

China's Indigenous Slowdown

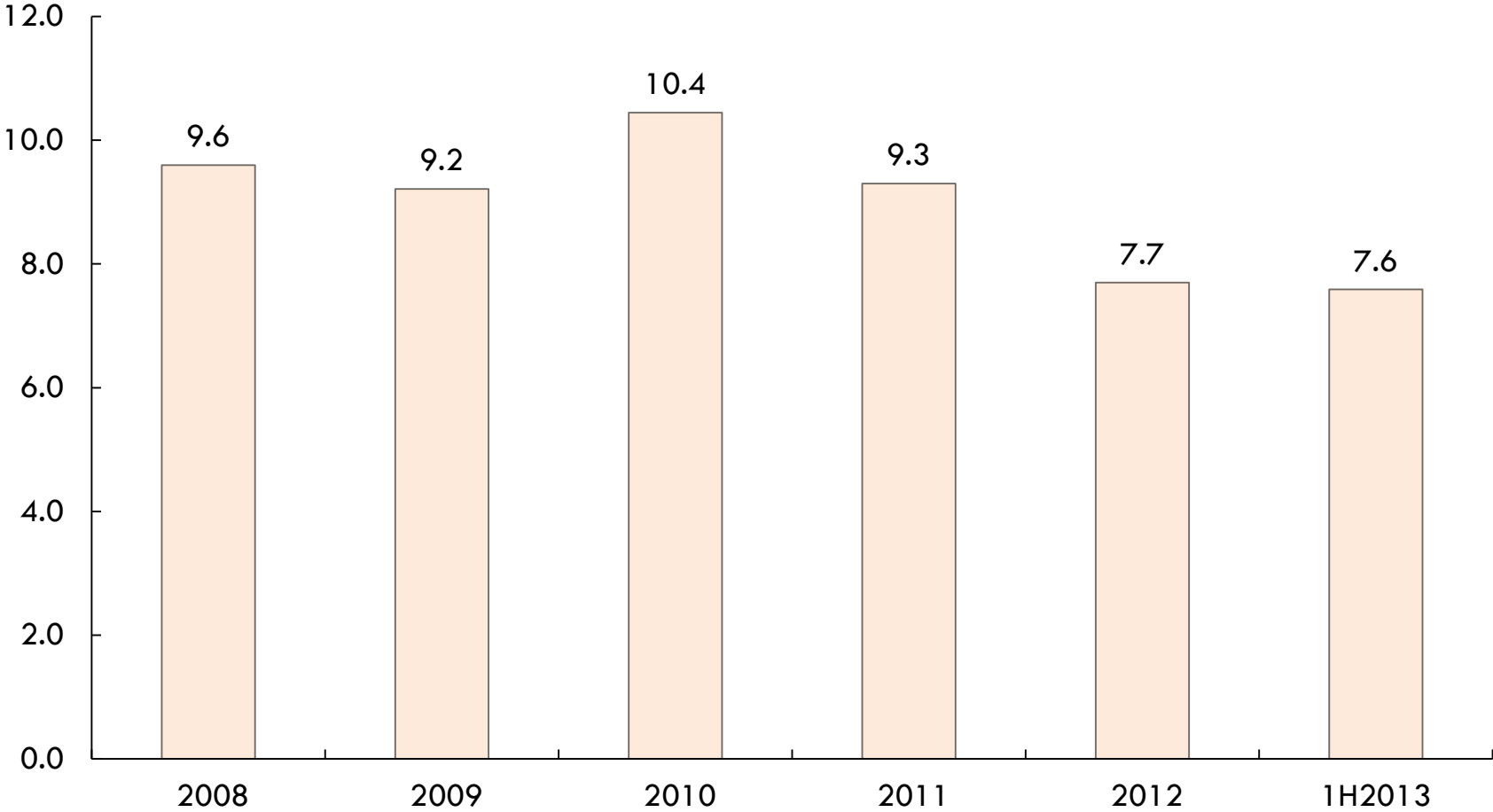
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Chinese growth has slowed

