# ECONOMIC UPDATE

## GLOBAL & INDIAN

## October 2019

**China overtakes US in rankings of world's richest people**

The number of wealthy Chinese people has overtaken the number of rich Americans for the first time, according to a report by Credit Suisse. The bank's annual wealth survey found there were 100 million Chinese people among the world's top 10% of richest people, compared with 99 million in the US.

The report says the "rapid transformation of China from an emerging nation in transition to a fully fledged market economy" helped create a record number of rich people.

"Despite the trade tension between the United States and China over the past 12 months, both countries have fared strongly in wealth creation, contributing $3.8tn and $1.9tn respectively," said Nannette Hechler-Fayd' herbe, the global head of economics and research at the Swiss bank.

Personal savings of $109,430 (£83,630) are required to be part of the top 10% of the world's richest people. While China has overtaken America at this level, the US is still ahead when it comes to the super-rich, accounting for 40% of the world's millionaires.

The number of dollar millionaires in the US increased by 675,000 last year to 18.6 million. This means about one in 14 adults in America is a millionaire.

In China, there are 4.4 million millionaires, an increase of 158,000 on 2018, according to the report, and 10% of the global total. There are an estimated 1.1 billion adults in China.

The Brexit-led decline in the value of the pound caused the number of UK millionaires to drop by 27,000 to 2.46 million. The UK held on to fourth place in the global league table behind the US, China and Japan with 3 million millionaires – 5% of the global total.

Commenting on the UK, the authors of the report said: "The outlook is now uncertain, with future prospects depending very much on what happens in terms of Brexit.

"Our estimates indicate a rise of 2.2% in wealth per adult from the end of 2018 to mid-2019. However, both the stock market and exchange rate showed increased volatility over the summer, reflecting the heightening of Brexit worries."

Across the world, a further 1.1 million people joined the millionaire club taking the total to 46.8 million. Collectively, they own $158.3tn in net assets, 44% of the global total.

The report estimates 55,920 adults are worth at least $100m and 4,830 have net assets above $500m. Net assets are defined as realisable savings minus debts and does not include the value of property.

Credit Suisse forecast global wealth – which increased by 2.6% over the past year – would rise by 27% over the next five years to $459tn by 2024. The number of millionaires is expected to grow over this period to almost 63 million.

**World Economic Outlook, October 2019: Global Manufacturing Downturn, Rising Trade Barriers**

After slowing sharply in the last three quarters of 2018, the pace of global economic activity remains weak. Momentum in manufacturing activity, in particular, has weakened substantially, to levels not seen since the global financial crisis. Rising trade and geopolitical tensions have increased uncertainty about the future of the global trading system and international cooperation more generally, taking a toll on business confidence, investment decisions, and global trade. A notable shift toward increased monetary policy accommodation—through both action and communication—has cushioned the impact of these tensions on financial market sentiment and activity, while a generally resilient service sector has supported employment growth. That said, the outlook remains precarious.

**High risks of a global recession in the next 12-18 months,**

**The chances of a global recession are 'uncomfortably high': Moody's**

There's an "uncomfortably high" chance that a recession could hit the global economy in the next 12-18 months — and policymakers may not be able to reverse that course, "I think risks are awfully high that if something doesn't stick to script then we do have a recession," said Mark Zandi, chief economist of Moody's Analytics. "I'll say this also: Even if we don't have a recession over the next 12-18 months, I think it's pretty clear that we're going to have a much weaker economy."

Avoiding a slowdown in economic activity requires many factors to "stick to script" at the same time, he said. That includes U.S. President Donald Trump not escalating the tariff war with China, the U.K. finding a resolution to Brexit and central banks continuing their monetary stimulus, Zandi explained.

Other economists appeared less worried about a recession, but shared Zandi's sentiment that growth would continue to weaken. Eswar Prasad, a professor at Cornell University, said consumer spending has helped support growth in several economies — even as momentum falters in other sectors. But that's not sustainable, he added.

“Consumers and households cannot be counted on to keep growth going. So, really, the key is to come up with a set of policies that are going to spur a revival of business and consumer confidence, and end up boosting investments,” he told CNBC's “Street Signs Asia” on Wednesday.

In its World Economic Outlook report, the IMF forecast that the global economy will grow 3% this year and 3.4% in 2020. That's lower than the 3.2% and 3.5% — for 2019 and 2020, respectively — that the fund projected in July.

China is reluctant to offer significant concessions to the US:

The fund blamed the “subdued growth” partly on rising trade barriers and heightened geopolitical tensions, and called for a “balanced” way to fend off those risks.

“Monetary policy cannot be the only game in town and should be coupled with fiscal support where fiscal space is available and where policy is not already too expansionary,” the IMF said.

Zandi agreed that governments should increase spending to support the economy, but said many major economies would not go down that route.

He explained that with the two major political factions in the U.S. battling an impeachment inquiry into Trump, it doesn't seem likely that Congress would pass any plans to cut taxes. In Europe, Germany may have fiscal space to spend but the government could find it hard to do so legislatively, he said.

“This doesn't lend confidence. The central banks are running out of room, we need fiscal policymakers to step up but I don't think, at this point, it's clear where the political will for doing that is going to come from,” he said.

