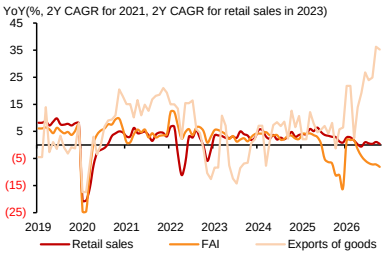
China Economy

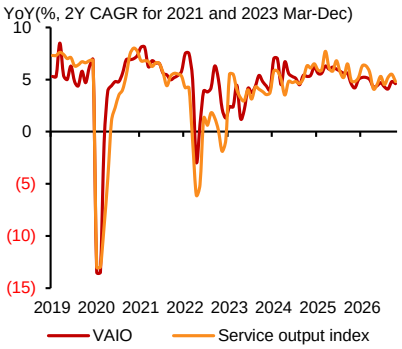
Broader slowdown in economy

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China's slowdown is broadening beyond property, as weak household consumption and fixed asset investment expose the limited spillovers from resilient technology production and exports. Holiday timing and quarter-end payback may amplify October's weakness, but subdued household balance sheet and corporate investment returns remain persistent constraints on domestic demand, as we have seen another month of negative loan flow to household and corporates. With 3Q26 GDP up 4.6%, the 4.5–5.0% annual growth target remains achievable, giving policymakers room to focus year-end support on liquidity and faster execution of existing measures. While December's policy meetings and recent Qiushi commentary point to potential 2027 household and consumption support, our base case remains modest easing, including 1Q27 RRR and LPR cuts alongside earlier fiscal spending and tweaks to consumption and housing programmes. Although these steps will lower financing costs, a durable recovery requires stronger household incomes and business cash flow, with more aggressive stimulus likely only if exports weaken alongside persistent domestic softness. We maintain our 4.6% GDP forecast for 4Q26 and full-year 2026, projecting a slowdown to 4.3% in 2027.



Source: Wind, CMBIGM



Source: Wind, CMBIGM

- **Stronger resale activities yet to stabilise new-home development.** New-property sales by floor area from NBS further fell 13.7% YTD in 10M26 compared to 13.2% in 9M26. Existing-home transactions in 11 major cities nevertheless rose 16.7% YoY in October, contrasting with a 21.2% widening decline in new-property transactions across 30 cities. Tier-1 existing-home prices rose 0.2% MoM, while prices in tier-2 and tier-3 cities each fell 0.3%. The resale recovery indicates that housing demand has not disappeared, but its direct contribution to developers' funding and new construction is limited. Developer funding contracted 21.9% in 10M26, while deposits and advance payments fell 15.5%, and mortgage receipts declined 22.1%. With new starts and completions down 24.4% and 26.6% YTD, the construction pipeline continues to shrink. We expect targeted completion funding and inventory reduction to remain policy priorities, while a broad recovery in property investment still requires stronger new-home sales and more reliable developer cash flow.
- **Calendar and price effects amplified an already weak consumption trend.** Retail sales growth slowed to 0.4% YoY in Oct from 1.1%, coming in under market expectation at 1.1%, with seasonally adjusted sales rising just 0.02% MoM. Growth slowed in 12 of 15 tracked goods categories, but some holiday spending shifted into September, while jewellery sales fell 28.7% amid price correction and a high comparison base. Auto sales remained deeply negative at −21.4%, subtracting approximately 1.9ppt from headline growth by our calculation. Sales excluding autos also slowed to 2.5% from 3.9%. Telecom-equipment sales growth dropped to 6.5% from 31.1% despite rising electronics prices, suggesting that higher component prices may benefit suppliers while discouraging consumer upgrades. Services retail sales remained stronger at 4.9% YTD, although catering's October slowdown to 0.7%. Smaller base a year earlier should help headline growth in Nov and Dec, but the underlying household demand should remain soft as consumer confidence edged down due to weak household wealth effect and employment condition.
- **Investment weakness extended beyond property.** FAI contracted 8.1% YTD, widening from 7.2%, below market expectations at 6.9%, while its YoY growth further dropped to -16.1% from -7.2%. Property, manufacturing and infrastructure investment further dropped 33.4%, 9.3% and 17.6% YoY in

Oct from 26.2%, 0.9% and 10.5%. Computer and electronics investment grew 9.9%, but auto investment fell 7.9%, road investment declined 10.9% and water-conservancy investment fell 16.7%. Private investment contracted excluding property further dropped to -7.8% in 10M26 from -6.7%, pointing to weak expected demand and returns across wider range of businesses. The RMB800bn policy-financing programme was fully deployed by 28 October, providing project capital that can support subsequent lending and construction. Therefore, it is too early to judge its full effect in October. We expect project execution to improve in the remaining months of the year, but financing availability alone will not generate a broad private investment recovery as corporates sales prospects and cash collection remain uncertain.

