

China Economy

Weak data might be good news

China's economy showed broad-based moderation in July, with slumping property sales and the fading boost from the trade-in scheme dragging on consumption, while weakening exports delivery value and the anti-involution campaign are set to weigh on manufacturing output and investment. New and second-hand housing sales further contracted, with weakness most pronounced in first-tier cities. Retail sales and industrial output both softened. FAI saw its first YoY decline since Nov 2021, dragged down by contracting property development, manufacturing and infrastructure investment. The economic slowdown increases the possibility of additional demand stimulus in 4Q25. We expect a further 10 bps LPR cut and 50 bps RRR cut and expanding fiscal support to households and consumers.

■ **Property sector remained its deep contraction.** The decline of gross floor area (GFA) sold for commercial building dropped to -4% in 7M25 from -3.5% in June according to NBS, while residence GFA further dropped to -4.1% in July to 432 million m² in 7M25 from -3.7%. Contraction of residential housing start narrowed to -18.3% in 7M25 at 259 million m², back to the level in 2003-04. For new housing sales according to market data in first half of Aug, YoY sales in 30 major cities rebounded to -11.9% compared to -20.6% in July. Tier-1 cities further softened to -31.4%, the biggest drop since Sep 2024, while tier-2 and 3 cities showed narrowed declines. The sales recovery rate edged down to 35.9% in first half of Aug from 36.8% compared to 2018 and 19, close to the historic bottom at 37.1% in Sep 2024. Second-hand housing sales also mildly recovered, as YoY growth of 11 selective cities bounced up to -2.2% in first half of Aug from -8.8% in July. New and second-hand housing prices dipped further across all city tiers in July due to the weakening demand. The softening property market pointed to moderating consumer demand in 2H25, as we might see notable slowdown in housing-related durable goods sales.

■ **Retail sales further softened with trade-in scheme running out of steam.** Retail sales growth moderated to 3.7% in July from 4.8% in June, missing market consensus of 4.9%. Durables under the trade-in scheme recorded a marked slowdown, led by autos, which fell to -1.5% in July from 4.6% in June — the first monthly contraction since August 2024. Home appliance, cultural & office products and furniture eased to 28.7%, 13.8% and 20.6% in July from 32.4%, 24.4% and 28.7%. By contrast, telecom equipment remained firm, edging up from 13.9% to 14.9%, supported by its later inclusion in the scheme in early 2025. Catering service remained subdued at 1.1% in July, while rumours suggested possible loosening on stringent wining and dining ban for government employees. We have seen a notable slowdown in the second half of the year as the strong recovery driven by the expansion of trade-in schemes appears to have pulled forward future demand. Looking forward, retail sales may moderate to 3.8% in 2H25 from 5% in 1H25, bringing full-year growth to around 4.5%.

■ **FAI saw the first monthly contraction since 4Q21.** Total FAI growth dropped to 1.6% in 7M25 from 2.8% in 6M25, notably missing market expectations of 2.7%, while its monthly YoY dropped to -5.2% in July from 0.5%, the first contraction since Nov 2021. The moderation was broad-based as a more moderate fiscal expansion in 2H relative to 2024 and the government's anti-involution competition campaign weighed on infrastructure and manufacturing investment. Manufacturing FAI dropped to -0.3% in July from 5.1%. Sectors including chemical products, non-ferrous metals smelting & pressing, general & special equip, auto and computer & electronics saw notable moderation. Infrastructure FAI also declined to -1.9% in July from 5.3%. Property development investment further contracted to -17.2% in July

