

Short-Mid Term Outlook for the Chinese Economy and Effects on Industries

~Economy grew 7.7% but moderate slowdown is expected~
(2013 4Q Review)

Feb 2014

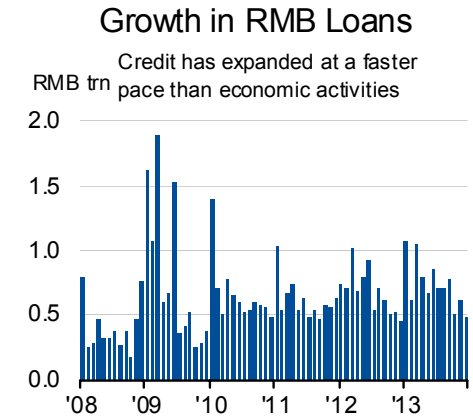
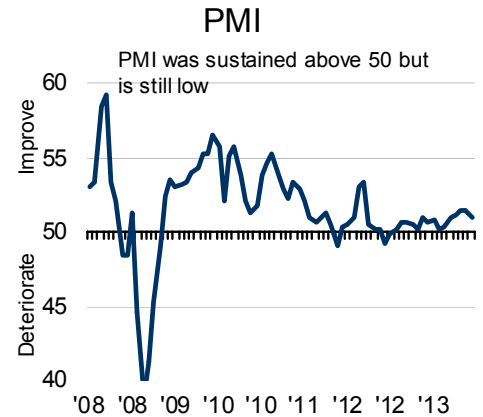
The Bank of Tokyo-Mitsubishi UFJ
Corporate Research Division

Economic Trends and Short-Mid Term Outlook

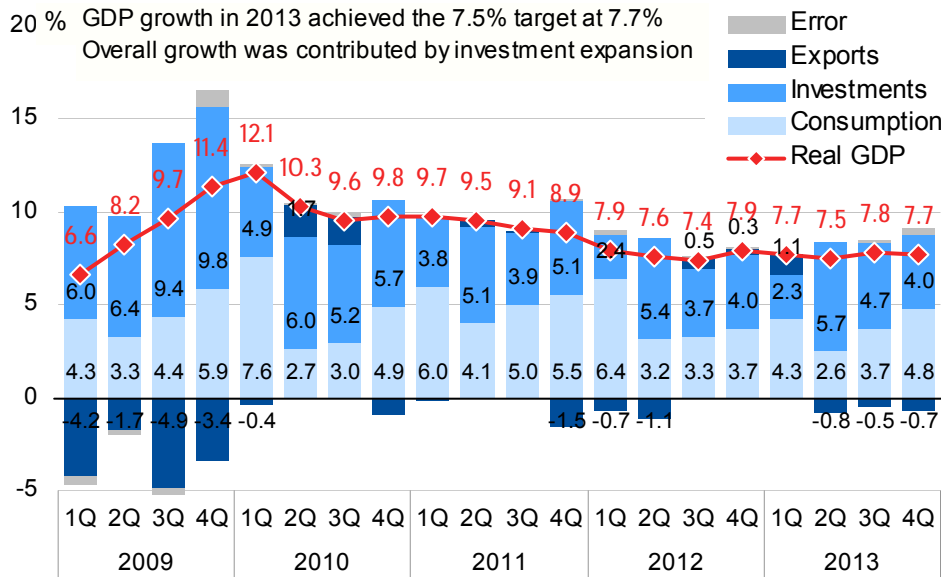
- ❑ China's economy in 4Q2013 performed favorably, sustaining whole year growth at 7.7%. Nevertheless, the economy is still on a moderate decelerating trend.
- ❑ Exports and domestic consumption were not strong enough to drive growth.
- ❑ The government has prioritized structure reform over economic stimulation to avoid a second property bubble.
- ❑ In the short-term, economy in 2014 will likely stay at current level or decelerate at a moderate pace as there is not much the government can do to push economic growth.
- ❑ In the long term, comprehensive measures are needed to solve the dilemmas of economic growth and structure reform.

<Economic Condition> 2013 GDP growth was sustained at 7.7%

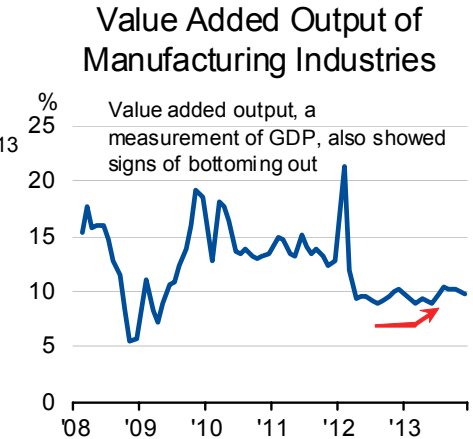
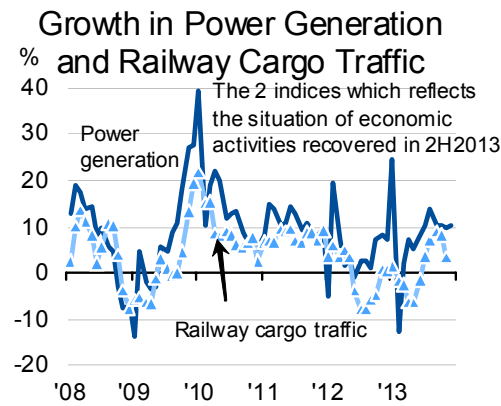
- 2013 GDP growth was sustained at 7.7% YoY
 - Consumption grew at a healthy pace
 - Investment growth was slightly slower than expected
 - Exports declined, possibly dampen by government's measure to deal with fake exports
- Economic indices kept climbing
 - Electricity consumption and railway cargo traffic maintained positive growth
 - RMB loans stayed high



Contributions of Sectors to Real GDP Growth



Source: CEIC, Corporate Planning Division of BTMUC



Source: CEIC, Corporate Planning Division of BTMUC

<Export Trends> Export growth was sluggish

< Current > The market has doubts about trade data due to “fake export” issue

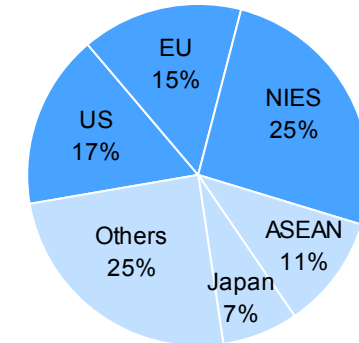
- Decline in export growth has hit the bottom
- Exports to developed markets have shown a clear recovery trend
- Exports to ASEAN markets continued to perform well

< Outlook > Exports are expected to remain growing but rapid recovery is unlikely

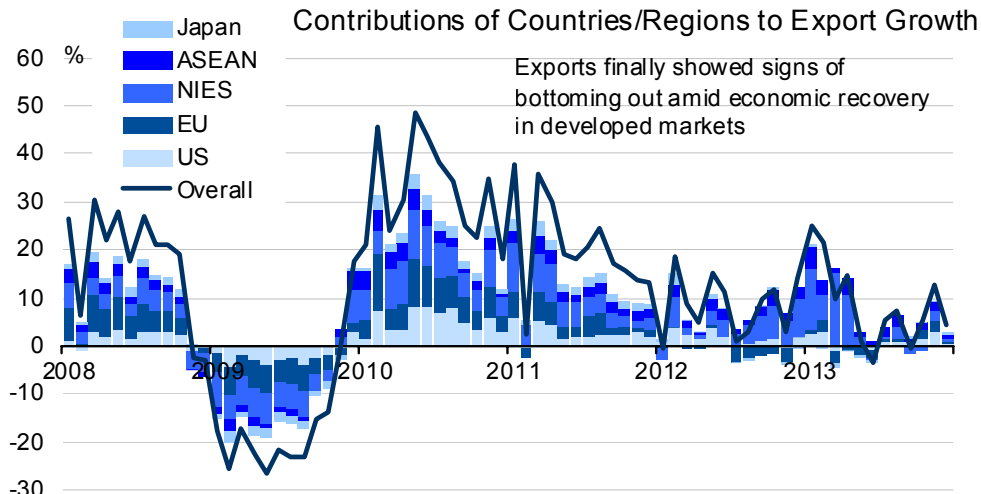
- Exports to the US is forecasted to improve while that to Europe may only post modest recovery
- Exports to Asian markets including ASEAN are expected to register stable growth
- Drastic recovery in Sino-Japan trade is unlikely
- In the mid-long term, continuous slowdown is expected under deteriorating export competitiveness

Export Breakdown by Destinations (2013)

Exports to EU, US and NIES together account for over 50% of total exports

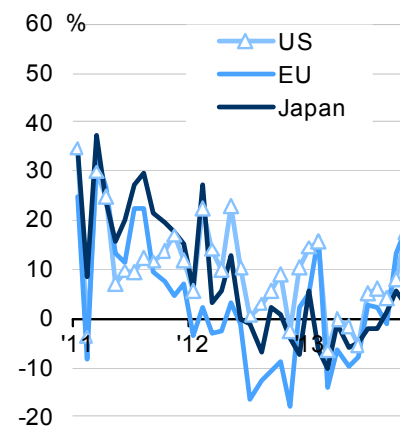


Source: CEIC, Corporate Planning Division of BTMUC

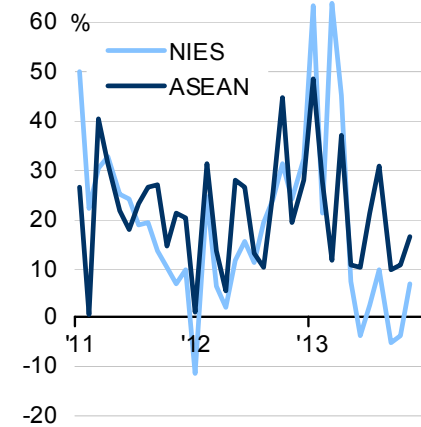


Source: CEIC, Corporate Planning Division of BTMUC

Export Growth by Regions



Source: CEIC, Corporate Planning Division of BTMUC



<Price Trends and Monetary Policies>

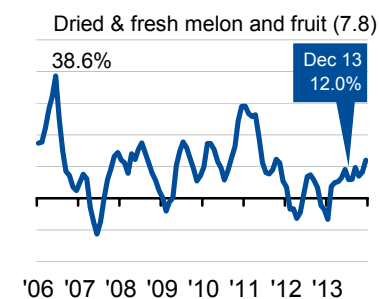
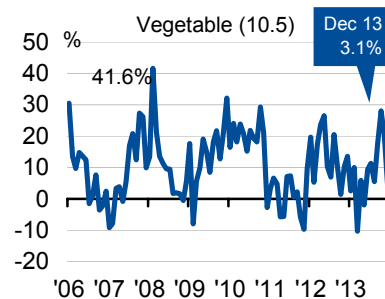
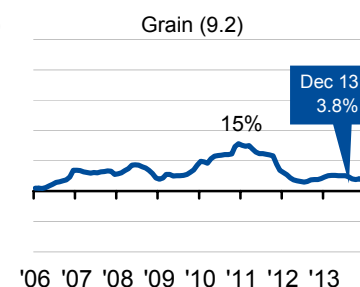
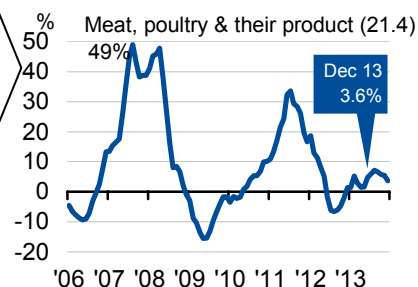
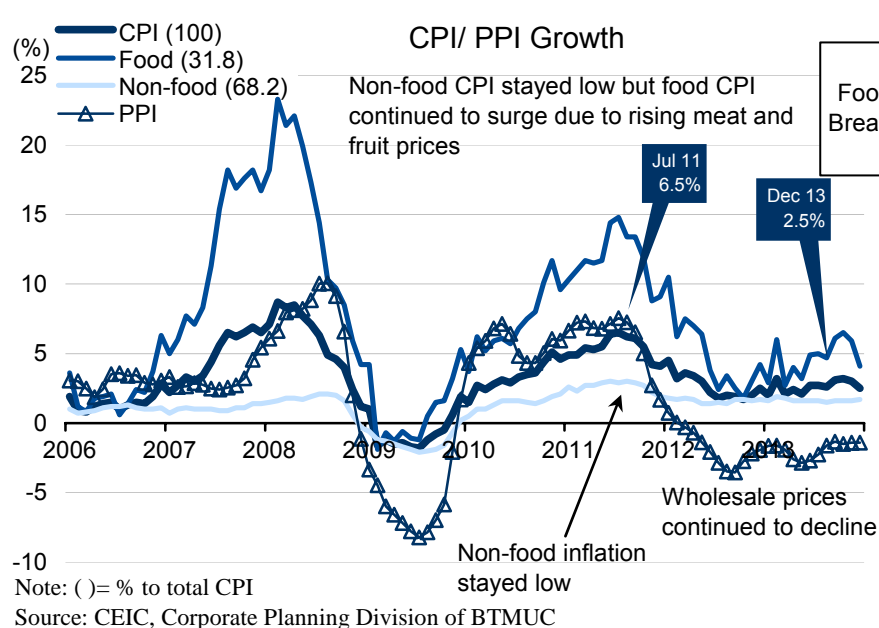
Increasing inflation pressure amid economic recovery

