

China Economy

Short-term pains, long-term gains

China's economy notably slowed down in 3Q25 despite a lower base last year. Retail sales growth fell to a recent low, with durable goods spending moderating as trade-in support faded. Fixed asset investment saw the first negative YTD growth in five years, as strict local hidden debt discipline and the anti-involution measures weighed on infrastructure and manufacturing investment. The property market slid further in early Oct in both volume and price, prompting potential policy easing in 4Q25. While anti-involution measures may temporarily weigh on growth, they promote long-term economic rebalancing and ease deflationary pressures. The reforms are constructive for the equity market, as they would boost corporate earnings prospects and market concentration among leading firms. Given that most targeted sectors are capital-intensive, with limited impact on employment, the Chinese policymakers appear more willing to tolerate short-term pains in pursuit of longer-term structural gains. The economic slowdown will increase the possibility of additional monetary loosening and fiscal stimulus ahead, in our view. We expect the PBOC to further cut LPRs by 10 bps and RRR by 50 bps in November-December. The MoF may expand fiscal support to households to stimulate consumption and housing sales. We forecast that GDP may slow down to 4.6% in 4Q25 with full-year GDP growth at 5%.

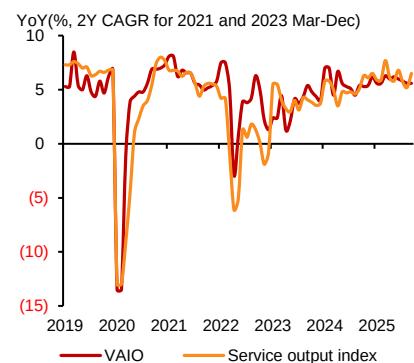
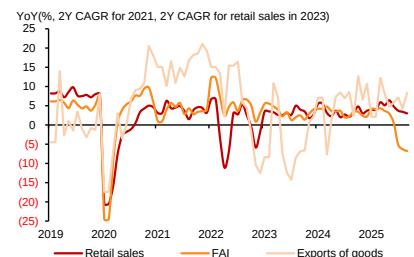
- **3Q GDP growth notably moderated but came in line with market expectation.** China's GDP growth in YoY terms (all on a YoY basis unless otherwise specified) moderated to 4.8% in 3Q25 from 5.2% in 2Q25 despite a much lower base last year, while YTD GDP growth edged down to 5.2%. GDP deflator narrowed to -1% in 3Q25 from -1.2% in 2Q25, as anti-involution campaign drove moderate price reflation in upstream sectors. We expect the GDP growth to slow down to 4.6% in 4Q25 with full-year GDP at 5%, as consumption, fixed asset investment and exports further decline.
- **Property sector slumped in Oct due to higher base.** The contraction of gross floor area (GFA) sold for commodity buildings expanded to -5.5% in 9M25 from -4.7% in 8M25 according to NBS. Contraction of residential housing starts stayed unchanged at -18.3% in 9M25 at 333 million sq.m., back to the level in 2003-04, which should support a supply-demand rebalancing in 2026-27. For new housing sales in Oct according to market data, the recovery rate compared to 2018-2019 edged up to 40.5% from 40.4% in Sep, stabilizing since July. However, YoY sales in 30 major cities notably declined by 22.9% in Oct from 8.8% in Aug, with tier-1, 2 & 3 cities dropping 32%, 10% and 28% respectively. Second-hand housing sales also notably contracted, as the YoY growth of 11 selective cities dropped to -29% in Oct from 15% in Aug. New and second-hand housing prices saw faster declines as demand further softened, dipping 0.3% and 1% MoM in Sep. The weakening property market may further weigh on durables consumption and developers' cash flow, prompting major policy easing in 4Q25, in our view.
- **Retail sales growth dropped to a new low as trade-in boost faded.** Retail sales growth hit an 11-month low at 3% in Sep from 3.4%, slightly below market consensus at 3.1%. The impact of trade-in subsidies has largely run its course, as retail sales of home appliances, culture & office products and furniture slowed down to 3.3%, 6.2% and 16.2% in Sep from 14.3%, 14.2% and 18.6% in Aug, while telecom equipment rebounded to 16.2%. Autos edged up to 1.6% in Sep from 0.8% in Aug, while the volume of retail sales notably dropped to -10% in early Oct from 8.5% in Sep due to a higher base last year. Gold, silver & jewellery moderated from 16.8% to 9.7% as rising gold price weighed on demand. Retail sales may further

