

Macro Roundup Article

Headline: Chinese "Overcapacity" Is Not the Problem. Underconsumption Is.

Article Link: <https://theovershoot.co/p/chinese-overcapacity-is-not-the-problem>

Author(s)	Matt Klein
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Tweet: [@M_C_Klein](#) finds that Chinese industrial production is 5% under the 2014-2019 trend, and argues that a collapse in the country's domestic consumption is driving its surging trade surplus.

Summary: Fixed asset investment in China's manufacturing industry has been growing relatively briskly over the past few years, especially relative to the average growth rate in 2016-2019. At the same time, Chinese estimates of capacity utilization—which only go back to 2021Q1—show that manufacturers, particularly those in green industries, seem to be increasing their capacity to produce far faster than their actual production. Only 37% of China's national income is spent by Chinese households on goods and services. That level is lower than anywhere else in the world. For Chinese nonfinancial corporations, employee compensation is only worth about 44% of gross value added, whereas the equivalent measure of the labor share in the U.S., Europe, and Japan is ~60%. The U.S. and others might still end up needing to deploy preferential subsidies to sustain their domestic productive bases in the face of Chinese underconsumption.

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Primary Topic: China

Topics: Business Cycle, China, GDP, Growth, Investment, Op-Ed/Blog Post, Productivity, Savings Glut/Trade Deficit, Trade (not deficits)

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