AXIS
FINANCIAL GROUP

ECONOMIC INDICATORS

Edition 5

> *“Economic growth without social progress lets the great majority of people remain in poverty, while a privileged few reap the benefits of rising abundance.”*
>
> John F. Kennedy

GLOBAL ECONOMIC OUTLOOK

In this edition of our Economic Indicators publication, we take a look at what is unfolding in the global economy and invite you to formulate your own opinions.

The International Monetary Fund (IMF) reported in the World Economic Outlook Update published January 2022 that the global economy is in a weaker position than previously expected going into 2022.[1]

Global growth is expected to fall from 5.9% in 2021 down to 4.4% in 2022 with the contraction mainly due to the forecast economic markdowns of the United States and China.[1]

UNITED STATES V CHINA

To gain a perspective on the overall health of the global economy let’s take a look at some economic indicators for the 2 biggest economies in world, the United States and China.

<table>
<tr><th>Indicator</th><th colspan="6">United States</th><th colspan="6">China</th></tr>
<tr><td rowspan="2">National Debt (Public Debt)[2]</td><td colspan="3">Nov 2020</td><td colspan="3">Nov 2021</td><td colspan="3">Nov 2020</td><td colspan="3">Nov 2021</td></tr>
<tr><td colspan="3">$27.2 trillion USD</td><td colspan="3">$28.9 trillion USD</td><td colspan="3">$7.38 trillion USD</td><td colspan="3">$8.26 trillion USD</td></tr>
<tr><td rowspan="2">GDP (Real GDP Annual % Change)[1]</td><td colspan="2">2021 Estimate</td><td colspan="2">2022 Projection</td><td colspan="2">2023 Projection</td><td colspan="2">2021 Estimate</td><td colspan="2">2022 Projection</td><td colspan="2">2023 Projection</td></tr>
<tr><td colspan="2">5.6%</td><td colspan="2">4.0%</td><td colspan="2">2.6%</td><td colspan="2">8.1%</td><td colspan="2">4.8%</td><td colspan="2">5.2%</td></tr>
<tr><td rowspan="2">Inflation</td><td colspan="3">Jan 2021[3]</td><td colspan="3">Jan 2022[3]</td><td colspan="3">Jan 2021[4]</td><td colspan="3">Jan 2022[4]</td></tr>
<tr><td colspan="3">1.4%</td><td colspan="3">7.5%</td><td colspan="3">-0.3%</td><td colspan="3">0.9%</td></tr>
<tr><td rowspan="2">Interest Rate</td><td colspan="3">Jan 2020[5]</td><td colspan="3">Jan 2022[5]</td><td colspan="3">Jan 2020[6]</td><td colspan="3">Jan 2022[6]</td></tr>
<tr><td colspan="3">1.75%</td><td colspan="3">0.25%</td><td colspan="3">3.8%</td><td colspan="3">3.7%</td></tr>
</table>

Key Observations

Over the 12 months from Nov 2020 to Nov 2021:

- United States National Debt rose by $1.70 trillion USD or 6.2%
- China National Debt rose by $0.88 trillion USD or 11.92%

Since the start of the pandemic United States National Debt has increased by $7.4 trillion USD or 33%

- US National Debt End of 2019 Prior to COVID-19 = $22.7 trillion USD
- US National Debt as at Feb 2022 = $30.1 trillion USD

GDP Growth is projected to contract for both United States and China in 2022.

GDP Growth in China is projected to expand in 2023.

United States inflation levels have reached 7.5% which is the highest it has been in 40 years.

UNITED STATES

With inflation at a 40-year peak, the expectation is that it is likely the United States will start to take measures to bring it down.

What exactly is inflation?

Investopedia defines inflation as the decline of purchasing power of a given currency over time. As a currency loses value, prices rise and it buys fewer goods and services. This loss of purchasing power impacts the general cost of living for the common public which ultimately leads to a deceleration in economic growth.[7]

The most commonly used inflation indexes are the Consumer Price Index (CPI) and the Wholesale Price Index (WPI). A higher rate of inflation tends to raise the value of tangible assets such as property or stocked commodities.[7]

Why is inflation on the rise?

According to the IMF, in the United States and many other developed and emerging markets, rising energy prices and supply disruptions have resulted in increased inflation levels. However, these factors noted by the IMF merely equate to symptoms of inflation as opposed to being the cause.[1]

It is interesting to contrast the IMF's reasoning for inflation against the reasoning provided by global economy expert Daniel Lacalle contained in an article titled 'The Myth of Cost Push Inflation'.

Within the article Lacalle explains that "by definition all inflations are defined by more units of money used in the same number of transactions." Central Banks are responsible for increasing the number of units of money in the economy. "There is therefore only one cause of inflation and that is the action of a Central Bank who, in a modern economy, manage the stock and flow of money in that economy".[8]

What are the impacts of rising inflation?

Higher inflation levels signal a need for the tightening of monetary policy which equates to increasing the cash rate which effectively results in increased interest rates on loans within the money market. Higher interest rates mean less disposable income to spend meaning less money available for everyday consumers to spend in the economy.

Effectively, high inflation leads to a fall in living standards for the overwhelming majority of the population.[8]

CHINA

China's GDP is projected to rise in 2023 but how solid are its foundations?

In the latter part of 2021, financial troubles became evident within Evergrande, China's largest real estate developer and questions were raised about the volatility of China's real estate sector in general. It's worth considering if the extent of the risks that have accumulated in the Chinese real estate sector might cause a property bubble scenario and what ripple effects this may have on the rest of the global economy?[9]

JP Morgan reports that 25% of China's GDP comes directly or indirectly from the real estate sector. This may not appear to be problematic on the surface. However, many of China's real estate developers adopt aggressive leverage practices, operating on an indebtedness chain model. Currently, 10 units of debt are required to generate 1 unit of GDP. This ratio is 3 times more than what it was a decade ago.[10]

China's real estate sector has 3 key issues:

- Size of sector.
- Excessive leverage.
- Type of investors in sector (i.e. average households and retail investors).

In an article titled 'China Will Not Be Able to Offset Its Property Bubble Easily', global economy expert Daniel Lacalle writes "consider real estate bubbles of the past where the average size of the sector was somewhere between 15 to 20% of a country's GDP. Historically, no economy has been able to ignore a property bubble and even less so offset it and continue to grow replacing the bust of the real estate sector with other parts of the economy."[11]

Lacalle explains that "the main concern with a real estate bubble is excessive leverage. Developers take on too much debt and the smallest decrease in housing prices makes equity vanish and solvency ratios collapse."[11]

He ends his analysis with "The Chinese government may be able to contain the financial implications via liquidity injections and bank direct and indirect bailouts however it cannot offset the real estate sector impact on the real economy which will mean weaker growth, higher risk, lower consumption and investor appetite for China exposure."[11]

MARKET VOLATILITY - KEY CONSIDERATIONS FOR 2022

- High inflation levels.
- Removal of monetary stimulus programs.
- Rising interest rates.
- Stagflation (high inflation combined with low growth).
- Chinese real estate bubble.

CONTACT AXIS

As super specialists, we have a keen awareness of key economic indicators and have been assisting individuals with growing and protecting their super for over 25 years.

Give us a call on **1800 111 299** or email **super@axisfg.com.au**

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