

China Economy

Weakening growth may prompt policy easing

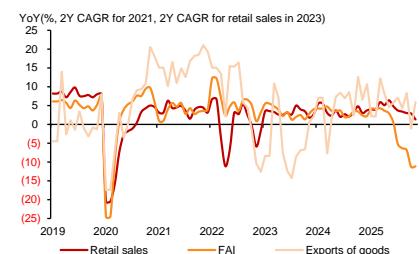
China's GDP just managed to meet the full-year target despite a sharp slowdown in 4Q. Property market remained in deep contraction in Dec, with both sales and prices continued to deteriorate. Retail sales dropped to a new low post-Covid due to the demand overdraft from trade-in subsidy, while FAI declined notably dragged by slumping property sector, the anti-involution campaign and tighter LG fiscal rules. VAOI picked up thanks to the rebound in delivery value for exports in Dec. A high base and a sharp loss of momentum toward end-2025 are likely to extend the deceleration into 1Q26, increasing the risk to achieve the 5% growth target and triggering renewed policy easing in 1Q26, in our view. The support is expected to focus on the property sector via a mix of monetary and fiscal tools, including further LPR cuts and interest payment subsidies, while direct inventory purchases from the Central Government remain unlikely before 2H26. The government support on consumption is likely to stay targeted rather than broad-based, centered on transfers to the unemployed, low-income, multi-child households, and higher rural social benefits. 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.

- **Despite a sharp slowdown in 4Q, GDP just managed to meet the full-year target.** China's GDP growth in YoY terms (all on a YoY basis unless otherwise specified) moderated to 4.5% in 4Q25 from 4.8% in 3Q25, with full-year GDP growth in 2025 just managed to meet the target of 5%. GDP deflator narrowed to -0.7% in 4Q25 from 1% in 3Q25, as anti-involution campaign drove price reflation particularly in upstream sectors. Full-year births fell to 7.02mn, the lowest level since the founding of the PRC, while the national population declined by 2.4mn. These trends underscore medium-to long-term structural challenges for the economy, including a shrinking working-age population and weakening aggregate demand. We expect the GDP to slow from 5% in 2025 to 4.8% in 2026.
- **Property sector deteriorated on both sales and prices.** The contraction of gross floor area (GFA) sold for commercial buildings dropped 8.7% in 2025 compared to -12.9% in 2024 according to the NBS, marking the third year in contraction, while the residential sales dropped to -9.2% in 2025 compared to -14.1% in 2024. The new housing sales in first half of Jan continued to slump according to market data, as the recovery ratio of 30 major cities compared to 2018-2019 dripped below 30%, while its YoY contraction expanded to -41% in early Jan from -32% in Dec. Second-hand housing sales of 11 selective cities moderately rebounded as its recovery ratio rose to 116% in first half of Jan from 104% in Dec and its YoY decline narrowed to -19%. New and second-hand housing prices continued to decline in Dec, especially in tier-2 & 3 cities. Listing price continued to decline in Dec, but the pace slowed down. The weakening property market may further weigh on durable consumption and developers' cash flow, prompting major policy easing in 1Q26.
- **Retail sales continued to weaken.** Retail sales growth further declined to 0.9%, below market consensus at 1.5%. Over the year, retail sales edged up to 3.7% in 2025 from 3.5% in 2024. Impacts of trade-in subsidies have largely run its course, as home appliances, furniture, construction materials and auto remained in contraction at -18.7%, -2.2%, -11.8% and -5%. Telecom equipment and cultural & office products, on the other hand, remained solid growth. Gold, silver & jewellery moderated from 8.5% in Nov to 5.9% in Dec. Other non-durable goods including food, beverage and clothing broadly slowed down, while daily used goods and cosmetics

