Apple stock plunged nearly 10% on Thursday after the company cut its revenue forecast due to slowing iPhone sales in China. Apple's woes dragged U.S. stock indices lower by more than 2% as fears of a more extensive China-driven slowdown spread.

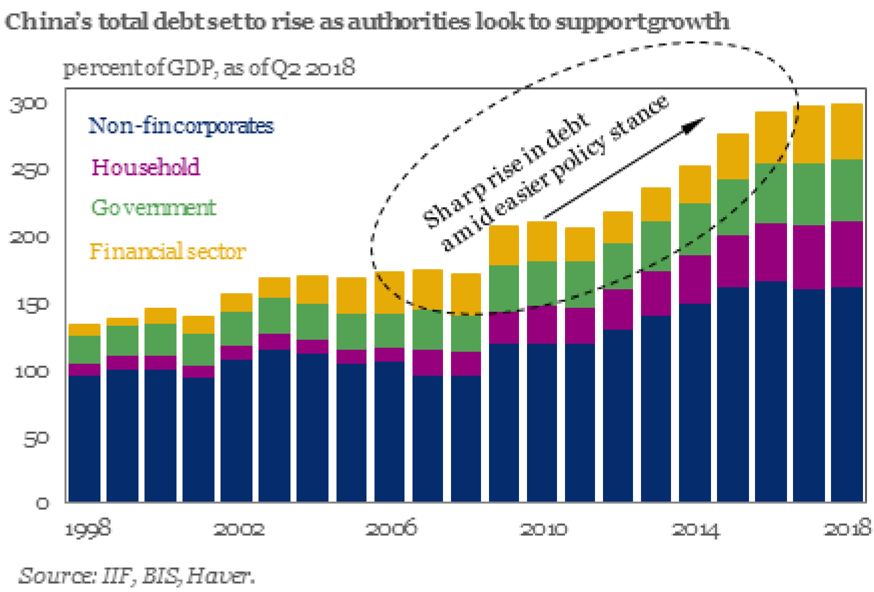
From the New York Times:

> For years, no matter what was happening elsewhere, global companies bet billions upon billions of dollars that China?s consumers would keep spending money.
>
> Now, just when the world economy could use their financial firepower, they are no longer so quick to open their wallets.
>
> The latest sign of a slowdown in spending in China came Wednesday, when Apple unexpectedly slashed its financial forecast, citing disappointing iPhones sales in the country. The weakness followed reams of other data ? declining car sales, lagging retail spending, a slumping property market, a tougher job market ? that suggest Chinese consumers may be losing their once unshakable confidence.
>
> That could have a big impact on a world looking for engines of growth, on companies that counted on China?s continuing expansion and on global investors who have long viewed China as a steady source of profits.

Apple's latest travails in China prompted chairman of the White House Council of Economic Advisers Kevin Hassett to warn:

> *?It?s not going to be just Apple,? CEA chairman Kevin Hassett said in an interview on CNN. ?There are a heck of a lot of U.S. companies that have sales in China that are going to be watching their earnings being downgraded next year until we get a deal with China.?*
>
> *Hassett argued that a softer economy in China is cutting into U.S. companies? sales there and that the economic pain gives Trump leverage in ongoing trade negotiations. ?That puts a lot of pressure on China to make a deal,? he said.*

I agree with Kevin Hassett that many more American companies are going to take a hit from China's slowdown and the ongoing trade war, **but the risks posed by the ultimate bursting of China's massive credit bubble are far greater, yet virtually nobody is discussing it.** As the chart of China's total debt as a percent of GDP shows, China has been gorging on debt for the past decade. This debt binge has been amplifying China's economic growth and allowing its consumers to buy Western consumer goods like Apple iPhones.



The scary truth is that Apple and other American companies have been benefiting from China's credit bubble, but most have no clue that this bubble is going to burst and cause a severe recession or depression in China, causing American exports to China to plunge. When is society going to learn that debt binges create temporary economic booms, but always end in terrible busts?

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