**US economic growth slowest this year**

US economic growth slowed in the third quarter, but beat some economists' expectations of a bigger contraction. The Commerce Department data put GDP growth at 1.9% during the three months, ahead of the 1.6% predicted. Consumer spending held up better than expected, offsetting a fall in business investment and lower public spending. But the growth was still the slowest for 2019, and comes hours before the Federal Reserve is due to make its latest interest rate announcement.GDP growth in the previous quarter - the three months to end-June - was just below 2%. In 2018, the US economy grew by 3.4% in the third quarter. The Trump administration's trade war with China has eroded business confidence, while the fading stimulus from last year's $1.5tn tax cut package is also casting a shadow on the expansion. The biggest worry about the US outlook is the trade conflict .The new figures did show some growth in exports after a marked decline in the previous three months. But it was pretty feeble growth. Imports, many of which are subject to additional tariffs as part of this trade conflict, were also higher, though again not strongly, after two quarters in which they failed to grow at all.

So the figures do play into the story of trade as a continuing problem for US economic growth. All that said, it was still reasonable growth overall and more or less in line with many estimates of the economy's realistic potential. That means the economy couldn't really be expected to grow much faster for a sustained period. Growth in consumer spending, which accounts for more than two-thirds of US economic activity, slowed to a still-healthy 2.9% rate last quarter after surging at a 4.6% pace in the second quarter, the fastest since the fourth quarter of 2017. Consumer spending is being powered by the lowest unemployment rate in nearly 50 years.

Ian Shepherdson, chief economist at Pantheon Macroeconomics, said the growth figures "could have been worse" but the fourth quarter "probably will be"."Growth beat consensus mostly because consumption rose at a 2.9% rate."We doubt that Q4 [the fourth quarter] will see such a solid increase in consumption, not least because the chain store numbers indicate that people pulled forward spending after the 1 August announcement of tariffs on imported Chinese consumer goods. This boosted Q3 spending at the expense of Q4."

**European Economy Growth**

The European economy is now in its seventh consecutive year of growth and is forecast to continue expanding in 2020 and 2021. Labour markets remain strong and unemployment continues to fall. However, the external environment has become much less supportive and uncertainty is running high. This is particularly affecting the manufacturing sector, which is also experiencing structural shifts. As a result, the European economy looks to be heading towards a protracted period of more subdued growth and muted inflation.

Euro area gross domestic product (GDP) is now forecast to expand by 1.1% in 2019 and by 1.2% in 2020 and 2021. Compared to the Summer 2019 Economic Forecast (published in July), the growth forecast has been downgraded by 0.1 percentage point in 2019 (from 1.2%) and 0.2 percentage points in 2020 (from 1.4%). For the EU as a whole, GDP is forecast to rise by 1.4% in 2019, 2020 and 2021. The forecast for 2020 was also revised down compared to the summer (from 1.6%).

Valdis Dombrovskis, Vice-President for the Euro and Social Dialogue, also in charge of Financial Stability, Financial

Services and Capital Markets Union, said: "So far, the European economy has shown resilience amid a less supportive external environment: economic growth has continued, job creation has been robust, and domestic demand strong. However, we could be facing troubled waters ahead: a period of high uncertainty related to trade conflicts, rising geopolitical tensions, persistent weakness in the manufacturing sector and Brexit. I urge all EU countries with high levels of public debt to pursue prudent fiscal policies and put their debt levels on a downward path. On the other hand, those Member States that have fiscal space should use it now."

Labour markets should remain sound though improvements will slow Job creation across the EU has proven to be surprisingly resilient. This is partly because economic developments typically take some time to affect jobs but also because of the shift in employment towards service sectors. Employment is at a record high and unemployment in the EU is at the lowest level since the start of the century. Although net job creation is likely to slow, the unemployment rate in the euro area is expected to continue falling from 7.6% this year to 7.4% in 2020 and 7.3% in 2021. In the EU, the unemployment rate is forecast to fall to 6.3% this year and settle at 6.2% in 2020 and 2021.

Inflation in the euro area has slowed so far this year due to the fall in energy prices and because firms have largely chosen to absorb the cost of higher wages in their margins rather than pass them on to customers. Inflationary pressures are expected to remain muted over the next two years. Euro area inflation (Harmonised Index of Consumer Prices) is forecast at 1.2% this year and next, rising to 1.3% in 2021. In the EU, inflation is forecast at 1.5% this year and next and 1.7% in 2021.

**Public debt levels to fall for a fifth year in a row; deficits to rise slightly**

Europe's public finances are set to continue benefitting from the very low interest rates due on outstanding debt. Despite lower GDP growth, the euro area's aggregate public debt-to-GDP ratio is forecast to continue declining for the fifth year in a row to 86.4% this year, 85.1% in 2020 and 84.1% in 2021. The same factors hold true for the EU, where the public debt-to-GDP ratio is forecast to fall to 80.6% this year to 79.4% in 2020 and 78.4% in 2021.

Government balances, by contrast, are expected to deteriorate slightly due to the impact of lower growth and somewhat looser discretionary fiscal policies in some Member States. The euro area's aggregate deficit is forecast to rise from an historic low of 0.5% of GDP in 2018 to 0.8% this year, 0.9% in 2020 and 1.0% in 2021, under a no-policy change assumption. However, the euro area aggregate fiscal stance, i.e. the aggregate change in the 19 euro area Member States' structural budget balance, is expected to remain broadly neutral. In the EU the aggregate deficit is also expected to rise, from 0.7% of GDP in 2018 to 0.9% this year, 1.1% in 2020, and 1.2% in 2021.