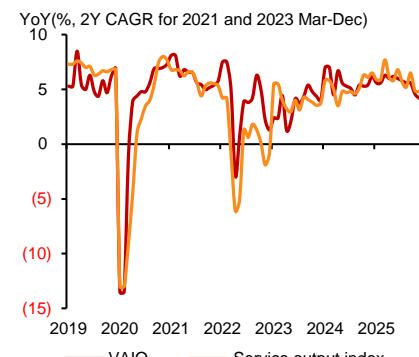
Frank Liu

(852) 3761 8957
frankliu@cmbi.com.hk

Bingnan YE, Ph.D
 (852) 3761 8967
frankliu@cmbi.com.hk



Source: Wind, CMBIGM



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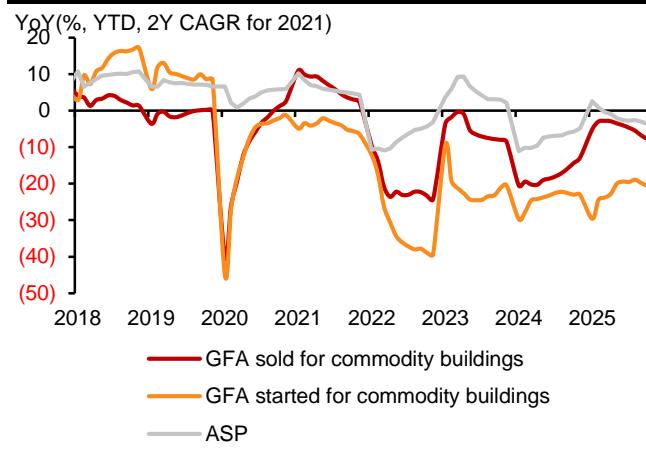
rebounded. Looking forward, we expect consumption growth to be flat in 2026 with a slowdown in retail sales growth yet a pick-up in service consumption. Retail sales of consumer goods may slow from 3.7% in 2025 to 3.4% in 2026 due to demand pull-forward.

- **FAI YTD growth remained subdued.** The YoY growth of FAI further slumped to -16% in Dec from -11.1% in Nov. Over the year, the FAI dropped to -3.8% in 2025 compared to 3.2% in 2024, dragged by deep contraction in the property sector, the anti-involution campaign and tighter LG fiscal rules. Property investment further dropped 36.5% in Dec from -29.9% in Nov, another record slump on an already low base. The housing market remained over-supply while the advance payment and mortgage loans in funding source both declined by 16% and 18% in 2025. Infrastructure investment further dropped 16% in Dec with full-year growth at -1.5%, as investment in railway & road transport, public facility, water conservancy and social welfare further dipped. Manufacturing investment declined to -10.6% in Dec with full-year growth at 0.6%. Slowdown was broad-based, particularly in non-ferrous metal, metal product, general & special equipment and auto industries. Looking forward, FAI growth may recover from -3.8% in 2025 to 0.5% in 2026 as the CEWC vowed to stabilize investment, with FAI in property, infrastructure and manufacturing rebounding from -17%, -1.5% and 0.6% in 2025 to -9%, 1.5% and 1.5% in 2026.
- **Industrial output edged up.** VAO growth inched up to 5.2% in Dec from 4.8%, beating market consensus at 4.9%. Mining slowed down to 5.4% in Dec from 6.3% in Nov, while public utility dropped to 0.8% from 4.3%. VAO of manufacturing accelerated to 5.7% in Dec from 4.6% in Nov, as delivery value for exports rebounded to 3.2% in Dec from -0.1%. Textile, chemical products, medicine special equipment and computers, telecom & electronic equipment notably picked up while auto and other transport equipment slowed down. Growth of service output index rose to 5% in Dec from 4.2% with robust growth of IT, software developing, leasing and finance services. Looking forward, industrial output may decelerate due to the headwinds from exports, demand overdraft from trade-in subsidy and pressure from the anti-involution policy.
- **Sustained demand softening pointed to weak 1Q26, which may prompt policy easing.** Policymakers stayed put in 2H25 despite a notable economic slowdown, as the 5% full-year growth target remained achievable. However, a high base effect and a sharp loss of momentum toward end-2025 are likely to extend the growth deceleration into 1Q26, making the 5% growth target for 2026 more difficult to attain, which could prompt a new round of policy easing. Support for the struggling property sector is expected to form a core part of the easing package, likely combining monetary and fiscal measures, including further LPR cuts and interest payment subsidies. Direct inventory purchases by the Central Government remain under discussion among policymakers but are unlikely to materialize before 2H26. On consumption, while we do not expect aggressive stimulus, the policy support is more likely to focus on targeted transfers, including subsidies for the unemployed, lower-income households, multi-child households and enhanced social benefits for rural residents. 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.

