

China Economy

Softening momentum

Economic indicators in Nov broadly missed market expectations as the economy further moderated. Retail sales growth fell to a new low post-Covid, with major durable goods including home appliances, furniture and autos further dipping into contraction due to demand overdraft. Fixed asset investment (FAI) growth remained sharply negative as property investment posted a record monthly contraction and manufacturing and infrastructure investment continued to slow down. The contraction across the property market, durable goods consumption, and new loans to the household sector in Nov signalled a broad-based deterioration on the demand side, pointing to subdued growth momentum in 1Q26. We believe another quarter of GDP growth below 5% would be the key trigger for renewed policy easing. Looking forward, we expect a 50bp cut in RRR and a 10bp cut in LPR in 1Q26, followed by an additional 10bp LPR cut in 3Q26, while broad fiscal deficit should remain almost flat at 8.5% in 2026. We expect full-year GDP growth rate may decline from 5% in 2025 to 4.8% in 2026.

■ **Property sector remained in deep contraction.** The contraction of gross floor area (GFA) sold for commodity buildings deepened to -7.8% in 11M25 from -6.7% in 10M25 according to NBS, in which residential housing sales dropped to -8.1% from -7%. For new housing sales, according to market data, the recovery rate of 30 major cities compared to 2018-2019 remained at the bottom, at 40.8% in the first half of Dec, while YoY sales posted a much steeper slump due to the a larger base last year, dropping 36%, with tier-1, 2 & 3 cities declining 41%, 31% and 39% respectively. Second-hand housing sales of 11 selective cities further softened, with the recovery rate declining to 102% in the first half of Dec from 109% in Nov. YoY growth further dipped to -36.5% in Nov from -21.5% in Oct. New and second-hand housing prices saw faster declines in tier-1 cities at -0.4% and -1.1% MoM in Nov from -0.3% and -0.9%, while tier-2&3 cities continued to decline at a slower pace. Listing prices continued to decline in Dec, but the pace slowed. The weakening property market may further weigh on durables consumption and developers' cash flow, prompting major policy easing in 1Q26, in our view.

■ **Retail sales dropped to the lowest point post-Covid.** Retail sales growth further declined to 1.3% in Nov, below market consensus at 2.9%. The 2Y CAGR moderated from 3.9% in Oct to 2.2% in Nov due to broad-based slowdown. The impact of trade-in subsidies has largely run its course, as home appliances and furniture further dropped into negative territory at -19.4% and -3.8%, while telecom equipment and cultural & office products moderated. Auto retail sales dipped 8.3% in Nov, while the volume of retail sales dropped to -7.5% in Nov, pointing to further headwinds of durables consumption heading into 2026. Gold, silver & jewellery moderated from 37.6% to 8.5%. Other non-durable goods including daily used goods, food, beverage, clothing and cosmetics broadly slowed down. Looking forward, we expect consumption growth to be flat in 2026 with a slowdown in retail sales growth yet a pick-up in service consumption. Retail sales of consumer goods may slow from 4% in 2025 to 3.7% in 2026 due to demand pull-forward.

■ **FAI YTD growth remained subdued.** Total FAI growth dropped to YTD -2.6% in 11M25 from -1.7% in 10M25, missing market expectations at -2.2%. The YoY growth almost stayed flat at -11.1% in Nov compared to -11.2% in Oct. Property investment was the major drag, contracting further to -29.9% in Nov from -23.1%, the largest monthly contraction in history on an already low base. The housing market remained in over-supply

