China Economic Monthly

Weaker Growth Continues despite Some Signs of Bottoming out

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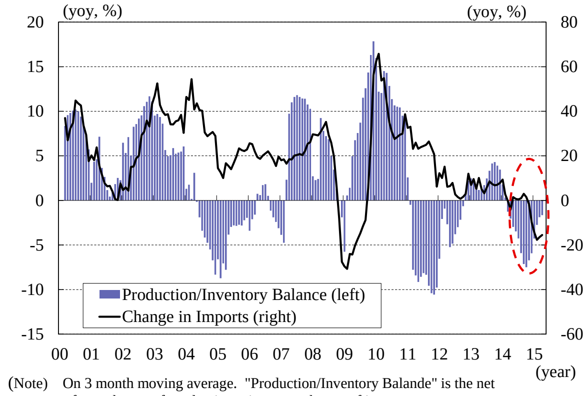
Chinese economy as a whole continues to grow at a slower pace despite some signs of halt in the sharp deterioration. Among the major economic indicators for May, the latest available, industrial production increased by 6.1% yoy (5.9% in April), exceeding the rise of the previous month for a second month in a row but it remained the smallest rise since December 2008. Fixed asset investment (urban area, cumulative to date of the year) further slowed down to an increase of 11.4% (12.0% in the previous month). Mining and real estates continued to decline, while the public investment in railway construction and others has supported the total investment. In the housing market, the number of cities where the sales price exceeded the level in the previous month increased mainly in large cities, and the sales price of new housing (average of 70 cities) increased by 0.1% over the previous month, recording the first positive increase in almost a year. A possibility is pointed out that in some large cities, the asset effect from higher stock prices has worked to push up the housing prices.

Meanwhile, imports continued to decrease, registering a big drop of 17.6% in May. In addition to the lower price of resources, it seems the accelerated inventory adjustment has also contributed to the drop (Chart 1). Looking at the import factors, crude oil and iron ore were largely affected by the falling price factor, but such categories as coal, motor vehicles and machine tools which recorded a sharp drop in quantity, suggest they were broadly affected by a restrained investment and weakening consumption following a stricter enforcement of official discipline (Chart 2). While production/inventory balance improved a bit on the whole, looking at the individual categories reveals that not only in material related categories like coal, iron ore and non-ferrous metals but also in computers, communication equipment and motor vehicles, inventory continues to increase at a faster pace than that of production.

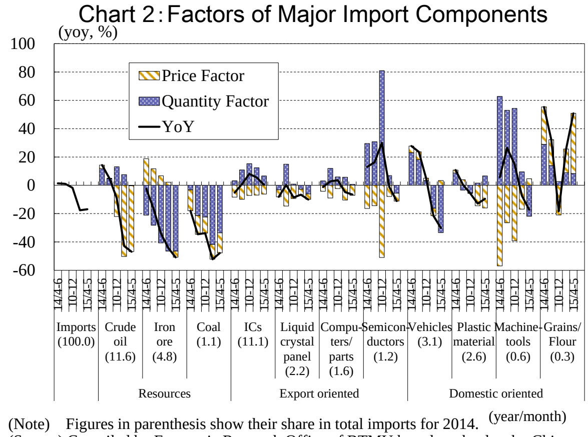
Against this backdrop, the PBOC lowered its interest rate in June, for the fourth cut since last November. In addition to give support to the economy through reduced funding cost of companies and local governments, it seems that the PBOC also tried to stabilize the financial market. The Shanghai Composite Index, which rose more than 70% since last November, temporally fell by almost 20% in June, due mainly to a strengthened control on margin trading and concerns over deteriorated demand-supply conditions caused by a chain of IPOs. Further drop of the index might amplify the adverse impact on the real economy through negative wealth effect and deterioration of consumer mind, which will require a careful attention.

Chart1：Production/Inventory Balance and Imports



(Note)　On 3 month moving average. "Production/Inventory Balande" is the net of yoy change of production minus yoy change of inventory.
(Source) Compiled by Economic Research Office of BTMU based on the data by Chinese National Bureau of Statistics and China Customs.

Chart 2：Factors of Major Import Components



(Note)　Figures in parenthesis show their share in total imports for 2014.
(Source) Compiled by Economic Research Office of BTMU based on the data by China Customs.

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