Real GDP Growth, 2008-2013

Growth Year over Year

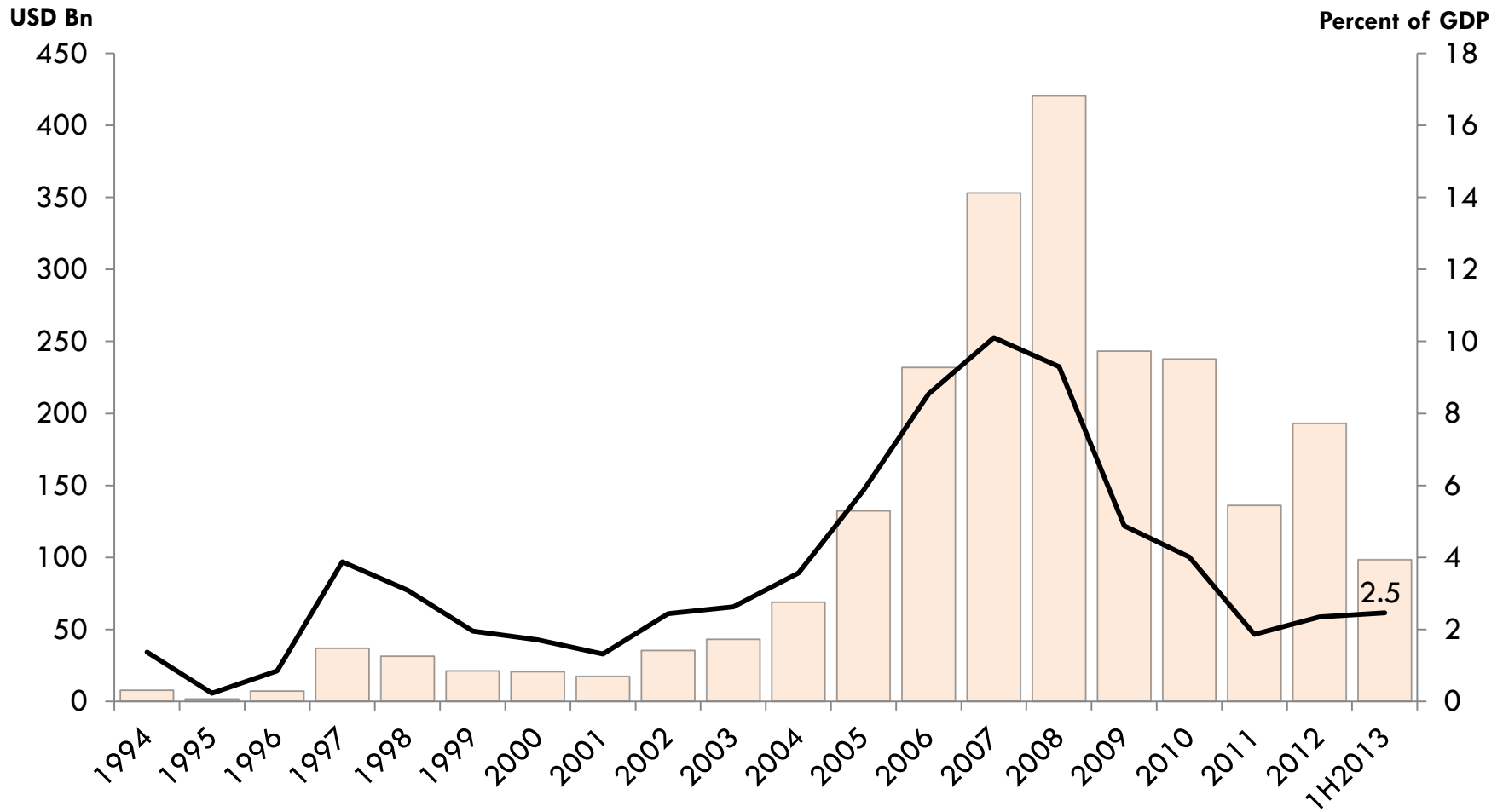


The latest upswing of US interest rates will again hit the overvalued emerging markets hardest. This time China is the most exposed.

- Charles Dumas, chairman and chief economist at Lombard Street Research. Financial Times. September 18, 2013.

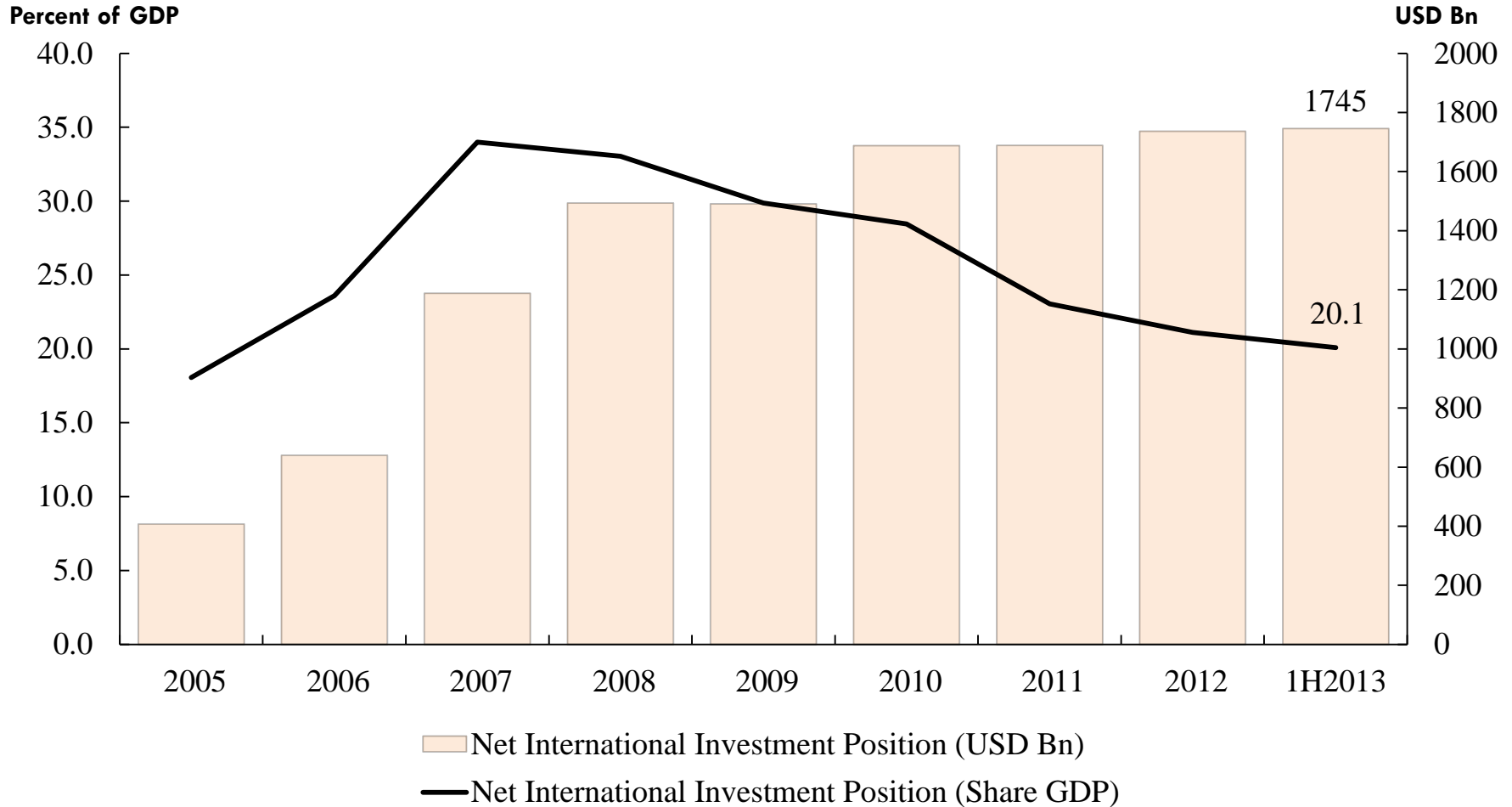
China's trade surplus remains large...