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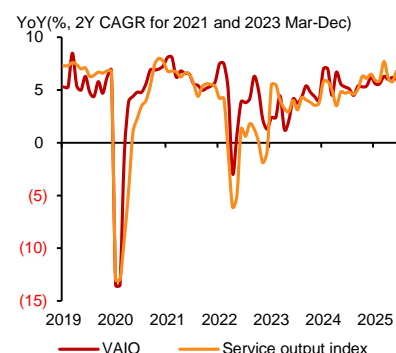
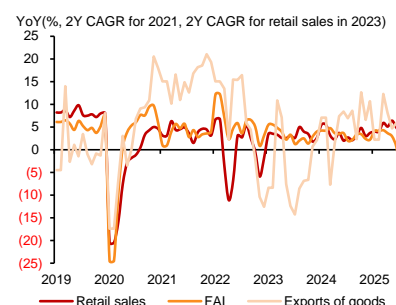
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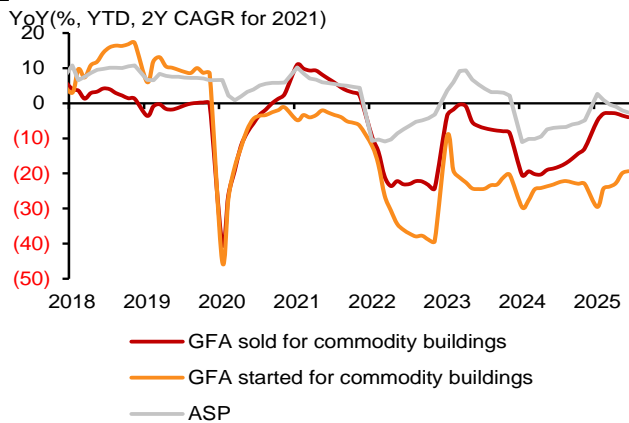
from -12.9%, as housing market remained over-supply. Looking forward, FAI growth might mildly moderate from 3.2% in 2024 to 2% in 2025 due to contracting property development investment and moderating manufacturing and infrastructure investment. Manufacturing and infrastructure investment growth is likely to fall from 9.2% and 9.2% in 2024 to 6.8% and 7.5% in 2025.

- **Industrial output moderated.** VAIO growth eased to 5.7% in July from 6.8%, slightly below market consensus of 5.8%. Mining moderated to 5% in July from 6.1% while public utility picked up to 3.3% from 1.8%. VAIO of manufacturing dropped to 6.2% from 7.4% as some enterprises scaled back production. Textile, rubber & plastic product, non-ferrous metal smelting & pressing, metal product and auto notably slowed down, while ferrous metal, general purpose equipment, other transport equipment picked up. Industrial export delivery value notably moderated, even as export value of goods per customs data rebounded—reflecting the deployment of inventory to fulfill orders and muted expectations for future demand. Growth of service output index edged down to 5.8% in July from 6%. Looking forward, industrial output may continue to decelerate due to the headwinds from exports, demand overdraft from trade-in subsidy and pressure from the anti-involution policy.
- **The weakening economic activities increase the possibility for additional demand-side stimulus.** Easing property sales and the fading boost from the trade-in scheme indicate moderating consumption, while weakening exports and the anti-involution campaign are set to weigh on manufacturing output and investment. Beyond supply-side structural reform, China should also adopt demand-side stimulus. Otherwise, the double pressure of margin erosion and output cuts will place further strain on firms. China might ramp up policy support in 4Q25, as we expect a further 10 bps LPR cut and 50 bps RRR cut and direct fiscal support to households and consumers.

