Weakening Investment Further Dampens the Economy

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The deceleration of the Chinese economy has continued. The real GDP growth rate in the July-Sept quarter slowed down to +6.9% yoy (+7.0% in the previous quarter)(Table 1). The contributing ratios of each demand component for the growth in the first nine months of the year (6.9%) showed that the contribution of consumption (4.0%) exceeded that of investment (3.0%) , suggesting that, while the investment has continued to decelerate, the economy has been underpinned by the consumption expanding in the environment of generally stable employment and income. Among the main economic indicators for September, retail sales maintained a relatively robust increase of +10.9% yoy (+10.8% in August), while fixed asset investment (urban area, year to date) slowed down to +10.3% (+10.9% in August) and industrial production to +5.7% (+6.1% in August). The need for stock adjustment in the mining and heavy industry including oil refining and steel that have excessive equipment and restrained real estate investment are heavily weighing on the investment, suggesting that the downward pressure has been spreading from the weakening investment to other areas. Imports prominently fell on the trade front. The decline was largely influenced by the falling prices in the category of resource related products including crude oil and iron ore, but quantity is also decreasing in the category of liquid crystal panel, computer and parts, automobiles, and machine tools reflecting a weaker demand in both domestic and overseas markets (Chart 1) .

In the ahead, there will be a continued strong downward pressure to the economy through the adjustment process of excessive inventory of capital equipment and it is quite likely that the economy will be supported by strengthened fiscal and monetary measures to be taken to avoid a plunge of the economy and make sure to achieve the growth target of “around 7%”. Since the end of the last year, the government has accelerated its permission for investment in the area of transportation including roads and railroads, and since September it has added a series of supporting measures such as lowered down-payment ratio (30% to 25%) for the first home buyers and tax reduction to the purchase of small sized cars*. Such measures to support the economy through acceleration of investment, however, could delay the departure from the economic constitution of excessive dependence on investment when the government aims to have a soft landing of the economy to new normal by shifting the gear of economic engine from investment to consumption. In the discussion on the thirteenth Five-year Plan (for 2016-2020) to be made at the 5th National Congress (slated for October 26-29), the government will have a difficult steering regarding how to secure a proper balance between the promotion of structural reforms towards steady mid-to-long term growth and a stable short-term economic growth.

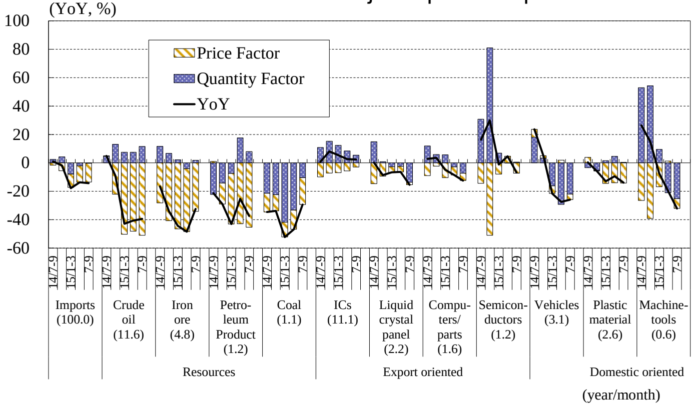
(*)Car acquisition tax rate will be reduced for passenger cars with engines below 1600cc from 10% to 5%, for the period to the end of 2016.

Table1: China's Main Economic Indicators (2015)

	Apr-Jun	Jul-Sep	Jul	Aug	Sep
Real GDP (YoY,%)	7.0	6.9			
Exports (YoY, %)	-2.7	-5.8	-8.4	-5.5	-3.7
Imports (YoY, %)	-13.7	-14.3	-8.2	-13.8	-20.4
Fixed Assets Investment (YTD, YoY, %)	11.4	10.3	11.2	10.9	10.3
Retail Sales (YoY, %)	10.2	10.7	10.5	10.8	10.9
Industrial Production (YoY, %)	6.3	5.9	6.0	6.1	5.7
CPI (YoY, %)	1.4	1.7	1.6	2.0	1.6
PPI (YoY, %)	-4.7	-5.7	-5.4	-5.9	-5.9

Source: China National Bureau of Statistics, BTMU

Chart 1：Factors of Major Import Components



Note: Figures in parenthesis show their share in total imports for 2014.
Source: China Customs. BTMU

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