Current account balance, 1994-1H2013



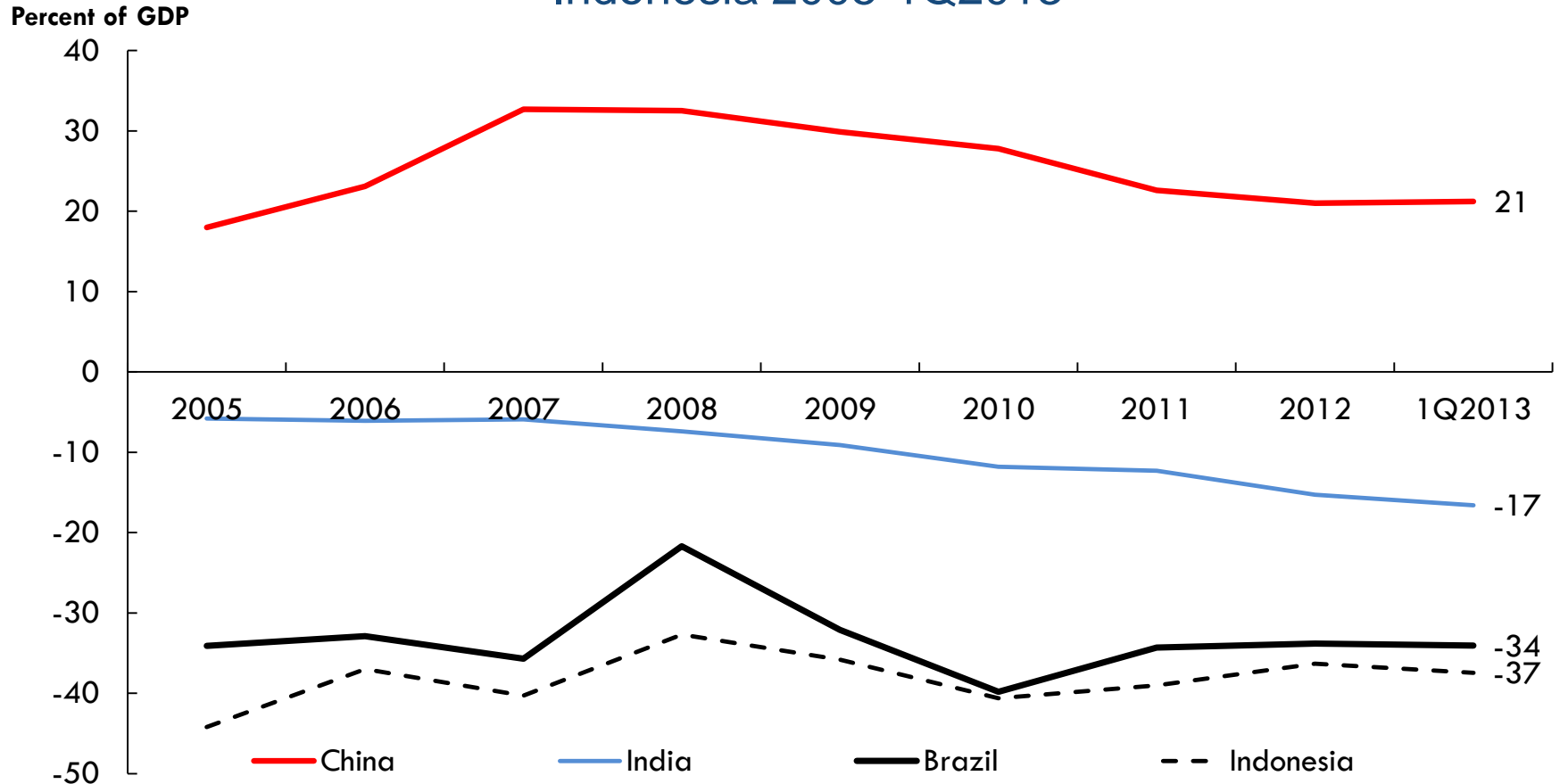
...And it is the world's second largest creditor...

