

Investment Continues to Weaken while Households Support the Economy

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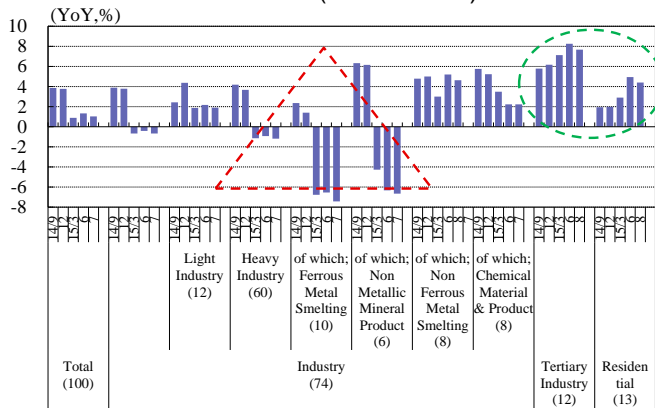
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The Chinese economy has continued to decelerate. Among the economic indicators for August, fixed asset investment (urban area, cumulative to date of the year) increased by a weaker 10.9% yoy (11.2% yoy in July) and industrial production remained at a lackluster growth of 6.1% yoy (6.0% yoy in July). Production is decelerating in mining under the pressure of lower resources prices, and in some industries such as steel, cars, and computers it is in the process of inventory adjustment with import reductions, as the production/inventory balance worsened reflecting a rapid expansion of production capacity that exceeded demands. Environment controls* ahead of the military parade in early September may also have weighed on the production. On the other hand, retail sales edged up to an increase of 10.8% yoy (10.5% in July). Sales of housing-related products (home appliances, furnitures and construction materials) increased reflecting improved housing sales mainly in the urban areas and sales of high priced goods (jewels and cars) accelerated their rate of increase. Thus the household consumption remains stable in general even after the plunge of stock prices. Electricity consumption also suggests that the slowdown in heavy industry including ferrous alloy and non-metallic minerals is putting downward pressure on the economy while the tertiary industry and households are keeping higher growth and underpinning the economy (Chart 1).

Looking ahead, the household sector is expected to continue to support the economy while the adjustment of the excessive capital stock centering on the heavy industry sector will continue to dampen the economy. In the housing market, adjustment pressure is still persistent mainly in the rural areas with high level of inventory, keeping the housing investment on a declining trend (Chart 2). However, reflecting the government's stimulus measures and monetary easing, some signs of stabilization have been emerging, with funding demand for real estate recovering a positive growth since June, and floor space of housing sold exceeding the level of a year earlier for 3 consecutive months. Household consumption is expected to increase steadily supported by a stable environment in employment and income. Further, the government announced in September its policy to aim at maintaining a stable growth through promotion of construction in the important fields, as well as through strengthened debt management of local governments and support for their funding needs. These strengthened supporting measures centering on infrastructure investment are expected to help prop up the economy.

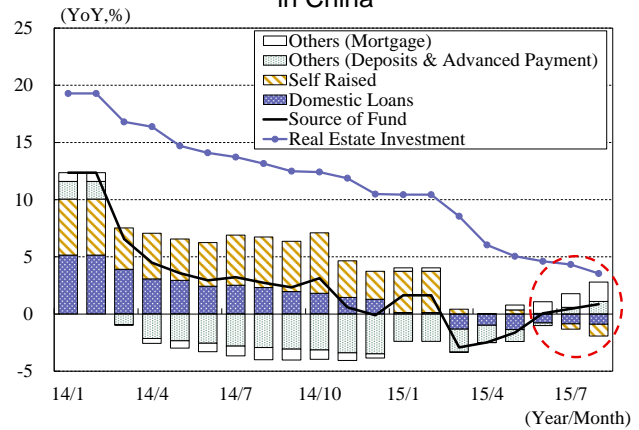
(*As an anti-air pollution measure ahead of the military parade slated for September 3, the government ordered about 12,000 companies in steel, cement, and chemical industries located in 7 Provinces/autonomous region and Directly-controlled municipalities surrounding Beijing (Beijing city, Tianjin city, Hubei, Shanxi, Henan, and Shandong Provinces and Inner Mongol autonomous region) as well as about 9,000 spots of construction sites to stop or reduce production activities and stop construction operations for about 2 weeks from August 20.

Chart 1: Electricity Consumption by Sector in China (Year to date)



Note: Figures in parentheses show percentage shares in Total.
Source: Compiled by BTMU Economic Research Office from statistical data of China Electricity Council

Chart 2: Real Estate Investment and Source of Fund in China



Source: Compiled by BTMU Economic Research Office from statistical data of National Bureau of Statistics of China

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