< Current > Inflation fell to 2.5% in Dec 2013

- ❑ PPI and non-food CPI stayed low, suggesting a deflationary gap in the domestic market
- ❑ Food inflation fluctuated due to climate and supply-demand condition
- ❑ Money supply grew at a faster pace than nominal GDP growth

< Outlook > Economic recovery may apply inflation pressure

- ❑ Although deflation pressure still exists due to overcapacity in China, economic recovery may push up market prices
- ❑ We are cautious on possible tightening in monetary policies if property prices continued to climb



<Investment Trends> Infrastructure investments peaked while manufacturing investments have finally hit the bottom

< Current > Investments were conducted to ensure a certain economic growth

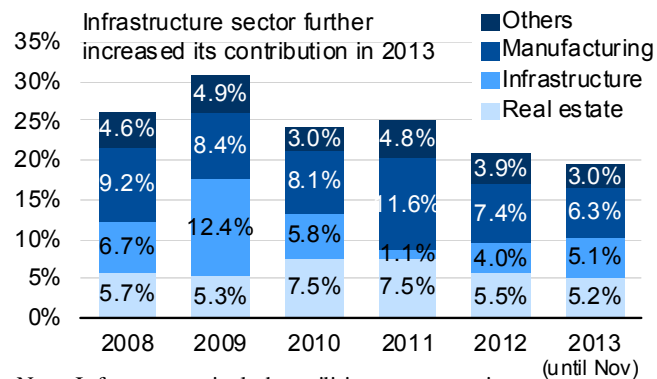
- ❑ Investments on infrastructure and property in 2H2013 reached the peak
 - The 12th FYP investment plans were delayed
- ❑ Manufacturing industries' total investments showed signs of bottoming-out but overcapacity threats still remain
- < Outlook > Monetary and fiscal problems will dampen investments
- ❑ While China rushes to complete the planned investments, achieving the 12th FYP target seems difficult
- ❑ Close watch on local government investments is needed
 - Funding shortages of local governments may drag infrastructure investments
 - Banks may reduce loans for infrastructure projects and credit expansion by shadow banking will face more regulations
- ❑ Investment recovery in the private sector is unlikely
 - Progress of obsolete facilities elimination will be the key to solve the problem of overcapacity
 - It is worth noting that the government may implement policies to support development of strategic emerging industries

Infrastructure Plans in the 11th FYP and 12th FYP

	11th FYP (Actual)	12th FYP (Target)	Achievements in first 2 years
Railway related investments	RMB 2.4 trn	RMB 3.3 trn	RMB 1.2 trn
Railway			
Railway addition	16k km	33k km	6k km
(High speed railway)	n/a	n/a	4k km
Transport infrastructure	RMB 4.7 trn	RMB 6.2 trn	RMB 2.9 trn
Road			
Road addition	660k km	500k km	230k km
(Highway)	33k km	34k km	22k km
Power industry investments	RMB 3.2 trn	RMB 4.8 trn	RMB 1.5 trn
Electricity			
(Power generation)	RMB 1.7 trn	RMB 2.7 trn	RMB 0.8 trn
(Power distribution)	RMB 1.5 trn	RMB 2.1 trn	RMB 0.74 trn
Power generation capacity addition	450mn kW	520mn kW	180mn kW
Water supply	RMB 0.7 trn	RMB 1.8 trn	RMB 0.5 trn

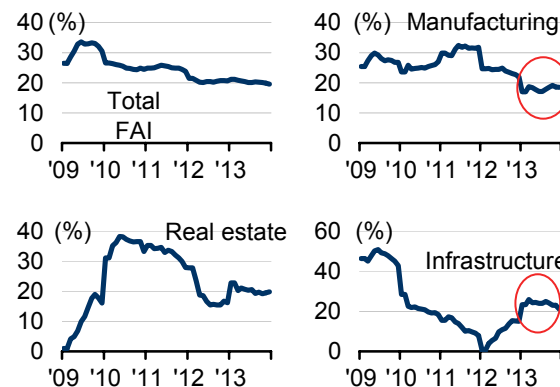
Source: Information from various sources, Corporate Planning Division of BTMUC

Contributions of Sectors to FAI Growth



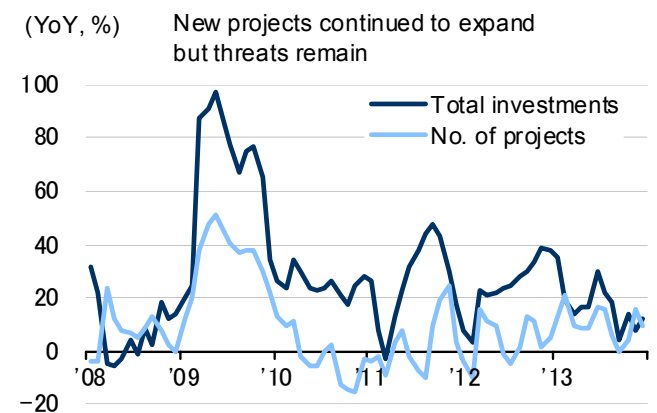
Note: Infrastructure includes utilities, transportation, environment, education and culture.
Source: CEIC, Corporate Planning Division of BTMUC

YoY FAI Growth by Industries



Source: CEIC, Corporate Planning Division of BTMUC

FAI: New Projects Started



Note: YoY % change is calculated based on 3-month MA.
Source: CEIC, Corporate Planning Division of BTMUC

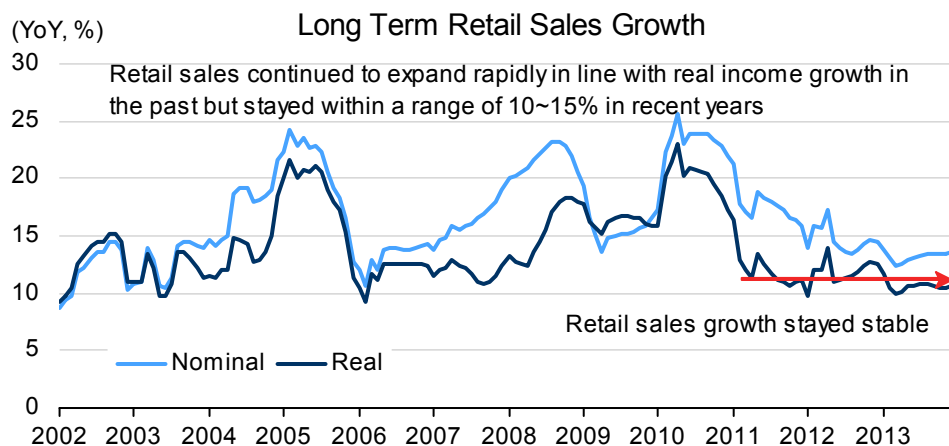
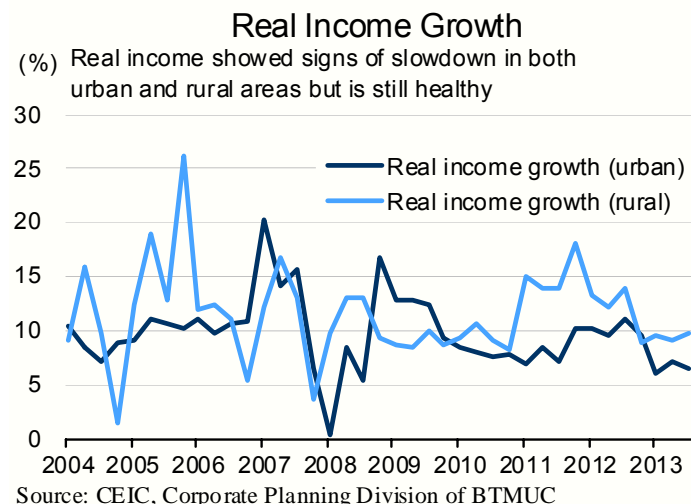
<Consumption Trends> Consumption growth remained stable but is still not strong enough to drive overall economic growth

< Current > Real consumption expanded steadily but the pace was slower than expected

- The “austerity push” has dampened consumption of wealthy people
- Real income growth slightly slowed down but is still on a healthy trend
- Retail sales in volumes slowed but is still stable

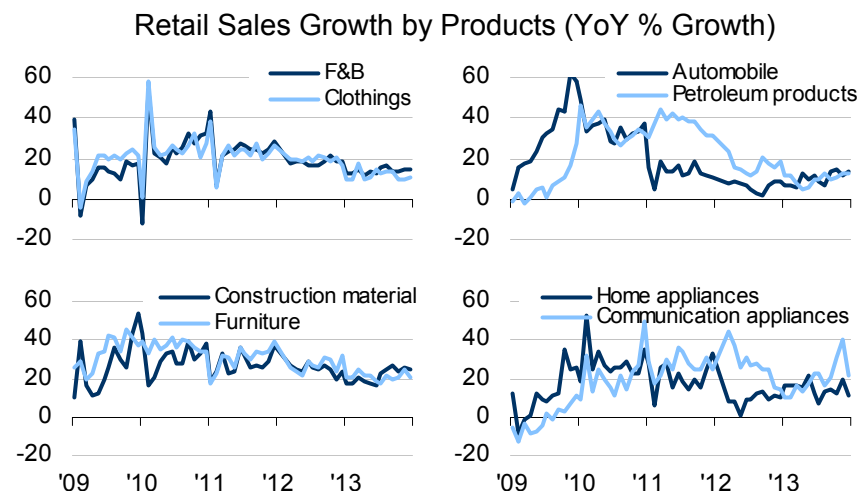
< Outlook > Immediate contribution from structure reform is unlikely

- Increasing income is expected to remain the driver for consumption growth
- Various reforms should be implemented to lift urban-type consumption
 - Solutions to disparities for migrant workers including the hukou system (household registration system), national retirement pension, etc.



Note: Growth is calculated based on 3-month MA.

