

China Economy

Broad economic slowdown

Economic activities have slowed for two straight months below market expectations in Aug, underscoring rising downside risks for growth in 2H25. Property sales seem to have stabilized at the cyclical trough, as sales of new and second-hand housing moderately rebounded in early Sep. Retail sales further softened as impacts from trade-in subsidies eased. The anti-involution campaign drove another month of contraction in fixed asset investment, which is negative for short-term growth yet positive for medium-term economic rebalancing. Industrial output moderated amid falling delivery value of exports. The weakening economy may drive policymakers to ramp up policy support in 4Q25, and we expect a further 10bps LPR cut and 50bps RRR cut and expanding fiscal support to households and consumers.

■ **Property sector has stabilized at a cyclical trough.** The decline of gross floor area (GFA) sold for commodity buildings edged down to -4.7% in 8M25 from -4% in 7M25 according to NBS. Contraction of residential housing starts stayed unchanged at -18.3% in 8M25, back to the level in 2003-04, which should support a supply-demand rebalancing in 2026-27. For new housing sales, according to Wind, in the first half of Sep, the recovery rate compared to 2018-2019 edged down to 37.7% from 38.7% in Aug, stabilizing at around 37% since July, which is also the historic low last seen in Sep 2024. Sales YoY in 30 major cities rebounded to 15.5% from -9.2% in Aug driven by the 43.6% surge in tier-3 cities. Second-hand housing sales also mildly recovered, as YoY growth of 11 selective cities picked up to 1.5% in the first half of Sep from 0.1% in Aug. New and second-hand housing prices dipped 0.3% and 0.6% MoM in Aug from 0.3% and 0.5%. The softening property market pointed to moderating consumer demand, as we might see a notable slowdown in housing-related durable goods sales.

■ **Retail sales continued to soften.** Retail sales growth moderated to 3.4% in Aug from 3.7%, missing market consensus at 3.8%. Impacts of trade-in subsidies further eased, as home appliances, furniture and telecom equipment slowed down to 14.3%, 18.6% and 7.3% in Aug from 28.7%, 20.6% and 14.9% in July. Auto remained subdued, edging up to 0.8% in Aug from -1.5% in July, while the volume of auto sales slowed down to 2.2% from 6.1%. Cultural & office products remained robust at 14.2% in Aug as subsidies expanded to back-to-school supplies. Catering service bounced up to 2.1% from 1.1% in July, while gold, silver & jewellery surged to 16.8% from 8.2% amid rising gold prices. Retail sales may further slow 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 3.2% in 2H25 from 5% in 1H25, bringing full-year growth to around 4.1%.

■ **FAI further dipped across major sectors.** Total FAI growth dropped to 0.5% in 8M25 from 1.6% in 7M25, missing market expectations at 1.3%, while its monthly YoY further contracted to -6.3% in Aug from -5.2%, marking the first stretch of consecutive YoY declines since 2021. The moderating fiscal expansion in 2H relative to 2024 and the government's anti-involution campaign have weighed on infrastructure and manufacturing investment. Infrastructure FAI markedly declined to -6.4% in Aug from -1.9%, dragged by road transport, public facility, education and health & social welfare. Manufacturing FAI dropped to -1.3% in Aug from -0.3%. Sectors including chemical products, medicine, electrical equipment and computer & electronics further contracted while textile, non-ferrous metals smelting & pressing, general equipment and auto saw notable moderation. Property development investment further contracted to -

