Investment further slow down amid intensifying uncertainty over future economic climate

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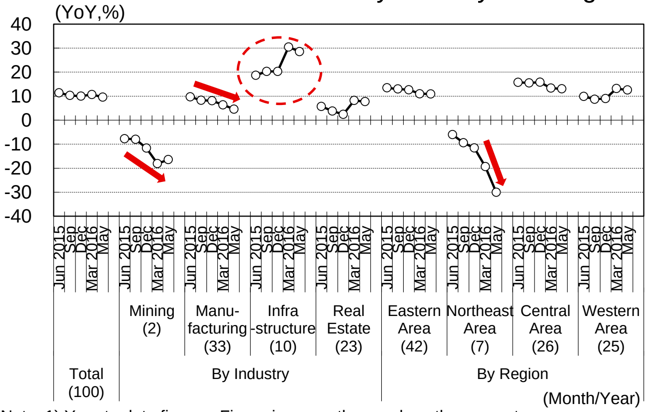
After *Leave* won UK Referendum on June 23 to vote on whether or not to leave the EU, growing concern over instability in financial markets has developed, RMB temporarily touched its lowest level since January 2011 as investors strengthened risk aversion stance. Even so, the market situations are quite different from the one observed in the beginning of year when the Shanghai Composite Index fell more than 10 %, and concern over capital outflow was strong. This time, the depreciation of RMB is relatively modest in comparison to the other major currencies, and the stock markets mostly remain calm.

Chinese economy itself continues being on a downward trend impacted by curb in investment. The major economic indicators in May shows that fixed asset investment (urban areas, year-to-date) further decreased to +9.6% YoY (April: +10.5% YoY) while retail has increased steadily. Looking at the breakdown of fixed asset investment by industry, infrastructure investment sustained relatively high growth, while investment activities in manufacturing industry including mining and heavy industry continue to slow down (Chart 1). By considering that the northeast China with its high dependency on heavy industry particularly experiences a slowdown of investment, it seems that the government's attempt to cut excessive production capacity weighs on the country's investment activities.

Going forward, infrastructure investment as well as expansion of private consumption will continue to support the economy whereas the downward pressure exerted by the adjustment of excess investment and accmulating debts will strengthen. With regard to housing investment, it seems almost leveled off as a result of the cooling measures rolled out in urban areas. In reference to the past trend, the growth in investment is highly likely to decelerate over the next year (Chart 2). On the other front, exports will gradually recover, particularly to the advanced countries. In respect to the impact of the Brexit, it is predicted that EU economy as a whole will slow down in the midst of intensifying uncertainty over future, which may weigh on Chinese economy to a certain extent as China's exports to EU decelerate. EU is one of the largest exports destinations for China, the share of exports to the said region account for 16% of overall exports followed by the one to U.S. with 18 %, which might blow as a strong headwind against certain Chinese corporations and industries. Nonetheless, from the viewpoints of Chinese economy as a whole, direct negative impact will be limited, as China's exports to EU only account for 3 % level of China's GDP.

Chart 1 : China's Fixed Asset by Industry and Region

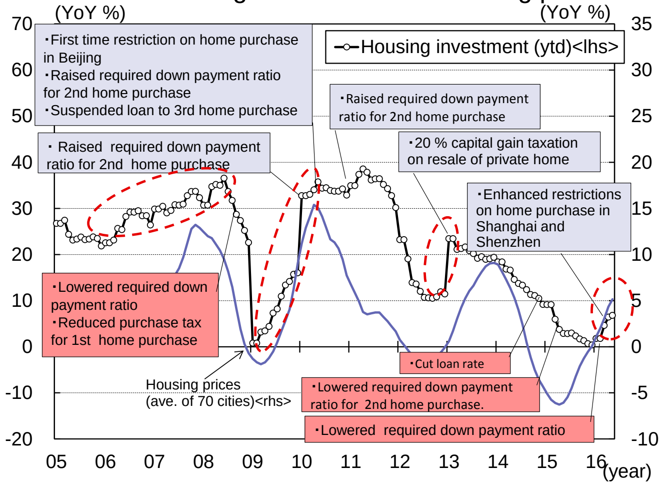


Note: 1) Year to date figures. Figure in parentheses show the percentage shares in total.

2) "Infrastructure" refers to transportation and storage, water, environment & public facilities.

Source: National Bureau of Statistics of China, BTMU

Chart 2 : Housing investment and housing prices



Source: National Bureau of Statistics of the People's Republic of China

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