

Macro Keys

Global credit impulse negative for 1st time in 3 years

Our global credit impulse (covering 77% of global GDP) has suddenly collapsed

However, as the chart below shows the 'global' credit impulse over the last 18 months is essentially mainly China (the green shaded bit), which even now is still creating new credit at an annualized rate of around 30pp of (Chinese) GDP. But the credit impulse is the 'change in the change' in credit and even the Chinese banks could not sustain the recent extraordinary pace of credit acceleration. As a result: whereas back in Jan '16 the global credit impulse was positive to the tune of 3.8% of global GDP (of which China comprised 3.5% of global GDP) it has now fallen back to -0.1% of global GDP (China's contribution is -0.3% of global GDP). Our colleagues (Tao Wang & team) have written an in-depth report delving into some of the sustainability issues surrounding Chinese credit growth. See [Understanding China](#).

The credit impulse in advanced economies (DM) is running at its 5y avg pace.

That is to say, DM's contribution to the global credit impulse is about ½ pp of global GDP, exactly equal to the average of the last 5 years but a few tenths below the pace back in Q3. Within DM, positive contributions are mainly coming from the US (0.2pp), UK (0.3pp) and France (0.1pp). For the US that's largely reflecting its large GDP weight, but for France there is a clear turnaround (2 ½ pp of GDP) from a negative credit impulse mid last year to a positive one now (coinciding to some extent with the strong improvement in PMI data), and the UK is sustaining a credit acceleration that started last May. The only DM economies where the credit impulse is currently negative are Italy, Canada and Australia (combined 12% of our DM aggregate).

Strong correlation with global domestic demand growth but not India/China

The average DM correlation with domestic demand is 0.67 (and as high as 0.75 for the US) whereas for EM it's only 0.23. The correlations for Poland (0.67), Turkey (0.66), Brazil (0.6) and South Africa (0.55) are all decent but India (0.15) and China (0.1) are very low, possibly because of problems with the GDP data. It is notable that, with the exception of Mexico every single emerging market in our sample now has a negative credit impulse (fig 2), somewhat at odds with the strength we are seeing in other data.