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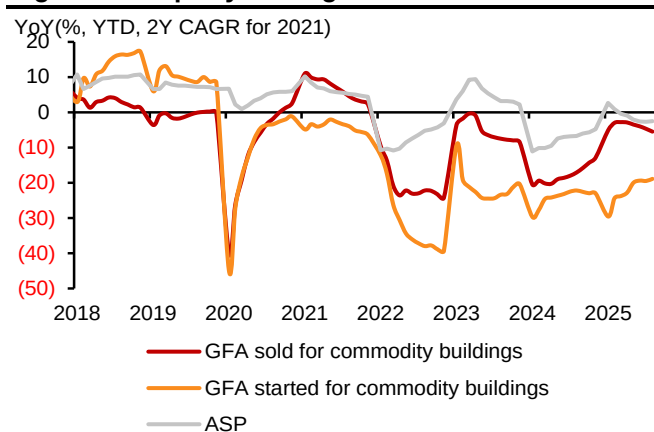
slowed down in the remainder of the year due to a higher base and the drag from demand pull-forward. Looking forward, retail sales may moderate to 2.8% in 4Q25 from YTD 4.5% in 9M25, bringing full-year growth to around 4.1%.

- **FAI growth YTD turned negative for the first time in five years.** Total FAI growth dropped to YTD -0.5% in 9M25 from 0.5% in 8M25, missing market expectations at 0%, marking the first negative YTD growth since 2020. The YoY growth further contracted to -6.8% in Sep from -6.3% in Aug with broad-based softening. Infrastructure investment dipped 8% in Sep from -6.4%, as the moderating government bond issuance in 2H relative to 2024 constrained fiscal support, with notable moderation in road transport, public facility and social welfare. The government's anti-involution campaign has weighed on manufacturing investment, which dropped 1.9%. Property investment contracted to -21.2% in Sep from -19.4%, as housing market remained in over-supply. Looking forward, FAI growth may remain subdued in 4Q25 with full-year growth at -0.5% in 2025 compared to 3.2% in 2024. Manufacturing and infrastructure investment growth is likely to fall from 9.2% and 9.2% in 2024 to 4.2% and 4% in 2025.
- **Industrial output rebounded.** VAIO growth picked up to 6.5% in Sep from 5.2%, beating market consensus at 5.2%. Mining edged up to 6.4% in Sep from 5.1% while public utility dropped to 0.6% from 2.4%. VAIO of manufacturing accelerated to 7.3% from 5.7% as delivery value for exports rebounded from -0.4% to 3.8%. Chemical products, medicine, rubber & plastic products, general equipment and autos saw notable rebounds while ferrous metals, other transport equipment and electrical equipment slowed down. Growth of service output index remained constant at 5.6% in Sep with robust growth of IT and business services. Looking forward, industrial output may decelerate due to the headwinds from exports, demand overdraft from trade-in subsidies and pressures from the anti-involution policy, in our view.
- **Anti-involution measures may weigh on growth in short term but remain positive for equities.** While anti-involution measures may temporarily weigh on growth, they are structurally positive for China's economy over the long term, helping to rebalance China's supply-demand structure and ease deflationary pressures. In addition, these reforms would enhance corporate earnings prospects and expand market share for leading firms, benefiting the stock market overall. As most of the targeted sectors are capital-intensive, where the reforms may have limited impact on employment, policymakers have shown greater tolerance for short-term disruptions and stronger willingness to advance the policy agenda. The economic slowdown will increase the possibility of additional monetary loosening and fiscal stimulus ahead. We expect a policy easing window in 4Q25, driven by weakening consumption and a sluggish property market, alongside the prospect of multiple rate cuts by the Fed. We expect that the PBOC may further cut LPRs by 10 bps and RRR by 50 bps and the MoF may expand fiscal support to households to stimulate consumption and housing sales.

