



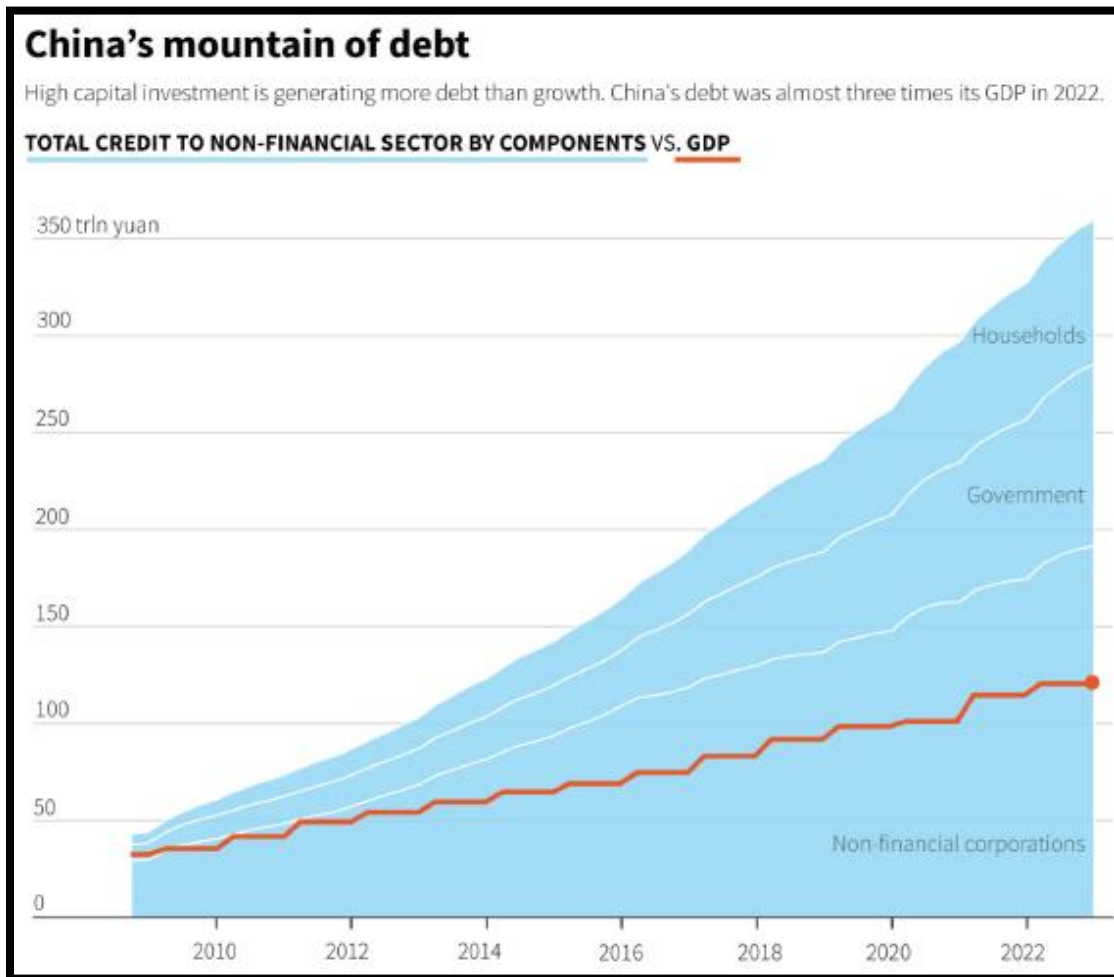
China's Economic Puzzle

March 22, 2024

We're all accustomed to thinking of China as the fastest-growing economy in the world, but recent events have had global investors rethinking that story. At the start of the year, the Chinese stock market fell to five-year lows, and the economy is in the middle of a scary bout of deflation. Chinese stocks are selling at an aggregate PE of 7, compared with 22.2 for the U.S. S&P 500. Consumer prices are down roughly 1% from last year and deflation is predicted for this year as well.

At the same time, home prices have declined at an 8.5% rate, and a series of defaults from over-leveraged developers has triggered a collapse in commercial properties. This is significant since so much of Chinese wealth is tied up in real estate.

In the past, the Chinese government has propped up economic growth with stimulus spending on infrastructure, to the point where the country now has super-fast train systems with excess capacity and gleaming skyscrapers sitting empty. The Chinese central bank recently cut interest rates by 100 basis points, hoping that would trigger more borrowing and spending, but total debt of 350 trillion yuan—three times the country's gross domestic product—makes you wonder how much more debt the nation's citizens, companies and government would be willing to take on.



*Note: Data through 2022. Credit to households includes that to non-profit institutions serving households (NPISH).
Source: Refinitiv data stream; BIS | Reuters, July 17, 2023, | By Kripa Jayaram*

The recipe for escaping a recession or even a depression is relatively clear: clean up the property sector, restructure municipal and developer-related debt, and switch to an economic model that doesn't rely on ever-increasing amounts of debt-fueled stimulus spending. But nobody seems to expect the Chinese leadership to take drastic or even ambitious measures in those directions. Their goal, as one analyst put it, is to 'maintain social stability,' which can be translated to mean: staying in power regardless of the economic consequences.

Sources:

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If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

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