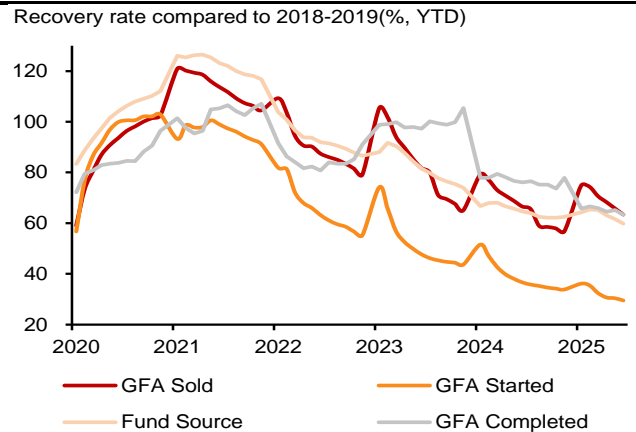
Figure 1: China's economic indicators

YoY(%)	2019	2020-2021	2022-2023	2024	3Q24	4Q24	1Q25	2Q25	June	July
GDP	6.1	5.3	4.1	5.0	4.6	5.4	5.4	5.2		
GDP Deflator	1.3	2.5	0.7	(0.7)	(0.5)	(0.7)	(0.8)	(1.2)		
VAIO	5.7	6.1	4.1	5.8	5.0	5.6	6.5	6.2	6.8	5.7
-Mining	5.0	2.9	4.8	3.1	4.0	3.7	6.2	5.8	6.1	5.0
-Manufacturing	6.0	6.6	4.0	6.1	4.9	6.3	7.1	6.7	7.4	6.2
-Public utility	7.0	6.6	4.6	5.3	7.0	2.7	1.9	2.0	1.8	3.3
Delivery value for exports	1.3	8.3	0.7	5.1	5.0	7.2	6.5	2.0	4.0	0.8
Service output index	6.9	6.3	3.9	5.2	4.8	6.3	5.8	6.1	6.0	5.8
Retail sales	8.0	4.0	3.4	3.5	2.7	3.8	4.6	5.4	4.8	3.7
Exports of goods	0.5	15.9	0.3	5.8	5.9	9.9	5.7	6.2	5.9	7.2
Imports of goods	(2.7)	13.7	(2.4)	1.0	2.1	(1.8)	(6.9)	(0.9)	1.1	4.1
Urban FAI (YTD)	5.4	3.9	4.0	3.2	3.4	3.2	4.2	2.8	2.8	1.6
-Property development	9.9	5.7	(9.8)	(10.6)	(10.1)	(10.6)	(9.9)	(11.2)	(11.2)	(12.0)
-Manufacturing	3.1	5.4	7.8	9.2	9.2	9.2	9.1	7.5	7.5	6.2
-Infrastructure	3.3	1.8	9.9	9.2	9.3	9.2	11.5	8.9	8.9	7.3
GFA sold for commodity building (YTD)	(0.1)	2.2	(16.8)	(12.9)	(17.1)	(12.9)	(3.0)	(3.5)	(3.5)	(4.0)
GFA started for commodity building (YTD)	8.5	(6.4)	(30.5)	(23.0)	(22.2)	(23.0)	(24.4)	(20.0)	(20.0)	(19.4)

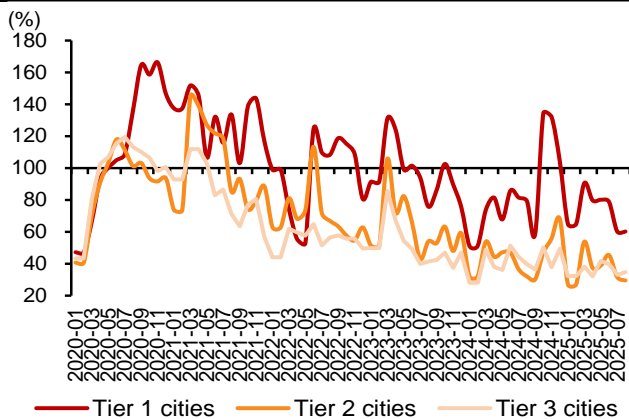
Source: Wind, CMBIGM estimates

Figure 2: Property sales growth

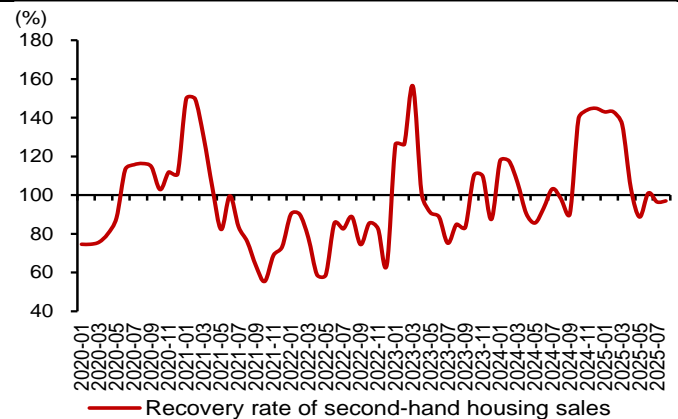
Source: Wind, CMBIGM

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

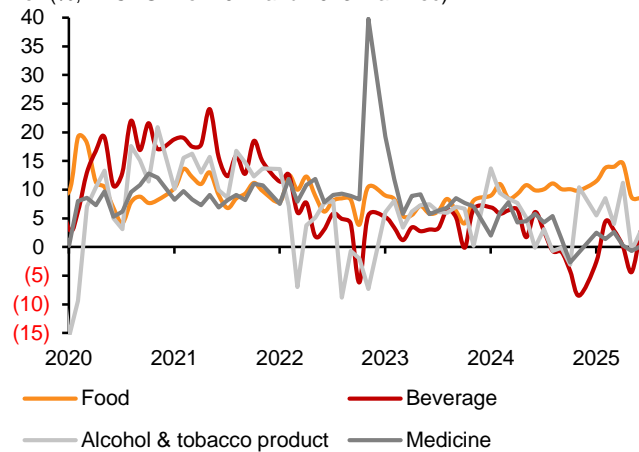
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities