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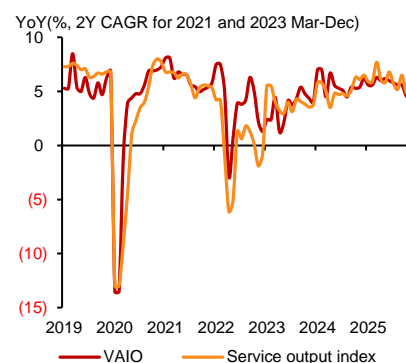
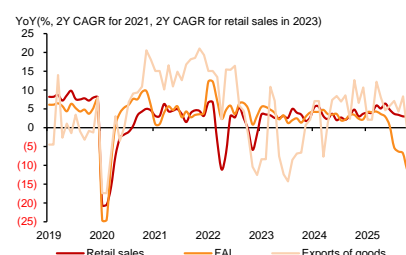
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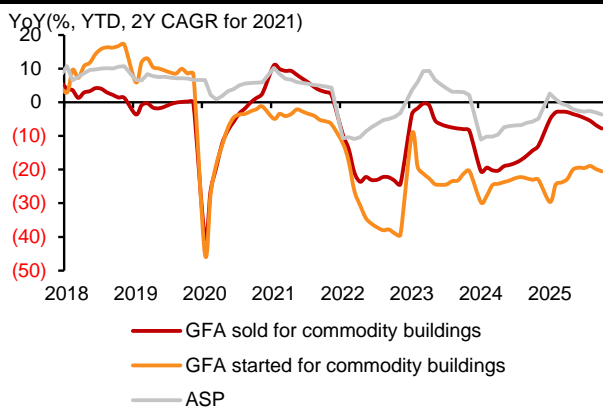
while the advance payments and mortgage loans in funding source both declined by 15% YTD. Infrastructure investment remained subdued at -11.9% in Nov, as investment in railway & road transport, public utility, water conservancy and social welfare further dipped. Manufacturing investment recovered to -4.5% in Nov from -6.7%, as investment in mining and other transport equipment recovered. Looking forward, FAI growth may recover from -2.6% in 2025 to 0.5% in 2026 as the Central Economic Work Conference (CEWC) vowed to stabilize investment, with FAI in property, infrastructure and manufacturing rebounding from -17%, -1.5% and 1.2% in 2025 to -9%, 1.5% and 1.5% in 2026

- **Industrial output inched down.** VAIO growth edged down to 4.8% in Nov from 4.9%, missing market consensus at 5%. Mining picked up to 6.3% in Nov from 4.5% while public utility dropped to 4.3% from 5.4%. VAIO of manufacturing edged down to 4.6% in Nov from 4.9% as delivery value for exports remained soft at -0.1%. Food, non-ferrous metal smelting & pressing, and general & special-purpose equipment saw notable rebounds while chemical products, ferrous metal smelting & processing, and auto slowed down. Growth of service output index edged down to 4.2% in Nov from 4.6% with robust growth of IT, software developing, leasing and finance services. Looking forward, we expect industrial output may decelerate due to the headwinds from exports, demand overdraft from trade-in subsidies and pressures from the anti-involution policy.
- **Sustained demand softening points to a weak 1Q26, which may prompt policy easing.** The contraction across the property market, durable goods consumption, and new loans to the household sector in Nov signalled a broad-based deterioration on the demand side, pointing to subdued growth momentum in 1Q26. As the CEWC pledged “counter-cyclical and cross-cyclical” support, we believe another quarter of GDP growth below 5% would be the key trigger for renewed policy easing. Looking forward, we expect a 50bp cut in RRR and a 10bp cut in LPR in 1Q26, followed by an additional 10bp LPR cut in 3Q26, while the broad fiscal deficit should remain almost flat at 8.5% in 2026. We expect the GDP growth may decrease from 4.8% in 3Q25 to 4.5% in 4Q25 and 4.6% in 1Q26, before gradually rising to 4.9% in 4Q26. The full-year GDP growth rate may decline from 5% in 2025 to 4.8% in 2026.