Source: CEIC, Corporate Planning Division of BTMUC



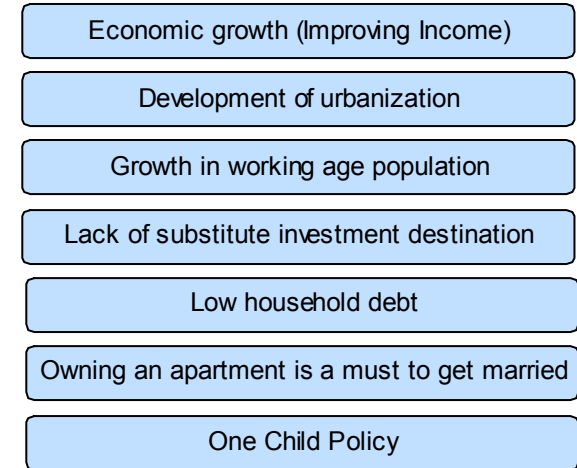
Note: Only sales of retailers exceeding certain sales amount are included.

Source: CEIC, Corporate Planning Division of BTMUC

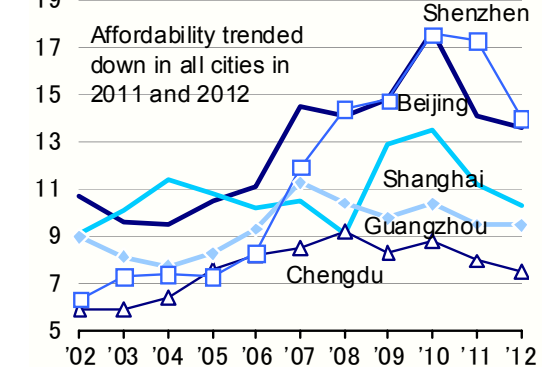
<Property Market Trends> Property price is expected to grow at a slower pace

- Property prices in China continued to climb
 - Growth pace varied among cities but some have reached the historical high level which was underpinned by the 4-trillion-Yuan stimulus package implemented after the financial crisis
- Policies were implemented to avoid a second property bubble but no significant effect is seen at the moment
 - The government is not expecting a rapid downward adjustment in property prices
- Property prices may slow down as government has moved to curb credit expansion
 - As the government has stand firm at adopting structural reform, property is expected to eventually become more affordable
 - Regulations on inflow of hot money and shadow banking are forecasted to put brake on credit expansion
- In the long term, factors pushing up property demand will gradually lose their influence to the market

Factors for Property Bubble in China

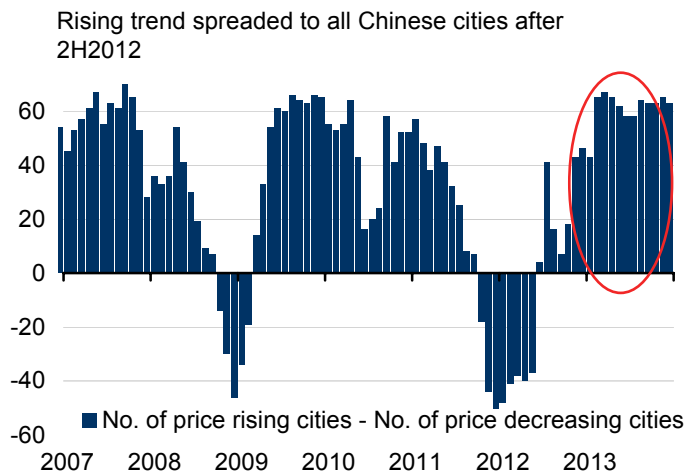


Affordability Ratio between Income and Residential Price in Major Cities



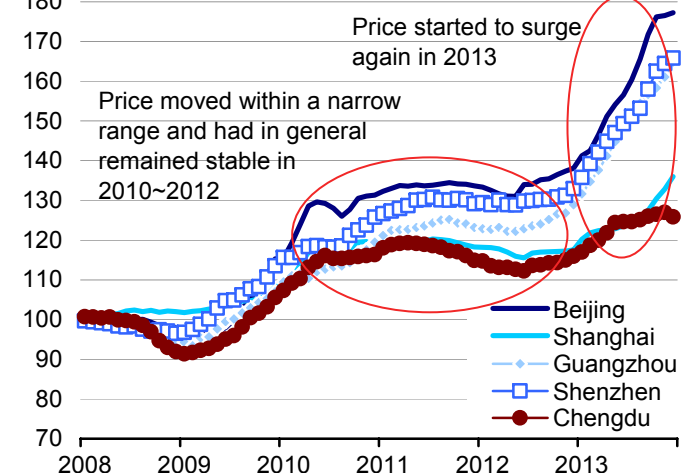
Note: Affordability ratio = residential price (RMB / m²) x 30 m² / per capita disposal income
Source: CEIC, Corporate Planning Division of BTMUC

Price Trends of New Residential Properties



Source: CEIC, Corporate Planning Division of BTMUC

Monthly Residential Price Index

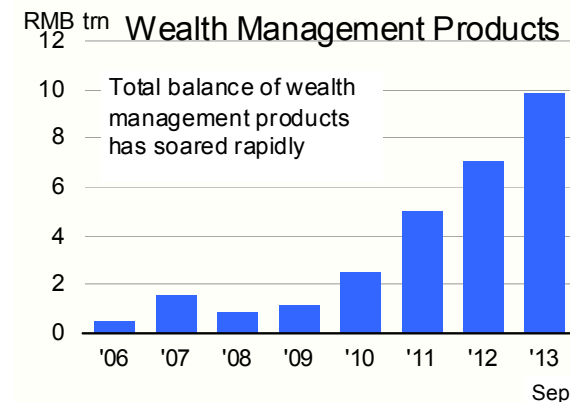


Source: CREIS, Corporate Planning Division of BTMUC

<Current Condition of Shadow Banking>

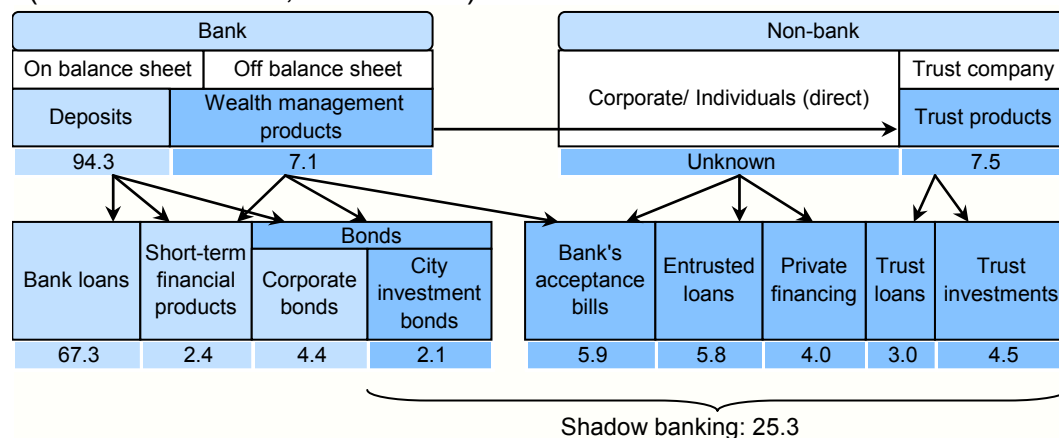
Shadow banking itself is not a problem. The risks lie on the ever expanding asset

- Asset amount is estimated to be RMB 25.3 trillion
 - Analysts believe that total assets range between RMB 20~30 trillion
- It is an exaggeration to compare shadow banking with the US subprime crisis
 - Shadow banking system merely includes basic financial activities and has low leverage
- The government are well noticed risks of shadow banking and has put measures to get rid of the problem
 - The government's aim is to curb activities that could increase systemic risks and lead to credit expansion
 - The policies aim to reinforce controls and regulations on shadow banking, instead of killing all shadow banking activities
- Time is needed for the problem to be solved
 - Structural distortions are the underlying factors
 - Comprehensive reforms including liberalization of the financial market as well as solutions to the fiscal problems of local governments should be adopted



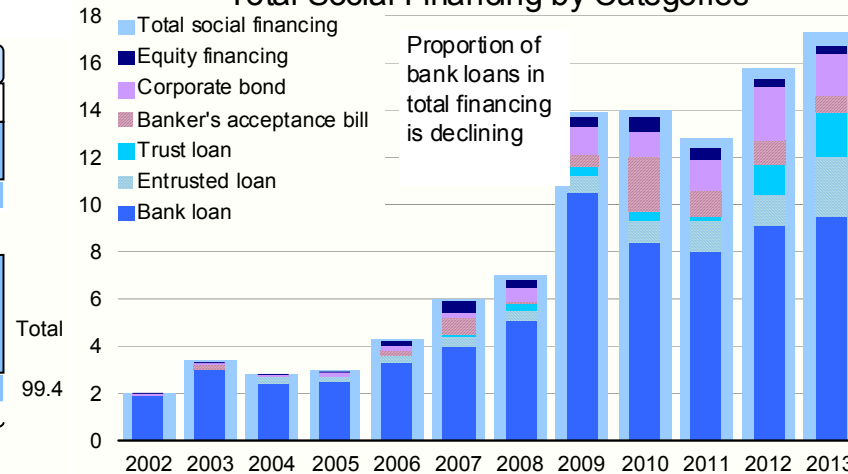
Source: Research Center for International Finance of IWEP (Institute of World Economics and Polistics) in the Chinese Academy of Science, media reports, Corporate Planning Division of BTMUC

Funding Demand and Sources in China & Shadow Banking Overview (as of end of 2012, RMB trillion)



Source: PBOC, Asian Development Bank, Media reports, Corporate Planning Division of BTMUC

Total Social Financing by Categories (RMB trn)



Source: CEIC, Corporate Planning Division of BTMUC

<Short Term Economic Outlook> Economy will depend on the balance among the three tasks – economic growth, credit expansion control and structure reform

< Is current economic recovery sustainable? >

- Current recovery may be a temporary one contributed by investments
 - Consumption is healthy but growth pace is slower than expected
 - Funding difficulties may dampen investments by local governments
 - Export growth will not be strong enough to drive economic growth

< Current expansion pace does not allow to loosen of credit control >

- Threat of a second property bubble still remains
 - The government is cautious on possible rise in property prices due to credit expansion
 - Concerns over consumer price growth is also increasing
 - The government aims to curb credit expansion by implying hot-money and shadow banking controls
 - Monetary policy may tighten in the future

< Structure reform plans have just been formulated >

- 2014 and after are times for real implementation of reforms and achieving targets
 - Local government debt was RMB 17.9 trillion as of June 2013

< Moderate economic slowdown seems to be inevitable >

- Growth will gradually slow down
 - Growth rate is expected to decline at a moderate pace
 - China may lower its GDP growth target in 2014

Scenarios of Economic Policies and Property Price

	Most-likely scenario Soft-landing	Worst-case scenario Hard-landing
Economic Measures	<ul style="list-style-type: none"> □ Government allows mid economic growth □ Government only conducts a reasonable amount of FAI to sustain certain growth □ Economic growth slows down at a moderate pace □ Regulations are implemented to put brake on credit expansion and control property prices 	<ul style="list-style-type: none"> □ Government determines to maintain high economic growth at 8% □ Government continues to conduct large scale investments to maintain economic growth □ Local governments maintain their high dependency on property income in fiscal structure, persuading implementation of large scale stimulus packages
Property Price	<ul style="list-style-type: none"> □ Grow at a moderate pace 	<ul style="list-style-type: none"> □ Surge at a fast pace
Risks	<ul style="list-style-type: none"> □ Government enforces structure reform while sustaining economic growth to some extent □ The society remains stable under step-by-step reform □ Properties become more affordable with increasing income Soft-landing	<ul style="list-style-type: none"> □ Government fails to enforce structure reform, creating social unrest due to little hope for solution to income disparity □ A crash in property market after prices surging to an unaffordable level in comparison to income Hard-landing

China Economy Projections by BTMU (Nov 2013)

	2010	2011	2012	2013	2014F
Real GDP growth (%)	10.4	9.3	7.8	7.7	7.2
CPI growth (%)	3.3	5.4	2.6	2.6	3.3
Current account balance (USD 100mn)	3,054	2,017	1,931	1,890	1,689

Note: Current account balance in 2013 is estimated figure.

