

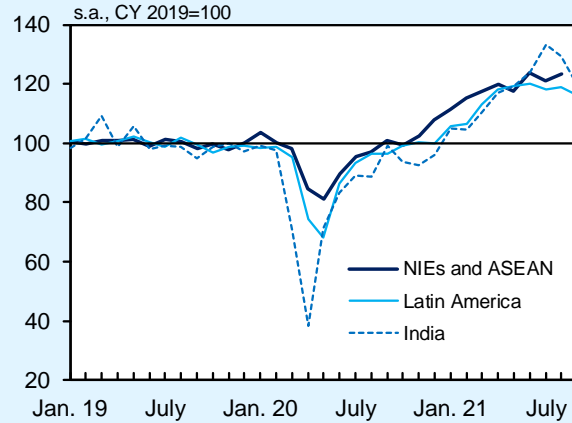
(Box 1) Varied Developments in Overseas Economies and Uncertainties Regarding the Outlook

Overseas economies have recovered on the whole. That said, there is variation across countries and regions: while the United States and Europe have maintained relatively high growth, the Chinese and some other emerging economies have been under downward pressure, including on production, due to the spread of COVID-19 variants this summer and supply-side constraints. This box outlines these varied developments in overseas economies and risks to the outlook.

Some emerging economies have decelerated recently. In particular, in some ASEAN countries, the spread of COVID-19 variants this summer has had a negative impact on production, thereby leading to some weakness in exports, especially of semiconductors and automobile parts (Chart B1-1). In China, which had continued to recover firmly, business activity in both the manufacturing and services industries seems to have been pushed down, partly because of downward pressure on domestic demand and production stemming from such factors as the resurgence of COVID-19 and power supply issues (Chart B1-2).

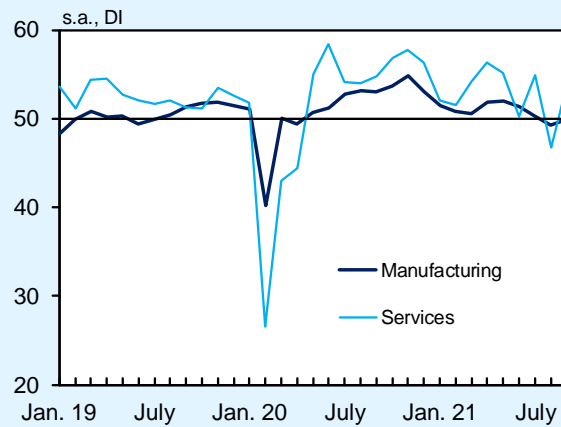
On the other hand, in the United States and Europe, where full vaccination rates are high, the resumption of economic activity has continued to progress without public health measures being tightened even during phases when the number of confirmed new cases of COVID-19 increases.

Chart B1-1: Nominal Exports of Major Emerging Economies



Source: CEIC.
 Note: Based on staff calculations. U.S. dollar basis. Figures for the NIEs and ASEAN and Latin America are the sum of figures for the major economies in the respective regions.

Chart B1-2: PMI for China



Source: IHS Markit (© and database right IHS Markit Ltd 2021. All rights reserved.).
 Note: Figures are the Caixin China PMI. Figures for services are the Services Business Activity Index.

Against this backdrop, business sentiment has improved firmly in the manufacturing industry and has continued to improve, despite a temporary slowdown, in the services industry (Chart B1-3).

Regarding the outlook, overseas economies are likely to continue recovering, led by advanced economies and China. Specifically, the U.S. and European economies are expected to maintain their recovery with the resumption of economic activity continuing to progress. The Chinese economy is also likely to return to a steady growth path as downward pressure on production stemming mainly from power supply issues dissipates. Emerging economies are expected to follow an improving trend as the impact of COVID-19 wanes.

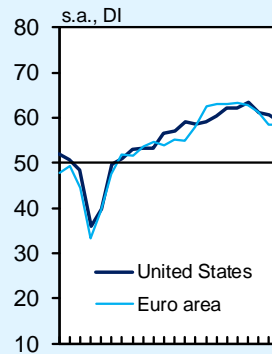
There are considerable risks -- both upside and downside -- to the baseline scenario of the outlook for overseas economies. Among the risks, the following four factors require particular attention for the time being.

The first is the course of COVID-19 on a global basis. If the number of confirmed new cases increases in emerging economies, where full vaccination rates are relatively low, and then public health measures are tightened, the recovery in these economies could be hampered through restraints on consumption and production.