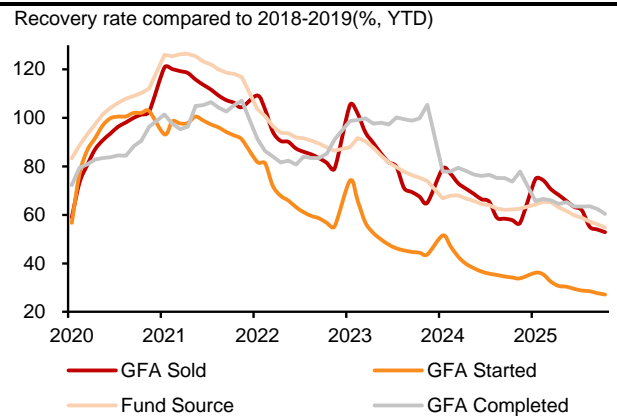
Figure 1: China's economic indicators

YoY(%)	2019	2020-2021	2022-2023	2024	4Q24	1Q25	2Q25	3Q25	Oct	Nov
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	4.9	4.8
-Mining	5.0	2.9	4.8	3.1	3.7	6.2	5.8	5.5	4.5	6.3
-Manufacturing	6.0	6.6	4.0	6.1	6.3	7.1	6.7	6.4	4.9	4.6
-Public utility	7.0	6.6	4.6	5.3	2.7	1.9	2.0	2.1	5.4	4.3
Delivery value for exports	1.3	8.3	0.7	5.1	7.2	6.5	2.0	2.0	(2.1)	(0.1)
Service output index	6.9	6.3	3.9	5.2	6.3	5.8	6.1	5.7	4.6	4.2
Retail sales	8.0	4.0	3.4	3.5	3.8	4.6	5.4	3.4	2.9	1.3
Exports of goods	0.5	15.9	0.3	5.8	9.9	5.6	6.1	6.5	(1.1)	5.9
Imports of goods	(2.7)	13.7	(2.4)	1.0	(1.8)	(6.8)	(0.9)	4.3	1.0	1.9
Urban FAI (YTD)	5.4	3.9	4.0	3.2	3.2	4.2	2.8	(0.5)	(1.7)	(2.6)
-Property development	9.9	5.7	(9.8)	(10.6)	(10.6)	(9.9)	(11.2)	(13.9)	(14.7)	(15.9)
-Manufacturing	3.1	5.4	7.8	9.2	9.2	9.1	7.5	4.0	2.7	1.9
-Infrastructure	3.3	1.8	9.9	9.2	9.2	11.5	8.9	3.3	1.5	0.1
GFA sold for commodity building (YTD)	(0.1)	2.2	(16.8)	(12.9)	(12.9)	(3.0)	(3.5)	(5.5)	(6.8)	(7.8)
GFA started for commodity building (YTD)	8.5	(6.4)	(30.5)	(23.0)	(23.0)	(24.4)	(20.0)	(18.9)	(19.8)	(20.5)

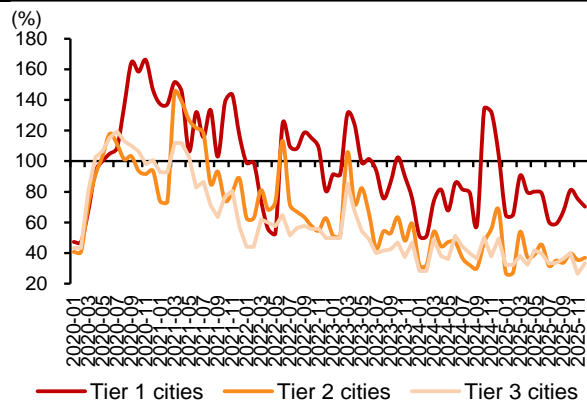
Source: Wind, CMBIGM estimates

Figure 2: Property sales growth

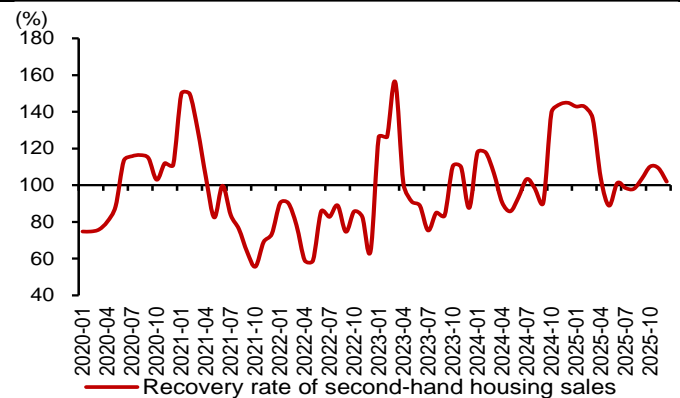
Source: Wind, CMBIGM

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

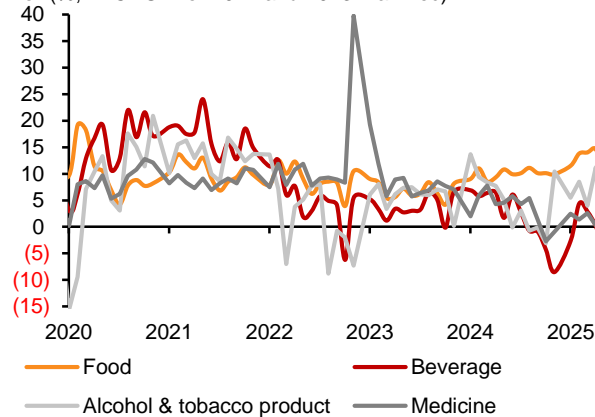
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities

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

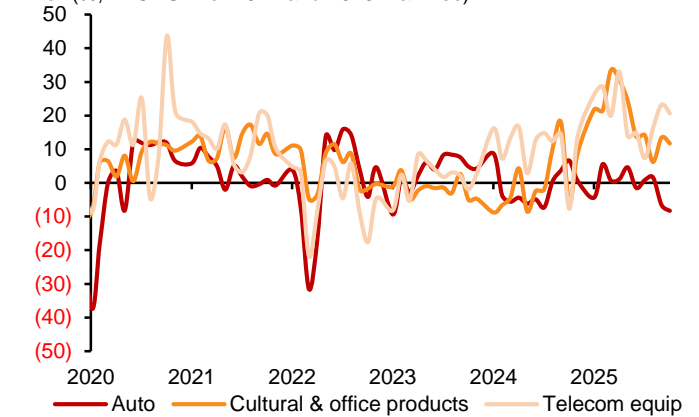
YoY(%), 2Y CAGR for 2021 and 2023 Mar-Dec)



Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics

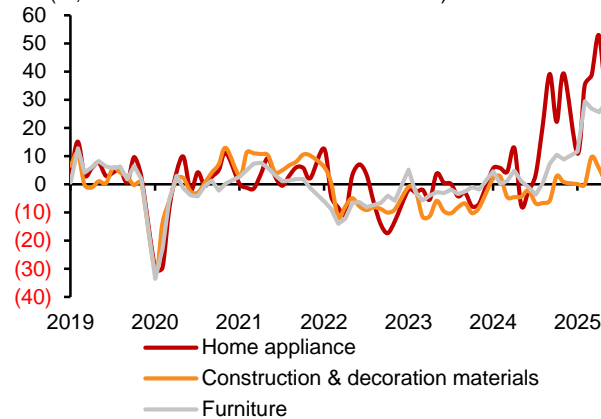
YoY(%), 2Y CAGR for 2021 and 2023 Mar-Dec)



Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales

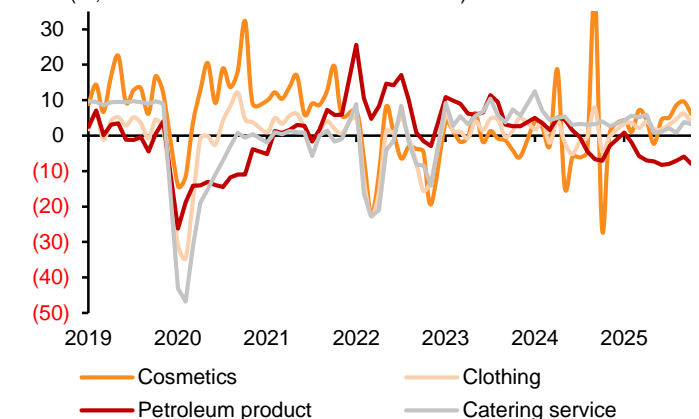
YoY(%), 2Y CAGR for 2021 and 2023 Mar-Dec)



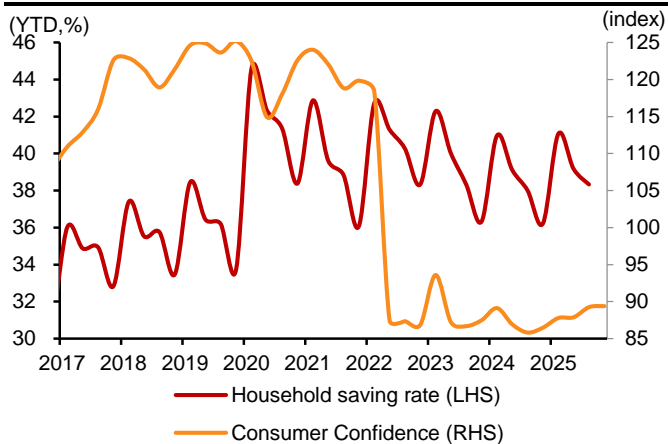
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities

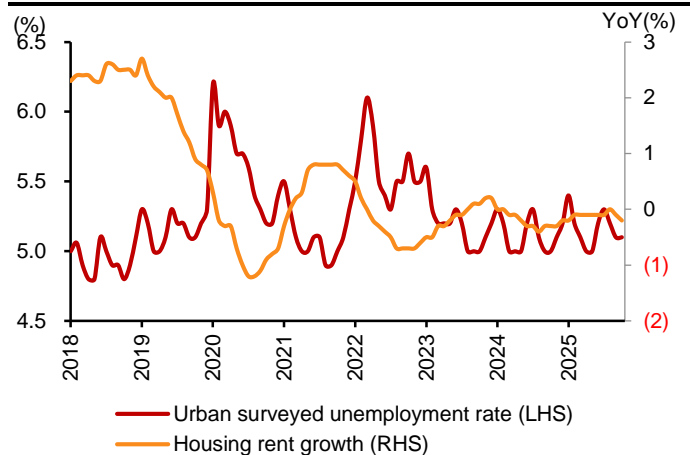
YoY(%), 2Y CAGR for 2021 and 2023 Mar-Dec)



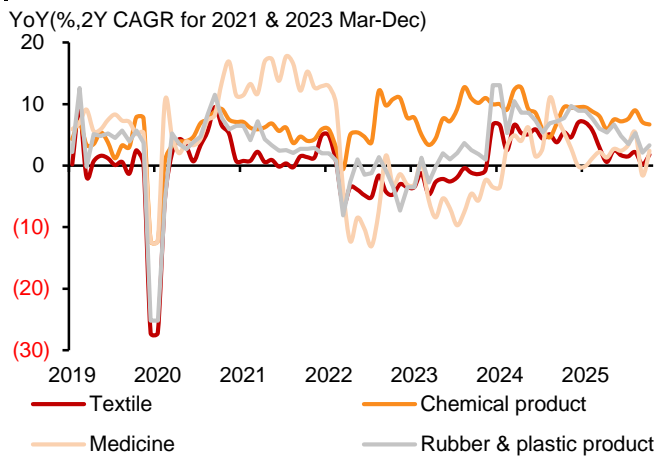
Source: Wind, CMBIGM

Figure 10: Consumer confidence

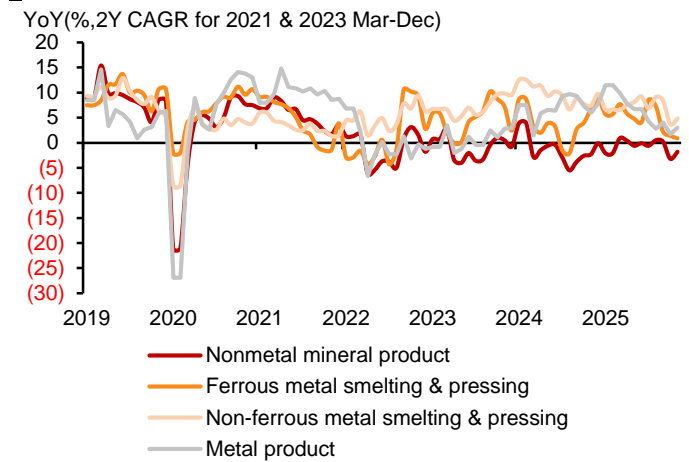
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent

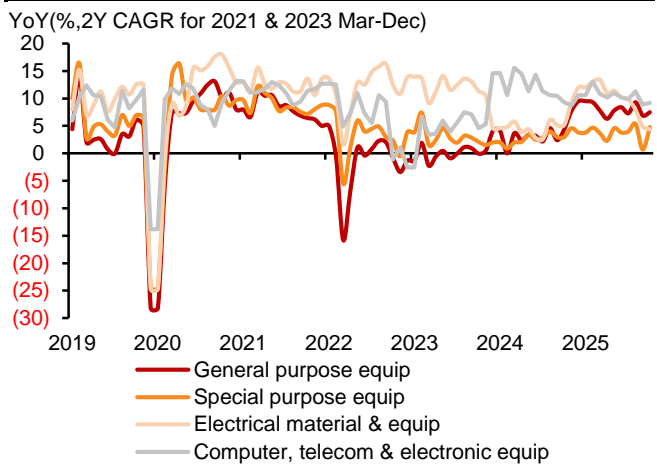
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products