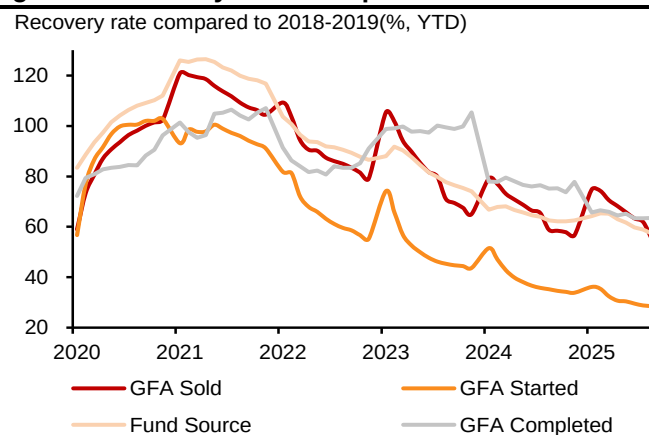
Figure 1: China's economic indicators

YoY(%)	2019	2020-2021	2022-2023	2024	4Q24	1Q25	2Q25	3Q25	Aug	Sep
GDP	6.1	5.3	4.1	5.0	5.4	5.4	5.2	4.8		
GDP Deflator	1.3	2.5	0.7	(0.7)	(0.7)	(0.8)	(1.2)	(1.0)		
VAIO	5.7	6.1	4.1	5.8	5.6	6.5	6.2	5.8	5.2	6.5
-Mining	5.0	2.9	4.8	3.1	3.7	6.2	5.8	5.5	5.1	6.4
-Manufacturing	6.0	6.6	4.0	6.1	6.3	7.1	6.7	6.4	5.7	7.3
-Public utility	7.0	6.6	4.6	5.3	2.7	1.9	2.0	2.1	2.4	0.6
Delivery value for exports	1.3	8.3	0.7	5.1	7.2	6.5	2.0	2.0	(0.4)	3.8
Service output index	6.9	6.3	3.9	5.2	6.3	5.8	6.1	5.7	5.6	5.6
Retail sales	8.0	4.0	3.4	3.5	3.8	4.6	5.4	3.4	3.4	3.0
Exports of goods	0.5	15.9	0.3	5.8	9.9	5.6	6.1	6.6	4.3	8.3
Imports of goods	(2.7)	13.7	(2.4)	1.0	(1.8)	(6.9)	(0.9)	4.3	1.2	7.4
Urban FAI (YTD)	5.4	3.9	4.0	3.2	3.2	4.2	2.8	(0.5)	0.5	(0.5)
-Property development	9.9	5.7	(9.8)	(10.6)	(10.6)	(9.9)	(11.2)	(13.9)	(12.9)	(13.9)
-Manufacturing	3.1	5.4	7.8	9.2	9.2	9.1	7.5	4.0	5.1	4.0
-Infrastructure	3.3	1.8	9.9	9.2	9.2	11.5	8.9	3.3	5.4	3.3
GFA sold for commodity building (YTD)	(0.1)	2.2	(16.8)	(12.9)	(12.9)	(3.0)	(3.5)	(5.5)	(4.7)	(5.5)
GFA started for commodity building (YTD)	8.5	(6.4)	(30.5)	(23.0)	(23.0)	(24.4)	(20.0)	(18.9)	(19.5)	(18.9)

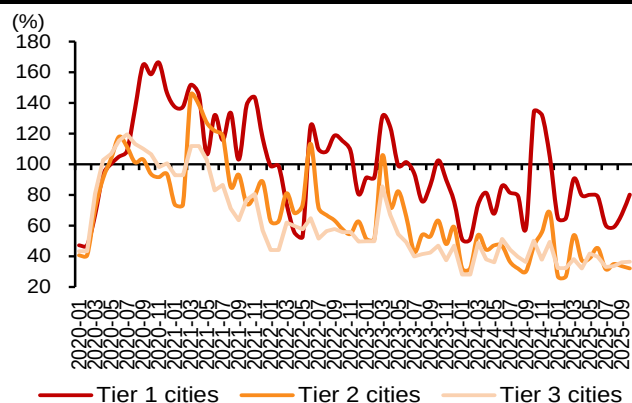
Source: Wind, CMBIGM

Figure 2: Property sales growth

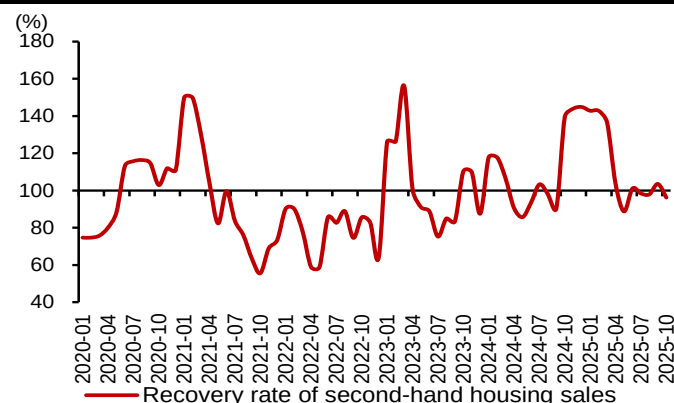
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019