Source: Economic research office of BTMU

<Mid-long Term Outlook①>

Reform is necessary facing structural distortions

< Structure reform must be conducted in no time >

- ❑ Investment-led growth has reached the limit
 - “Social cost” increased as investment efficiency fell
 - Dependence on investments in Middle and West China has grown at an unreasonably fast pace
 - Working population will peak out and apply downward pressure to the economy
- ❑ Problems of local governments should be solved in no time
 - Although China has the ability to absorb impact from the issue, the problem should not be ignored

< China still has high growth potential due to urbanization >

- ❑ Urbanization and development of service industries will be the main growth driver
- ❑ However, bold structural reforms are necessary to shift China to a urban-style & consumption-led economy

< New leaders has well steered the country so far >

- ❑ New leaders has emphasized their stance of conducting reform
 - Ease of economic growth target is a ray of light for real reform
 - However, there is no significant result achieved from structure reform until date
- ❑ Reform could face opposition from interest groups
 - Visible achievements are needed to maintain reform momentum

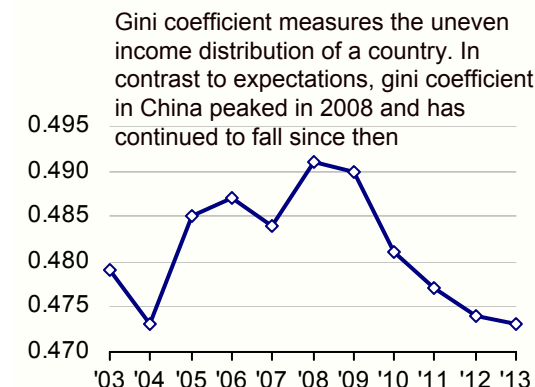
Marginal Capital Coefficient in China



Note: Marginal capital coefficient is the capital needed to lift GDP by 1 unit.

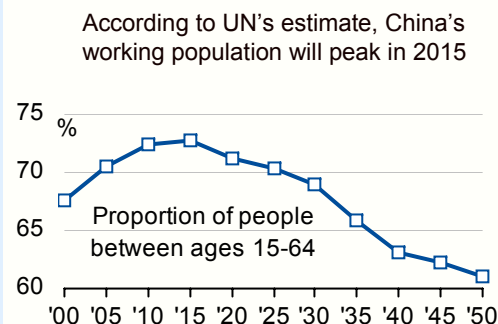
Source: CEIC, Corporate Planning Division of BTMUC

Gini Coefficient



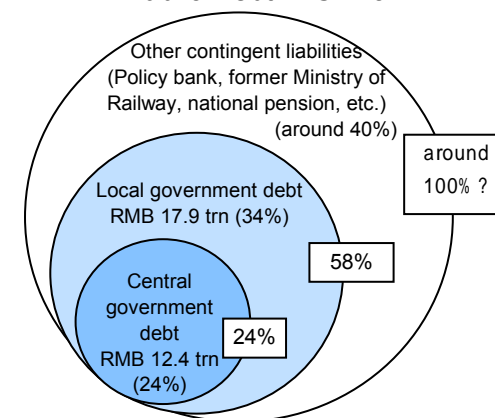
Source: CEIC, Corporate Planning Division of BTMUC

Proportion of Working Population



Source: "World Population Prospects: The 2010 Revision" by UN, Corporate Planning Division of BTMUC

Public Debt in China



Note: 1. Percentage to 2012 nominal GDP of RMB 51.9 trn
 2. Central and government debt are guarantee obligation and contingent liabilities as of June 2013
 3. Other contingent liabilities are estimated figures since 2010
 Source: China Ministry of Finance, Corporate Planning Division of BTMUC

<Mid-Long Term Outlook①>

Chinese leaders face challenges under dilemmas of economic growth and structure reform

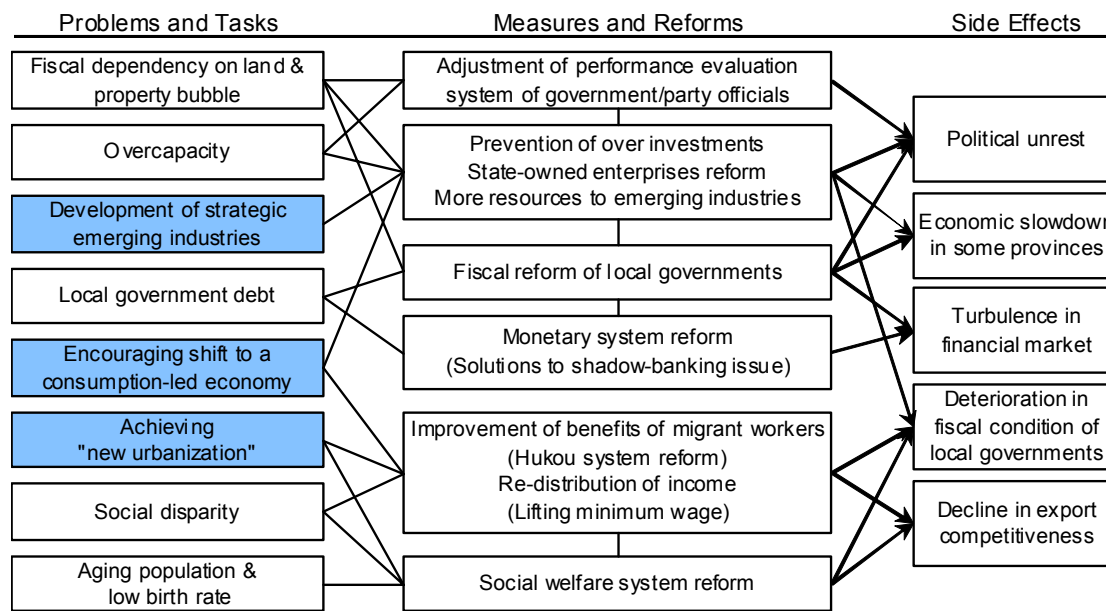
< No reform, no growth >

- Fundamental reforms are needed to achieve a sustainable growth path
 - Reduction of social inequality (increase labor share)
 - Promoting industrial reform to reduce overcapacity
 - Rebalancing industrial structure between coastal and inland areas
 - Investing on emerging sectors (develop high-value added economy)
- Reform in all sectors must be conducted at the same time
 - Advance reform only in certain sectors is not easy
 - All parts of reform are closely linked to each other

< No growth, no reform >

- “Side-effects” of reform could not be ignored
 - Reforms may reduce investments and working opportunities in manufacturing sectors, bringing negative impacts to the economy in the short-term
 - Such impacts could lead to social unrest
- To enforce reform amid growth contraction, Chinese leaders must ensure economic growth to some extent
 - Reform leaders should make more obvious achievements to maintain their politic power
 - They should also convince Chinese people that such reform will lead to long-term growth in order to gain their support

China's Structure Reform Agenda and Connections



Note: It is believed that China can establish a sustainable economic growth by achieving tasks placed in blue boxes.
Source: Information from various sources, Corporate Planning Division of BTMUC

(※) New Urbanization Plan

In China, given that most migrant workers move to cities while maintaining their rural hukou, they in general have less purchasing power than urban-hukou residents. Urbanization rate calculated based on inhabited population in cities has thus overestimated actual urbanization status.

In the new urbanization plan, migrant workers will be given the same benefits as urban-hukou residents and government will emphasize on encouraging rural people to move to small-medium cities instead of big cities.

The plan aims not only to avoid social problems such as surging population in big cities, but also develop small-medium cities which may bring higher returns from urban developments.