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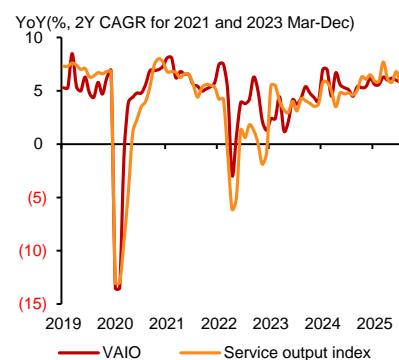
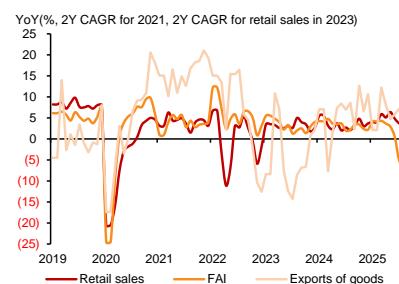
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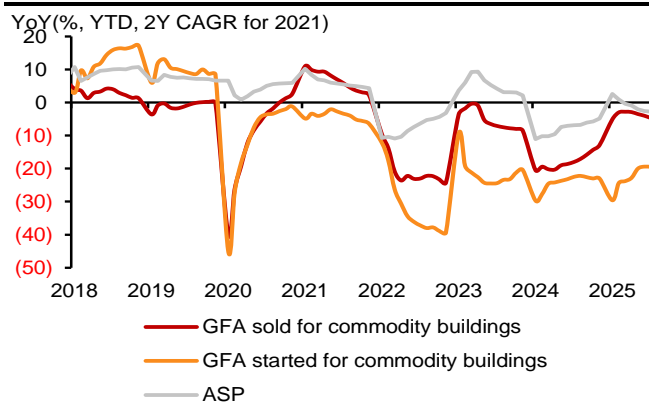
19.4% in Aug from -17.2%, as housing market remained in over-supply. Looking forward, FAI growth may mildly pick up in 4Q25 with full-year growth at -0.5% in 2025 compared to 3.2% in 2024. Manufacturing and infrastructure investment growth is likely to fall from 9.2% and 9.2% in 2024 to 4.2% and 4% in 2025.

- **Industrial output moderated amid falling export delivery value.** VAIO growth moderated to 5.2% in Aug from 5.7%, below market consensus at 5.8%. Mining edged up to 5.1% in Aug from 5% as raw material prices rebounded while public utility dropped to 2.4% from 3.3%. VAIO of manufacturing dropped to 5.7% in Aug from 6.2% due to anti-involution campaign and falling delivery value for exports. Food, rubber & plastic products, non-metal mineral products, metal products and general-purpose equipment slowed down, while chemical products, medicine, non-ferrous metal smelting & pressing picked up. Delivery value for exports dipped to -0.4% in Aug from 0.8%, as export value of goods per customs data dropped to 4.4% from 7.2%. Growth of service output index edged down to 5.6% in Aug from 5.8%, despite robust growth of IT and finance sectors. Looking forward, industrial output may continue decelerating due to the headwinds from exports, demand overdraft from trade-in subsidies and pressures from the anti-involution policy.
- **The weakening economy may drive policymakers to ramp up policy stimulus in 4Q25.** As the housing market remains weak and deflation pressure lasts, the PBOC may further ease liquidity conditions with lower money market rates. The central bank might cut RRR by 50bps and LPRs by 10bps in 4Q25. As durable goods sales growth is likely to sharply decelerate due to base effects and diminishing stimulus effects of the trade-in subsidies, the MoF might provide additional subsidies to households and consumers to boost consumption growth, in our view.

