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Independent Thinking

Round-up: from UK corporate debt to Chinese housing glut

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Charts editor

Last month Fathom's economists looked at trends that could have an impact in 2022, including the relentless growth of China's bloated stock of housing, and possible opportunism by UK corporates. Read on for a round-up of some of the economic insights Fathom sent to clients in December, with topics including:

Have UK corporates been too opportunistic?

China's massive housing glut grows

Where will Xi set the growth path for 2022?

China remains a crucial market for US firms

Have UK corporates been too opportunistic? (1 December 2021)

- Corporates in Western advanced economies have become more indebted during the COVID-19 pandemic
- A sharp rise in borrowing from banks has been driven by government-guaranteed business support schemes; by comparison, use of commercial paper has been limited and bond issuance continues its pre-pandemic trend
- In parallel, since the onset of the pandemic, UK corporates have issued new equity almost equivalent to the amount borrowed from banks
- Many things matter to companies that issue equity, but an important driver is when business owners come to the conclusion that that their share price is strong relative to the fundamental value of the company
- This suggests that UK corporates may have been taking advantage of a buoyant equity market to cash in; and that potentially signals some downside to equities ahead

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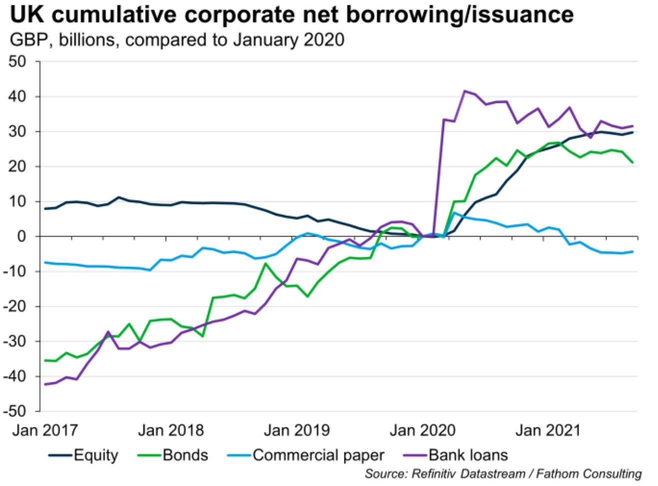

China's massive housing glut grows (8 December 2021)

- China has been pouring money into residential construction for years: the excess stock of housing is far larger than we previously thought
- In addition to the stock of housing 'under construction', it seems that there is a rapidly growing stock of housing whose construction has been 'paused' and not restarted

- Some of this stock will have been demolished, though it is unclear how much
- We do not know and cannot estimate the starting level of this additional stock of housing, but we do know how much it has contributed to the overall housing excess in recent years (illustrated in the chart below)

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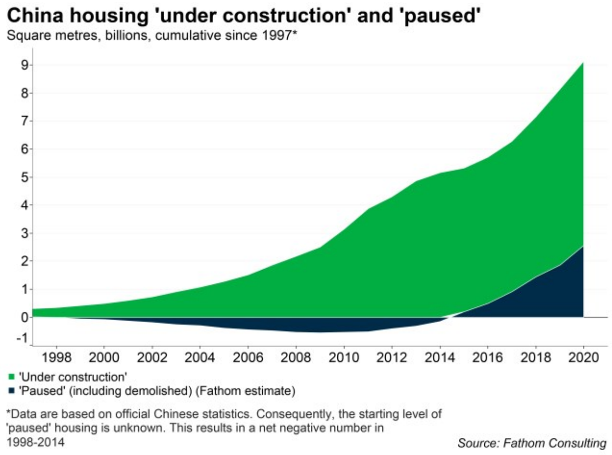

- The opacity of the data means it is very difficult to be sure, but it seems likely that the combined stock of housing under construction and housing paused but not restarted is in the order of 9 billion square metres, enough to house 225 million people (roughly the population of Brazil) in comfort
- Someone, somewhere, thought that was an investment: they will be disappointed, or bailed out — the Evergrande crisis so far suggests the latter, for homebuyers at least

Where will Xi set the growth target for 2022? (15 December 2021)

- Growth has slowed sharply in China this year, but favourable carry-over effects from 2020 mean the government will easily beat its ‘above 6%’ growth target. The target for 2022 will be announced in March and will provide a guide to the policy stance of the authorities and the possible trajectory for the economy
- Annual growth targets have fallen over the past decade, a reflection of slower trend growth. Current economic headwinds and modest carry-over effects from 2021 H2 will make it challenging to achieve a strong number in 2022
- However, with the 20th National Party Congress due late next year, we expect the authorities will enact policy stimulus, including an acceleration of infrastructure spending, ahead of a potential precedent-breaking third term for Xi
- All things considered, next year’s growth target could well be below 6% —- which would be the lowest for at least 18 years
- Nevertheless, even a 5% target would be consistent with a sharp pickup in the quarterly pace of GDP growth in 2022