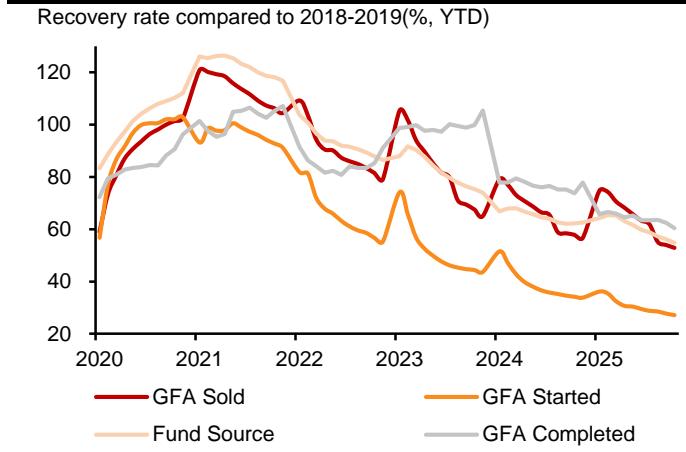
Figure 1: China's economic indicators

YoY(%)	2020-2021	2022-2023	2024	2025	1Q25	2Q25	3Q25	4Q25	Nov	Dec
GDP	5.3	4.1	5.0	5.0	5.4	5.2	4.8	4.5		
GDP Deflator	2.5	0.7	(0.8)	(1.0)	(0.8)	(1.2)	(1.0)	(0.7)		
VAIO	6.1	4.1	5.8	5.9	6.5	6.2	5.8	5.0	4.8	5.2
-Mining	2.9	4.8	3.1	5.6	6.2	5.8	5.5	5.4	6.3	5.4
-Manufacturing	6.6	4.0	6.1	6.4	7.1	6.7	6.4	5.1	4.6	5.7
-Public utility	6.6	4.6	5.3	2.3	1.9	2.0	2.1	3.5	4.3	0.8
Delivery value for exports	8.3	0.7	5.1	2.2	6.5	2.0	2.0	1.0	(0.1)	3.2
Service output index	6.3	3.9	5.2	5.5	5.8	6.1	5.7	4.6	4.2	5.0
Retail sales	4.0	3.4	3.5	3.7	4.6	5.4	3.4	1.7	1.3	0.9
Exports of goods	15.9	0.3	5.8	5.5	5.6	6.1	6.5	3.8	5.9	6.6
Imports of goods	13.7	(2.4)	1.0	0.0	(6.9)	(0.8)	4.4	2.9	1.9	5.7
Urban FAI (YTD)	3.9	4.0	3.2	(3.8)	4.2	2.8	(0.5)	(3.8)	(2.6)	(3.8)
-Property development	5.7	(9.8)	(10.6)	(17.2)	(9.9)	(11.2)	(13.9)	(17.2)	(15.9)	(17.2)
-Manufacturing	5.4	7.8	9.2	0.6	9.1	7.5	4.0	0.6	1.9	0.6
-Infrastructure	1.8	9.9	9.2	(1.5)	11.5	8.9	3.3	(1.5)	0.1	(1.5)
GFA sold for commodity building (YTD)	2.2	(16.8)	(12.9)	(8.7)	(3.0)	(3.5)	(5.5)	(8.7)	(7.8)	(8.7)
GFA started for commodity building (YTD)	(6.4)	(30.5)	(23.0)	(20.4)	(24.4)	(20.0)	(18.9)	(20.4)	(20.5)	(20.4)

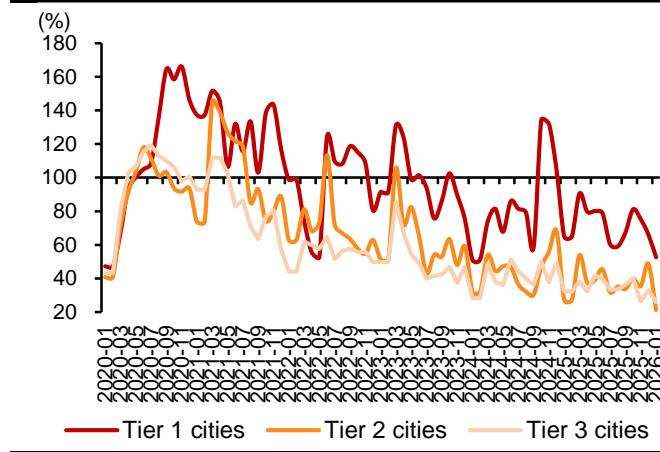
Source: Wind, CMBIGM estimates

Figure 2: Property sales growth

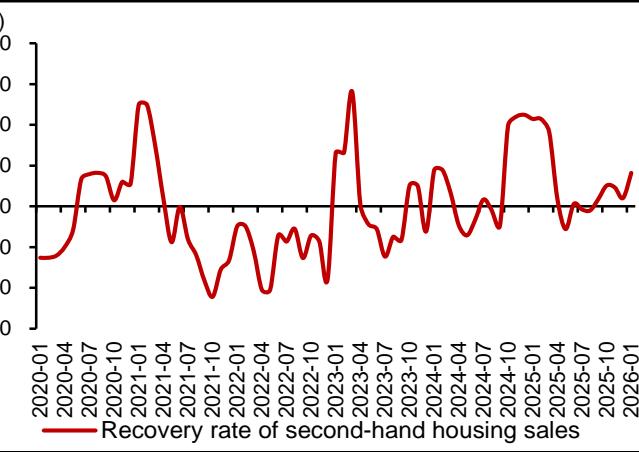
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019