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

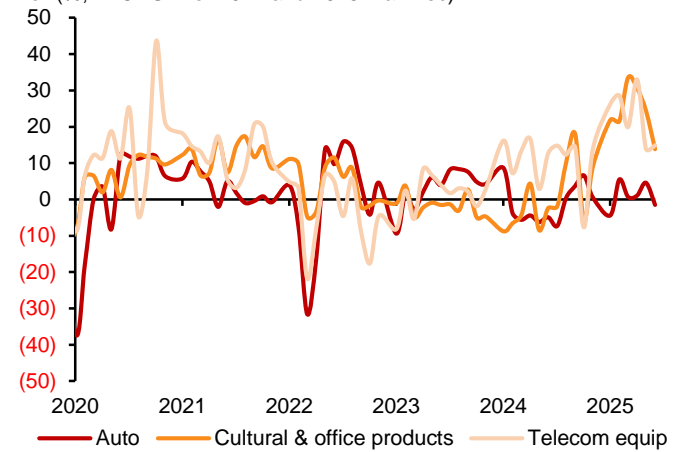
YoY(%), 2Y CAGR for 2021 and 2023 Mar-Dec)



Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics

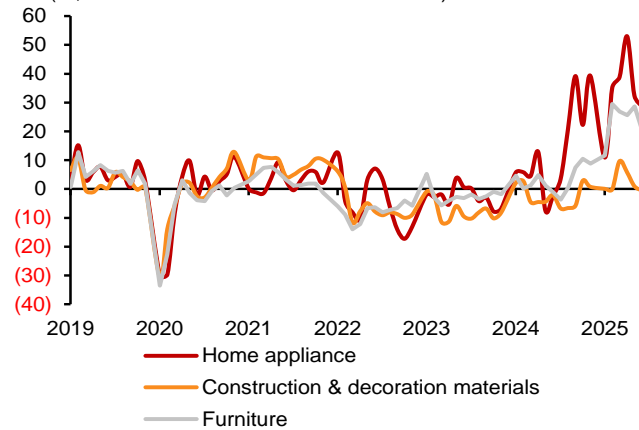
YoY(%), 2Y CAGR for 2021 and 2023 Mar-Dec)



Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales

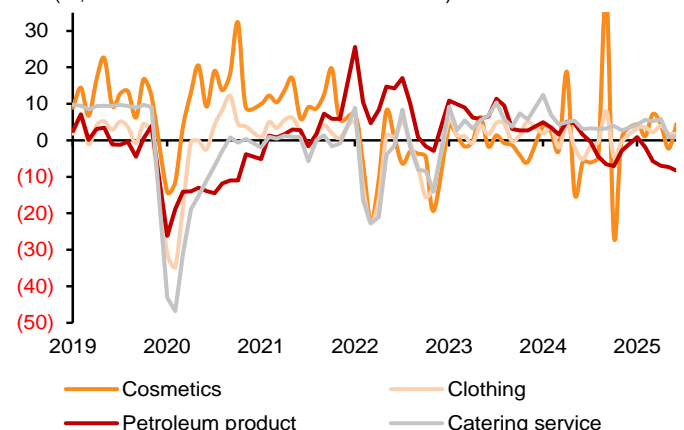
YoY(%), 2Y CAGR for 2021 and 2023 Mar-Dec)



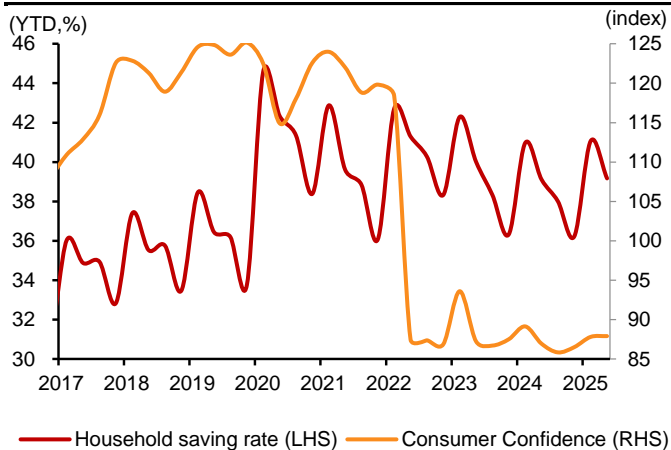
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities

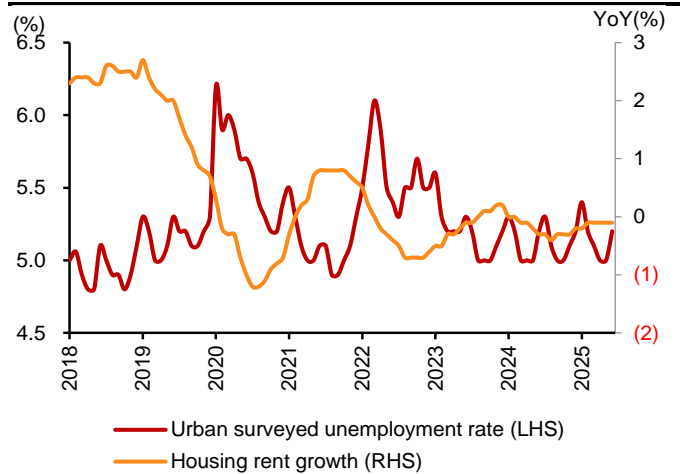
YoY(%), 2Y CAGR for 2021 and 2023 Mar-Dec)



