



Key Developments¹ & Chart of the week

22 Oct 2021

China's GDP slows to a crawl; the Euro area continues steadily; US IP falls on chip shortages

	Outcome	Previous	Comment
China GDP (Q3, q-o-q)	+0.2%	+1.2%	A bit weaker than expected
Japan exports (Sep, m-o-m)	-6.5%	-3.7%	Sharp fall in vehicle exports
Japan 'core' CPI (Sep, y-o-y)	-0.5%	-0.4%	Deflation continues unabated
US IP (Sep, m-o-m)	-1.3%	-0.1%	Vehicle production down 7.2%
Taiwan export orders (Sep, m-o-m)	+6.5%	-3.7%	Chip shortage may be easing
Euro area composite PMI (Oct)	54.3	56.2	Unspectacular but fairly steady
Central Banks	Turkey cuts, and twice as much as expected. Hungary hikes		

China GDP growth. Further slowing

- China's economy grew by a weaker-than-expected 0.2% in Q3, and estimates for 3 of the 4 past quarters were revised down slightly, resulting in growth over the year to Q3 of just 4.9%.²
- This weaker-than-expected growth was due not only to natural disasters, Covid-19 disruptions, and energy shortages, but also to fundamental longer-term factors – see our piece on this.³

Japan trade. Exports affected by semiconductor chip shortage

- Japan recorded a merchandise trade deficit of ¥625bn in September, its fifth such in a row, and the largest since last May 2020. Export volume fell 6.5%, to its lowest level since last October.⁴
- Meanwhile Japan's ex-food-and-energy CPI fell 0.5% over the year to September, the sixth consecutive month in which its annual 'core' inflation rate has been negative.

US industrial production. A further fall

- The 1.3% fall in September leaves the level still 2.7% below its August 2018 peak. A 7.2% chip-shortage-induced plunge in auto production was the main culprit.⁵

Taiwan export orders. Chip shortage may just be starting to ease

- The 6.5% rise in September⁶ suggests that the global chip shortage may just be starting to ease.⁷

Euro area composite PMI. Steady as it goes

- Positive output growth expectations continue in the EU (54.3) and in the UK (56.8).

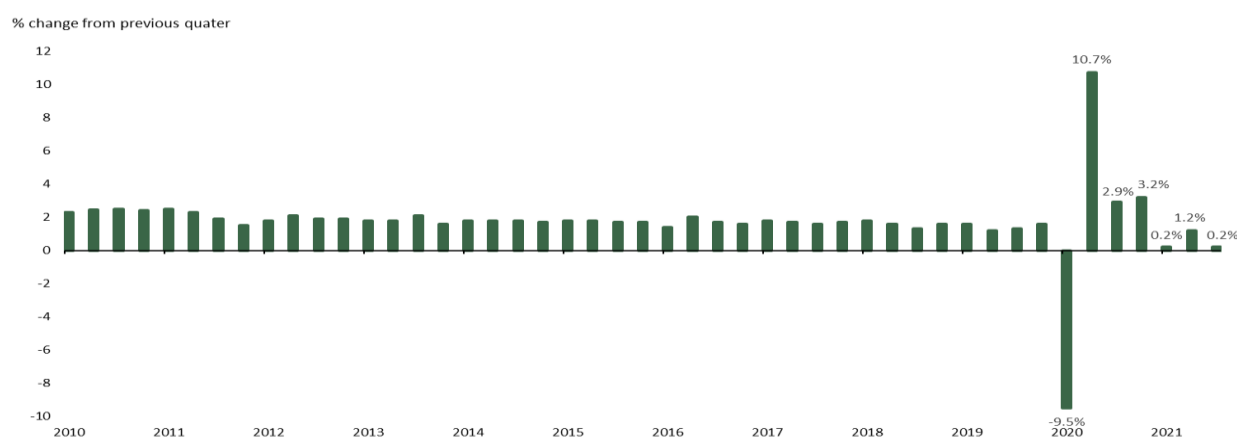
Central banks. Turkey cuts again despite 19%+ inflation, while Hungary hikes again

- Turkey's central bank cut its main policy interest rate by 200 bp to 16%, following a 100 bp reduction last month.⁸ This came despite annual inflation having risen to 19.6% in September.⁹
- Conversely Hungary's central bank raised its policy rate by another 15 bp to 1.80%.¹⁰

- Bottom line:** *provided that inflation moderates, our World View will remain intact*

Chart of the week. China's GDP growth seems to have slowed to a crawl

- Following the highly distorted 2020 figures, the three quarterly growth figures in 2021 have been extremely low



Source: Macrobond, Saul Eslake, and Llewellyn Consulting

¹ **Key Developments** presents what in our judgement represent the past week's most important individual data, policy announcements, and any other developments that may support, or challenge, our understanding of the way in which key economies and financial markets are evolving.

These weekly judgements are cumulated and assessed in our quarterly **World View & Risks**. When an issue warrants particular consideration, we examine it in detail in our **Analysis** pieces. And when in our judgement the accumulated evidence warrants it, we modify our quarterly **World View & Risks**.

² With the exception of the first half of 2020, this 4.9% growth in China's GDP over the year to Q3 was the slowest since China began publishing quarterly GDP estimates in Q4 1991. Monthly partial indicators for September were also weak, including: industrial production up only 3.1% from a year earlier; real retail sales up 4.4% (which was an improvement from 2.5% in August, but still weak by historical standards); year-to-date fixed asset investment down 8.9% from the first nine months of 2020; and house prices up 'only' 3.8% from a year earlier (the smallest increase since February 2016).

It is notable that thus far there has been almost no policy response to the slowdown.

³ For a detailed presentation on China's slowing GDP growth, including the basic reasons for it, see Saul Eslake's recently-published *China's continuing growth slowdown*, Llewellyn Consulting | Independent Economics, 23 October 2021. Available on request.

⁴ This was due largely to a 35% fall in the volume of motor vehicle exports, the result of the world-wide shortage of semiconductor chips.

⁵ While US auto production was almost 16% down from its most recent peak, most other areas too recorded falls, partly as a result of weather-related disruptions (principally Hurricane Ida). Housing starts were also affected by adverse weather events and shortages of some building materials in September, falling 1.6% after a 1.2% increase in August. Building permits issued, a leading indicator of starts, fell by 7.7% to their lowest level in 12 months.

⁶ This after falling in three of the four previous months.

⁷ Notably, orders for ICT products (including semiconductor chips, of which Taiwan is by far the world's leading manufacturer) rose 9.2%.

⁸ While a rate cut had been expected following the sacking of the three Monetary Policy Committee members (including the two Deputy Governors), who had opposed last month's rate cut, the move was twice as much as had been expected.

⁹ The FX market indicated its assessment of TCMB's commitment to "take its decisions in a transparent, predictable and data-driven framework" with a 2½% fall in the lira to a new low of 9.53 to the US\$.

¹⁰ This was Hungary's fifth successive rate increase, and the central bank indicated that further increases were likely in coming months.

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