Economics

Global

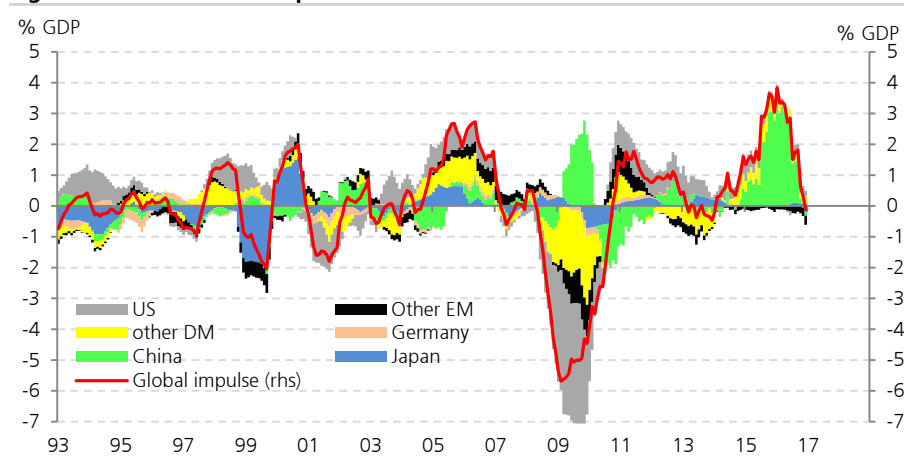
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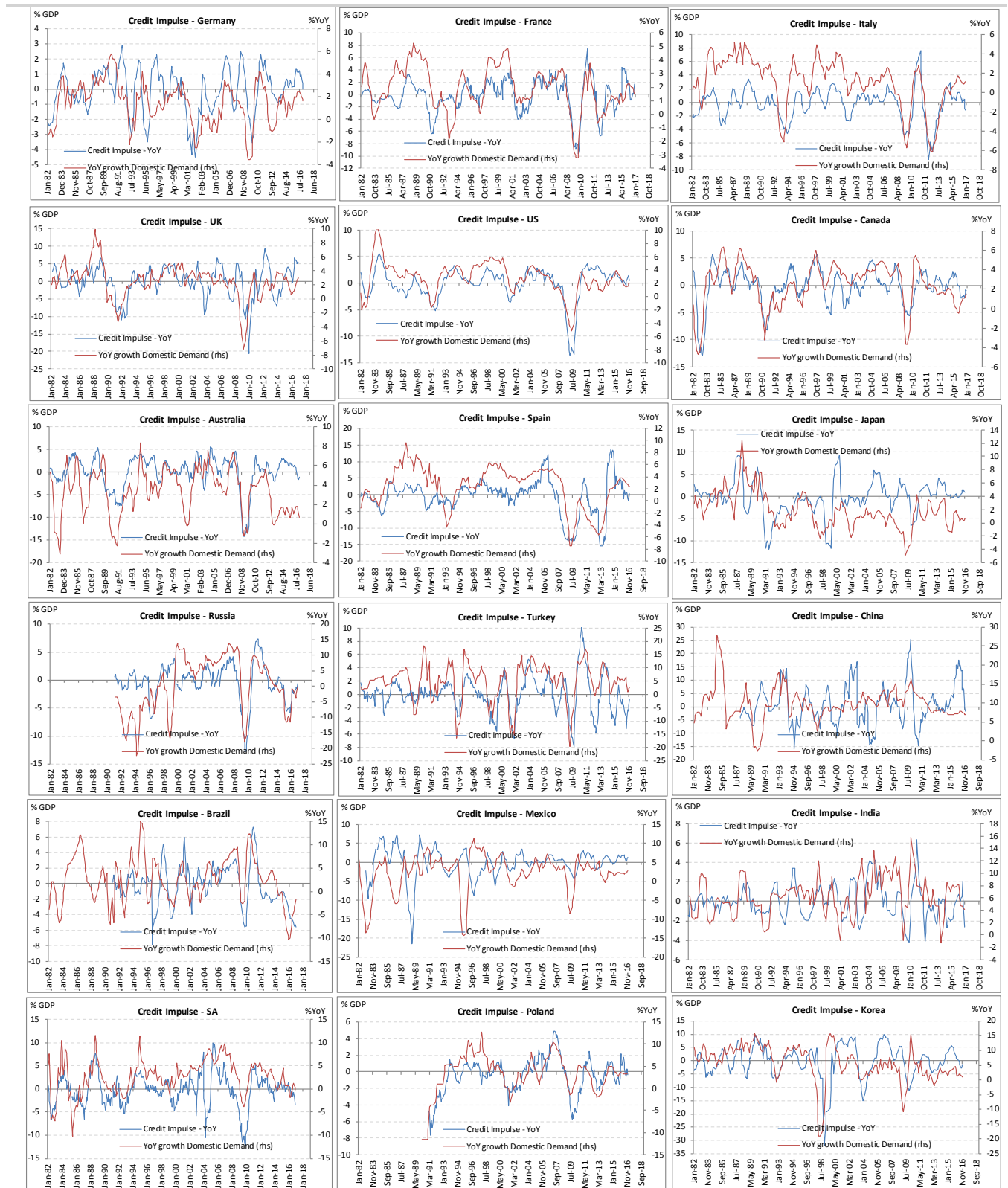
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Figure 1: Global Credit Impulse falls back to zero



Source: Haver, UBS estimates

Figure 2: Credit Impulse by Country versus Real Domestic Demand Growth



Source: Haver, UBS estimates

Valuation Method and Risk Statement

Risks include macroeconomic variables (such as GDP growth rates and inflation), economic slowdown, a weakening currency, global economic events, and government policy changes.

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