<Macroeconomic Indicators>

	GDP		Economy										Balance of Payments						Financial Market				
	Nominal GDP	Real GDP Growth	PMI	Industrial Value-added Output	FAI	Retail Sales of Consumer Goods	CPI Growth	Passenger Car Sales Volumes	Power Generation	Railway Cargo Traffic	Unemployment Rate	Exports YoY Growth	Imports YoY Growth	Trade Balance	Current Account Balance	Foreign Direct Investments	Foreign Reserve	M2	Total Social Financing	SSE Composite Index	Average Exchange Rate		
	RMB 100mm	%	%	%	%	(Value) %	(Vol.) %	%	%	%	%	%	%	USD bn	USD bn	USD bn	USD bn	%	RMB bn	RMB bn	RMB/USD		
2011	473,104	9.2		13.9	23.8	17.1	11.7	5.4	5.2	12.0	8.0	4.1	20.3	24.9	157.9	136.1	116.0	3,181	13.6	7,471.5	12,829	2,199	6.4590
2012	519,470	7.8		10.0	20.6	14.3	11.7	2.7	7.1	5.6	-0.7	4.1	7.9	4.4	232.8	193.1	112.8	3,312	13.8	8,203.8	15,763	2,269	6.3130
2013	568,845	7.7		9.7	19.6	13.1	10.5	2.6	15.7	5.4	1.9		7.8	7.3	261.4		117.6	3,821	13.6	8,891.9	17,290	2,116	
2011 1Q		9.7		14.9	24.9	16.3	11.2	5.1	9.1	12.1	6.8	4.1	26.4	32.8	-0.7	28.8	30.3	3,045	16.6	2,243.4	4,224.0	2,928	6.5840
2Q		9.5		13.9	25.6	17.2	11.5	5.7	3.0	12.0	9.3	4.1	22.0	23.1	46.7	59.0	30.6	3,197	15.9	1,928.5	3,540.0	2,762	6.5019
3Q		9.1		13.8	25.1	17.3	11.0	6.3	7.9	10.8	7.5	4.1	20.5	24.8	63.8	53.4	25.8	3,202	13.0	1,509.3	2,041.3	2,359	6.4179
4Q		8.9		12.8	24.4	17.5	12.9	4.6	2.1	8.9	8.3	4.1	14.3	20.6	48.1	60.5	29.3	3,181	13.6	1,790.3	3,023.3	2,199	6.3418
2012 1Q		8.1		16.6	21.3	14.8	11.0	3.8	-1.8	6.5	4.4	4.1	7.6	7.1	1.1	23.5	29.5	3,305	13.4	2,462.0	3,888.9	2,263	6.3083
2Q		7.6		9.5	20.2	13.9	11.0	2.9	16.6	1.2	1.4	4.1	10.5	6.5	68.8	53.7	29.6	3,240	13.6	2,394.8	3,887.1	2,225	6.3069
3Q		7.4		9.1	20.4	13.5	11.6	1.9	6.7	2.1	-7.2	4.1	4.5	1.6	79.5	70.8	24.3	3,285	14.8	1,866.7	3,945.9	2,086	6.3345
4Q		7.9		10.0	20.7	14.9	12.8	2.1	7.4	7.4	-1.1	4.1	9.4	2.7	83.3	45.1	28.3	3,312	13.8	1,482.0	4,041.2	2,269	6.2999
2013 1Q		7.7		9.5	20.9	12.4	10.0	2.4	17.2	4.2	-0.8	4.1	18.3	8.5	43.5	47.6	29.9	3,443	15.7	2,754.7	6,165.4	2,237	6.2791
2Q		7.5		9.1	20.4	13.0	10.6	2.4	10.4	6.9	-4.5	4.1	3.7	5.0	65.7	50.9	32.1	3,497	14.0	2,324.5	3,987.5	1,979	6.2053
3Q		7.8		10.1	20.2	13.3	10.5	2.8	14.5	11.6	7.5	4.0	3.9	8.4	61.5	40.4	26.6	3,663	14.2	2,199.5	3,814.4	2,175	6.1674
4Q		7.7		10.0	19.9	13.5	10.6	2.6	20.3	10.1	6.0		7.4	7.2	90.5		29.0	3,821	13.6	1,613.2	3,323.1	2,116	6.1308
2011 Jan			52.9	n/a	24.9	19.9	15.0	4.9	16.2	8.2	6.8		37.7	51.4	6.5		10.0	2,932	17.2	1,040.0	1,756.0	2,791	6.6027
Feb			52.2	14.9	24.9	11.6	6.7	4.9	2.6	15.0	6.8		2.3	19.7	-7.3		7.8	2,991	15.7	535.6	646.8	2,905	6.5831
Mar			53.4	14.8	25.0	17.4	12.0	5.4	6.5	13.7	6.8		35.8	27.4	0.1		12.5	3,045	16.6	664.4	1,821.2	2,928	6.5662
Apr			52.9	13.4	25.4	17.1	11.8	5.3	2.8	10.5	9.5		29.8	22.0	11.4		8.5	3,146	15.3	739.6	1,367.3	2,912	6.5292
May			52.0	13.3	25.8	16.9	11.4	5.5	-0.1	10.9	9.0		19.3	28.4	13.0		9.2	3,166	15.1	551.6	1,085.4	2,743	6.4988
Jun			50.9	15.1	25.6	17.7	11.3	6.4	6.2	14.5	9.5		17.9	19.0	22.3		12.9	3,197	15.9	633.9	1,087.3	2,762	6.4778
Jul			50.7	14.0	25.4	17.2	10.7	6.5	6.7	12.6	6.9		20.3	23.0	31.5		8.3	3,245	14.7	492.6	539.3	2,702	6.4614
Aug			50.9	13.5	25.0	17.0	10.8	6.2	7.3	9.1	6.8		24.4	30.4	17.8		8.4	3,262	13.6	548.5	1,074.1	2,567	6.4090
Sep			51.2	13.8	24.9	17.7	11.6	6.1	8.8	10.7	8.9		17.0	21.1	14.5		9.0	3,202	13.0	470.0	427.9	2,359	6.3833
Oct			50.4	13.2	24.9	17.2	11.7	5.5	1.4	9.4	8.9		15.8	29.1	17.0		8.3	3,274	12.9	586.8	790.8	2,468	6.3566
Nov			49.0	12.4	24.5	17.3	13.1	4.2	0.3	7.5	9.8		13.8	22.6	14.5		8.8	3,221	12.7	562.2	958.1	2,333	6.3408
Dec			50.3	12.8	23.8	18.1	14.0	4.1	4.6	9.8	9.1		13.3	12.1	16.5		12.2	3,181	13.6	640.5	1,274.4	2,199	6.3281
2012 Jan			50.5	n/a	21.5	n/a	n/a	4.5	-23.8	-5.1	3.9		-0.5	-15.0	27.3		10.0	3,254	12.4	738.1	975.4	2,293	6.3168
Feb			51.0	21.3	21.5	n/a	n/a	3.2	26.5	19.4	5.8		18.3	40.3	-31.5		7.7	3,310	13.0	710.7	1,043.1	2,428	6.3000
Mar			53.1	11.9	20.9	15.2	11.6	3.6	4.5	7.3	3.6		8.8	5.4	5.3		11.8	3,305	13.4	1,011.4	1,870.4	2,263	6.3081
Apr			53.3	9.3	20.2	14.1	10.7	3.4	12.5	1.5	4.8		4.9	0.4	18.4		8.4	3,299	12.8	681.8	963.7	2,396	6.2966
May			50.4	9.6	20.1	13.8	10.8	3.0	22.6	3.2	3.4		15.3	12.7	18.7		9.2	3,206	13.2	793.2	1,143.2	2,372	6.3062
Jun			50.2	9.5	20.4	13.7	11.5	2.2	15.8	-0.9	-3.9		11.3	6.3	31.7		12.0	3,240	13.6	919.8	1,780.2	2,225	6.3178
Jul			50.1	9.2	20.4	13.1	11.3	1.8	10.7	2.3	-8.0		1.0	5.7	25.1		7.6	3,240	13.9	540.1	1,052.2	2,104	6.3235
Aug			49.2	8.9	20.2	13.2	11.2	2.0	11.3	2.6	-7.9		2.7	-2.7	26.7		8.3	3,273	13.5	703.9	1,247.5	2,048	6.3404
Sep			49.8	9.2	20.5	14.2	12.3	1.9	-0.3	1.2	-5.8		9.8	2.3	27.7		8.4	3,285	14.8	623.2	1,646.2	2,086	6.3395
Oct			50.2	9.6	20.7	14.5	12.8	1.7	6.4	7.1	-4.8		11.5	2.2	32.0		8.3	3,287	14.1	505.2	1,290.6	2,069	6.3144
Nov			50.6	10.1	20.7	14.9	12.9	2.0	8.8	8.0	0.9		2.8	-0.1	19.6		8.3	3,298	13.9	522.9	1,122.5	1,980	6.2953
Dec			50.6	10.3	20.6	15.2	12.7	2.5	6.9	7.2	0.7		14.0	6.0	31.6		11.7	3,312	13.8	454.3	1,625.6	2,269	6.2900
2013 Jan			50.4	n/a	21.2	12.3	9.1	3.2	-8.3	-12.7	-1.2		25.0	29.0	29.1		9.3	3,410	15.9	1,072.1	2,544.6	2,385	6.2787
Feb			50.1	n/a	21.2	12.3	9.1	3.2	-8.3	-12.7	-1.2		21.7	-14.9	15.2		8.2	3,395	15.2	620.0	1,070.5	2,366	6.2842
Mar			50.9	8.9	20.9	12.6	10.5	2.1	13.3	2.1	-2.6		10.0	14.2	-0.8		12.4	3,443	15.7	1,062.5	2,550.3	2,237	6.2743
Apr			50.6	9.3	20.6	12.8	10.4	2.4	13.0	7.4	-6.3		14.6	16.6	18.2		8.4	3,534	16.1	792.3	1,762.9	2,178	6.2471
May			50.8	9.2	20.4	12.9	10.8	2.1	9.0	5.3	-6.3		0.9	-0.1	20.4		9.3	3,515	15.8	669.4	1,187.1	2,301	6.1970
Jun			50.1	8.9	20.1	13.3	10.6	2.7	9.3	8.1	-0.6		-3.3	-0.9	27.1		14.4	3,497	14.0	862.8	1,037.5	1,979	6.1718
Jul			50.3	9.7	20.1	13.2	10.5	2.7	10.5	10.2	4.9		5.1	10.8	17.8		9.4	3,548	14.5	699.7	819.1	1,994	6.1725
Aug			51.0	10.4	20.3	13.4	10.8	2.6	11.0	14.1	8.2		7.1	7.1	28.5		8.4	3,553	14.7	711.3	1,584.0	2,098	6.1708
Sep			51.1	10.2	20.2	13.3	10.2	3.1	21.1	10.3	9.3		-0.4	7.4	15.2		8.8	3,663	14.2	787.0	1,411.3	2,175	6.1588
Oct			51.4	10.3	20.1	13.3	10.1	3.2	23.6	10.5	8.3		5.6	7.5	31.1		8.4	3,737	14.3	506.1	864.0	2,142	6.1393
Nov			51.4	10.0	19.9	13.7	10.7	3.0	16.1	9.5	3.5		12.7	5.4	33.8		8.5	3,789	14.2	624.6	1,226.9	2,221	6.1372
Dec			51.0	9.7	19.6	13.6	11.1	2.5	21.5	10.5	6.2		4.3	8.7	25.6		12.1	3,821	13.6	482.5	1,232.2	2,116	6.1160

Source: CEIC, Corporate Planning Division of BTMUC

Current Industrial Trends and Impacts from Economic Slowdown

- ❑ Consumer goods and service related industries supported by domestic demand are expected to post stable growth
- ❑ Capital goods and export-oriented industries will see relatively sluggish growth
- ❑ Growth potential of material industries is sluggish and future trend will depend on progress of industrial structure reform
- ❑ The shift of Chinese economy to “mid growth era” has different impacts on industries
- ❑ These could reduce China’s business attractiveness but a full-scale pull back is impracticable

<Production & Consumption Trends of Consumer Goods Manufacturing>

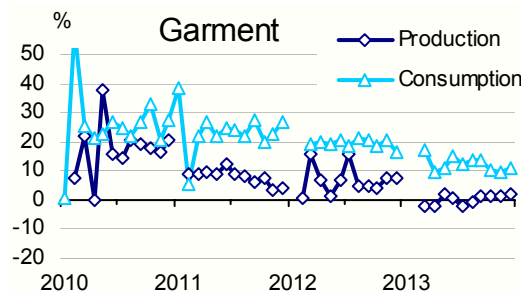
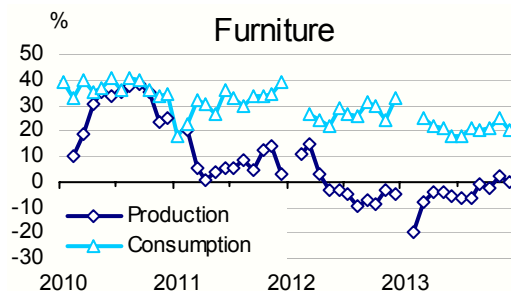
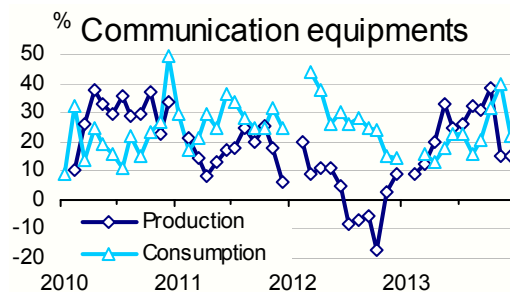
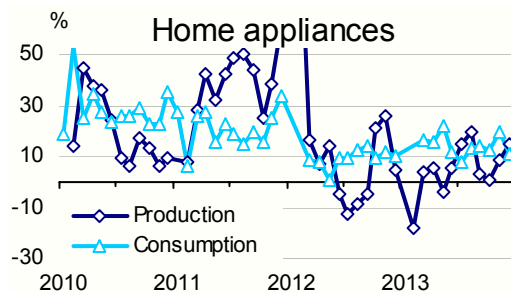
Performances vary according to the nature of its market (export or domestic oriented)

- Home appliance, apparel, furniture and communication equipment which are export oriented industries saw relatively poor performance in production than consumption
 - Except for home appliance, other sectors are currently being supported by domestic market despite export demand has been weak. Production of communication equipment depends largely on performance of new products
- Domestic oriented industries (goods produced are in general consumed in China) such as automobile and beverages have roughly the same trends in production and consumption

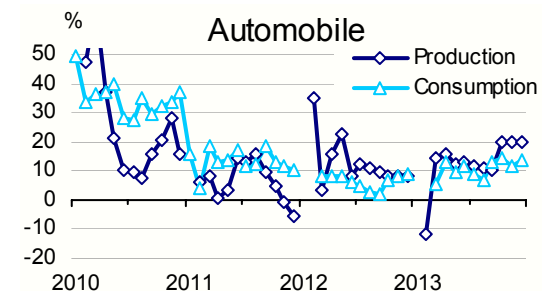
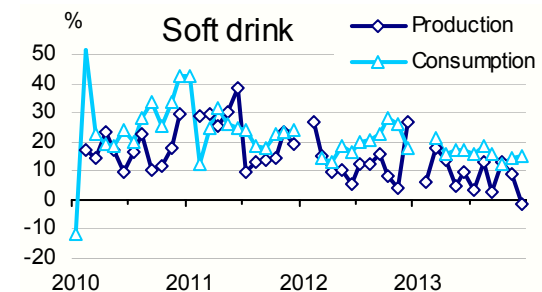
Comparisons between Domestic Consumption and Production of Major Sectors