Source: Wind, CMBIGM

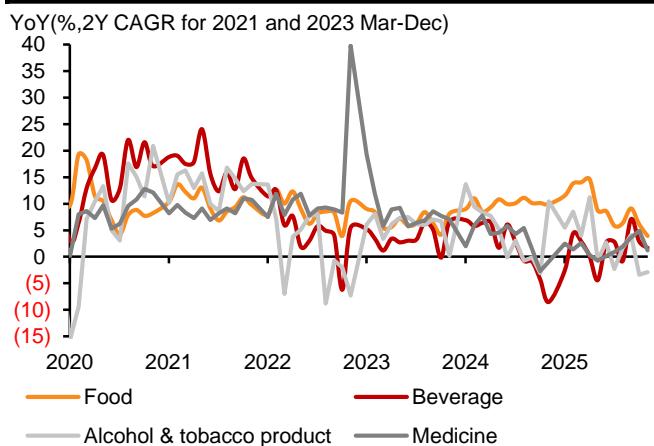
Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities

Source: Wind, CMBIGM

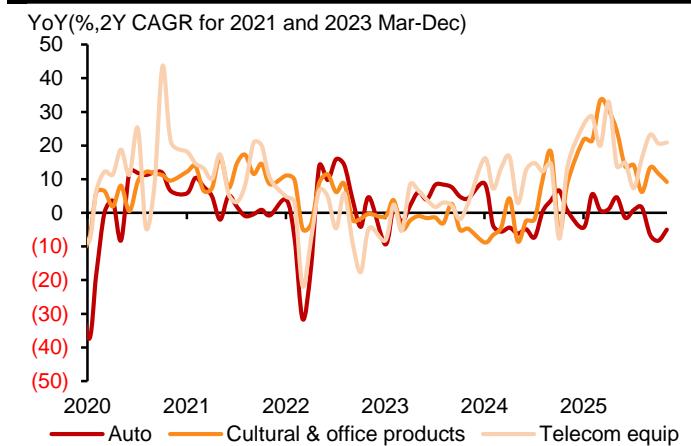
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities

Source: Wind, CMBIGM

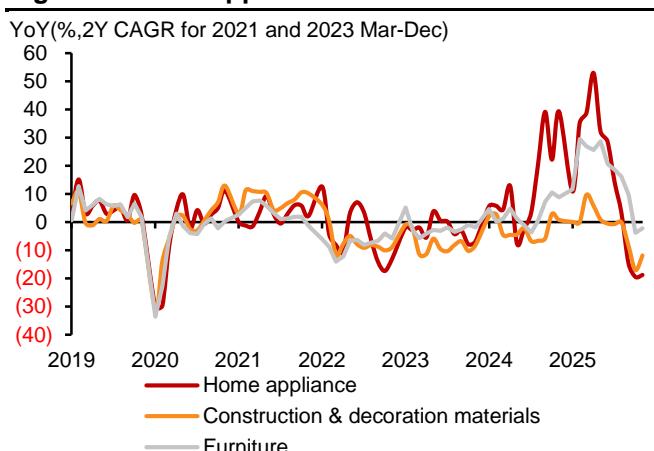
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan.

Figure 6: Retail sales of staples

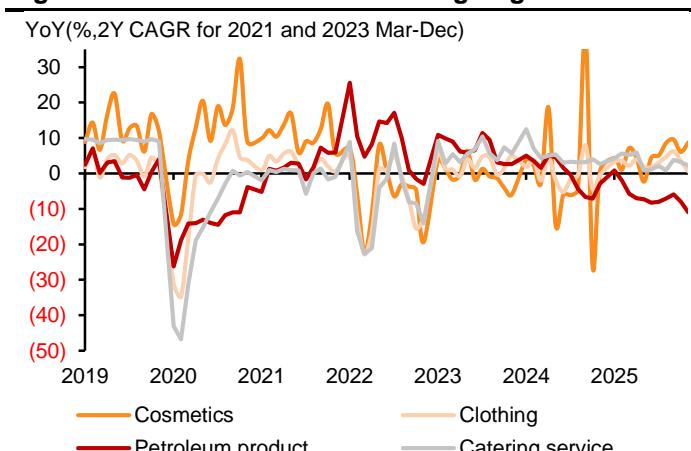
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics

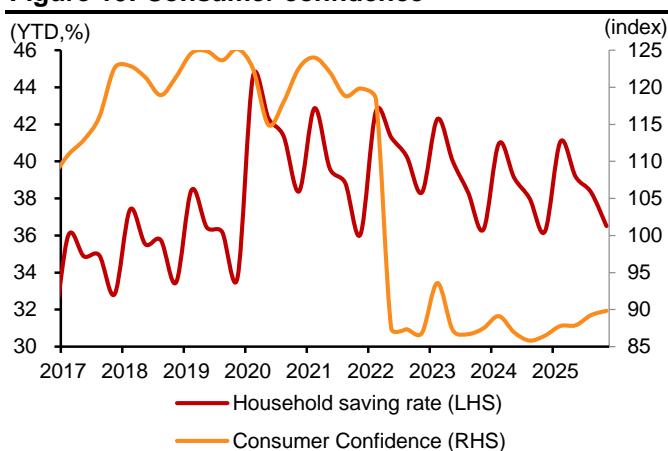
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales

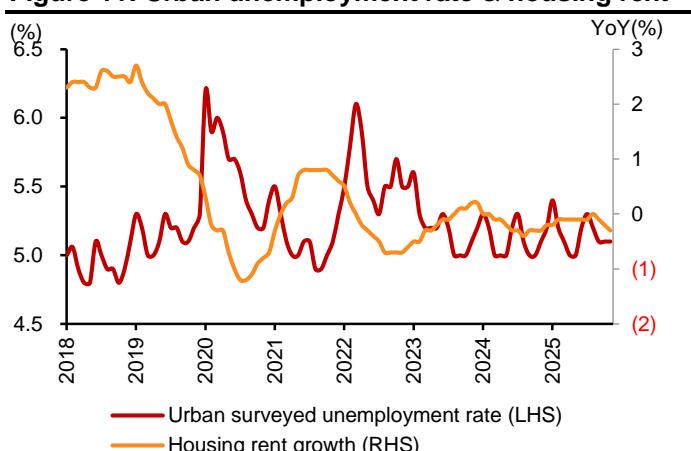
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities

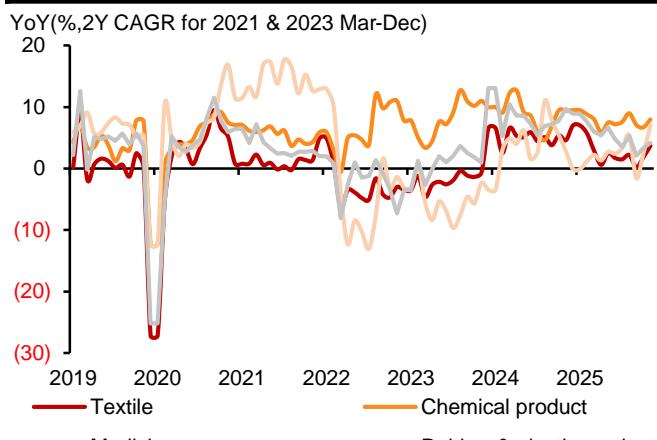
Source: Wind, CMBIGM

Figure 10: Consumer confidence

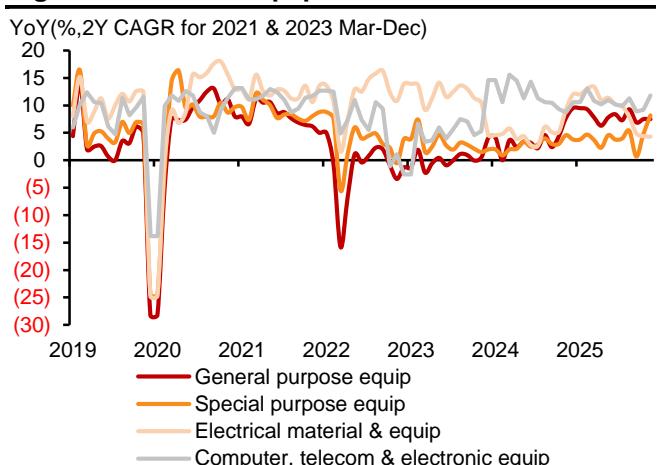
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent

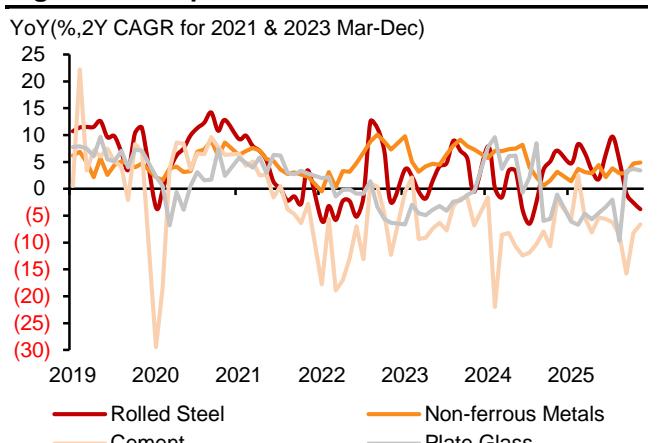
Source: Wind, CMBIGM

Figure 12: VAO in textile & chemical products

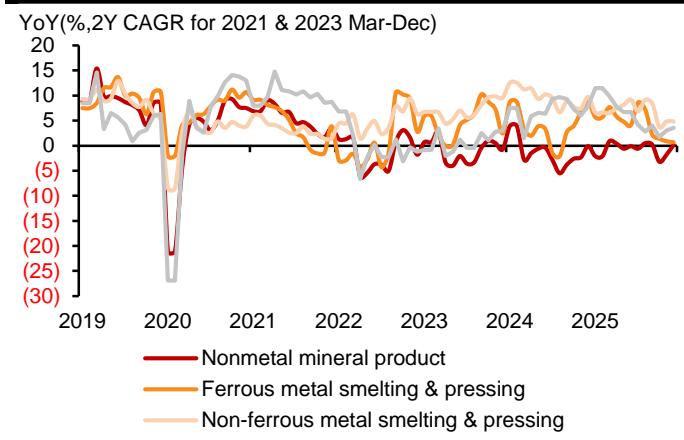
Source: Wind, CMBIGM

Figure 14: VAO in equipment

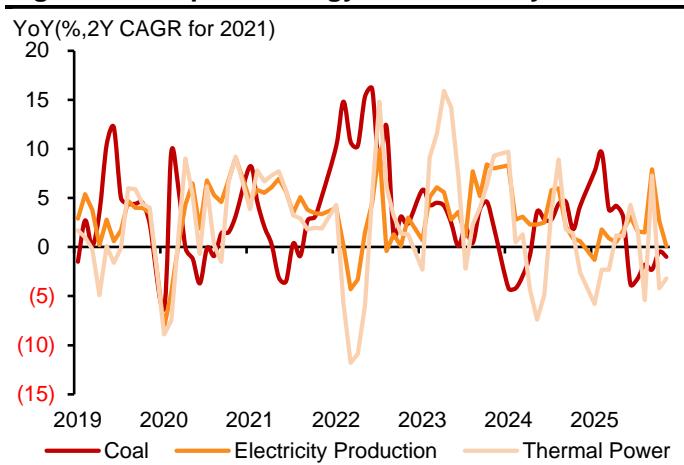
Source: Wind, CMBIGM

Figure 16: Output in steel & construction material

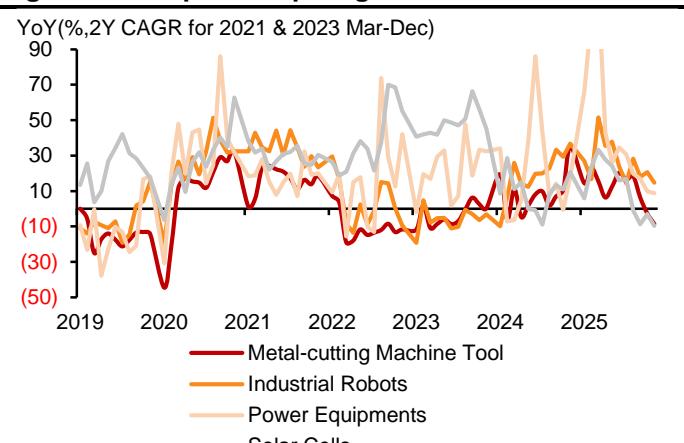
Source: Wind, CMBIGM

Figure 13: VAO in mineral & metal products

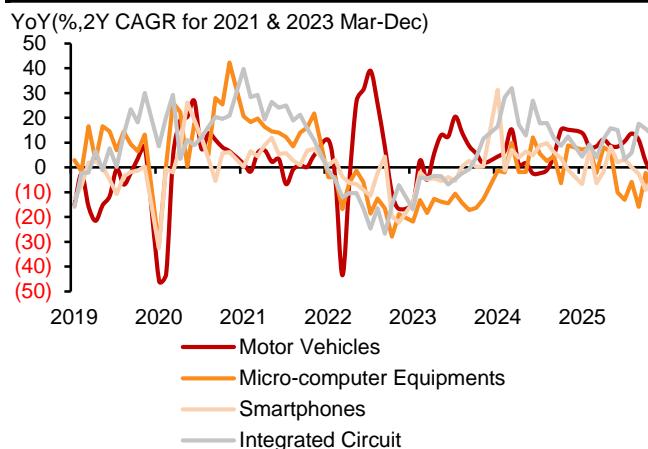
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity

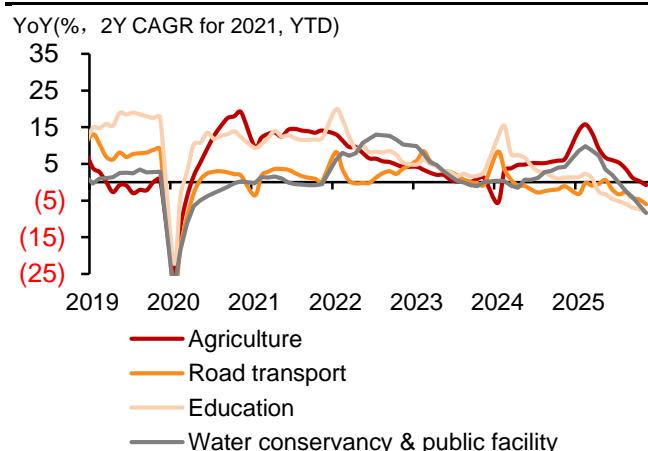
Source: Wind, CMBIGM

Figure 17: Output in capital goods

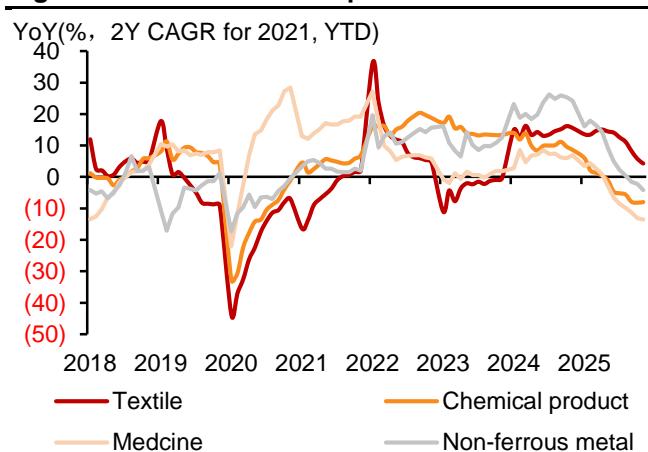
Source: Wind, CMBIGM

Figure 18: Output in auto, computer & smartphone

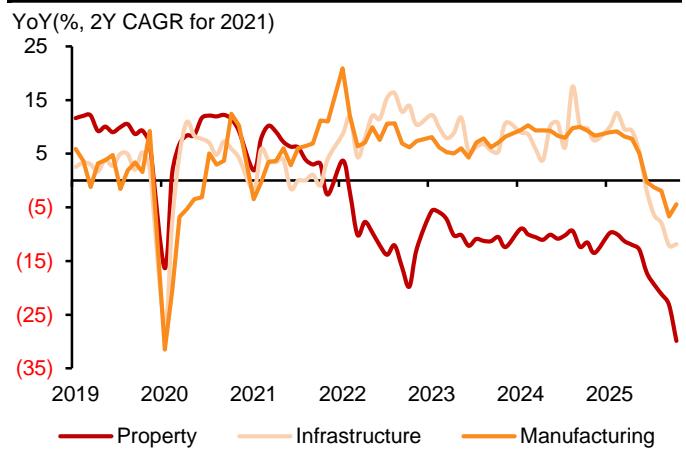
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure

