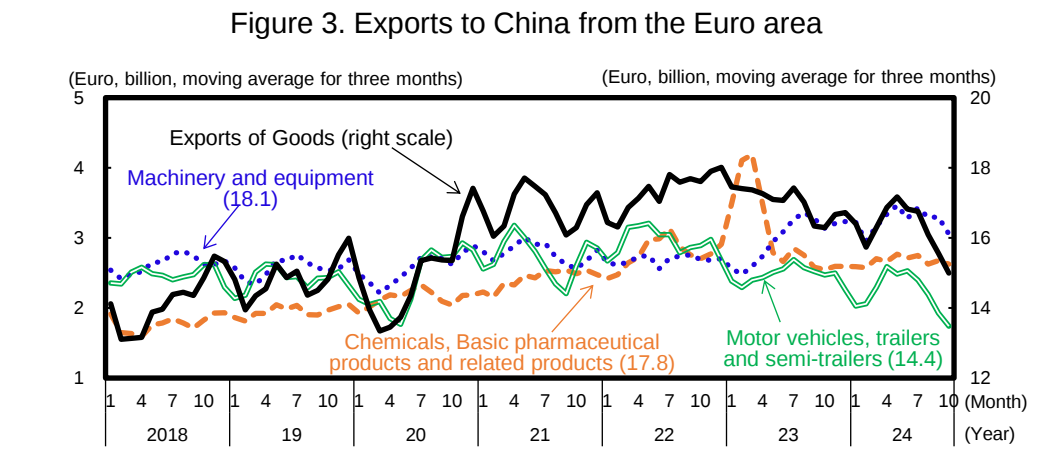
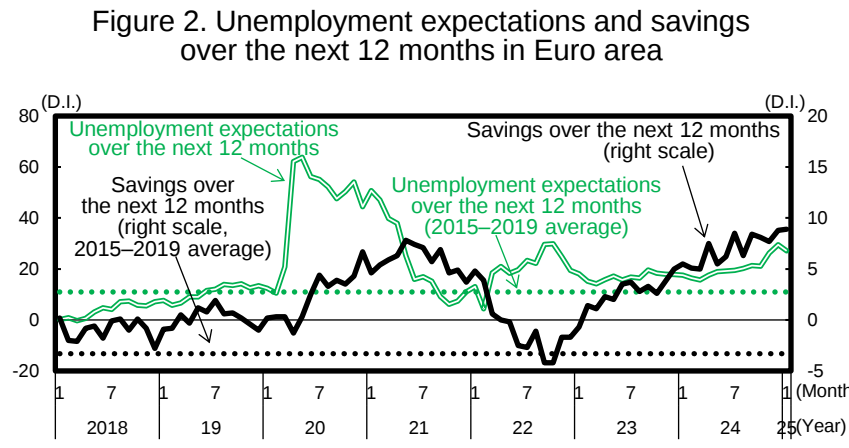
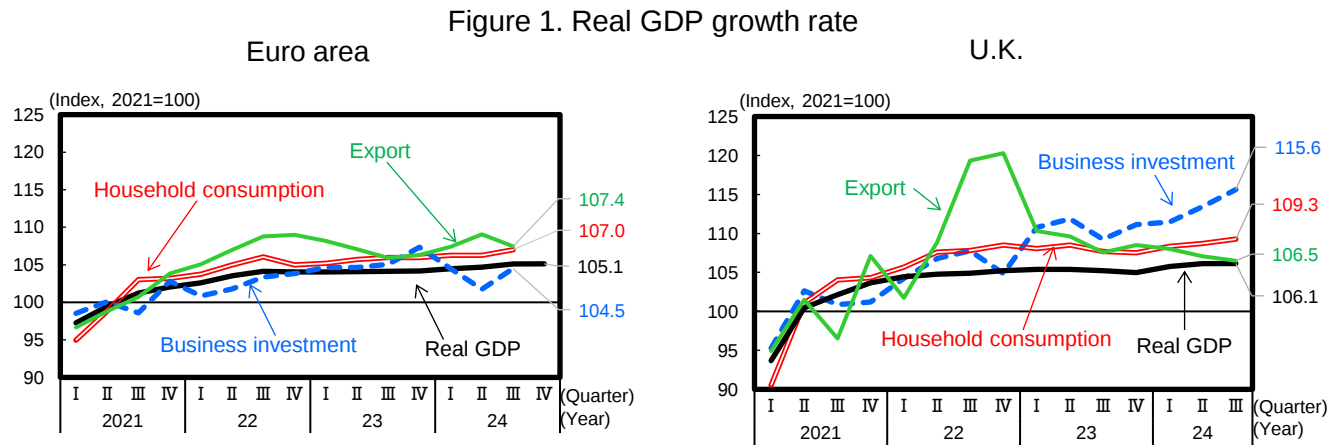
- The GDP of the four largest states in terms of population accounts for nearly 40% of the national GDP. Those states' economic size is depicted and compared with major economies (Figure 1). California, in the region called the “Sun Belt”, has the largest economic size, and has achieved economic growth mainly with the information industry (Figures 2 and 3). After the COVID-19 pandemic, the growth of value added accelerated in knowledge-based industries, such as information industry, led with the four largest states (Figure 4).
- The ratio of those employed in the manufacturing is large among the states in the region called the “Rust Belt”, and economic growth in these states has left behind the national GDP after the pandemic (Figures 5 and 6).