China's net international investment position, 2005-1H2013



...unlike other emerging markets...

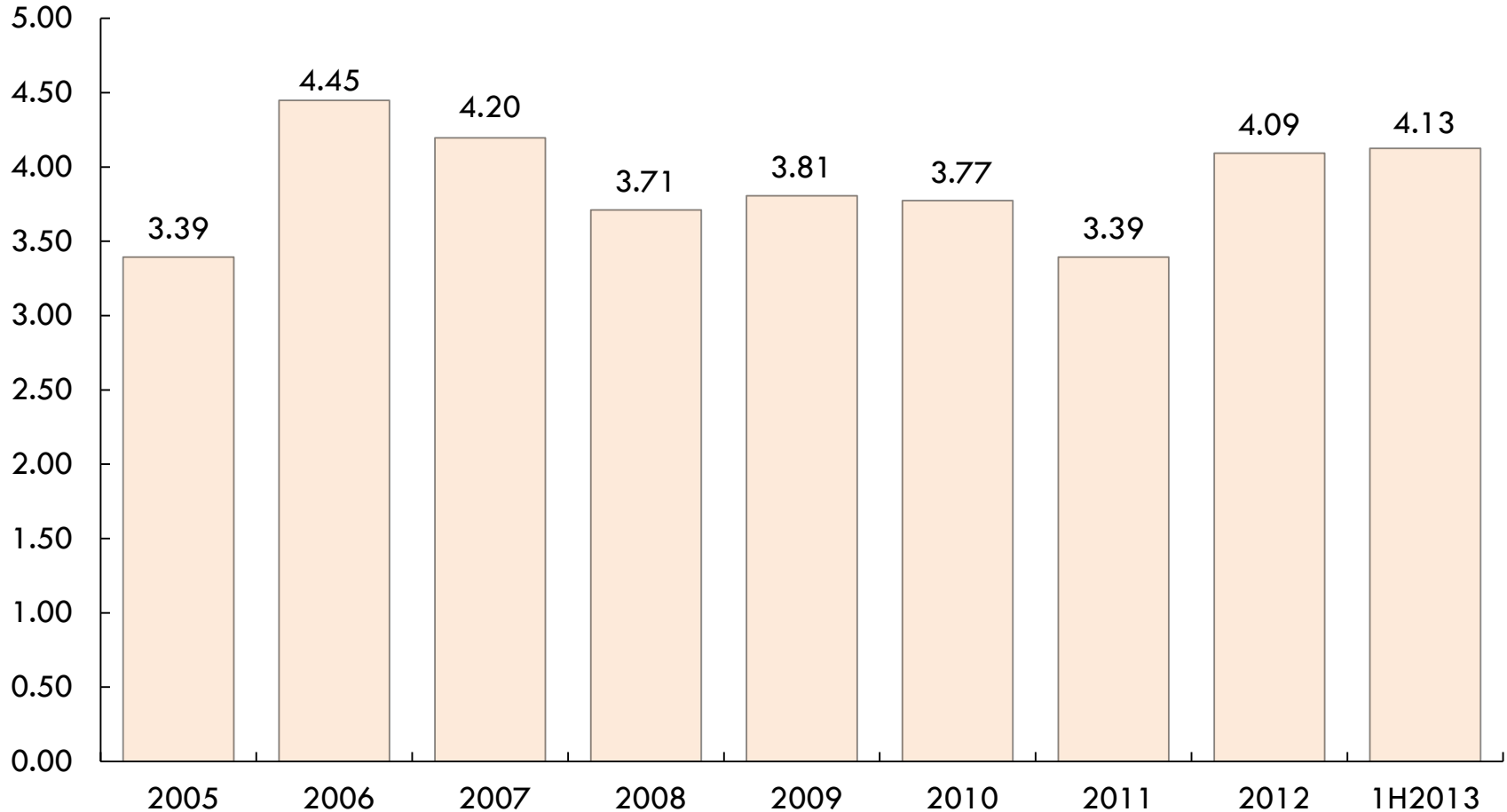
Net international investment position of China, India, Brazil, and Indonesia 2005-1Q2013



