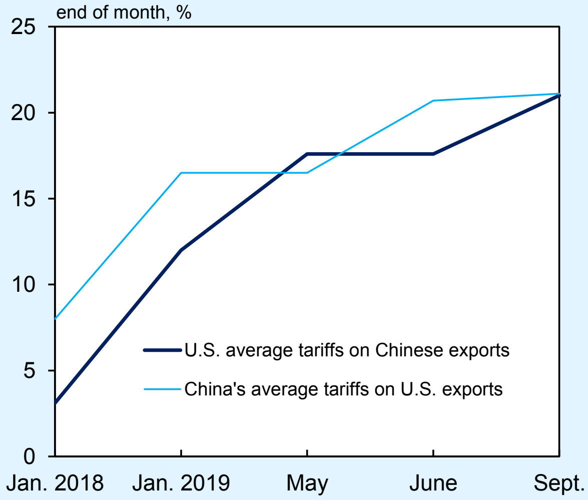
(Box 1) Factors behind the Delay in the Timing of a Pick-Up in the Growth Pace of Overseas Economies

The baseline scenario for overseas economies presented in the October 2019 Outlook Report is that the growth pace is likely to pick up after a period of continued slowdowns. However, it is expected that the timing of a pick-up will be delayed compared to that forecasted in the previous Outlook Report. The main factors behind this delay are (1) the impact of the intensified and prolonged U.S.-China trade friction and (2) the fact that it has been taking some time for the effects of China's fiscal policy to materialize.

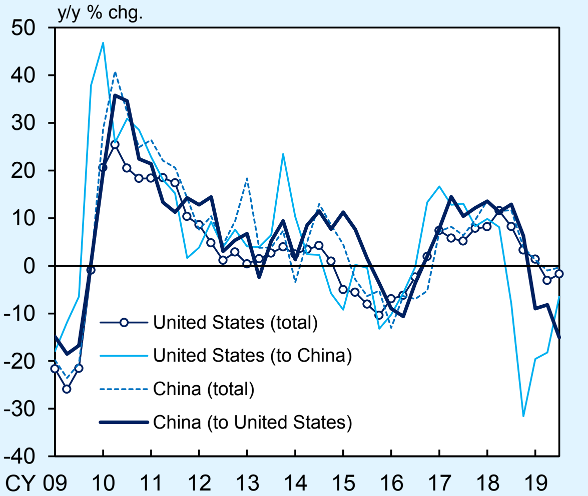
Chart B1-1: Average Tariffs of the United States and China



Source: Bown, Chad P. 2019. "US-China Trade War Tariffs: An Up-to-Date Chart." PIIE Chart, Peterson Institute for International Economics, October 11, 2019. https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart.

With regard to the U.S.-China trade friction, it seems to be intensifying and becoming prolonged as both countries have increased the size of additional tariffs incrementally (Chart B1-1). Under the circumstances, trade activities in the United States and China have been more or less flat, reflecting the decline in the trade volume between them (Chart B1-2). Amid heightening uncertainties such as over trade policy, manufacturers' sentiment has deteriorated and their fixed investment has been somewhat weak (Charts B1-3 and B1-4). This situation in the manufacturing sector caused by the U.S.-China trade friction was pointed out already as a global phenomenon in the previous Outlook Report. The intensified and prolonged U.S.-China trade friction is likely to exert downward pressure on the economy for longer than expected, thereby delaying the timing of a pick-up in overseas economies.

Chart B1-2: Nominal Exports of the United States and China

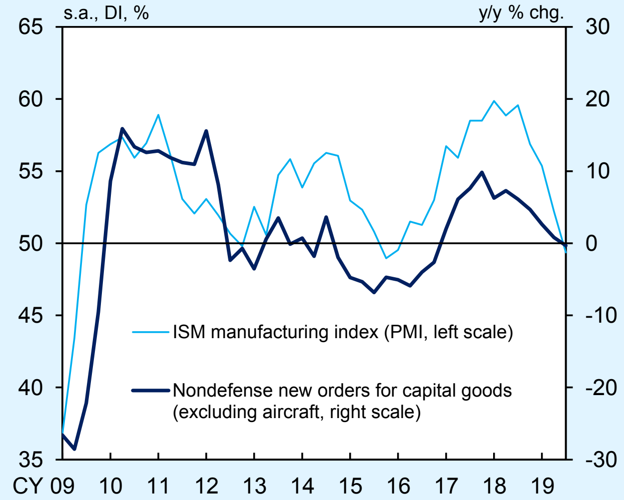


Sources: Haver; CEIC.
Note: U.S. dollar basis. Based on staff calculations. The figure for "Unites States (to China)" for 2019/Q3 is the July-August average.