(Sources) (Figure 1) U.S. Department of Commerce, and IMF. (Figures 2, 3, 4 and 6) U.S. Department of Commerce. (Figure 5) U.S. Department of Labor. "Ratio of those employed in the manufacturing industry" is the ratio of employees in the manufacturing industry to all employees in non-agriculture sectors.

2-4 World Economy (4) (Economic Trends in Europe)

- European economy is showing recovery, although some parts of the Euro area are in somewhat stagnation. British economy is recovering. (Figure 1).
- While the economy is recovering in the U.K., mainly by domestic demand (consumption, business investment), in the Euro area, household consumption is sluggish due to a stronger intention for savings in response to employment uncertainty (Figure 2), and business investment is weak due to a downturn in investment confidence against the backdrop of an unclear policy outlook.
- Exports of goods from the Euro area to China are sluggish due to the decrease in automobile exports (Figure 3). Exports of Service from the U.K. are gradually increasing, led by its exports to the U.S. (Figure 4).



(Sources) (Figure 1) Eurostat, and U.K. Office for National Statistics. Seasonally adjusted. (Figures 2 and 3) Eurostat. (Figure 2) Seasonally adjusted. (Figure 3) Figures in () are the composition ratio based on the nominal figures in 2023. (Figure 4) U.K. Office for National Statistics. Figures in () are the composition ratio based on the nominal figures in 2023.

2-5 World Economy (5) (Risk Factors for the World Economy)

- According to the OECD economic outlook, the world economy is projected to grow steadily by 3.3% in 2025 (Figure 1). However, it is necessary to keep a close watch on risk factors as follows.
- The U.S. trade policy may have direct or indirect impacts on the world economy (Table 2).
- While the FRB started to cut the policy rate, U.S. policy rate still remain higher compared to the neutral interest rate (Figure 3).
- Geopolitical risks, such as the growing tension in the Middle East, still remain. Those risks may have an influence on the global prices trend through energy prices.