Domestic oriented industries have roughly the same performances in production and consumption while production and consumption trends of export oriented industries are less connected

<Export Oriented Sectors>



<Domestic Oriented Sectors>



Source: CEIC, Corporate Planning Division of BTMUC

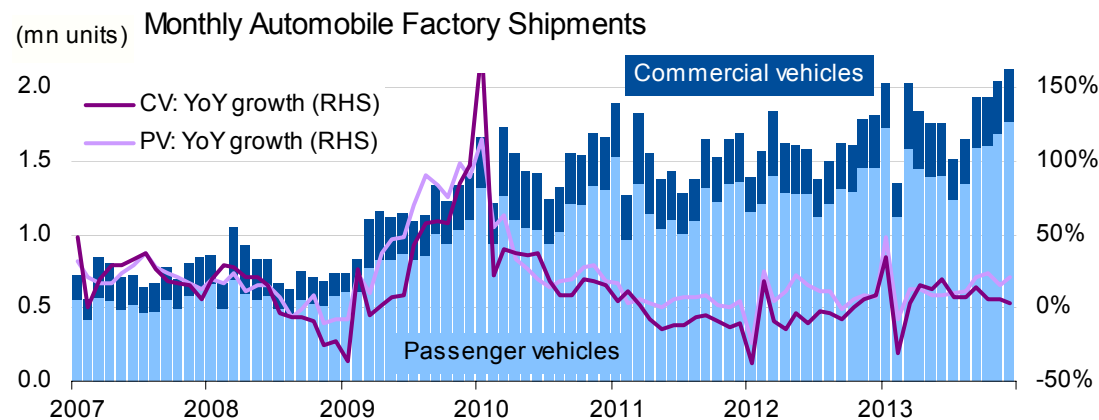
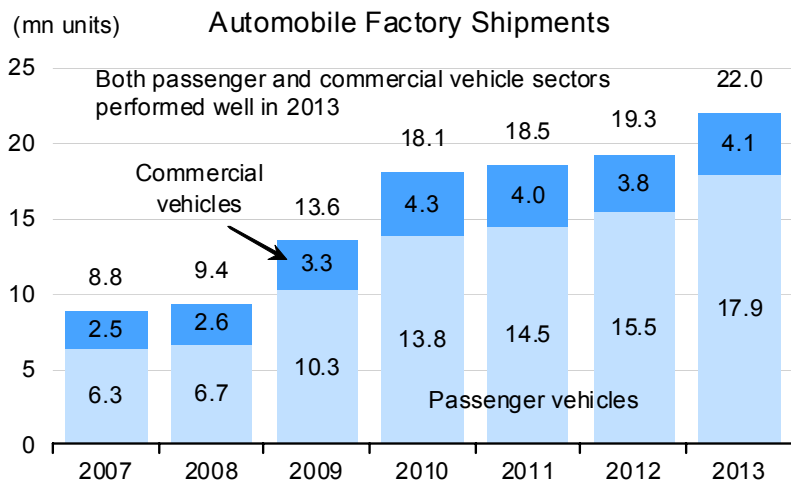
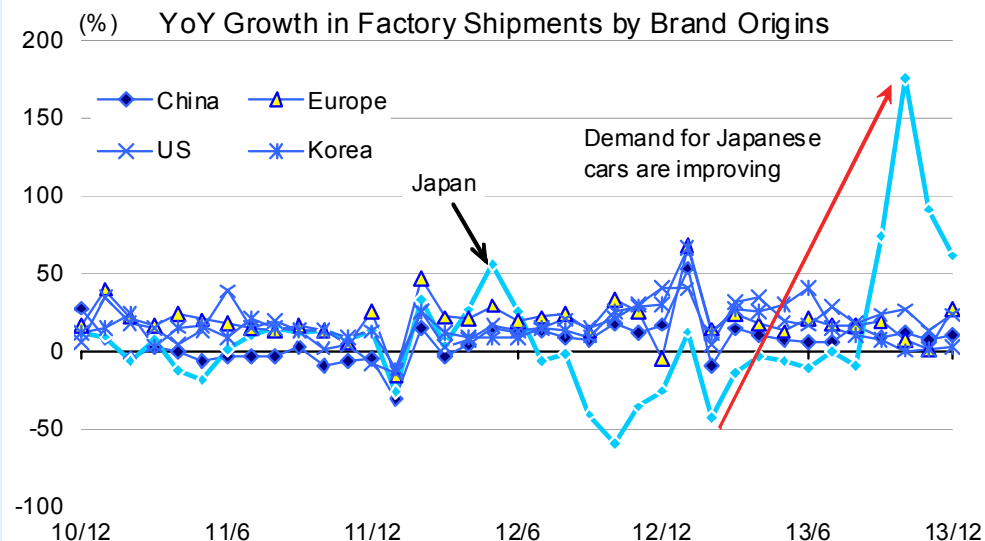
< Consumer Goods Trend: Automobile > Demand for passenger vehicles will remain strong and sustain stable growth in the mid term

< 2013 > Demand for passenger vehicles stayed strong and that for commercial vehicles improved

- Passenger vehicles (PV): Shipments stayed strong. Japanese cars are on a recovery trend
- Commercial vehicles (CV): Growth recovered to a favorable level as supported by restart of infrastructure investments

< Mid term outlook > Automobile demand will grow at mid-to-high single digit level, primarily driven by the main PV sector

- PV: Impacts from regulations on new car registration and inventory adjustments will be eliminated by widening customer base due to economic growth
- CV: Demand is expected to grow steadily with the end of inventory adjustment



Source: CAAM, Corporate Planning Division of BTMUC

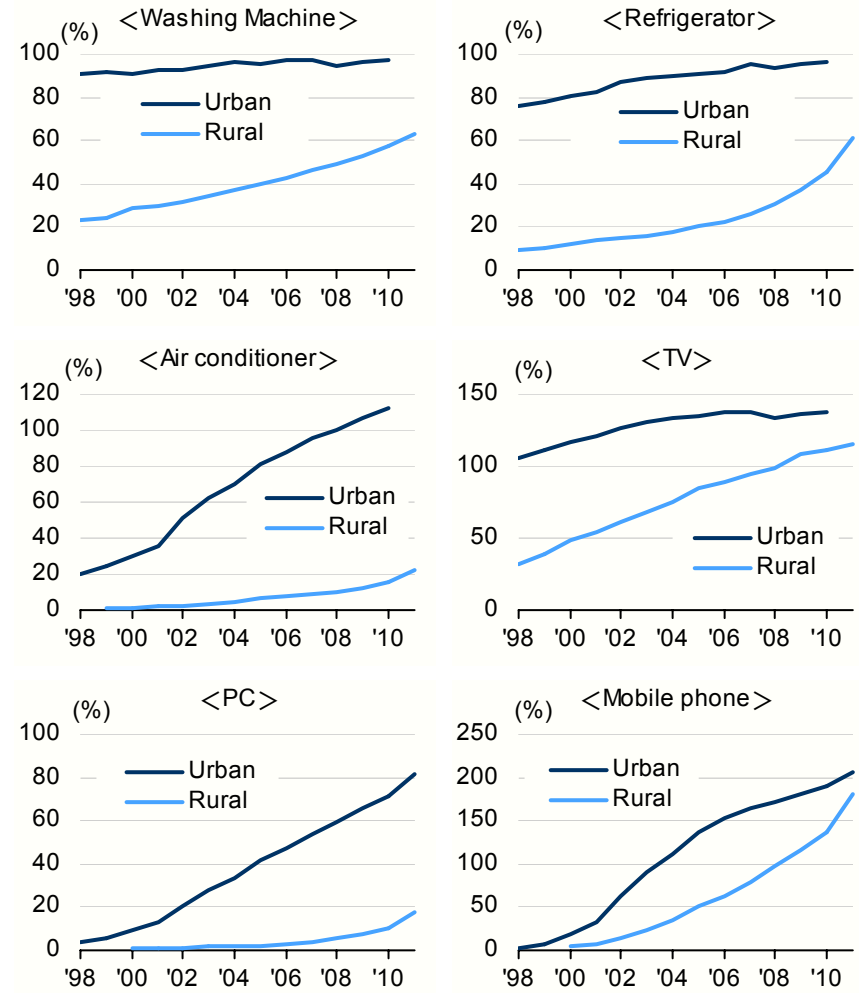
Source: CAAM, Corporate Planning Division of BTMUC

< Consumer Goods Trend: Home Appliances > Modest growth expected

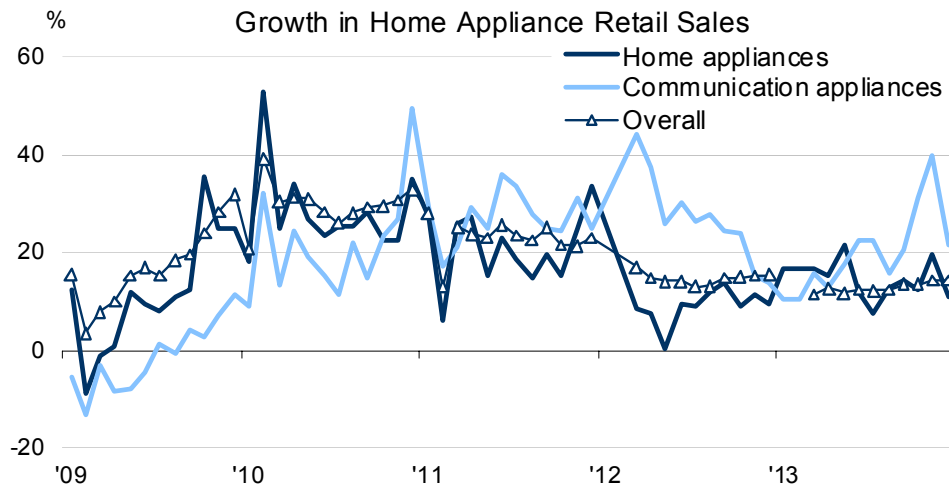
- < Overall trend > Relatively stable
- ❑ Urban areas saw low demand while that from rural areas was stable
 - ❑ Demand for home appliances and audio & video equipments remained stable despite end of sales-boosting measures
 - ❑ Communication equipments continued to perform better than the overall retail market
- < Outlook > Modest growth expected
- ❑ In urban areas, replacement demand will become the main driver as a result of increasing possession rate
 - ❑ Home appliances demand may grow mainly in rural areas while TV has well penetrated into Chinese households
 - ❑ Demand for mobile phones continue to be driven by smart phones
 - ❑ PC demand will depend on development in rural areas

Household Possession Rates of Major Home Appliances

Most appliances have high possession rates in rural areas



Source: CEIC, Corporate Planning Division of BTMUC



Note: Only sales of retailers exceeding certain sales amount are included.
Source: CEIC, Corporate Planning Division of BTMUC

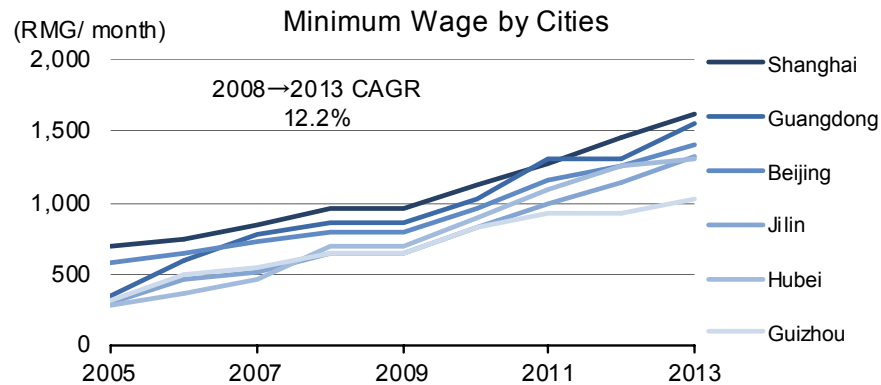
<(Reference Information) Home Appliances Production Trend>