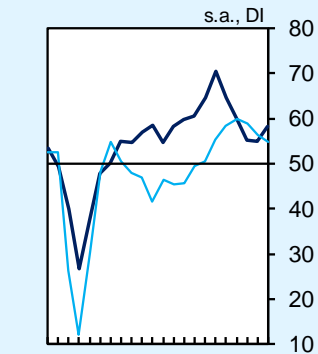
The second factor is global supply-side constraints. If the economic recovery is delayed

Chart B1-3: PMIs for the United States and the Euro Area

1. Manufacturing



2. Services



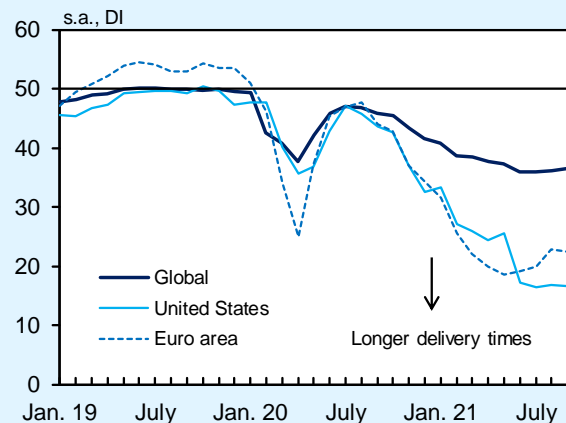
Source: IHS Markit (© and database right IHS Markit Ltd 2021. All rights reserved.).
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or the number of confirmed new cases increases in emerging economies while the resumption of economic activity in the United States and Europe continues to progress, global supply-side constraints could be amplified or prolonged (Chart B1-4). This could consequently curb global economic growth and at the same time push up prices.

The third factor is the debt problems in the Chinese real estate market, which is a risk concerning an individual country. Construction starts have been somewhat weak because the real estate sector has pushed forward with deleveraging, mainly reflecting the phased tightening of regulations since last year. If these developments in the real estate market negatively affect firms' funding conditions and households' sentiment, growth in the Chinese economy could be restrained (Chart B1-5).

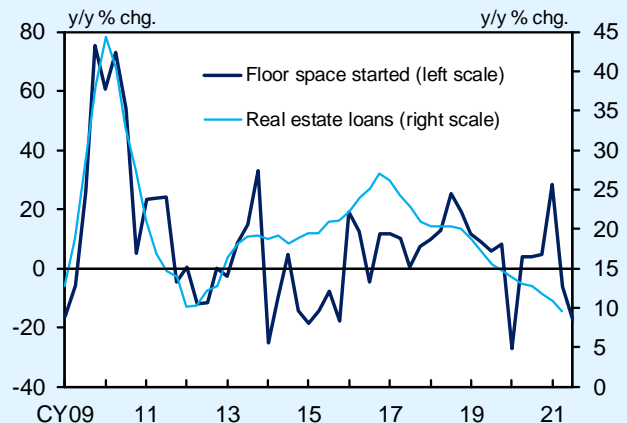
The fourth factor concerns developments in global financial conditions. In global financial markets, there have been temporary capital outflows from emerging economies of late, mainly against the background of vigilance on China's real estate market and a resultant rise in concern over a possible slowdown in the Chinese economy. If global financial conditions tighten by more than expected due to concern over steps toward reducing monetary accommodation in advanced economies, overseas economies, particularly some vulnerable emerging economies, could be pushed down (Chart B1-6).

Chart B1-4: Suppliers' Delivery Times PMI



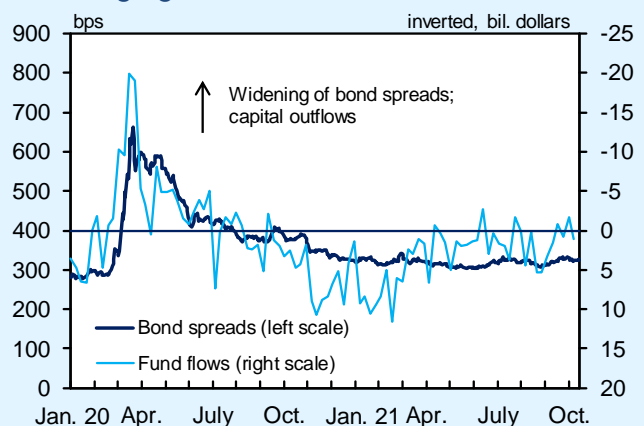
Source: IHS Markit (© and database right IHS Markit Ltd 2021. All rights reserved.).
 Note: The suppliers' delivery times PMI is the suppliers' delivery times index in the Manufacturing PMI. Global figures are the J.P.Morgan Global Manufacturing PMI.

Chart B1-5: Floor Space Started and Real Estate Loans in China



Sources: CEIC; Wind; The People's Bank of China.
 Note: Figures for real estate loans throughout the year 2009 are from the *China Monetary Policy Report* published by the People's Bank of China.

Chart B1-6: Financial Conditions in Emerging Economies



Sources: Bloomberg; EPFR Global.
 Note: Figures for bond spreads are the yield spreads of the J.P.Morgan EMBI Global over U.S. Treasuries. Those for fund flows are the sum of bond and equity fund flows.