...it also has limited exposure to hot money

Gross Foreign portfolio investment in China, 2005-1H2013

Percent of GDP





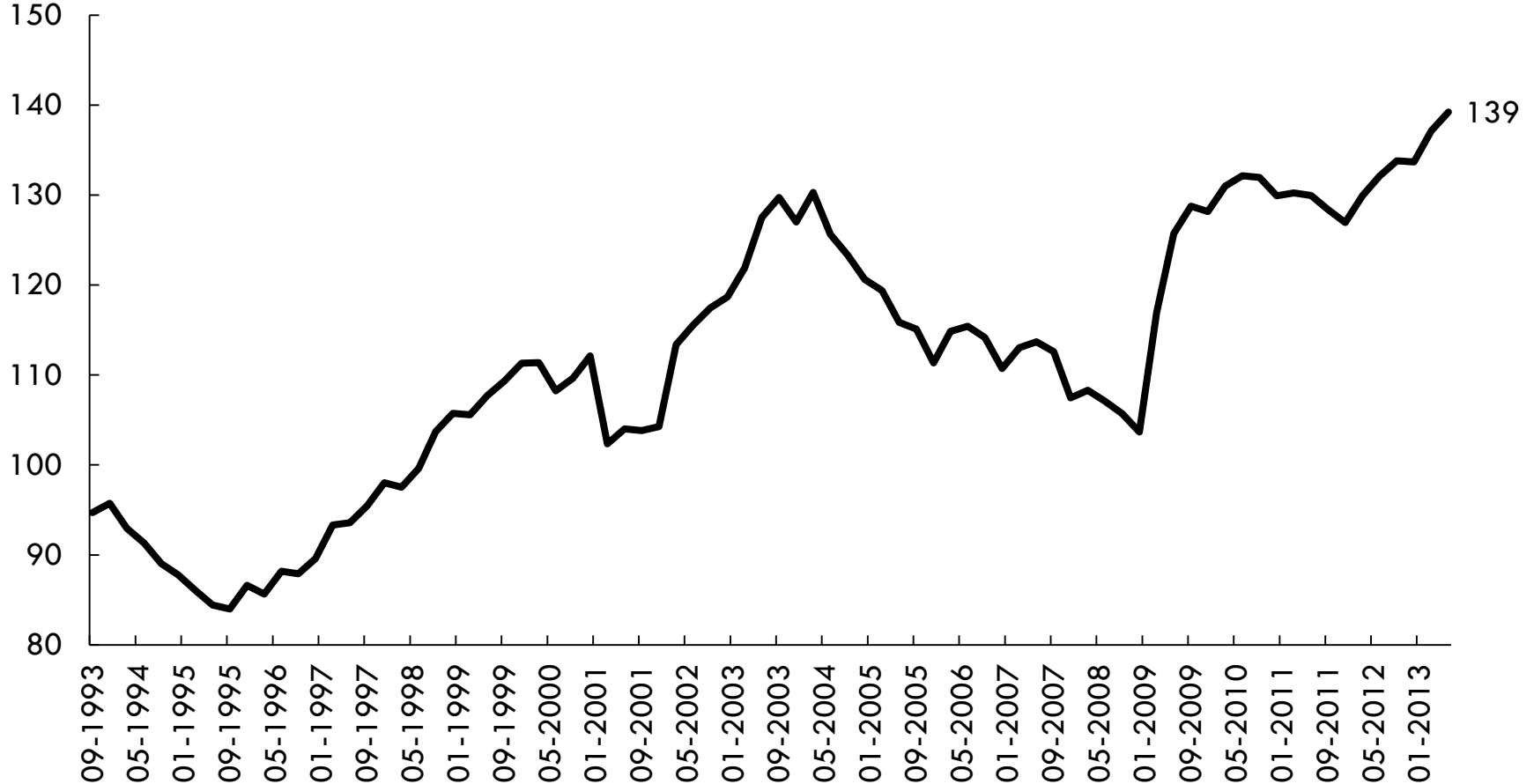
The financial situation in China has become quite alarming. Cracks are appearing all through its financial structure as a result of debt-fueled overinvestment...There's likely to be big trouble coming in the next year or two.

- *George Magnus, a London-based economist and independent advisor to UBS*

China's rapid credit growth is a concern...

