

Further deceleration with sluggish investment in some sectors while the growth rate remains flat

AKI FUKUCHI
ECONOMIC RESEARCH OFFICE

10 AUGUST 2016

(ORIGINAL JAPANESE VERSION RELEASED ON 22 JULY, 2016)

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
A member of MUFG, a global financial group

Chinese economy continues being on a downward trend as a result of curb in investment. Real GDP growth rate have remained low since January-March period of 2009, although the real GDP growth rate in April-June period was up +6.7% YoY, unchanged from January-March period (+6.7% YoY). The June monthly economic indicators show that fixed asset investment (urban areas, year-to-date) further decelerated to +9.0% YoY (May: +9.6% YoY) while retail sales remained firm, stood at +10.6% YoY (May: +10.0% YoY) (Table 1). Looking at the breakdown of fixed asset investment by industry, the expansion of investment in infrastructure and real-estate sectors underpin the economy while the sluggish investment activities in mining and heavy industry with excessive production capacity place downward pressure on the Chinese economy as a whole (Chart 1).

The housing market that accounts for a little less than 70% of real estate investment have been showing a sign of peaking-out upon the implementation of cooling measures in urban areas since this March after housing sales and investment re-expanded throughout the beginning of 2016 especially in large cities owing to lower interest rates and the aid of “loans for down payment” offered by real estate brokers, developers and peer to peer (P2P) lenders. The statistics from other source also evidences that real-estate investment decelerated to +6.0% YoY in January-June period after peaking out in January-April period (+7.2% YoY).

Going forward, there will be still considerable room for adjusting excessive capital stock and debts, the slowdown of investment mainly in heavy industry will continue to exert downward pressure while the expansion of infrastructure investment and private consumption will underpin the economy. The policy operation of the Chinese government in the latter half of 2016 might give more priority to structural adjustment over short-term stabilization of the economy since the growth rate of +6.7% YoY recorded in the beginning of 2016 lowered the hurdle for achieving 2016 government goal (+6.5%~+7.0% YoY). Indeed, the government is currently enhancing the measures to promote the supply-side reform with a particular focus on “Eliminate excess production capacity/inventory, deleverage, reduce cost, cover weakness”, standing firmly against those who failed to achieve the goal of “elimination of excess capacity” in pursuit of their responsibilities.

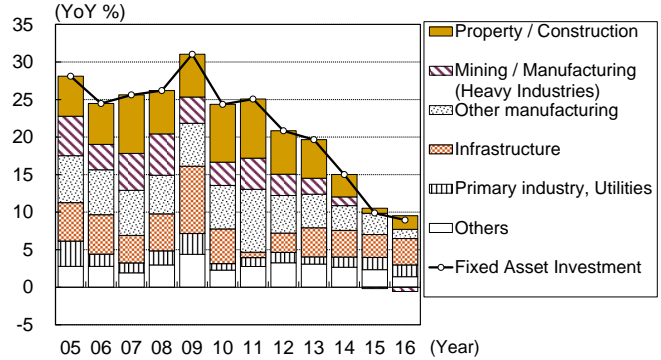
The housing investment is also showing a sign of peaking-out as mentioned above, it bears continuous watching for further intensifying downside risk such as slowdown of investment since the past trends hint the great possibility of sluggish expansion pace throughout the next year.

Table1: Main Economic Indicators (China)

	2016					
	Jan	Feb	Mar	Apr	May	Jun
Exports (YoY, %)	-18.8	10.7	-2.5	-4.1	-4.8	
Imports (YoY, %)	-16.5	-7.6	-10.9	-0.4	-8.4	
Fixed Assets Investment (YTD, YoY, %)	10.2	10.7	10.5	9.6	9.0	
Retail Sales (YoY, %)	10.2	10.5	10.1	10.0	10.6	
Industrial Production (YoY, %)	5.4	6.8	6.0	6.0	6.2	
Manufacturing PMI	49.4	49.0	50.2	50.1	50.1	50.0
Non-manufacturing PMI	53.5	52.7	53.8	53.5	53.1	53.7

Note: 1) Manufacturing PMI and Non-manufacturing PMI are from China National Bureau of Statistics.
 2) Shadowed portion indicates lower growth rates or decline in indicators from previous months.
 Source: China National Bureau of Statistics, BTMU

Chart 1: China's Fixed Asset by Industry



Note: 1. Figure as of June 2016.
 2. *Heavy industries* include mining, petroleum processing, chemical, metalware, non-metallic mineral, steel, non-ferrous metal.
 3. *Infrastructure* refers to transport, warehouse, waterright, environment, and public facilities.
 Source: National Bureau of Statistics of China, BTMU

For further details, please contact the Economic Research Office, Bank of Tokyo-Mitsubishi UFJ

Chief Manager Ishimaru Tel: 03-3240-3204

Written by Aki Fukuchi <aki_fukuchi@mufg.jp>

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.