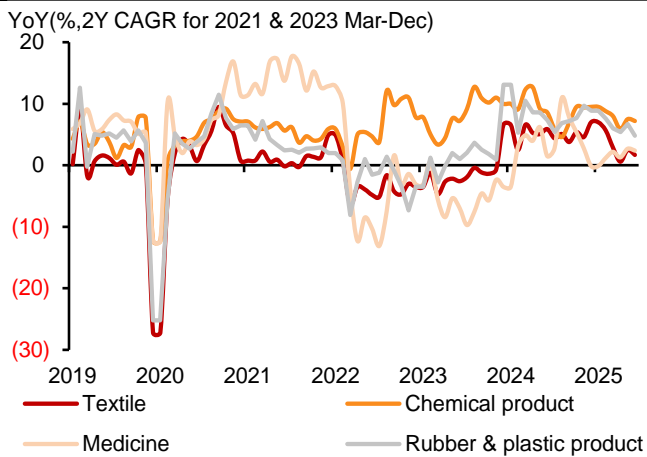
Source: Wind, CMBIGM

Figure 10: Consumer confidence

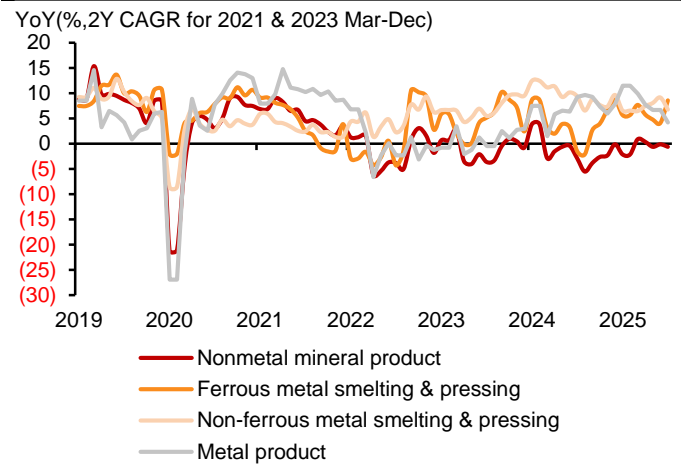
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent

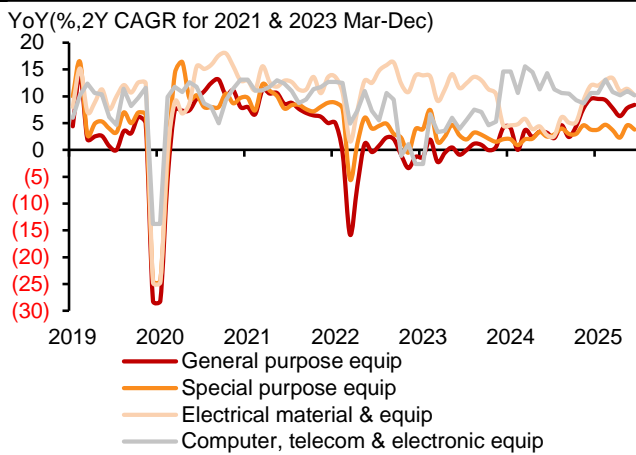
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products