< Overall trend > Production growth was low in all sectors except air conditioners and mobile phones

- Production of air conditioners improved with retailers increasing inventory in view of rising sales. Mobile phone production also remained well driven by smart phone segment
- On the other hand, TV production was soft due to high possession rate. PC production was dampened by popularity of tablets. Printers underwent strict environment in both export and domestic sides whereas production for digital cameras continued to plunge

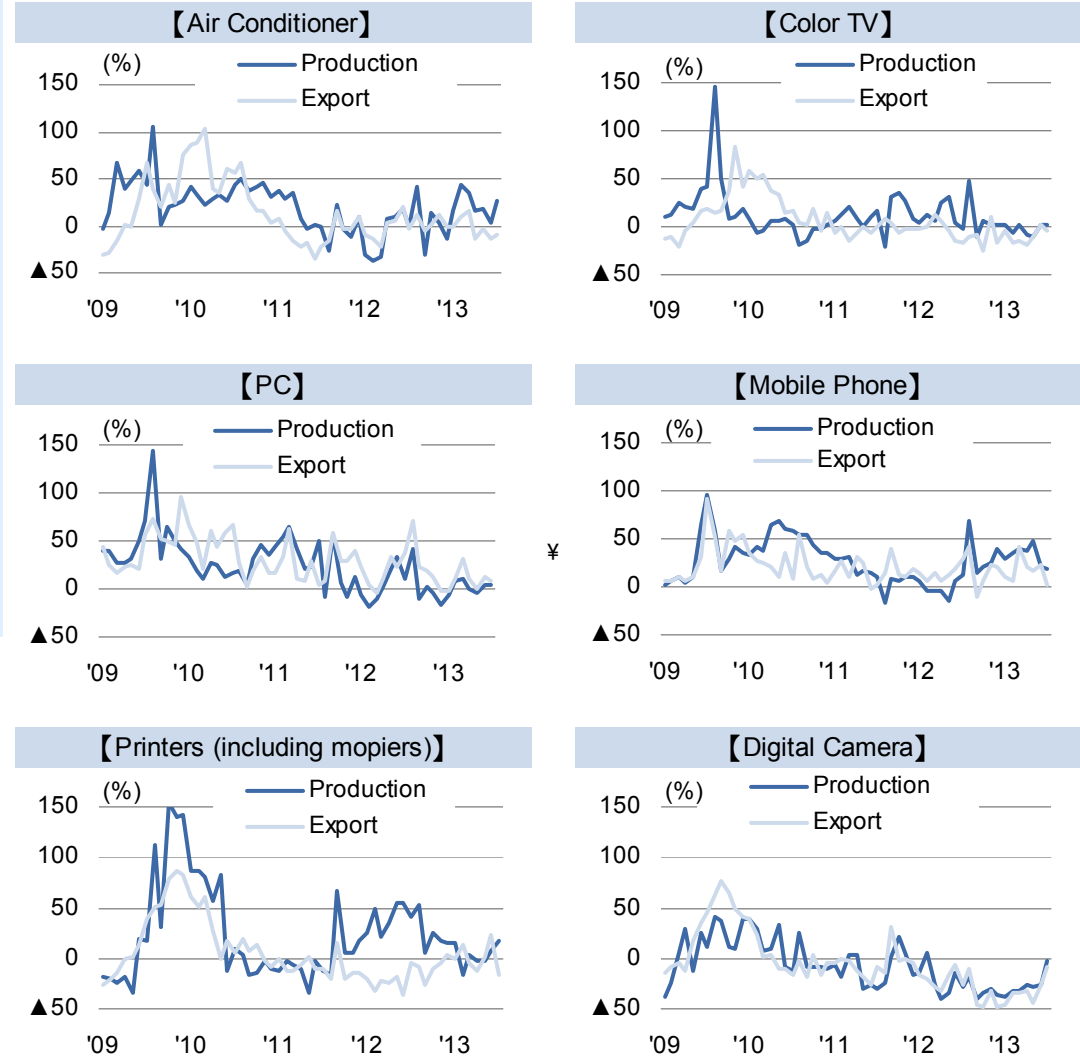
< Outlook > Production may stay at current low level

- Production of export-oriented products will face pressure from rising labor cost
- Rapid growth in production is unlikely with exceptions for air conditioners and mobile phones (smart phones) given the still low possession rate



Source: CEIC, Corporate Planning Division of BTMUC

YoY Growth in Production and Export Volumes by Products



Source: CEIC, Corporate Planning Division of BTMUC

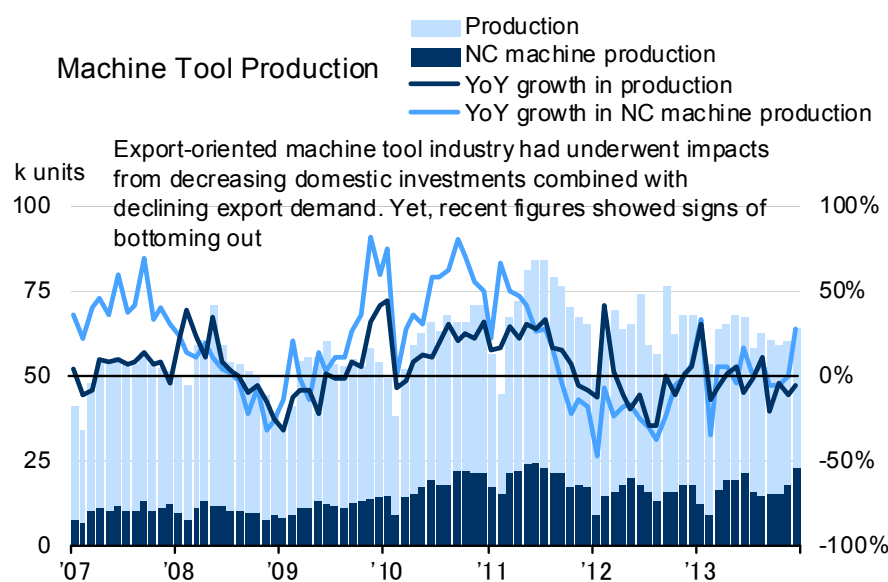
<Capital Goods Trend: Machinery> Continue to recover at a moderate pace

< Overall trend > Recovery has become more significant amid improvements in infrastructure investments

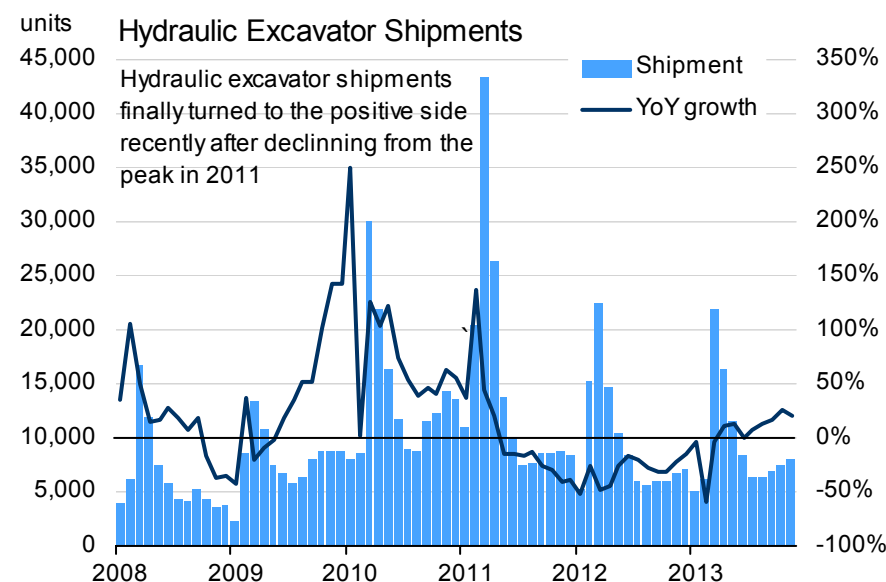
- ❑ Demand for automobile-related machine tools was stable
- ❑ Demand from electrical appliance sectors was sluggish with the end of investment projects by leading manufacturers of smart phones (demand from low-end smart phone manufacturers are soft)
- ❑ As for construction machines, demand for small-tonnage machines remained stable and that of mid and large tonnage machines is also improving

< Outlook > Recovery pace is expected to remain modest

- ❑ Automobile-related machine tools could perform better than the overall market, partly boosted by good sales of Japanese cars
- ❑ Rapid recovery of demand from electrical appliance sector is not expected as further investments by leading smart phone manufacturers are less likely
- ❑ Construction machines are expected to keep current growth pace although significant growth in infrastructure investments is unlikely



Source: CEIC, Corporate Planning Division of BTMUC

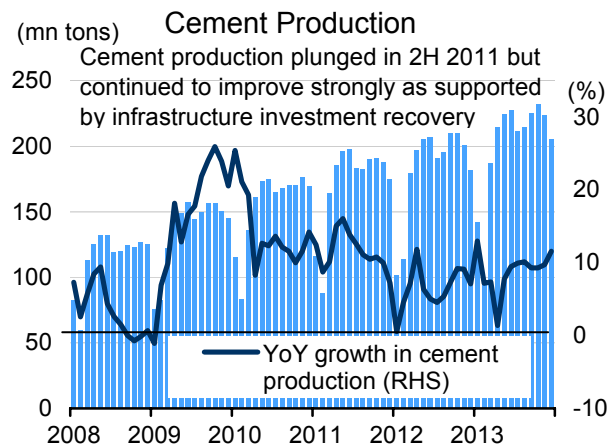
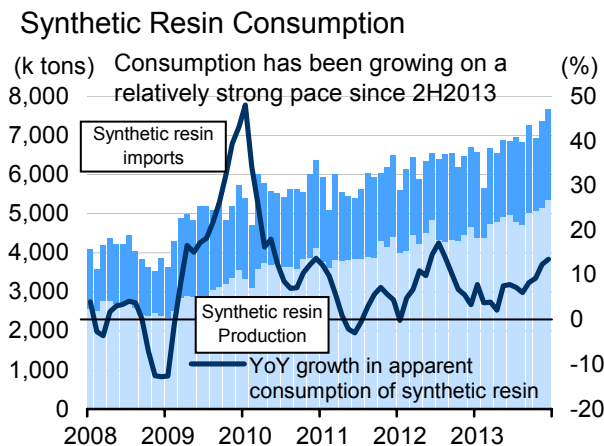
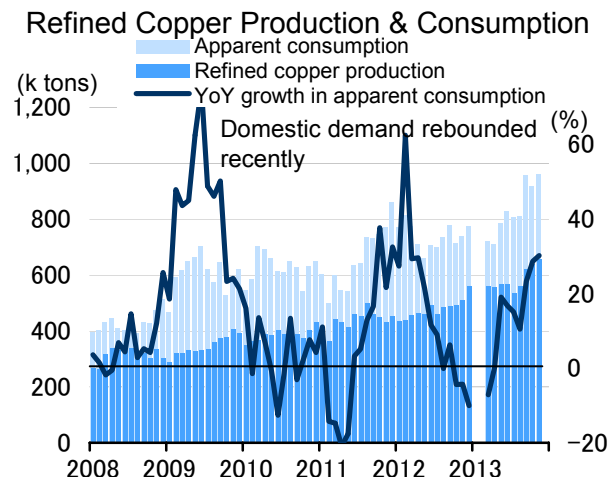
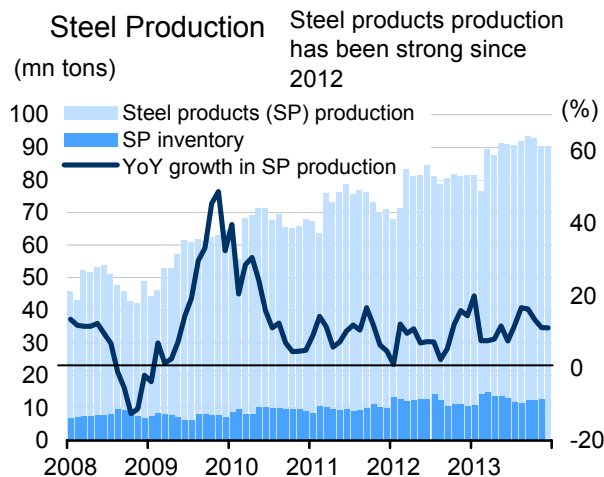