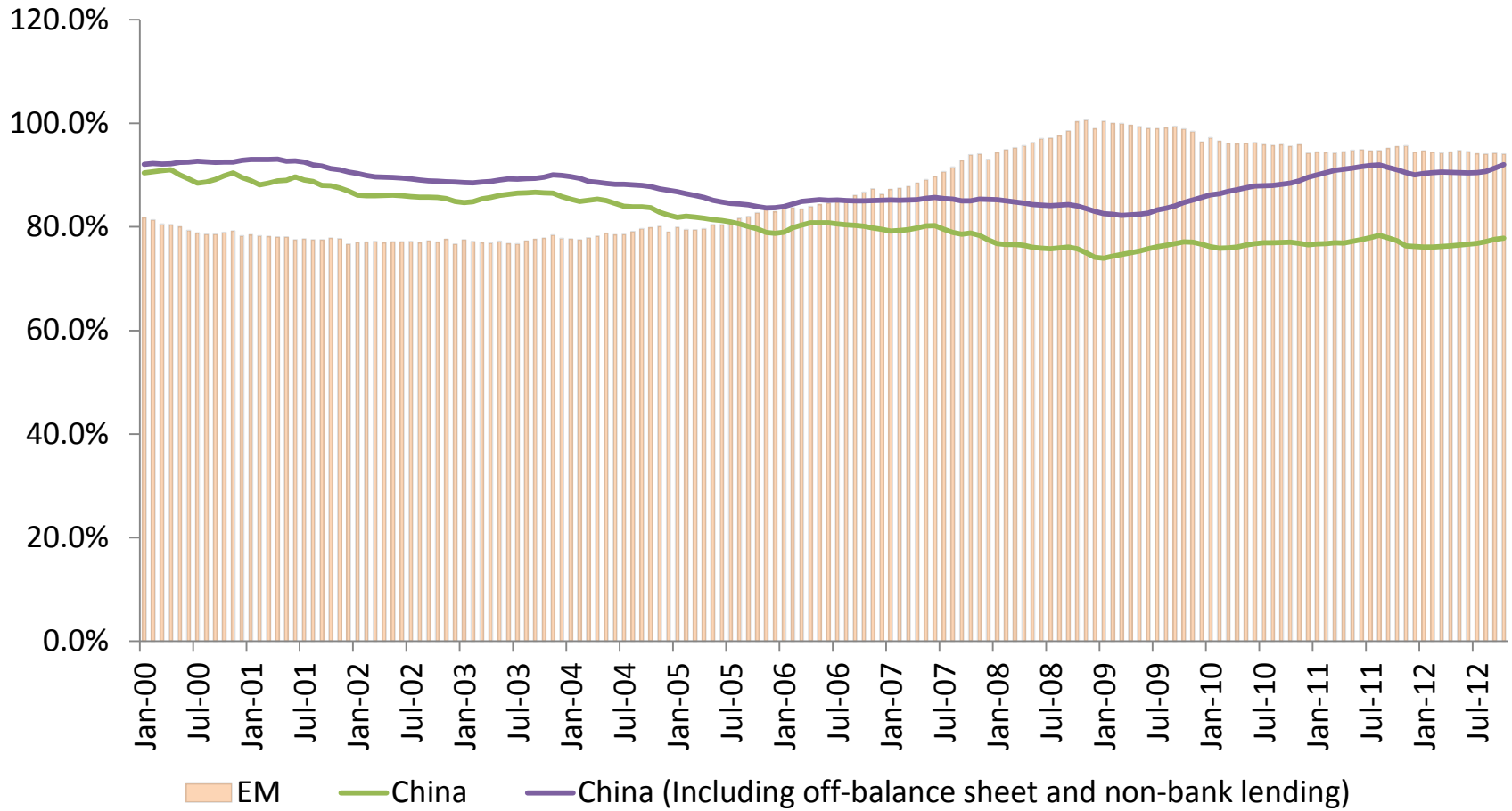
Bank Credit to the private sector, 1993-2013

Percent of GDP



...yet China is not unique among EMs

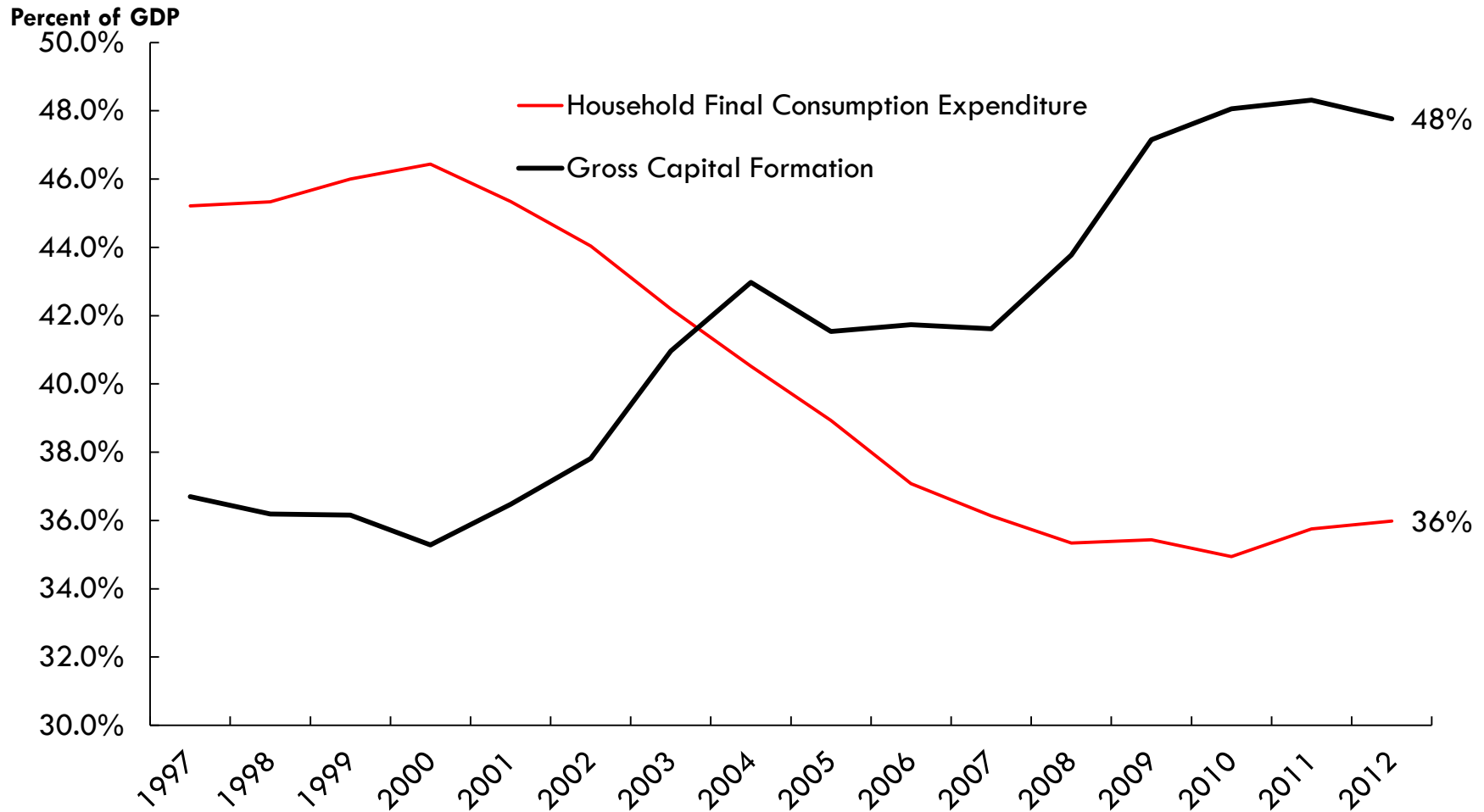
Total credit to private sector/deposit ratio, 2000-2012