Source: Wind, CMBIGM

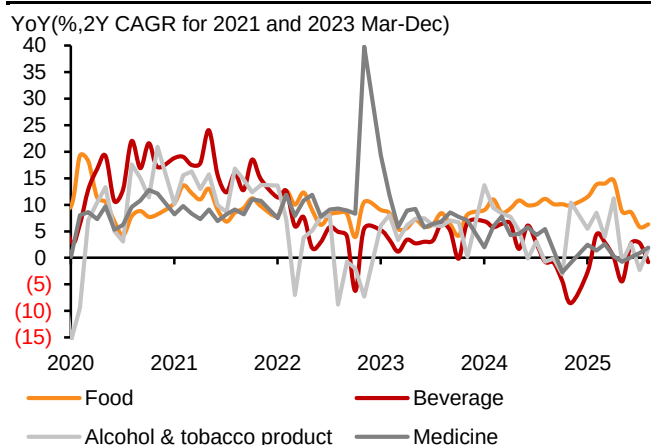
Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities

Source: Wind, CMBIGM

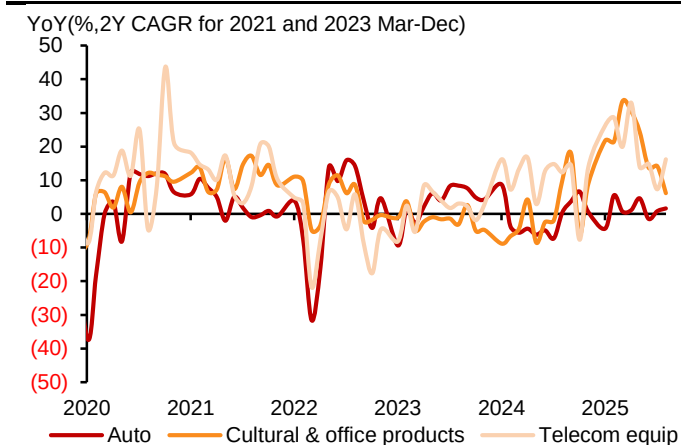
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities

Source: Wind, CMBIGM

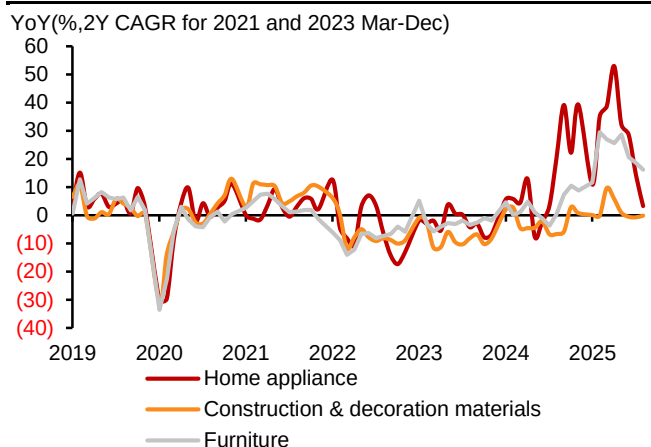
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples

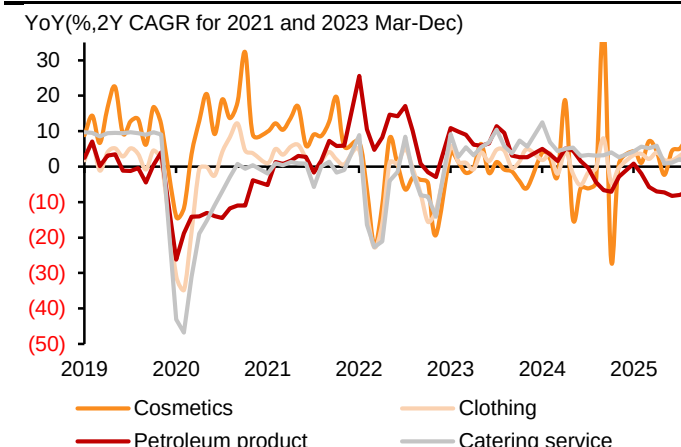
Source: Wind, CMBIGM

Figure 7: Retail sales of autos & electronics

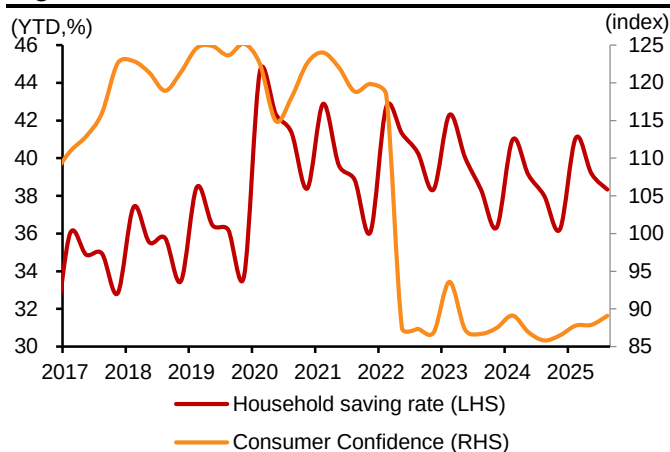
Source: Wind, CMBIGM

Figure 8: Home appliances & furniture retail sales

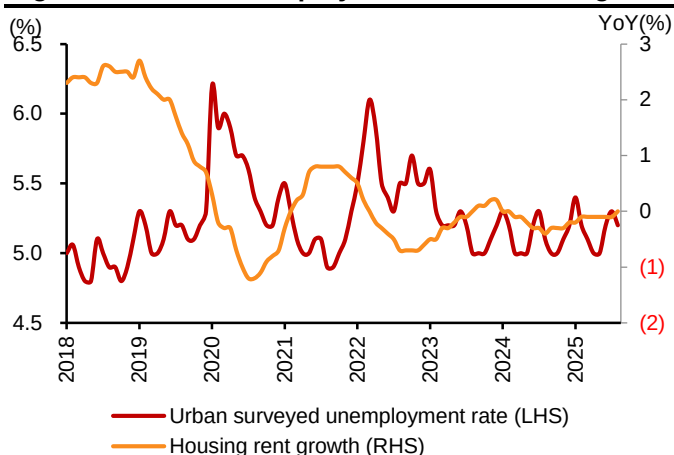
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities

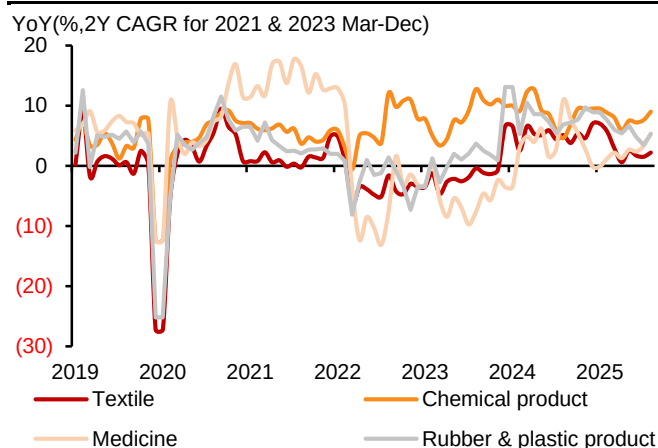
Source: Wind, CMBIGM

Figure 10: Consumer confidence

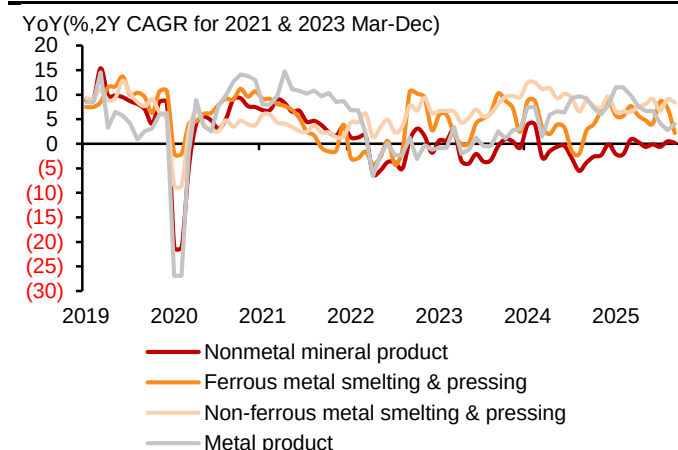
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent

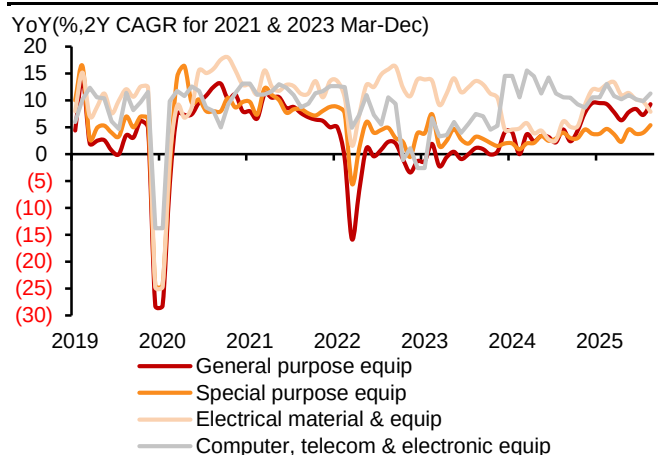
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products