Source: China Construction Machinery Association, Corporate Planning Division of BTMUC

<Material Industry Trend①>

Production is expected to keep growing amid economic slowdown

- Steel: Maintain strong production
 - Steelmakers may cancel production adjustment in expectations of investment recovery
 - There is no significant progress in industrial reform and capacity reduction
- Non-ferrous metal: Demand has hit the bottom
 - More sensitive to investment and economic fluctuations
 - Recovery is expected but may not be sustainable
- Synthetic resin: A slowdown in demand
 - Production may continue to grow
 - Recently, demand grew relatively strongly but may decelerate in the future
- Cement: Infrastructure investment recovered
 - Robust infrastructure investments in inland and western regions will push up cement demand in the areas
 - Supply-demand balance varies by regions



Note: YoY growth is calculated based on 3-month MA.
Source: CEIC, Corporate Planning Division of BTMUC

<Material Industry Trend②> Supply-demand balance deteriorated recently. High growth period has come to an end

- Market mechanism of supply-demand cannot function in the Chinese material industry
 - Overproduction by SOEs which tends to pursue market share has resulted in oversupply and low prices
 - Industrial reform is inevitable but there are a number of challenges ahead

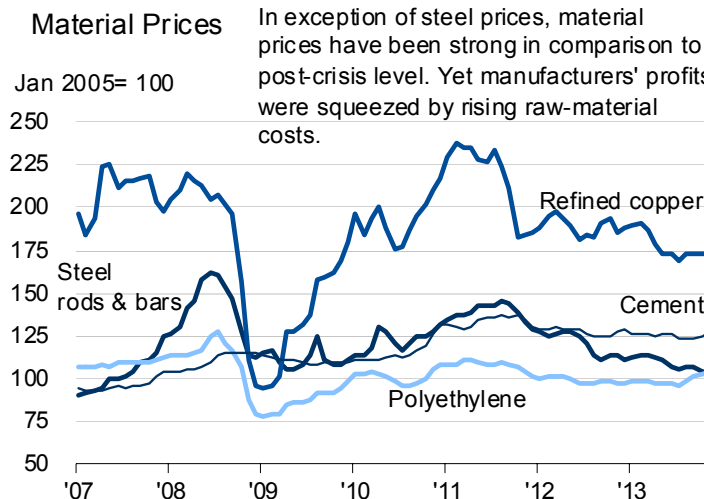
- In the mid-long term, growth trend will depend on performances of downstream sectors
 - Demand for materials which largely rely on infrastructure investments is expected to peak out
 - Demand for materials for domestic consumer goods is expected to be stable
 - Changes in demand structure (= lower GDP intensity) and economic slowdown are likely to dampen growth rate of general materials
 - () GDP intensity= raw-material consumption per GDP
 - Most general materials are expected to grow at slower paces than economic growth

Growth in Material Demand in the Mid-Growth Era

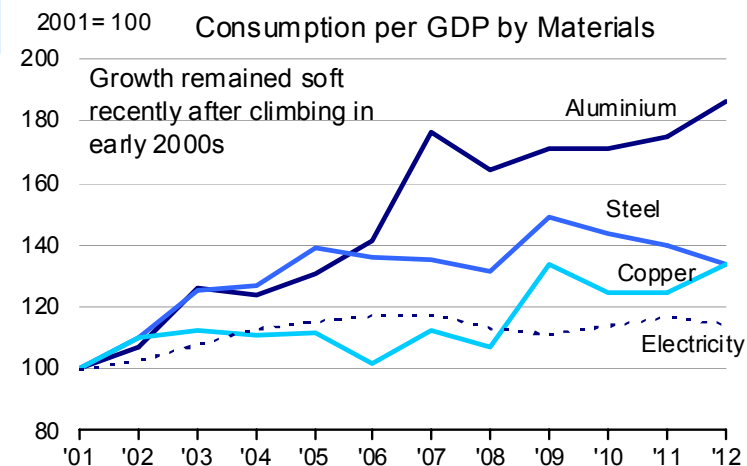
	Demand growth from downstream sectors	
	> GDP Growth	< GDP Growth
Steel	Automobile	Construction material, Home appliances, Machinery, Shipbuilding
Copper	Automobile, Air conditioner, Electronic components	Electric wires
Aluminium	Automobile	Construction material, Electric wires
Cement		Construction material
Glass	Automobile	Construction material
Plastics	Automobile, Consumer goods (domestic oriented)	Consumer goods (export oriented)

Note: Effects may vary by regions and products

Source: Information from various sources, Corporate Planning Division of BTMUC



Source: CEIC, Corporate Planning Division of BTMUC



<Potential Industries in the Mid-Growth Era>

Growth potential varies according to industry feature

- Some industries still have high growth potential under mid economic growth
 - Domestic-oriented consumer goods and strategic emerging industries are the growth engine. Individual consumption in service sectors has high growth potential
 - Infrastructure investments will shift to the inland regions and decelerate
 - Investments on property may continue to be robust but growth pace will slowdown
 - Capital goods related industries will register growth deceleration and see intensifying competition
- Industries with high growth potential may face more severe competition due to increasing new entrants
- Material industries as a whole is expected to suffer from supply-demand imbalance
 - Growth will be affected by performances of downstream industries
 - Industrial reform is inevitable for some industries

Development Plans for Strategic Emerging Industries

Key industries	Products and services
Energy saving & environment protection	<ul style="list-style-type: none"> • Machines and/or services related to energy saving, environment protection and recycling promotion • High efficiency power generation equipments and energy-saving home appliances are also included
Next generation information technologies	<ul style="list-style-type: none"> • Network equipments • Electronics industry • Software industry
Bio industry	<ul style="list-style-type: none"> • Pharmaceuticals, medical equipments, fertilizers & agricultural chemicals, bio-technologies
Advanced equipments	<ul style="list-style-type: none"> • Air crafts, satellites, railways • Offshore platforms • High precision machine tools, industrial robots
New energy	<ul style="list-style-type: none"> • Nuclear power, wind power and solar power generation equipments • Smart grid equipments
New material	<ul style="list-style-type: none"> • All advanced materials (rare earth, membranes, optics, electronics, ceramic, etc.) • Advanced construction materials (special steel, alloy materials, ceramic, and plastics) • Carbon fiber
NEVs	<ul style="list-style-type: none"> • Electric automobile, Plug-in hybrid automobile

Source: "Guiding Catalogue for Strategic Emerging Industries' Key Products and Services", Corporate Planning Division of BTMUC

Growth Potential of Different Industries in the Mid-Growth Era

Industries and products	Fit the government's goal =gain supports from the government				Follow changes in economy and society= naturally supported by the environment				Remarks
	Strategic emerging industries	Prompt domestic consumption	Develop modern services	Improve livelihood & protect environment	Income growth	Population aging	Decreasing cheap labor	Decreasing working population	
Consumption									
Automobile									
NEVs	○								
Energy saving home appliances	○	○							
Food		○							Processed & health foods
Environment									
Medical services									
Pharmaceuticals	○				○	○			
Medical equipments	○				○	○			
Elderly services					○	○			
Environmental services	○								Water & waste treatments
Related equipments	○								Including consumer products
High efficiency power generation equipments	○								
New energy	○								
Cities									
Urban communication system	○								Subway, tram, etc.
City gas									
Industries									
Industrial robots, etc.	○								All automatic machines
Air craft	○								
New material, high functional material	○								

Source: Information from various sources, Corporate Planning Division of BTMUC

<China Business Environment>

Is relocation to other countries a practicable choice?

□ China will inevitably become less competitive in the global market

- Rising wages, property prices, logistic costs, appreciation of RMB, etc.

□ However, China will remain attractive

Expanding domestic market

- World's largest population and still strong economic growth

High labor productivity and technology

- Industrial foundation and clusters are far well established
- Establishing a new supply chain at a new business base needs big force

Limited working population in other countries

- A small amount of relocation from China could lead to rapid wage growth in the country

China is still superior to Vietnam, Myanmar and others in other sides of investment environments

- Infrastructure, laws, human resources, etc. (In fact China has too many regulations)

□ Companies may face challenges in China business but moving out all operations from China seems impracticable

- Is relocation the solution?
- Wages of workers should not be the only factor when selecting operation base
- Rationale analysis on business structure, supply-chain, sales market, etc. is necessary

Promising Countries over the Medium Term (FY2013 Survey)

	2013	2012	Strength (% to total answers)							Weakness (% to total)				Comments
			Low labor cost	Component supply	Local market size	Growth potential of local market	Infrastructure	Industrial cluster	Risk mitigation	Poor judicial transparency	Rising labor cost	Severe competition	Inadequate infrastructure	
1 Indonesia	219	215	38.1	25.1	30.7	84.2	3.7	14.9	9.3	30.4	41.2	29.9	31.4	High potential but infrastructure is inadequate
2 India	213	290	33.7	23.1	25.5	87.0	1.4	11.5	5.3	30.9	18.0	33.0	57.2	High potential but infrastructure is inadequate
3 Thailand	188	165	32.4	31.9	34.6	60.0	29.7	31.4	11.9	8.9	56.1	46.5	7.6	Well established investment environment but labor cost is rising
4 China	183	319	16.9	26.8	61.2	67.8	9.8	25.1	1.6	55.3	77.1	62.0	10.6	Well established investment environment but labor cost is rising
5 Vietnam	148	163	57.5	11.0	12.3	66.4	2.7	8.2	18.5	29.5	26.5	24.2	40.9	High potential but infrastructure is inadequate
8 Myanmar	64	51	70.0	5.0	8.3	53.3	0.0	0.0	20.0	26.8	12.5	10.7	64.3	High potential but infrastructure is inadequate

Note: Based on survey conducted in July-Sep 2013.

Source: JBIC, Corporate Planning Division of BTMUC

Investment Environment in Major Asian Emerging Countries (Unit: USD)

	China Shanghai	India New Delhi	Indonesia Jakarta	Thailand Bangkok	Malaysia Kuala Lumpur	Philippines Manila	Vietnam Hanoi	Myanmar Yangon
Population	1,300	1,210	238	64	29	96	89	62
(Property monthly rents)								
Offices (m ²)	44~46	29	20~25	21	23~25	20	21~25	95
Industrial estates (m ²)	3.6	3.9	5~6	6.9~7.2	n/a	6.6	0.2	0.2
(Monthly wages)								
Workers	449	276	239	345	344	301	145	53
Engineers	835	641	433	698	944	452	342	138
Junior managements	1,456	1,395	1,057	1,574	1,966	1,070	787	433
Minimum wage	231	128	226	10	296	11	113	n/a

Note: Monthly wages based on survey conducted in Jan 2013. *Italic figures* are daily minimum wages.

Source: JBIC, JETRO, Corporate Planning Division of BTMUC

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