Source: John Anderson

But unbalanced growth is more serious

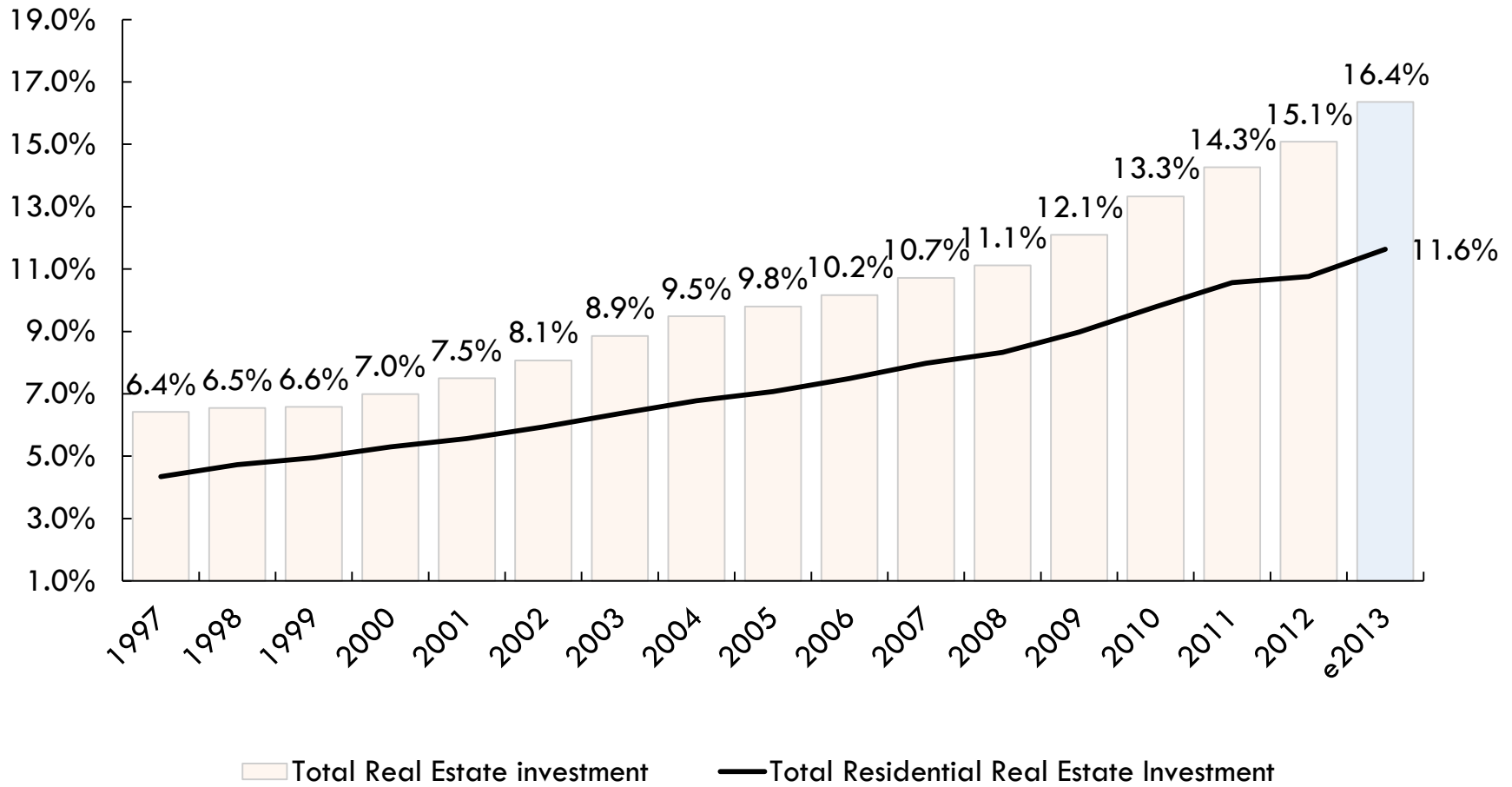
Investment and Consumption, 1997-2012



Property investment is still growing too fast...

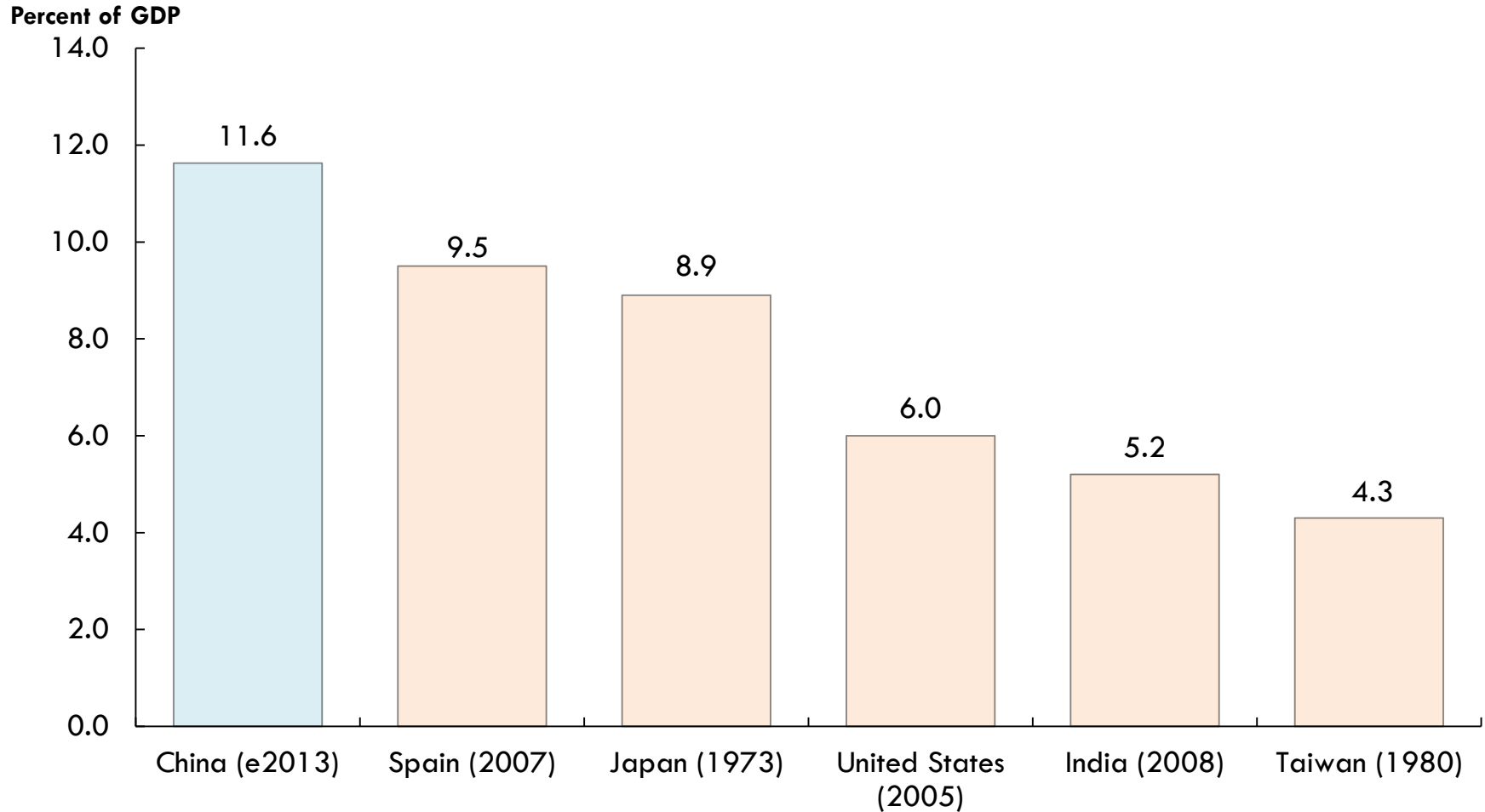
Property investment, 1997-2013

Share of GDP



...And could be creating a bubble

Peak investment in residential housing, 2013



China Economic Watch

- Details on rebalancing are examined quarterly in posts by Nick Borst available at:

<http://www.piie.com/blogs/china>

Leading indicators now slightly negative

Rebalancing Score (out of 25)