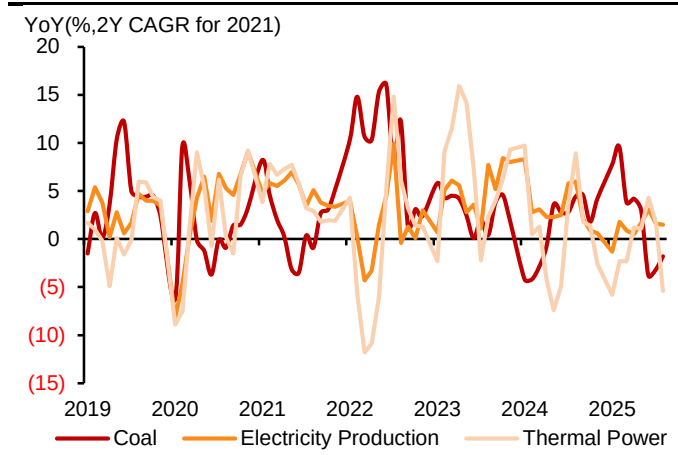
Source: Wind, CMBIGM

Figure 13: VAIO in mineral & metal products

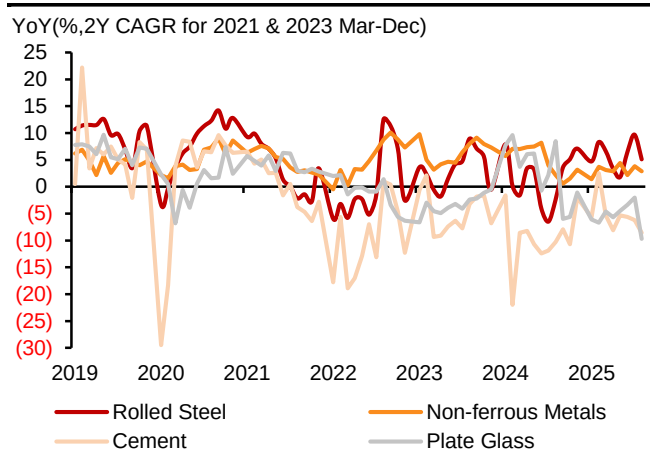
Source: Wind, CMBIGM

Figure 14: VAIO in equipment

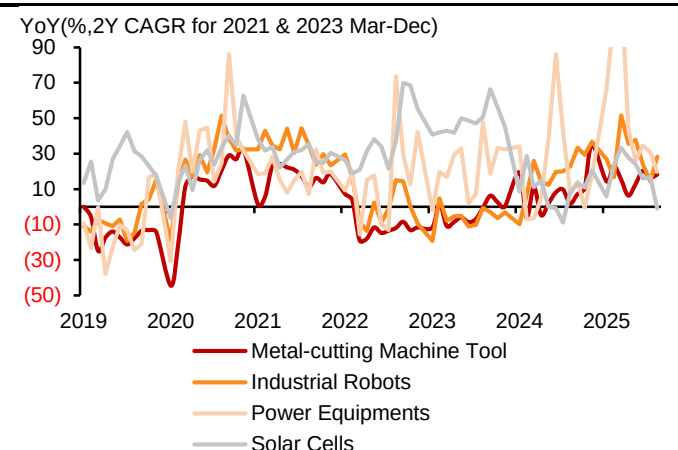
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity

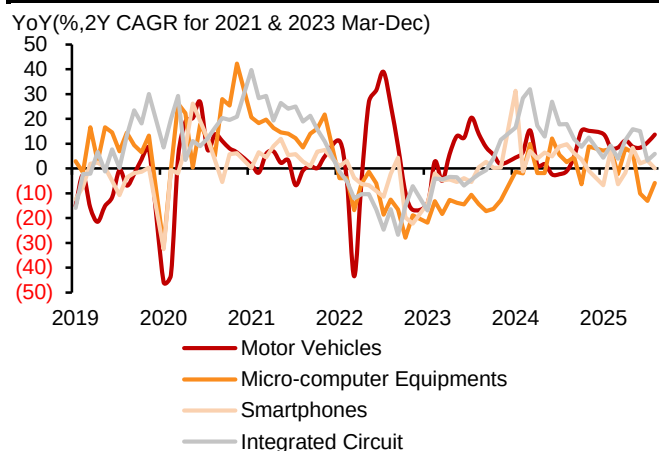
Source: Wind, CMBIGM

Figure 16: Output in steel & construction materials

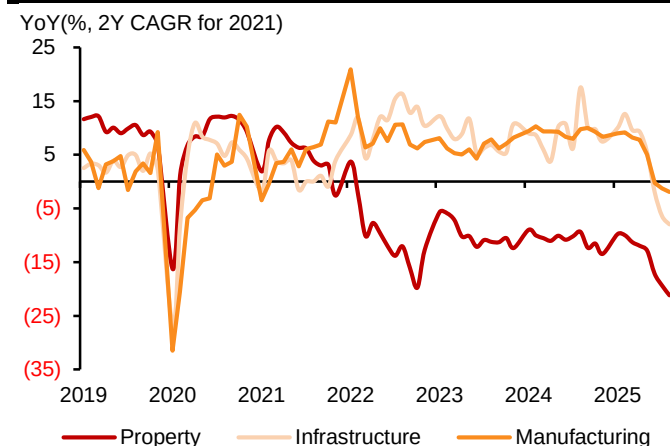
Source: Wind, CMBIGM

Figure 17: Output in capital goods

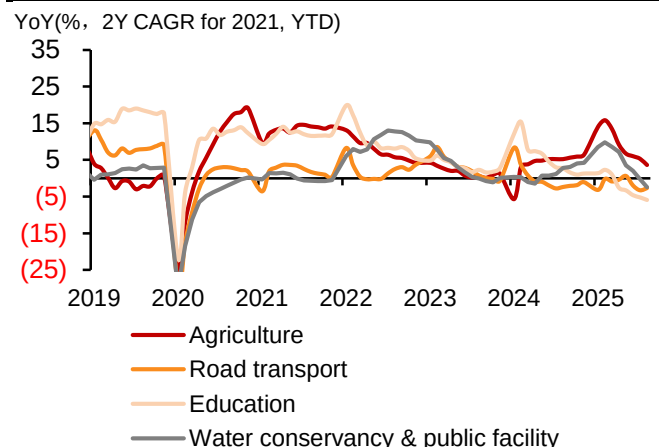
Source: Wind, CMBIGM

Figure 18: Output in autos, computers & smartphones

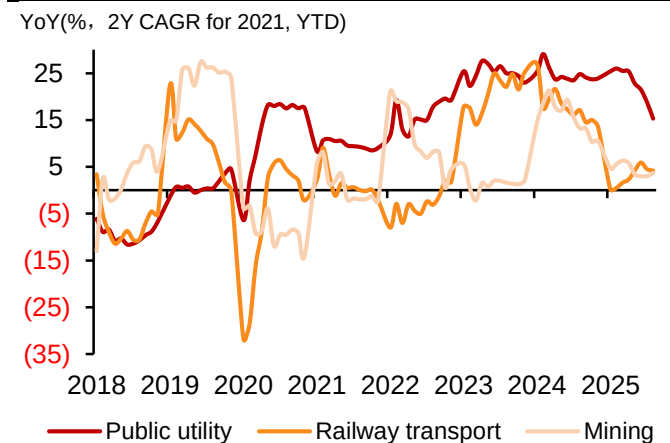
Source: Wind, CMBIGM

Figure 19: FAI by sector

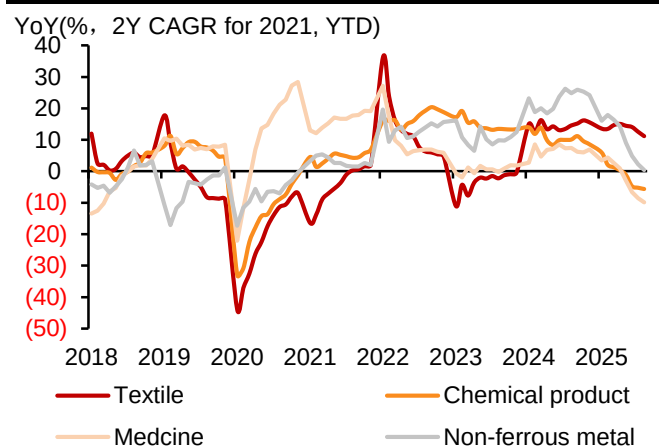
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure

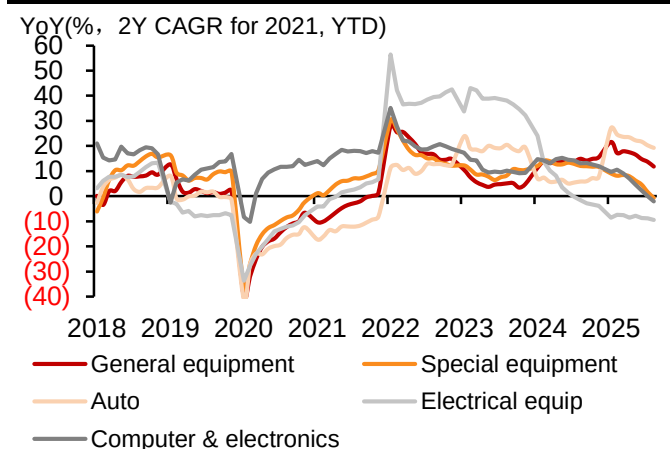
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining

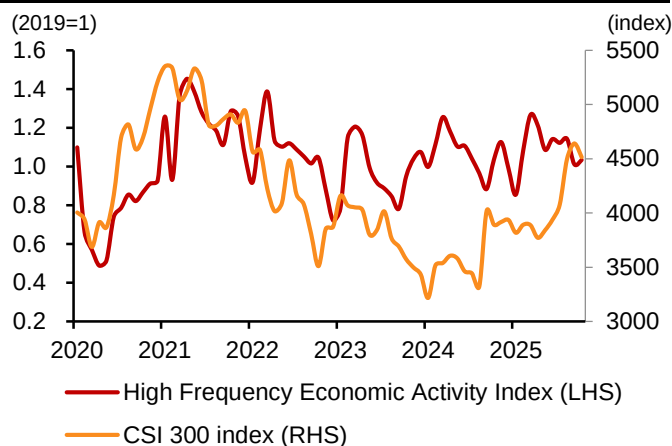
Source: Wind, CMBIGM

Figure 22: FAI in chemical products

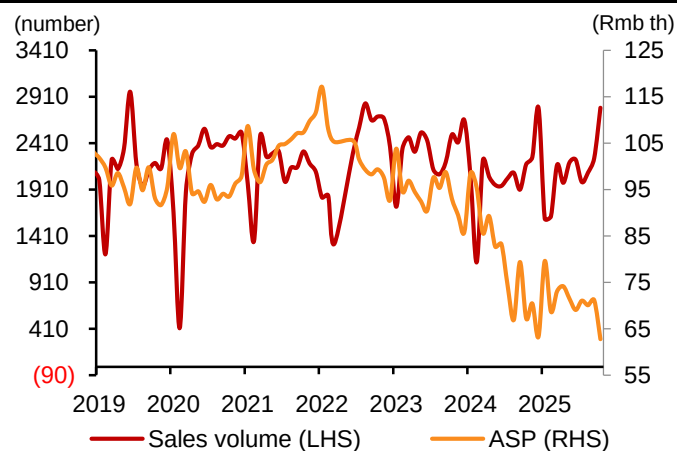
Source: Wind, CMBIGM

Figure 23: FAI in equipment

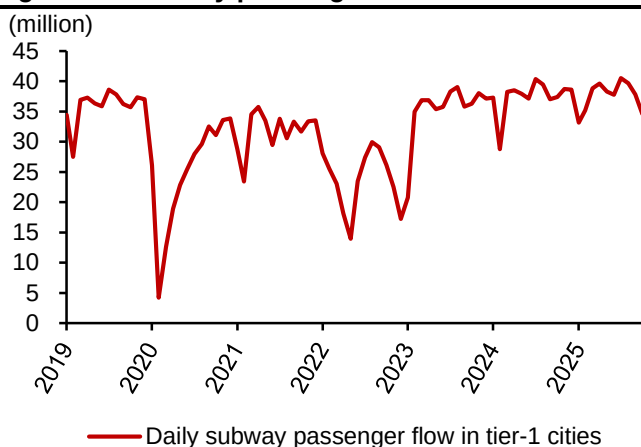
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index

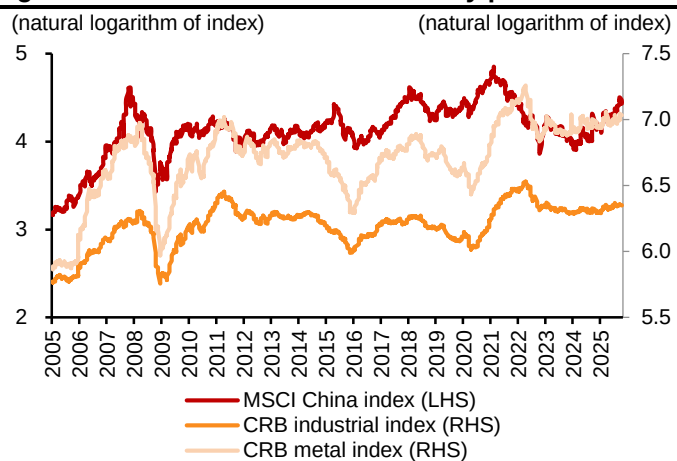
Source: Wind, CMBIGM

Figure 25: Used vehicle sales in Shanghai market

Source: Wind, CMBIGM

Figure 26: Subway passenger flow in tier-1 cities

Source: Wind, CMBIGM

Figure 27: MSCI China and commodity prices

Source: Wind, CMBIGM

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