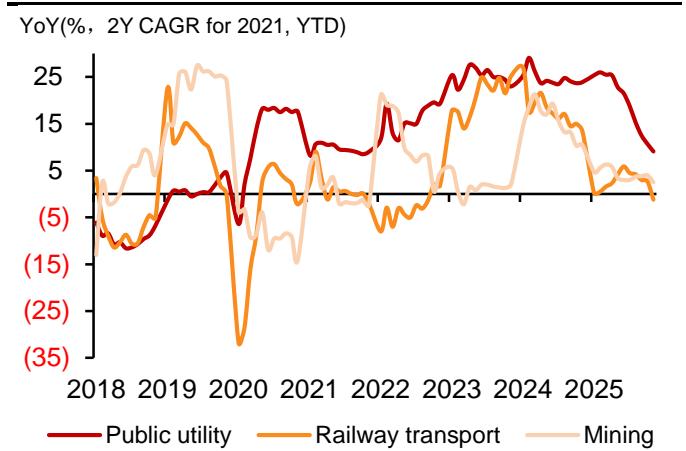
Source: Wind, CMBIGM

Figure 22: FAI in chemical products

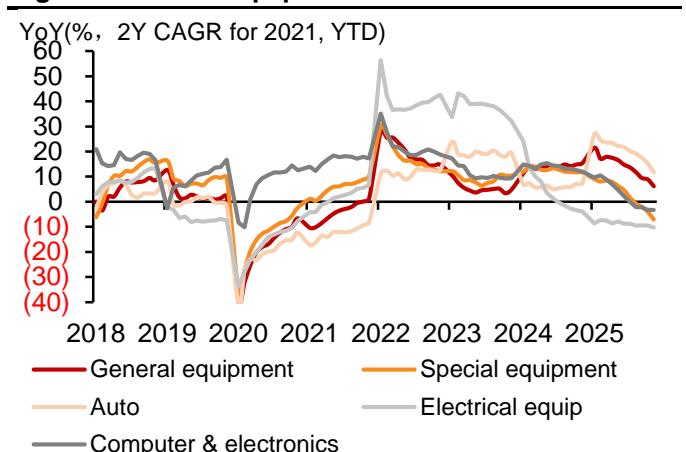
Source: Wind, CMBIGM

Figure 19: FAI by sector

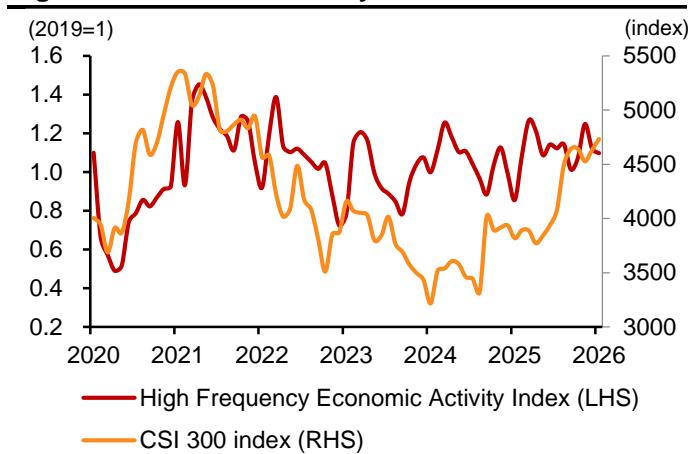
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining

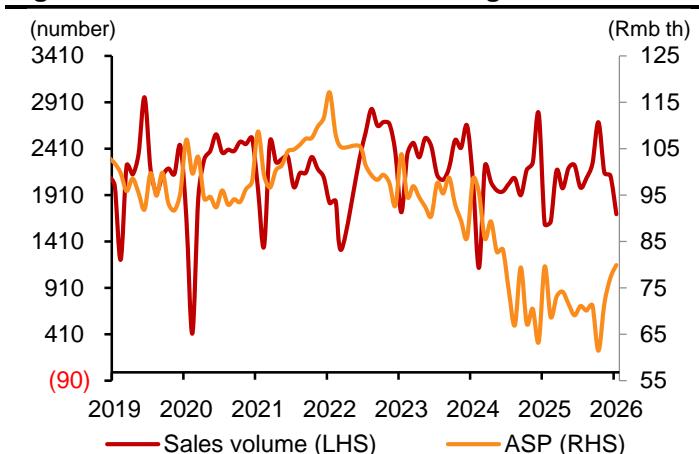
Source: Wind, CMBIGM

Figure 23: FAI in equipment

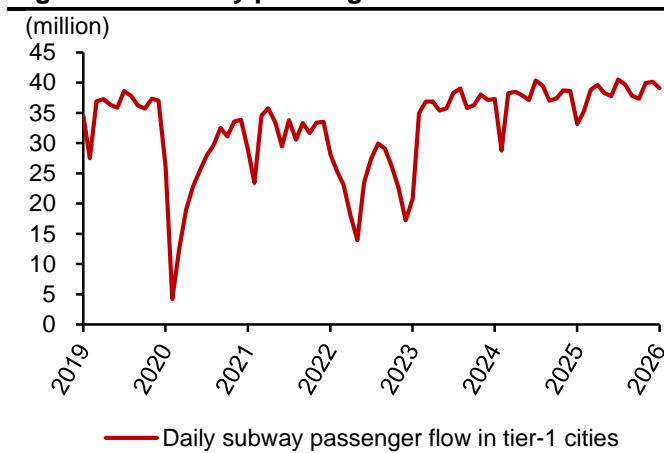
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index

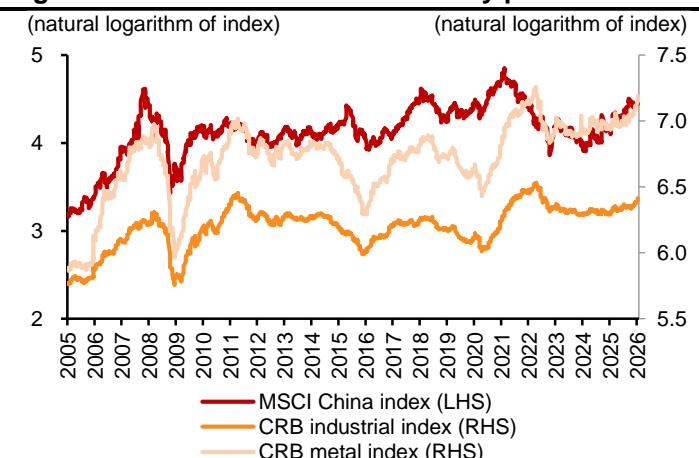
Source: Wind, CMBIGM

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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