Regarding China's fiscal policy, the authorities have conducted expansionary measures since the turn of the year with the aim of easing downward pressure on the economy stemming mainly from the U.S.-China trade friction. Such measures include those to reduce corporate burden, such as through tax cuts, and to expand infrastructure investment. The former measures are expected to encourage manufacturers' fixed investment. However, as seen in some weakness in business fixed investment, the effects of the measures have been limited thus far, mainly reflecting the heightening uncertainties mentioned earlier. With regard to the measures for infrastructure investment, local governments' land sales revenues -- which seem to have been allocated to capital for infrastructure investment projects -- have declined, reflecting the central government's stance of attaching importance on deleveraging and stability in real estate prices (Chart B1-5). The issuance of local government special bonds, which is also a means of funding infrastructure investment, has increased; however, this has not necessarily led to an acceleration in the growth rate of infrastructure investment because there are restrictions on the use of funds as capital for investment projects (Chart B1-6).

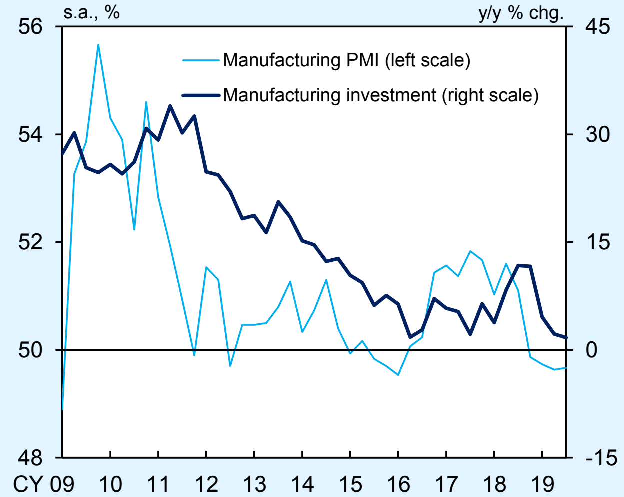
Thus, regarding the effects of China's expansionary fiscal policy, there has been some delay in their materialization. However, these are expected to materialize gradually. The central government has eased the restrictions on local government special bonds recently by, for example, partly allowing their use as capital. In addition, regarding monetary policy, measures to increase lending to manufacturing firms have been implemented in an incremental manner --

Chart B1-3: U.S. Manufacturing PMI and Investment



Source: Haver.

Chart B1-4: China's Manufacturing PMI and Investment



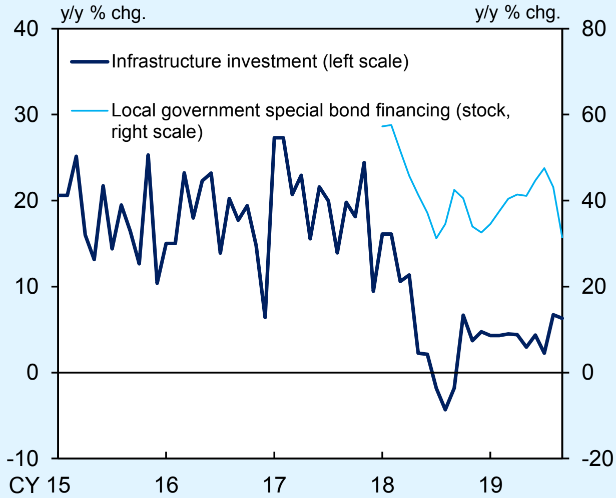
Source: CEIC.
Note: Figures for the Manufacturing PMI are from the National Bureau of Statistics of China. Figures for manufacturing investment are based on staff calculations using investment in fixed assets in the manufacturing industry.

Chart B1-5: China's Land Sales Revenues

Source: CEIC.
Note: Based on staff calculations.

including a reduction in the reserve requirement ratio by the central bank and a revamp of the loan prime rate, which is a reference rate for banks when lending money -- while manufacturing firms have become cautious toward fixed investment, mainly against the background of heightening uncertainties.

Chart B1-6: China's Infrastructure Investment and Local Government Special Bonds



Source: CEIC.
Notes: 1. Figures for infrastructure investment are based on staff calculations using investment in fixed assets in the tertiary industry such as transportation and water conservancy.
2. Figures for local government special bond financing are based on the "Aggregate Financing to the Real Economy." Data on the year-on-year rate of change in monthly local government special bond financing are available from January 2018 onward.

Moreover, overseas economies are likely to raise their growth rates and grow moderately on the whole, mainly on the back of (1) the materialization of effects of macroeconomic policies in economies other than China and (2) the progress in global adjustments in IT-related goods.

However, it is necessary to continue to carefully examine downside risks that the U.S.-China trade friction might intensify and become prolonged further, since they are expected to exert a larger impact than before on overseas economies including the United States and China.