



Harry's Take

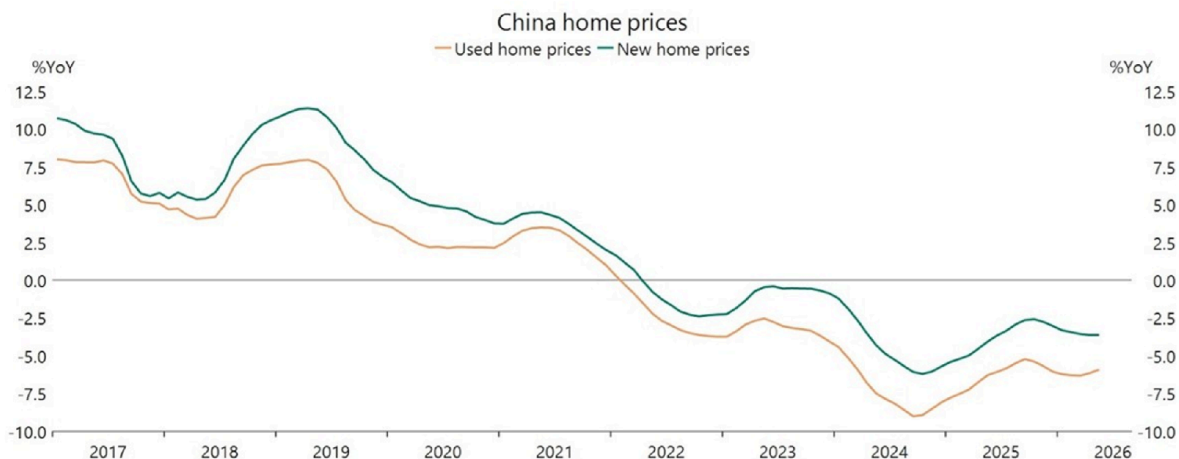
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China Should Lead the Global Real Estate Bubble Burst: It's Already in Motion

It has not been typical what has been going on in China for the last 4 decades since the early 1980s. Emerging countries already have younger populations and hence, stronger demographic growth. They are more rural and less urban. Hence, they have plenty of room to grow as the typical household that becomes urban can up to triple its GDP per capita. Hence, they don't tend to have to stimulate their economies to grow faster. That hasn't happened in China's large emerging country cousin, India. They grow plenty fast. But China had its one-child policy, and hence, does not have that natural demographic growth. In fact, it is already peaking in their Spending Wave and will see contraction for decades ahead. They also have a government that is not elected, like India or even Russia. So, the best way for them to keep the people happy is to create strong economic growth. And the best way to do that is to stimulate more rapid urbanization. That can raise household incomes rapidly, and more important, creates massive demand for building new urban homes. And that is the strongest stimulant to the economy.

China has grown rapidly by overbuilding homes for 4 decades. That has created the greatest housing bubble in history compared to incomes, much bigger than our bubble in the U.S., and ours is the longest and largest in history for us as well. You are well aware of that as I have covered this many times in the past. But now China's home prices are finally starting to fall, and they can't afford that with such a giant bubble and with housing 75% of household net worth vs. 35%-38% here in the U.S.

China's Home Prices Have Been Falling Modestly Since Early 2022



Sources: Bloomberg, Macrobond, Apollo Chief Economist

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This chart shows China's home prices falling as much as 9% in late 2024 and still down near 4%. This might be OK in some countries, but not in China with a bubble so large it's burst will be massive and felt for decades, not years. This is the beginning of the end for China's antiquated top-down stimulus-driven strategy in a world where other countries are increasingly embracing the already superior and proven move towards free market capitalism in more emerging countries. This is not as much a debt crisis as mortgage debt is not as high there. The problem is many everyday households have bought 1-2 extra homes left empty on speculation and their net worths will evaporate at the speed of light, and that will greatly slow confidence and spending.

This is likely to be the biggest trigger for a global financial crisis just ahead that would not otherwise be triggered at this time. I've been warning it would most likely start in China, but this real estate and debt bubble is global and beyond anything in history. Hence, odds are this starts this year and lasts into late 2028 or early 2029.

Harry

Got a question or comment? You can reach us at info@hsdent.com.

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