Figure 1. Real GDP growth projections in the world and each country by OECD (December 2024)

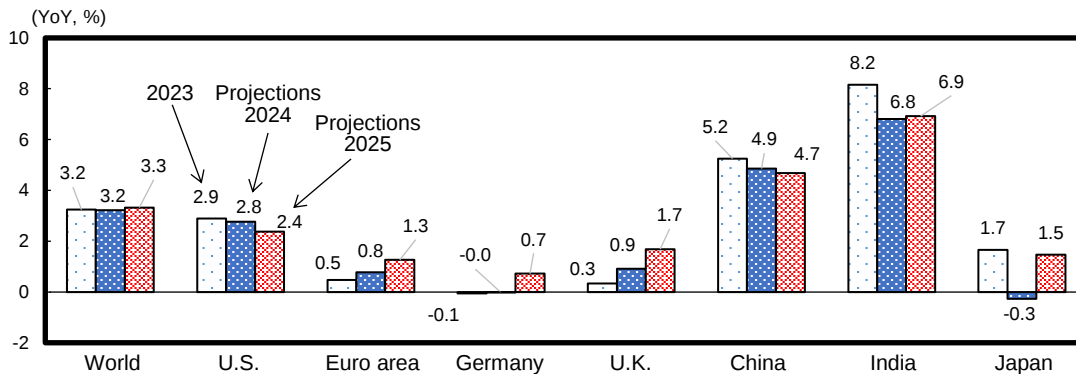


Figure 3. Changes in policy rates in the U.S.

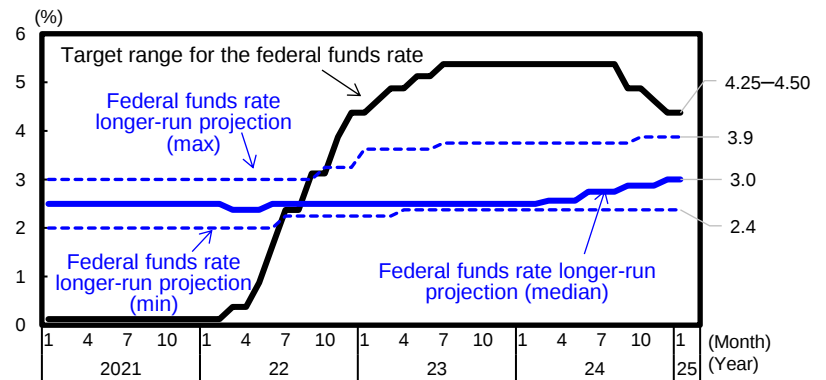


Table 2. Major Executive Orders signed by President Trump after taking office (as of February 11)

■ Trade policy

“America First Trade Policy” (signed on Jan. 20)

- Instructing to investigate the causes of the country's large and persistent annual trade deficits and economic and national security risks resulting from such deficits, and report the results to the President, by April 1

Tariff measures against China, Canada, and Mexico (signed on Feb. 1)

- Designated the threat caused by illegal migration and drugs such as fentanyl as a “national emergency” according to the International Emergency Economic Power Act (IEEPA), and imposed tariffs on presidential authority.
 - Additional ad valorem tariffs of 10% will be imposed on imports from China and 25% on imports from Canada and Mexico until the emergency is eased (10% tariff on energy sources imported from Canada).
- The tariffs against China will start on February 4, while the tariffs against Canada and Mexico will be suspended until March 4.

Tariff measures against imports of steel and aluminum (signed on Feb. 10)

- From March 12, a 25% ad valorem tariff will be imposed on all steel and aluminum imports. All existing general approved exemptions to the tariff will become null and void.

■ Energy policy (signed on Jan. 20)

- Declaration of a National Energy Emergency
- Promotion of energy prospect/production
- Executive Order by the Biden administration on the promotion of EVs (ensuring that 50% of new vehicle sales be EV or hybrid by 2030) is abolished

■ Immigration policy (signed on Jan. 20)

- Declaration of emergency at the southern national border and increasing border security
- Eliminating illegal migration and the tightening of immigration policies

■ Measures against the high cost of living (signed on Jan. 20)

- Increasing the housing supply by significantly reducing housing expenses
- Abolishing climate change countermeasures that raise food and fuel costs

■ Establishment of the Department of Government Efficiency (signed on Jan. 20)

■ Withdrawing from the Paris Agreement and the WHO (signed on Jan. 20)