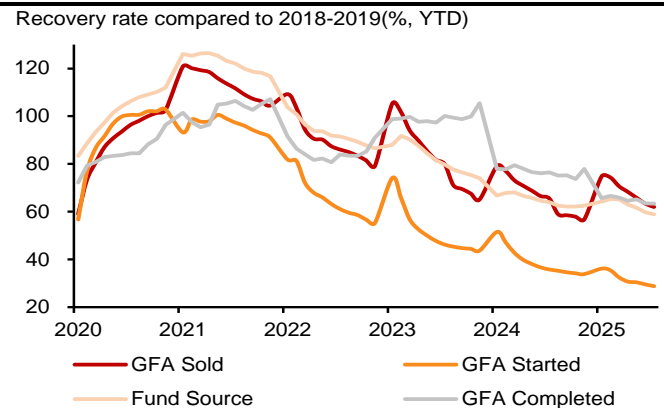
Figure 1: China's economic indicators

YoY(%)	2019	2020- 2021	2022- 2023	2024	3Q24	4Q24	1Q25	2Q25	July	Aug
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	5.7	5.2
-Mining	5.0	2.9	4.8	3.1	4.0	3.7	6.2	5.8	5.0	5.1
-Manufacturing	6.0	6.6	4.0	6.1	4.9	6.3	7.1	6.7	6.2	5.7
-Public utility	7.0	6.6	4.6	5.3	7.0	2.7	1.9	2.0	3.3	2.4
Delivery value for exports	1.3	8.3	0.7	5.1	5.0	7.2	6.5	2.0	0.8	(0.4)
Service output index	6.9	6.3	3.9	5.2	4.8	6.3	5.8	6.1	5.8	5.6
Retail sales	8.0	4.0	3.4	3.5	2.7	3.8	4.6	5.4	3.7	3.4
Exports of goods	0.5	15.9	0.3	5.8	5.9	9.9	5.6	6.2	7.2	4.4
Imports of goods	(2.7)	13.7	(2.4)	1.0	2.1	(1.8)	(6.9)	(0.9)	4.1	1.3
Urban FAI (YTD)	5.4	3.9	4.0	3.2	3.4	3.2	4.2	2.8	1.6	0.5
-Property development	9.9	5.7	(9.8)	(10.6)	(10.1)	(10.6)	(9.9)	(11.2)	(12.0)	(12.9)
-Manufacturing	3.1	5.4	7.8	9.2	9.2	9.2	9.1	7.5	6.2	5.1
-Infrastructure	3.3	1.8	9.9	9.2	9.3	9.2	11.5	8.9	7.3	5.4
GFA sold for commodity building (YTD)	(0.1)	2.2	(16.8)	(12.9)	(17.1)	(12.9)	(3.0)	(3.5)	(4.0)	(4.7)
GFA started for commodity building (YTD)	8.5	(6.4)	(30.5)	(23.0)	(22.2)	(23.0)	(24.4)	(20.0)	(19.4)	(19.5)

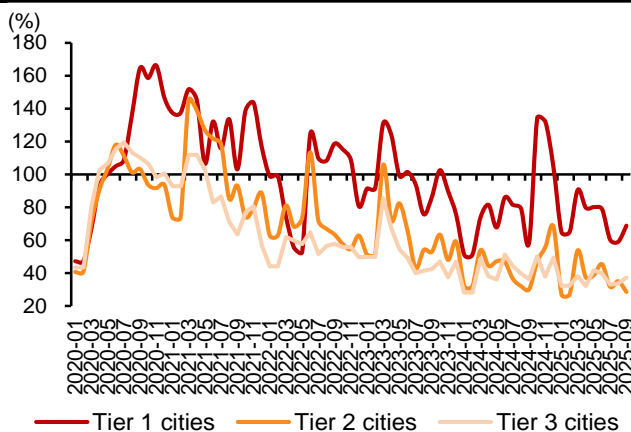
Source: Wind, CMBIGM estimates

Figure 2: Property sales growth

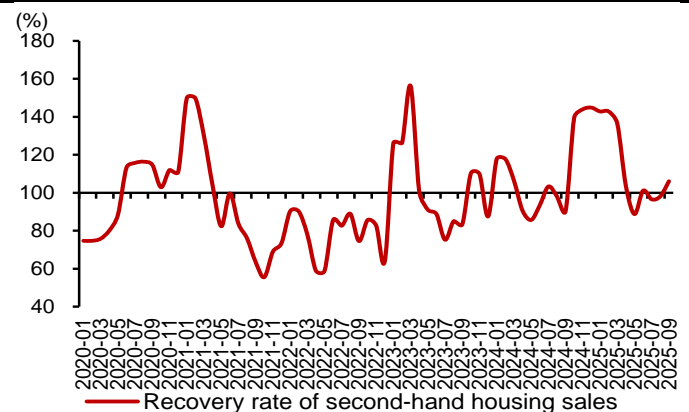
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019

Source: Wind, CMBIGM

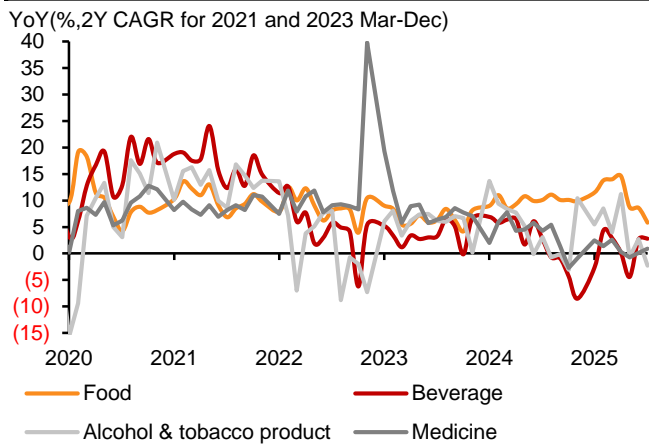
Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities

Source: Wind, CMBIGM

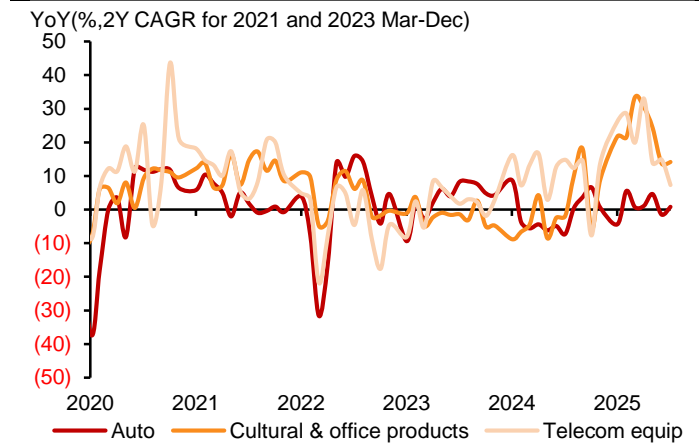
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities

Source: Wind, CMBIGM

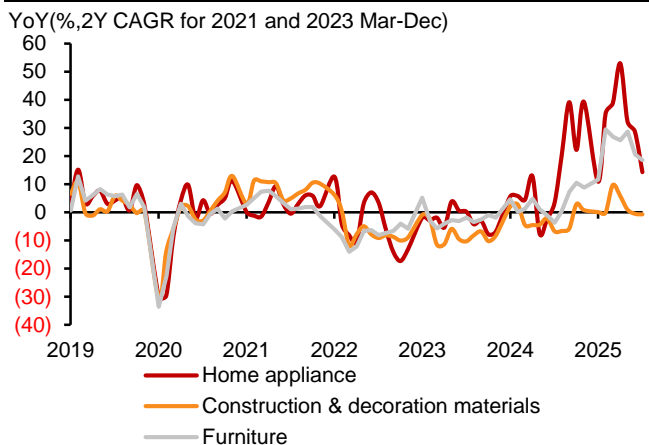
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples

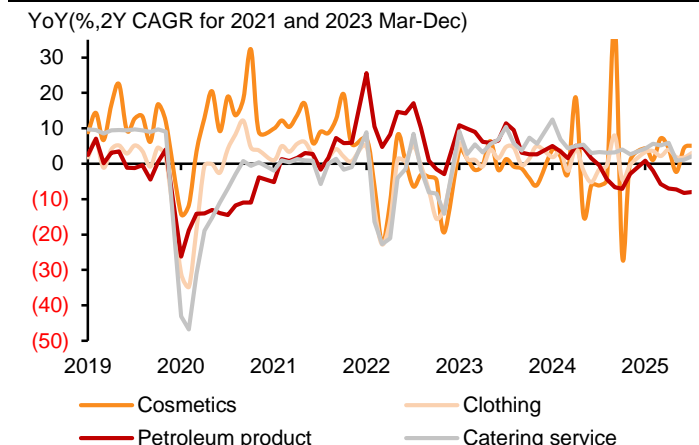
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics

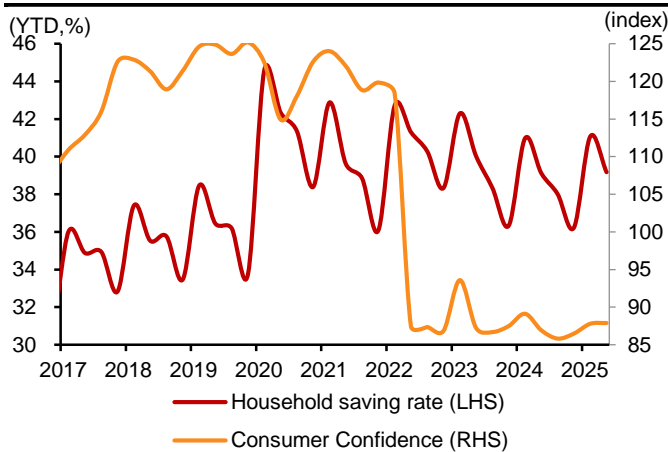
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales

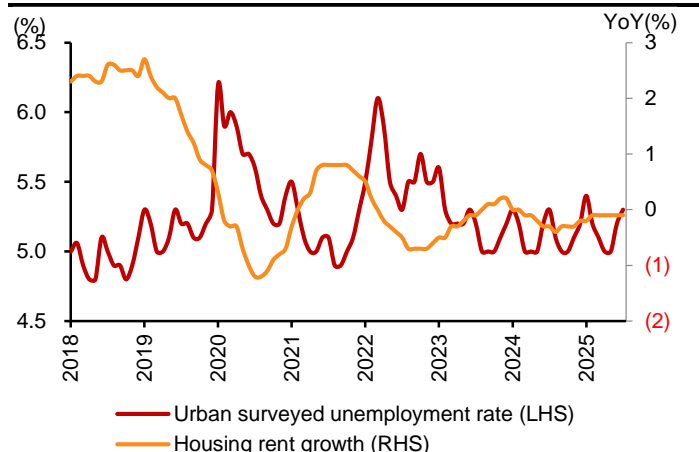
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities

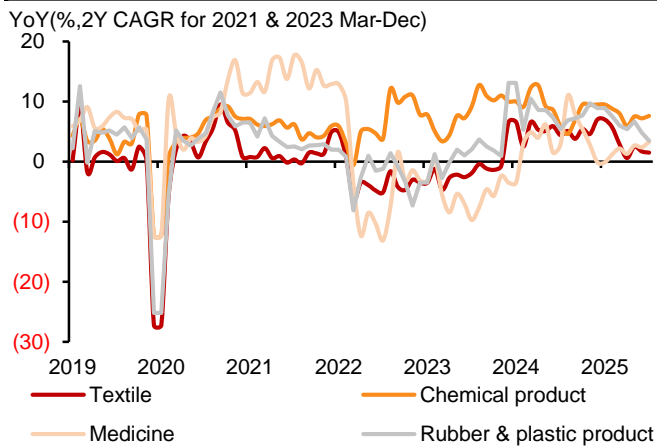
Source: Wind, CMBIGM

Figure 10: Consumer confidence

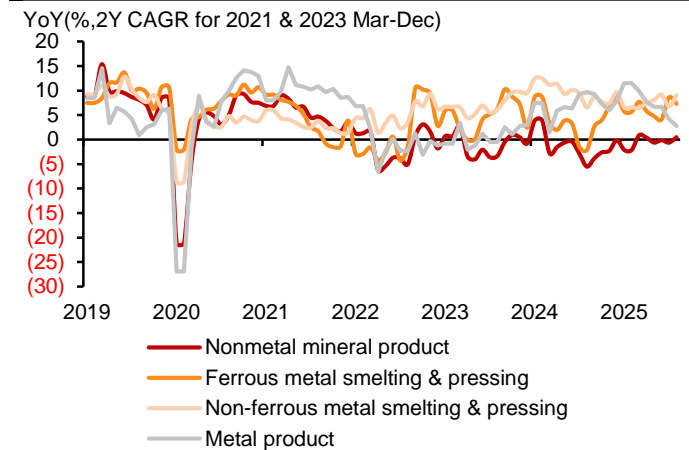
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent

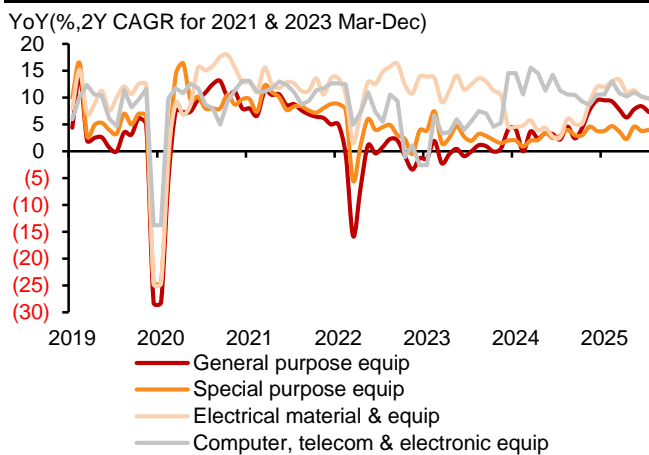
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products

