

No optimism warranted for the future of the economy despite signs for short-run stability

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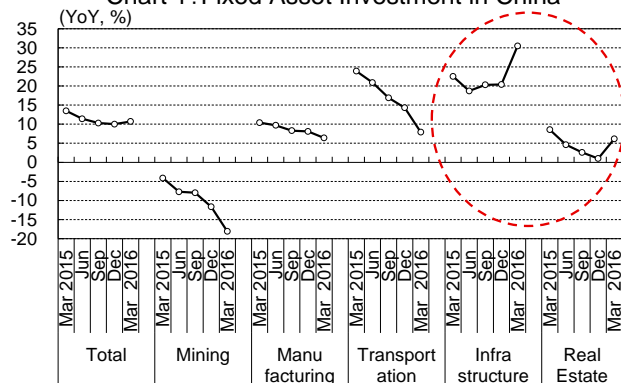
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Although the Chinese economy has been on a decelerating trend, some signs of stabilization have emerged in the short-run. The real GDP growth rate edged down slightly to 6.7% yoy in Jan.-Mar. period from 6.8% in the previous quarter, but the main economic indicators for March showed a higher growth, helping retreat excessive pessimism on the Chinese economy. Fixed asset investment (excluding rural households, aggregates of year to date) increased by 10.7% yoy (average 10.2% in Jan.-Feb.) and industrial production increased by 6.8% yoy (average 5.4% in Jan.-Feb), while manufacturing PMI (published by National Bureau of Statistics) exceeded for the first time in the past 8 months the level of 50, a threshold used as the cut-off point for economic performance. Industry breakdown of fixed asset investment implies that the increase in infrastructure investment and real estate investment in urban areas contributed to support the upturn although mining and heavy industries continued to slow down (Chart 1).

That would not allow optimism, however, as the downward pressures on the economy are still persistent especially as a result of structural reforms that specifically include the reduction of excess production capacity. The government is intending to support the economy via such measures as advancing the infrastructure investments appropriated from the government budget to the first half of the year. However, as the infrastructure investments mainly consist of the implementation of existing projects, its effects are not likely to be strong enough to push the economy further.

On the other hand, the government has started to curb an overheating of real estate investments which show a sign of picking up mainly in the urban areas, and therefore it is important to take a careful attitude about the sustainability of real estate investments. To be more precise, floor space of housing sold and housing price have turned to increase positively over the year since the middle of last year reflecting the government supporting measures and monetary easing (Table 1), with housing price rising in double digits in some of large cities. However, taking precautions against higher leverage in the brisk housing purchases which are made by the use of down-payment loans offered by the real estate brokers, developers or P2P providers through internet, the city governments in Shanghai and Shenzhen have since March embarked on taking anti-overheating measures that include stricter requirements on housing purchasing and enhanced restriction on down-payment ratios. On the other hand, adjustment has been continuing in the rural areas which have high level of stocks. No optimism is warranted for the future development in the real estate investment as a whole.

Chart 1 : Fixed Asset Investment in China



Note: 1) Year to date figures. (Year/ month)
 2) "Infrastructure" refers to transportation and storage, water, environment & public facilities.
 Source: National Bureau of Statistics of China, BTMU

Table 1 : Housing & Real Estate-Related Indicators

		(YoY,%)				
Indicators		2015 Nov	Dec	2016 Jan	Feb	Mar
(1)	National Housing Prices (70-city average)	-0.4	0.3	1.1	2.0	3.1
(2)	Fixed Asset Investment (real estate sector) (ytd)	1.3	1.0	3.0		6.2
(3)	Total Real Estate Floor Space Started (ytd)	-14.7	-14.0	13.7		19.2
	of which, residential	-15.3	-14.6	9.7		14.8
(4)	Total Real Estate Floor Space Sold (ytd)	7.4	6.5	28.2		33.1
	of which, residential	7.9	6.9	30.4		35.6
(5)	Total Floor Space Waiting for Sale (residential)	12.1	11.2	10.6		7.4
(6)	Total Floor Space under Construction (residential) (ytd)	-0.3	-0.7	4.2		4.0

Source: National Bureau of Statistics of China, BTMU

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