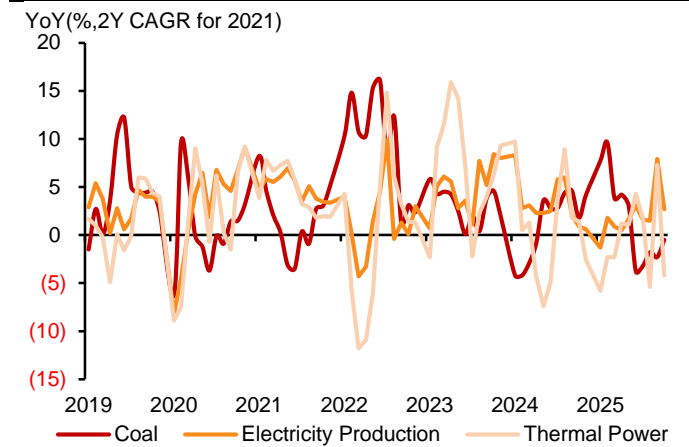
Source: Wind, CMBIGM

Figure 13: VAIO in mineral & metal products

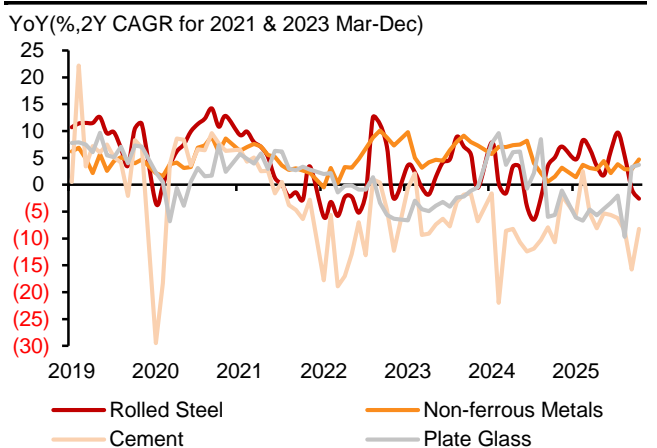
Source: Wind, CMBIGM

Figure 14: VAIO in equipment

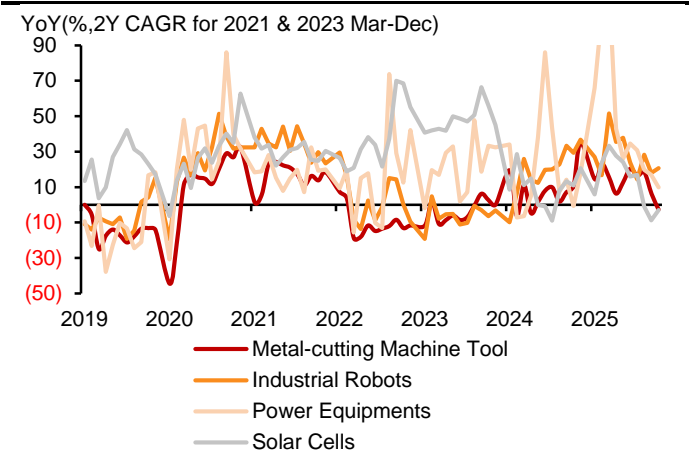
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity

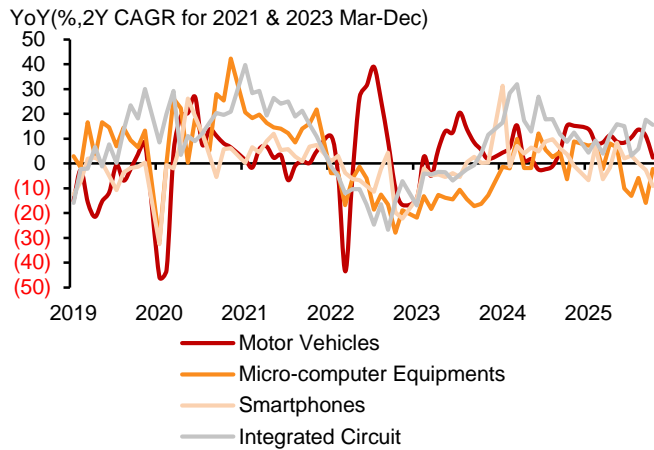
Source: Wind, CMBIGM

Figure 16: Output in steel & construction material

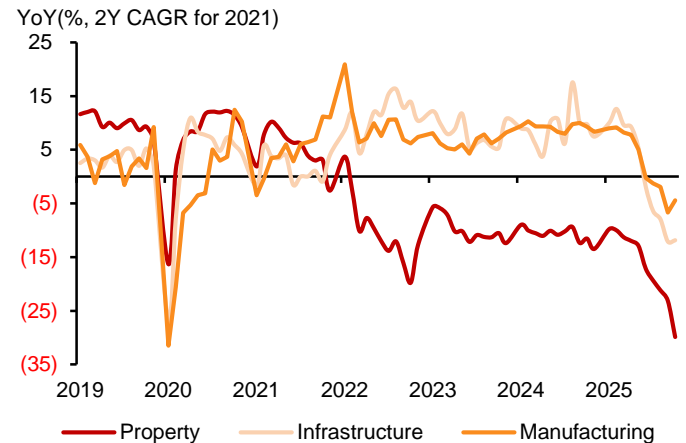
Source: Wind, CMBIGM

Figure 17: Output in capital goods

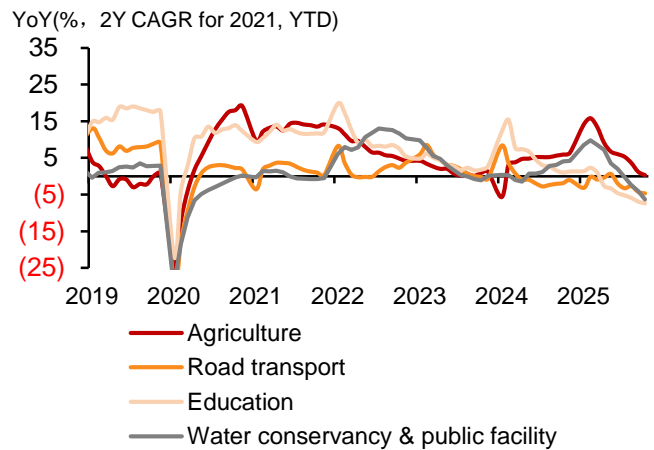
Source: Wind, CMBIGM

Figure 18: Output in auto, computer & smartphone

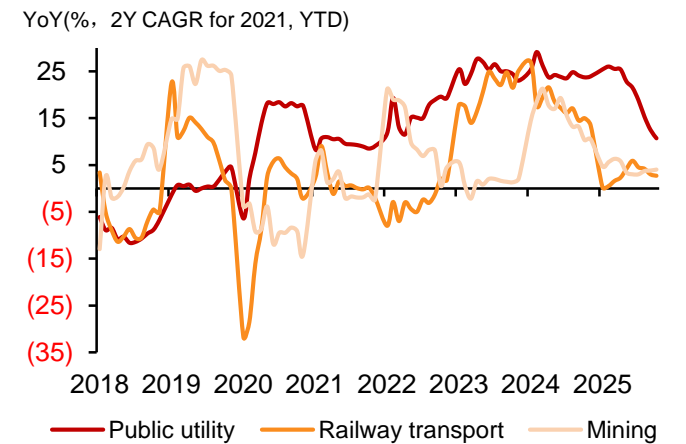
Source: Wind, CMBIGM

Figure 19: FAI by sector

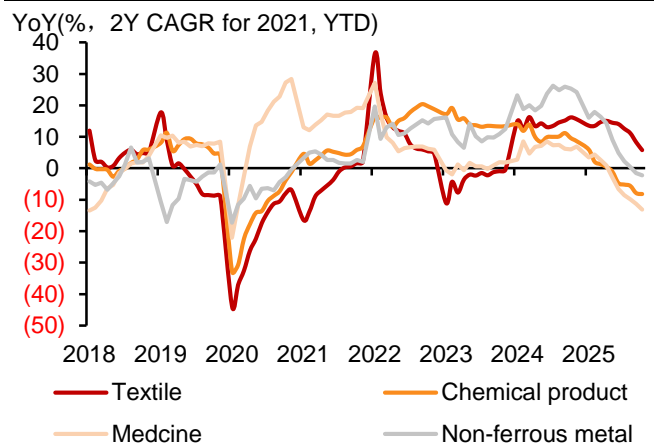
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure

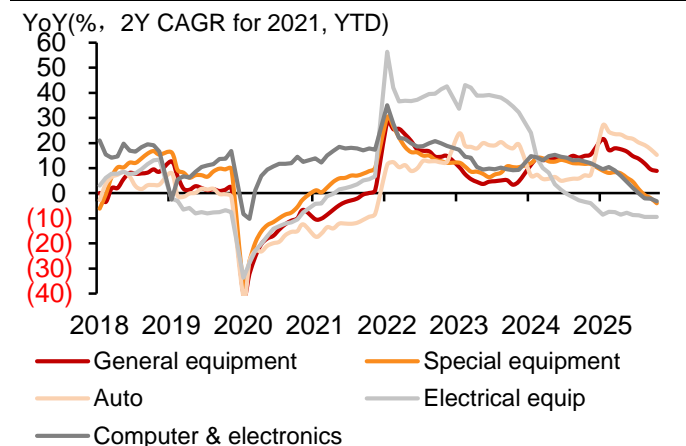
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining

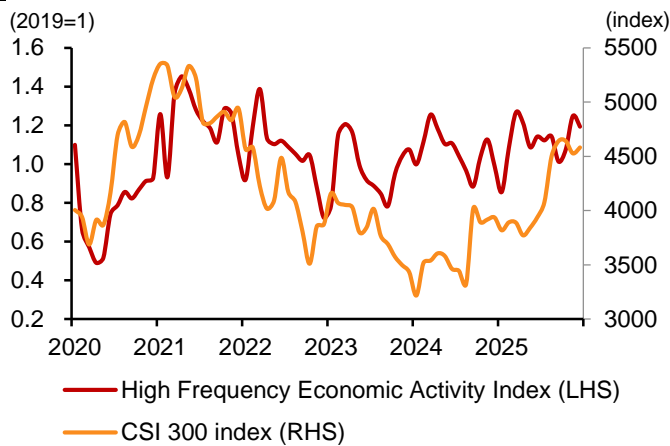
Source: Wind, CMBIGM

Figure 22: FAI in chemical products

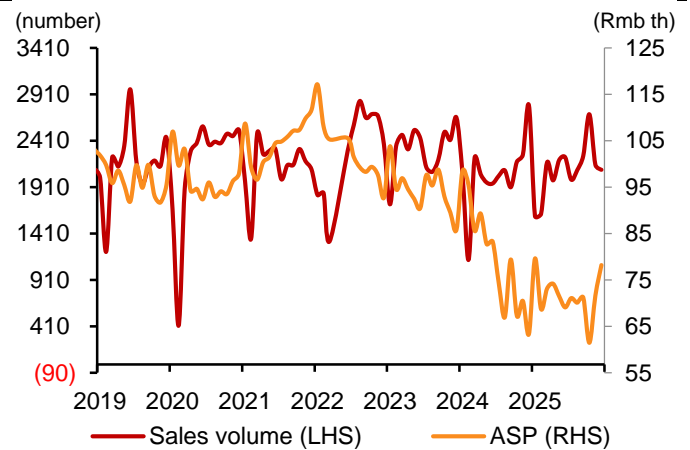
Source: Wind, CMBIGM

Figure 23: FAI in equipment

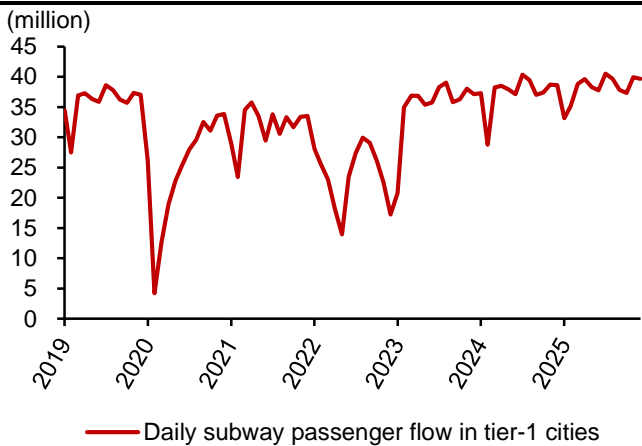
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index

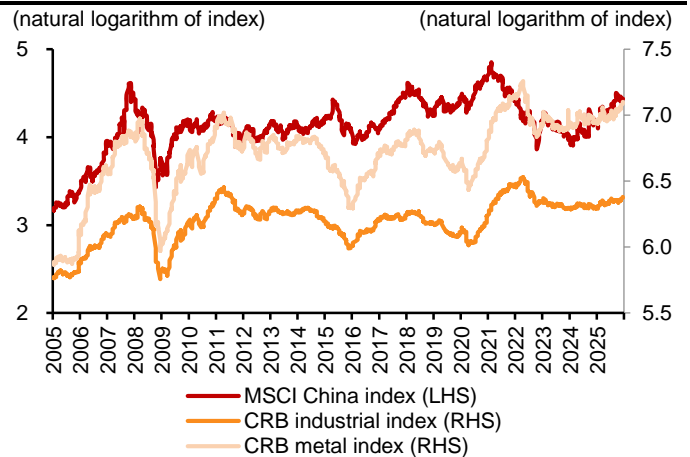
Source: Wind, CMBIGM

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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