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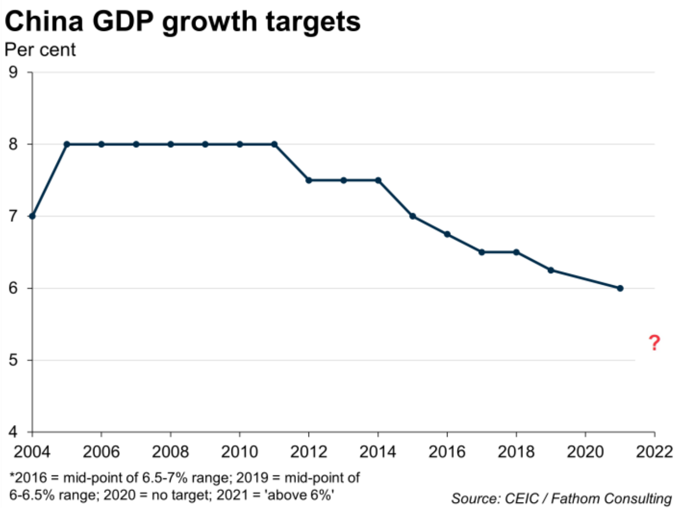
China GDP growth targets



China remains a crucial market for US firms (22 December 2021)

- Talk of Sino-US decoupling remains (mostly) just that, with US multinational corporations (MNCs) keen on exposure to China, owing to its potential as a source for both demand and supply
- US MNCs sell a lot to China, but then China is a large economy. In our first chart, we compare sales by US MNCs in China relative to the size of China's economy on the world stage. Controlling for size in this way we find that penetration of China's markets by US MNCs is relatively low, particularly in comparison to their presence in Canada or the UK, but also in comparison to US penetration in Japan or Korea
- Raising sales by US MNCs in China as a share of all overseas sales by US MNCs by two percentage points from 5.6% to 7.6% would put China on a par with Japan and Korea in terms of penetration, and it would imply $150 billion in additional revenues for US MNCs

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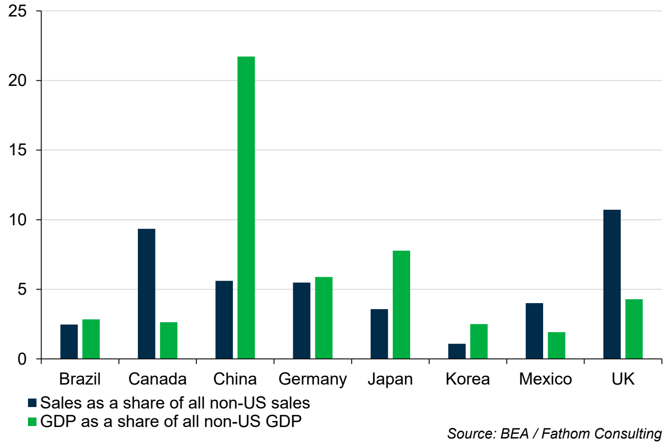
Overseas sales by US MNCs, 2019

Per cent

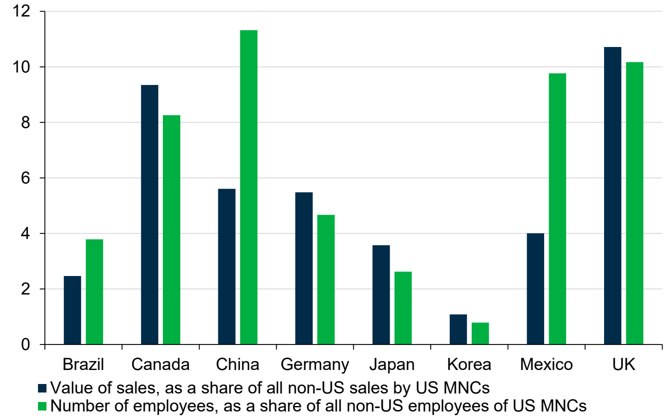


Source: BEA / Fathom Consulting

- While the allure of future sales is important, China's role as a source of supply is probably the more immediate concern
- China accounts for 11.3% of the workforce of US multinationals outside the US — the highest such share in the world, and double its share of sales. This differential is not surprising given the cheapness of China's labour compared with that of other countries

Overseas employment by US MNCs, 2019

Per cent



Source: BEA / Fathom Consulting

- Geopolitical tensions and concerns about intellectual property remain, but US multinationals seem willing to look beyond those for now

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