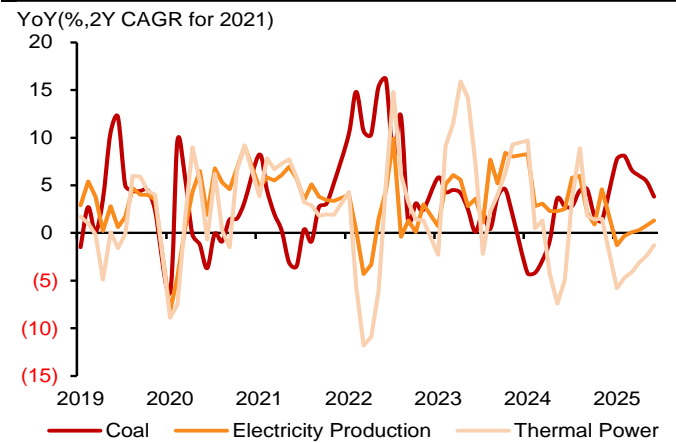
Source: Wind, CMBIGM

Figure 13: VAIO in mineral & metal products

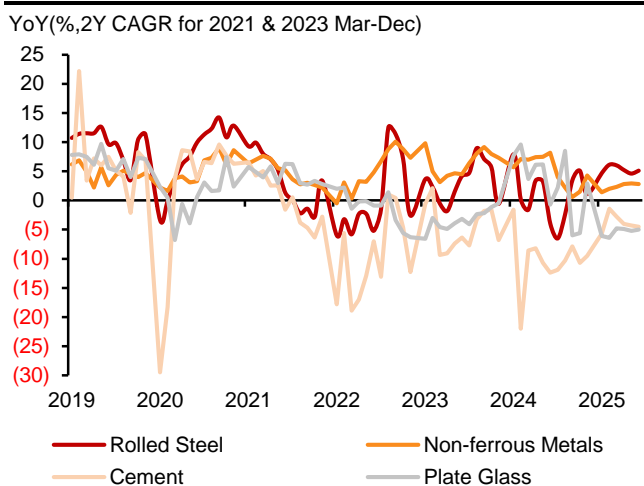
Source: Wind, CMBIGM

Figure 14: VAIO in equipment

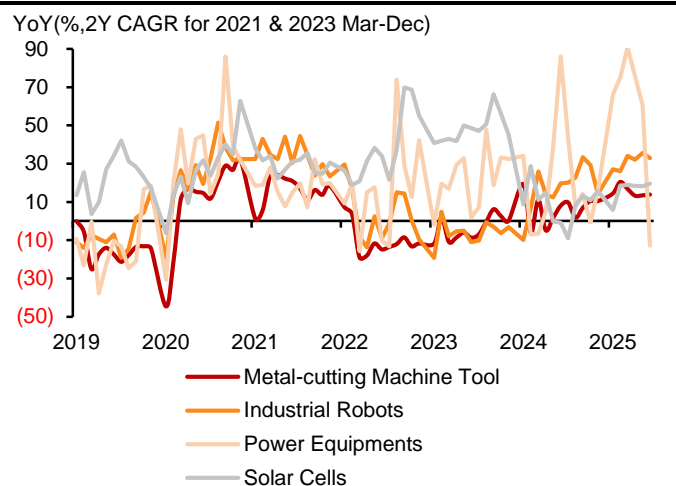
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity

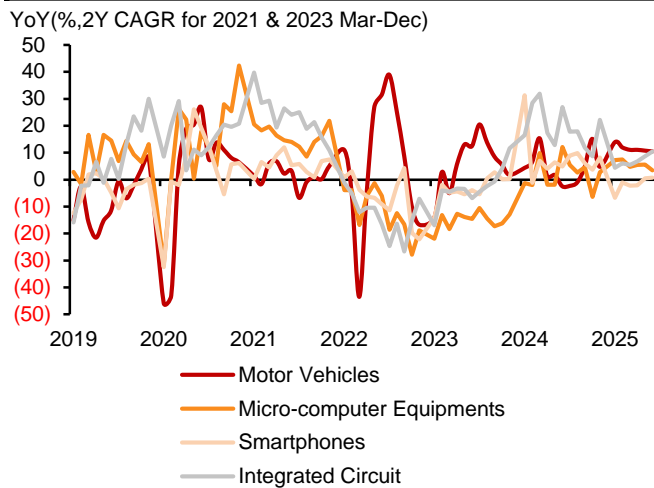
Source: Wind, CMBIGM

Figure 16: Output in steel & construction material

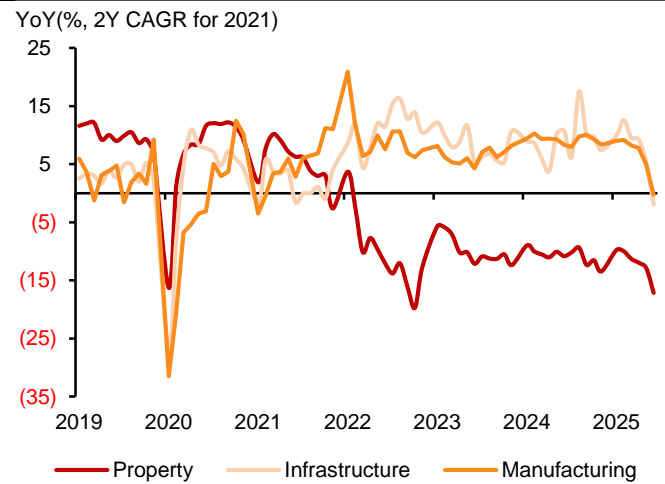
Source: Wind, CMBIGM

Figure 17: Output in capital goods

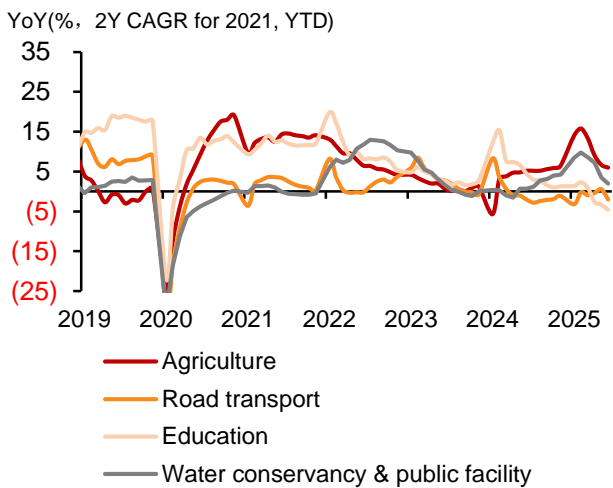
Source: Wind, CMBIGM

Figure 18: Output in auto, computer & smartphone

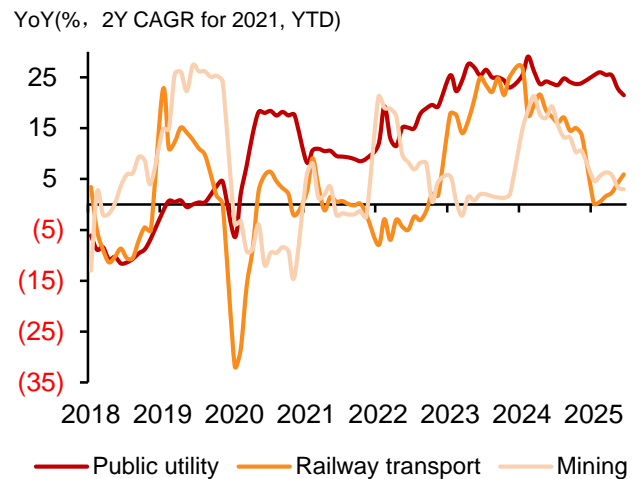
Source: Wind, CMBIGM

Figure 19: FAI by sector

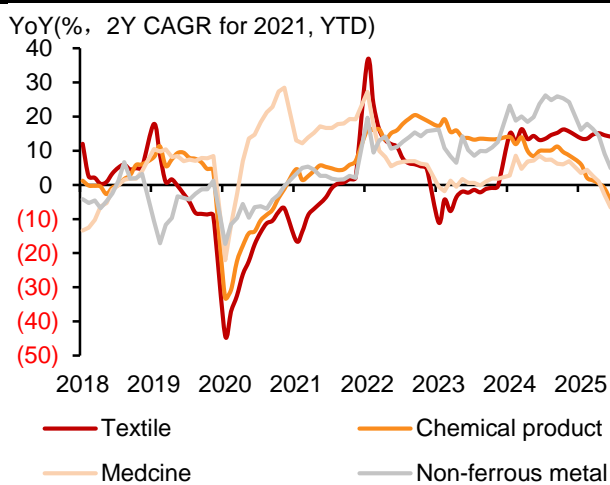
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure

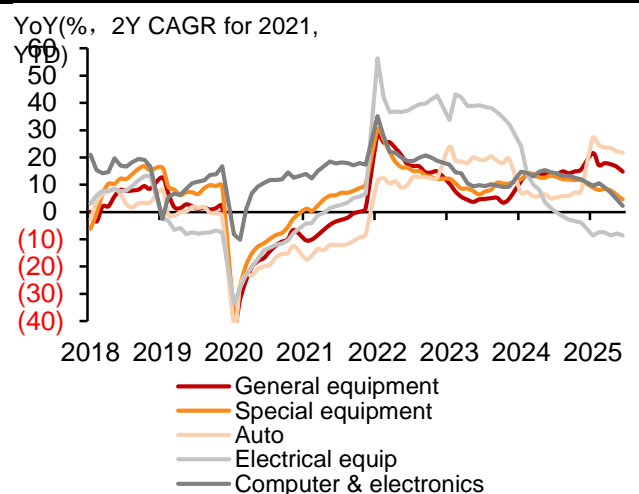
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining

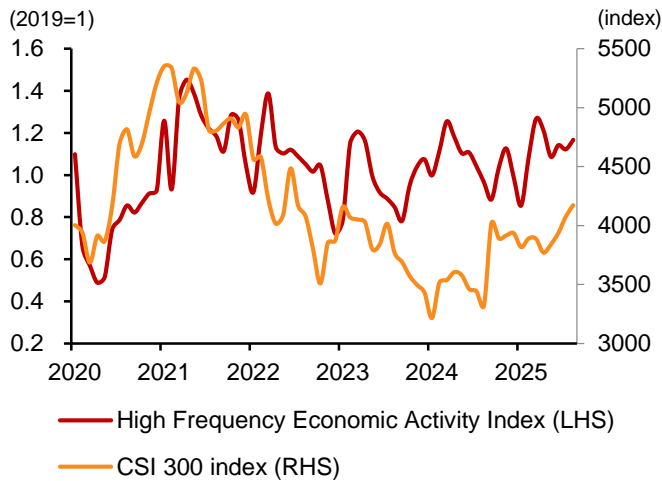
Source: Wind, CMBIGM

Figure 22: FAI in chemical products

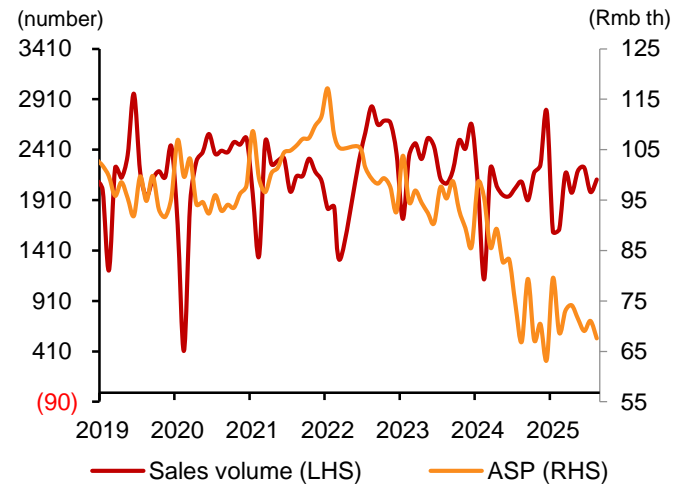
Source: Wind, CMBIGM

Figure 23: FAI in equipment

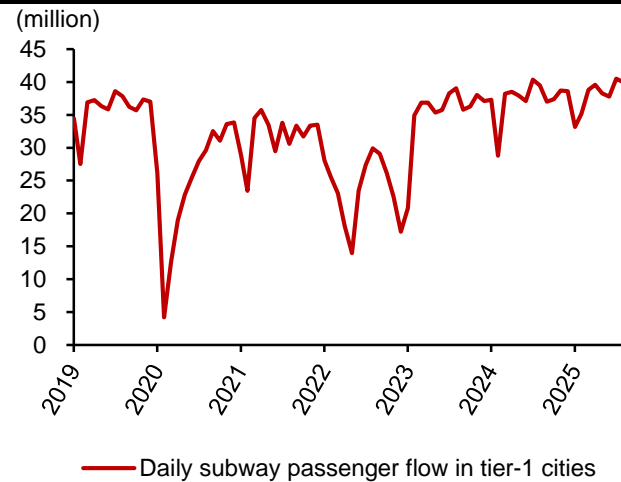
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index

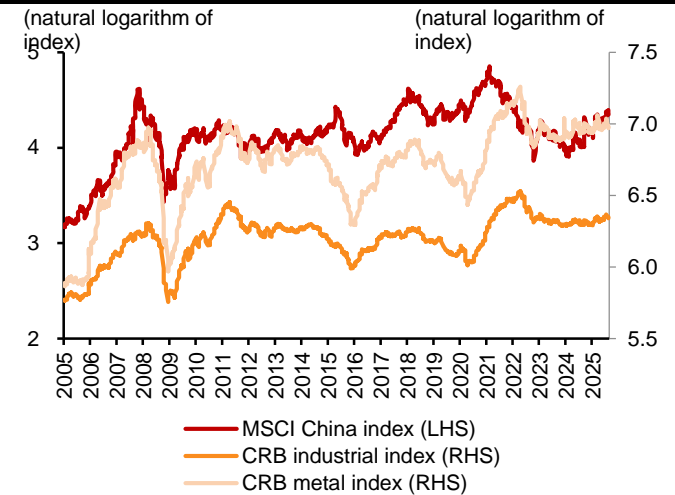
Source: Wind, CMBIGM

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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