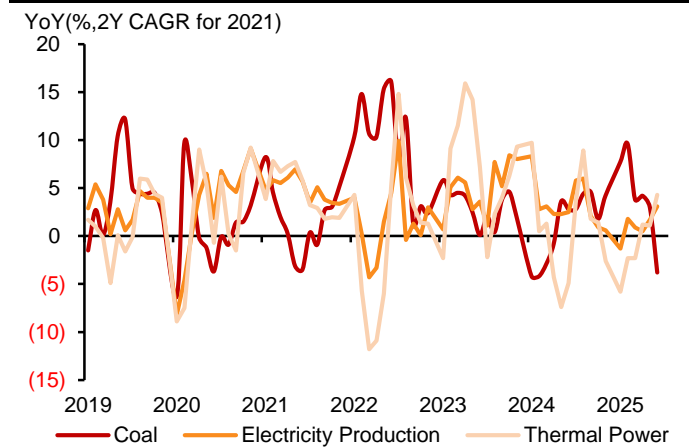
Source: Wind, CMBIGM

Figure 13: VAIO in mineral & metal products

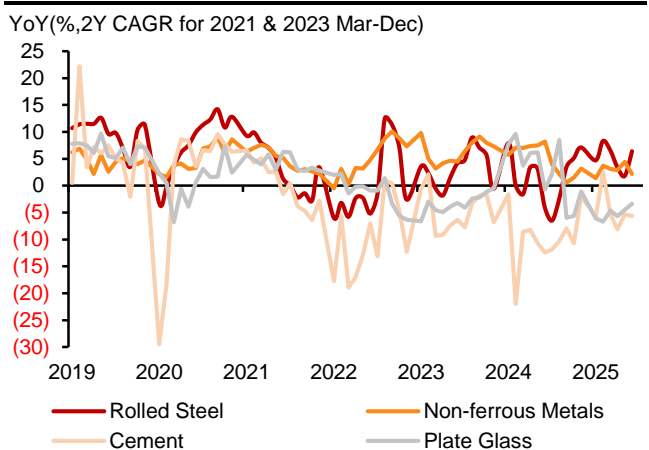
Source: Wind, CMBIGM

Figure 14: VAIO in equipment

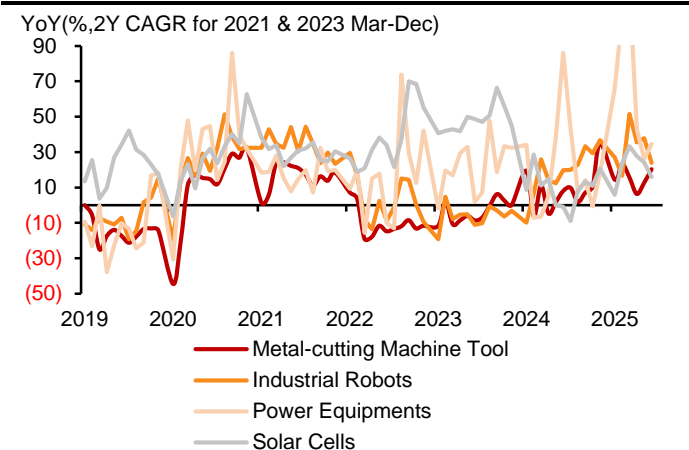
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity

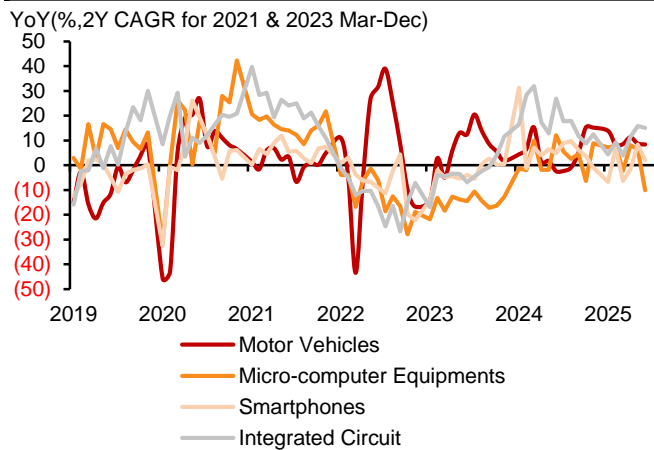
Source: Wind, CMBIGM

Figure 16: Output in steel & construction materials

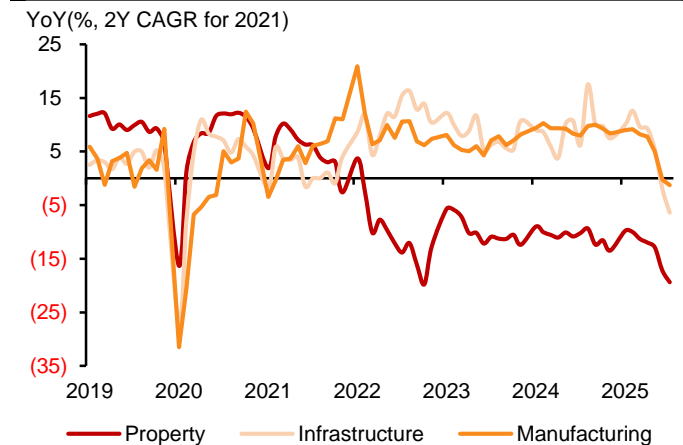
Source: Wind, CMBIGM

Figure 17: Output in capital goods

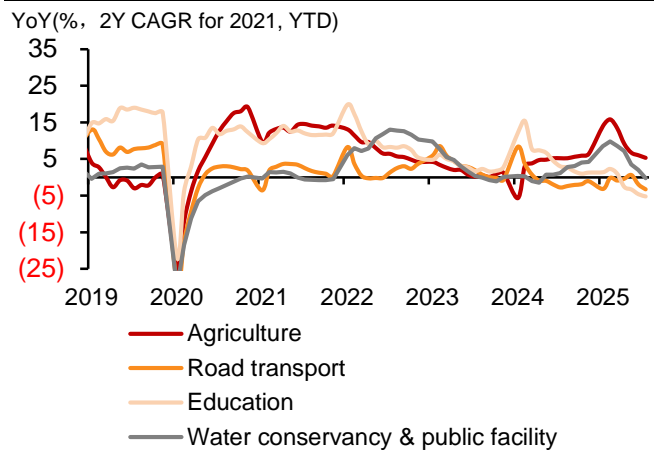
Source: Wind, CMBIGM

Figure 18: Output in autos, computers & smartphones

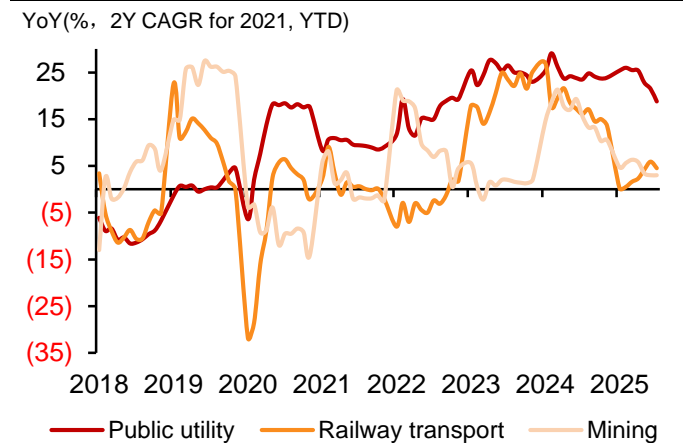
Source: Wind, CMBIGM

Figure 19: FAI by sector

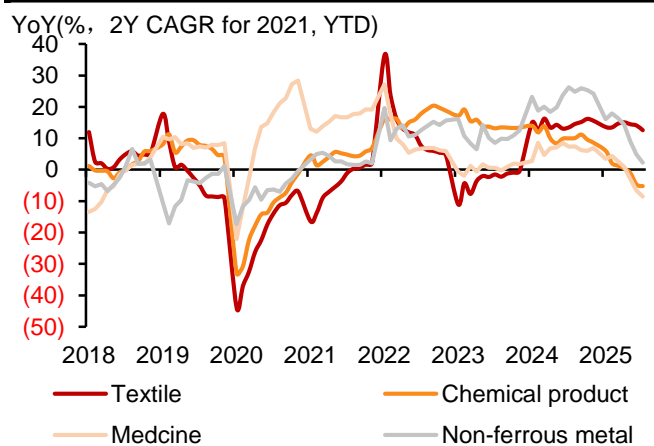
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure

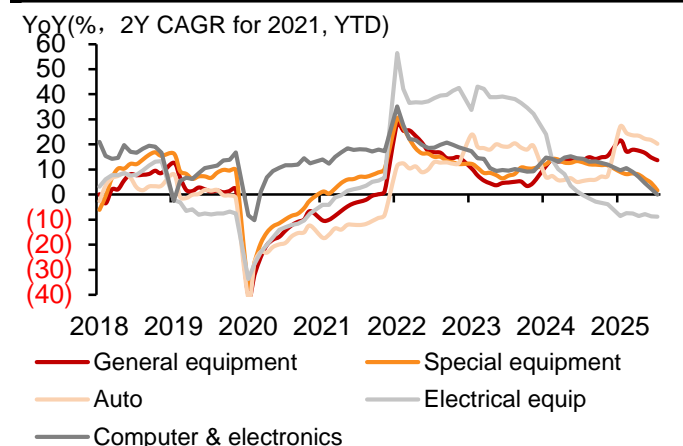
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining

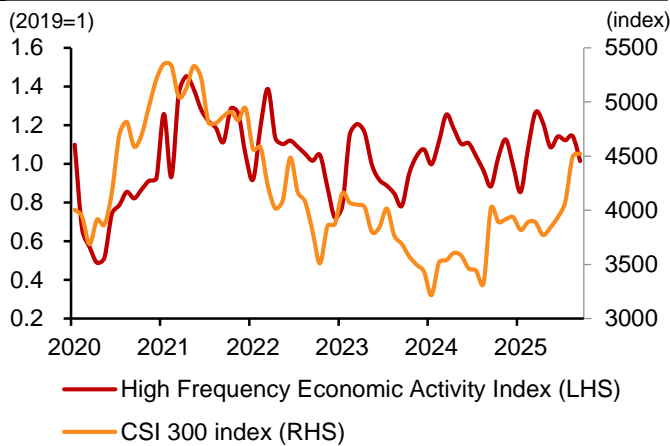
Source: Wind, CMBIGM

Figure 22: FAI in chemical products

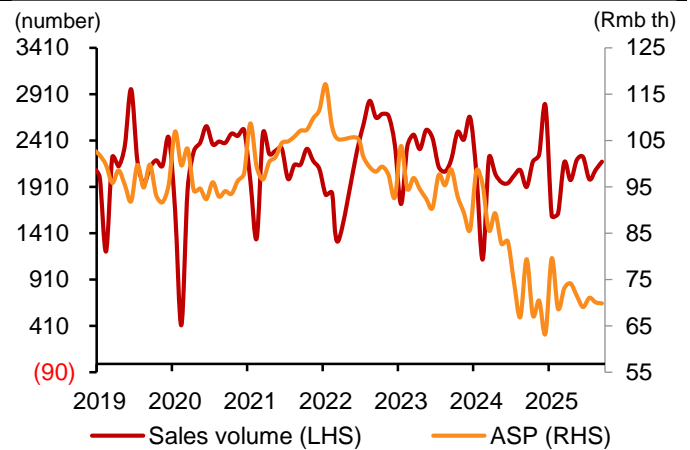
Source: Wind, CMBIGM

Figure 23: FAI in equipment

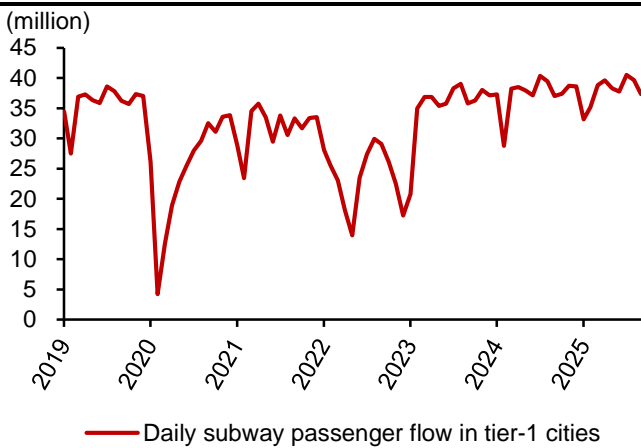
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index

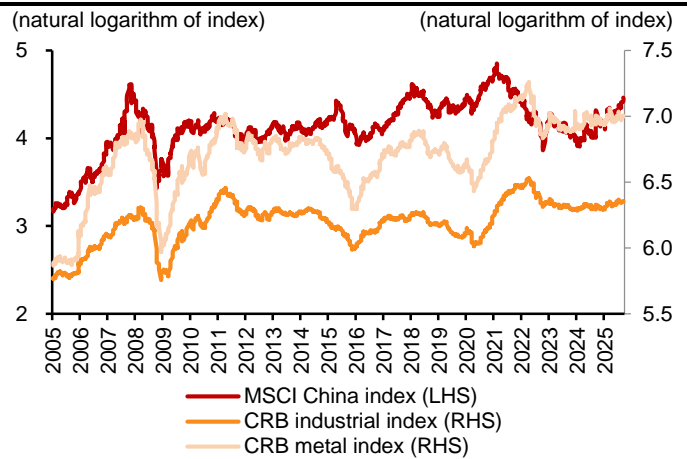
Source: Wind, CMBIGM

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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