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Fitch: China Slowdown Would Pressure Some U.S. States.

Fitch Ratings-New York-15 June 2018: If a slowdown in China's economy led to a decline in US exports, several states with substantial agriculture exports and one with aircraft exports would likely see localized declines in economic activity and, thus, tax revenues, says Fitch Ratings. However, we would expect states with a high volume of imports from China would not be affected.

Fitch's economics team recently conducted an analysis, China: Deleveraging Would Mean Slower Growth, assessing the macroeconomic effects on China from a corporate deleveraging scenario. While not our base case, the scenario suggests business investment growth would need to fall by 5% per year, relative to the baseline, to stabilize the corporate debt/GDP ratio by 2022. This would reduce GDP growth by just over 1% per year, taking China's real GDP growth rate to around 4.5%.

Such a slowdown would have a limited effect on overall US GDP but would likely affect US export growth to China, with certain parts of the agricultural sector particularly exposed. Iowa's agricultural industry is a case in point. Approximately two thirds of the state's soybean exports, worth \$3.1 billion in 2016, were sold to China. The soybean total is approximately 1% of gross state product (GSP) and approximately 11.9% of the state's agriculture GSP.

Several other US states are also major exporters of soybeans. Illinois' soybean exports accounted for approximately \$2 billion of Illinois' \$5.2 billion in 2016 exports to China, while Minnesota's soybean exports are about half this dollar amount. However, Illinois' and Minnesota's state economies are large and diverse and agricultural exports account for a smaller portion of their GSP than is true for Iowa.

A wide range of exported vehicles and vehicle parts could also be reduced by a slowdown in China and Washington state would be the most exposed. The state's exports to China were 2.2% of state GDP in 2016, or \$11.7 billion, and heavily concentrated with aerospace products and parts accounting for \$8.8 billion of this amount.

Conversely, imports from China to the US might not be as severely affected by a Chinese slowdown as purchases of US export goods by Chinese businesses and consumers. As such, states with large Chinese imports should not be directly affected by a Chinese deleveraging scenario.

If a decline in exports was to persist into the medium term, we believe such a decline could also lower business activity and sales and income taxes derived from both business activity and employment in some US states.

Contact:

Michael D'Arcy
Director, U.S. Public Finance
+1 212 908-0662
Fitch Ratings, Inc.
33 Whitehall Street

New York, NY 10004

Robert Rowan
Senior Analyst, Fitch Wire
+1 212 908-9159

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email:
sandro.scenga@fitchratings.com

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