Investment Leads Economic Deceleration in Limited Impact of Stock Price Plunge

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Chinese economy has continued to grow on a weak trend generally. Real GDP growth for April-June remained on the same level of Jan-Mar increase of 7.0% yoy, the slowest expansion since Jan-Mar of 2009. Among the indicators available for June, industrial production rose by 6.8% yoy (6.1% in May), retail sales increased by 10.6% (10.1% in May), though further aggravation of the economy has been stopped and in general both showed that weak growth continued (Table 1). Investment in fixed assets (urban area, cumulative to date in the year) levelled off at an increase of 11.4% (same as May) but despite public investment, in the transportation sector mainly in railways, supporting growth, mining, manufacturing, and real estates continued to slowdown.

In the housing market, there is a sign of stabilization. Responding to the stimulus measures of the government and monetary easing, housing sales by floor space recorded an increase of 4.5% yoy in June, regaining a positive increase for the first time since December 2013, and housing sales prices exceeded the level of previous month in an increasing number of cities, especially among the larger ones. Still, there remains persistent adjustment pressure in the rural areas which suffer from a high level of inventories and there is no sign of stop in the slowdown of increasing trend of property investment. Followed by monetary easing, money supply (M2) increased 11.8% yoy in June, slightly accelerating its pace of increase, but since the demand for fund is sluggish, its rapid expansion cannot be expected in the near future.

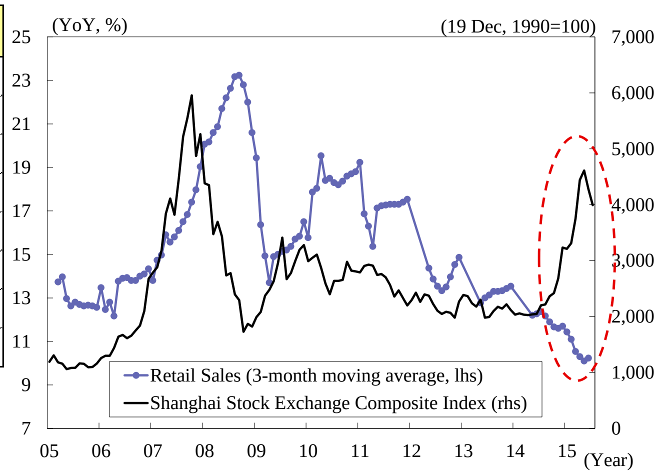
In the financial market, the Shanghai Stock Exchange Composite Index fell by about 30% in about 3 weeks since the middle of June, after rapidly rising largely boosted by monetary easing since last November. The authorities were quick to come to rescue the market by putting restriction on new IPOs and injection of investment fund, showing a heightened sense of caution for a plunge of stock prices. It is considered, however, that the direct impact of the fall on the economy will be rather limited, since (i) the current stock price still exceed the level in last November, (ii) there seems to be no strong correlation between stock price and private consumption, (iii) companies are less dependent on fund raising in the stock market (Chart 1). Yet, it is the existence of an excessive pool of saving that lies in the background of sharp fluctuation of asset prices as is seen in the volatile stock prices. In an environment that the earning rate of real investment is hovering at a low level owing to accumulation of excessive investment, it should be carefully watched where the excessive saving accumulated in the household sector will go next and which instruments will be targeted.

Table1: Main Economic Indicators (China)

	2015						evaluation
	Jan	Feb	Mar	Apr	May	Jun	
Exports (YoY, %)	22.5		▲ 15.0	▲ 6.4	▲ 2.5	2.8	negative
Imports (YoY, %)	▲ 20.2		▲ 12.7	▲ 16.3	▲ 17.6	▲ 6.1	negative
Fixed Assets Investment (YTD, YoY, %)	13.9		13.5	12.0	11.4	11.4	negative
Real Estate	11.3		9.0	7.1	6.1	5.7	negative
Retail Sales (YoY, %)	10.7		10.2	10.0	10.1	10.6	weak
Industrial Production (YoY, %)	6.8		5.6	5.9	6.1	6.8	negative
Manufacturing PMI	49.8	49.9	50.1	50.1	50.2	50.2	weak
Non-manufacturing PMI	53.7	53.9	53.7	53.4	53.2	53.8	positive

Note: 1) Manufacturing PMI and Non-manufacturing PMI are from China National Bureau of Statistics.
2) Shadowed portion indicates lower growth rates or decline in indicators from previous months.
3) *Evaluation* is made based on the judgment as compared to the data for 6 months before.
Source: China National Bureau of Statistics, BTMU

Chart 1：Retail Sales and Stock Price Index



Source: China National Bureau of Statistics and Shanghai Stock Exchang, BTMU

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