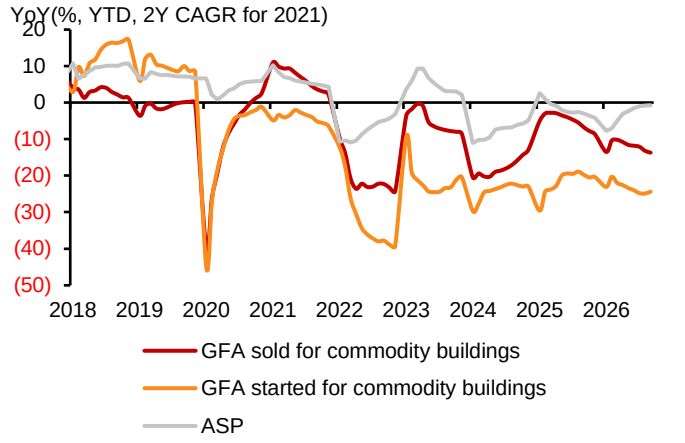
- **Industrial output slowed despite cushion from technology products.** Industrial output growth slowed to 4.8% YoY in Oct from 5.5%, below market expectations at 5.3%. Manufacturing, public utility and mining eased to 5.4%, 4.4% and 0.7% from 6.0%, 5.6% and 1.3% YoY. High-tech manufacturing nevertheless expanded 17.6%, and computer, communication and electronics value added accelerated to 19.4% from 16.4%. Integrated-circuit and industrial-robot output rose 21.9% and 26.0%, driving nominal export-delivery growth strengthened to 18.6% from 17.0%. But manufacturing remains highly differentiated, as auto manufacturing value-added growth slowed to 0.9% from 6.7%. Non-metal mineral product, ferrous metal and non-ferrous metal smelting & pressing remained soft. Service-output growth eased to 4.6% from 4.8%.
- **Government financing lifted TSF while household deleveraging deepened.** New TSF reached RMB1.14trn in Oct, up approximately 40% YoY, with outstanding growth edging up to 7.2% from 7.1%. Government-bond financing of RMB1.18trn exceeded total new TSF, leaving other financing channels slightly negative on net. New RMB loans contracted RMB100bn, as both household and corporate loans saw negative flows. Household loans nevertheless fell RMB430bn, including RMB270bn and RMB156bn in short and longer-term borrowing, signalling continued weakness in consumption and housing demand. Corporate medium- and long-term lending improved to RMB160bn from RMB30bn a year earlier, although a RMB312bn decline in bill financing accounted for much of the corporate-loan weakness. M1 growth, on the other hand, rebounded from 3.2% to 4.4% in Oct, showing tentative signs of improving economic activities. Backloaded government issuance should support TSF through year-end, and we expect modest RRR and LPR cuts in 1Q27 due to the credit weakness.
- **The slowdown raises the case for modest easing in early 2027.** With GDP up 4.6% in 3Q26, the 4.5–5.0% annual growth target remains achievable, while strong exports and recently deployed financing give policymakers time to assess existing measures. We expect year-end support to centre on faster execution on current measures and liquidity provision. December's policy meetings could signal stronger demand support for 2027, as we have seen some early discussions of stronger social protection and household income support to boost consumption in recent "Qiushi" commentary. However, our base case is still a modest easing and incremental adjustment, including RRR and LPR cuts in 1Q27 and earlier fiscal spending and adjustments to existing consumption and housing programmes. These measures should reduce financing and debt-servicing costs, but a durable recovery also requires stronger household incomes and better business cash flow. A stronger response would become more likely if export support faded alongside persistent domestic weakness. We retain our 4.6% forecasts for both 4Q26 and 2026, while expecting GDP to further slow down to 4.3% in 2027.

Figure 1: China's economic indicators

YoY(%)	2020-2021	2022-2023	2024	2025	4Q25	1Q26	2Q26	3Q26	Sep	Oct
GDP	5.3	4.1	5.0	5.0	4.5	5.0	4.3	4.5		
GDP Deflator	2.5	0.7	(0.8)	(0.9)	(0.6)	(0.1)	1.5	1.4		
VAIO	6.1	4.1	5.8	5.9	5.0	6.1	4.6	5.1	5.5	4.8
-Mining	2.9	4.8	3.1	5.6	5.4	5.7	1.3	(1.4)	1.3	0.7
-Manufacturing	6.6	4.0	6.1	6.4	5.1	6.0	4.8	5.9	6.0	5.4
-Public utility	6.6	4.6	5.3	2.3	3.5	3.5	6.8	5.2	5.6	4.4
Delivery value for exports	8.3	0.7	5.1	2.2	1.0	8.1	11.3	12.1	17.0	18.6
Service output index	6.3	3.9	5.2	5.5	4.6	5.0	4.5	4.4	4.8	4.6
Retail sales	4.0	3.4	3.5	3.7	1.7	2.3	0.2	0.7	1.1	0.4
Exports of goods	15.9	0.3	5.8	5.4	3.7	14.7	20.1	28.4	36.3	35.2
Imports of goods	13.7	(2.4)	1.0	0.3	3.7	23.6	29.4	29.0	31.0	41.6
Urban FAI (YTD)	3.9	4.0	3.2	(3.8)	(3.8)	1.7	(5.7)	(7.2)	(7.2)	(8.1)
-Property development	5.7	(9.8)	(10.6)	(17.2)	(17.2)	(11.2)	(18.0)	(20.6)	(20.6)	(21.6)
-Manufacturing	5.4	7.8	9.2	0.6	0.6	4.1	(1.2)	(2.1)	(2.1)	(2.9)
-Infrastructure	1.8	9.9	9.2	(1.5)	(1.5)	9.2	(2.4)	(6.1)	(6.1)	(7.3)
GFA sold for commodity building (YTD)	2.2	(16.8)	(12.9)	(8.7)	(8.7)	(10.4)	(11.6)	(13.2)	(13.2)	(13.7)
GFA started for commodity building (YTD)	(6.4)	(30.5)	(23.0)	(20.4)	(20.4)	(20.3)	(23.4)	(24.9)	(24.9)	(24.4)

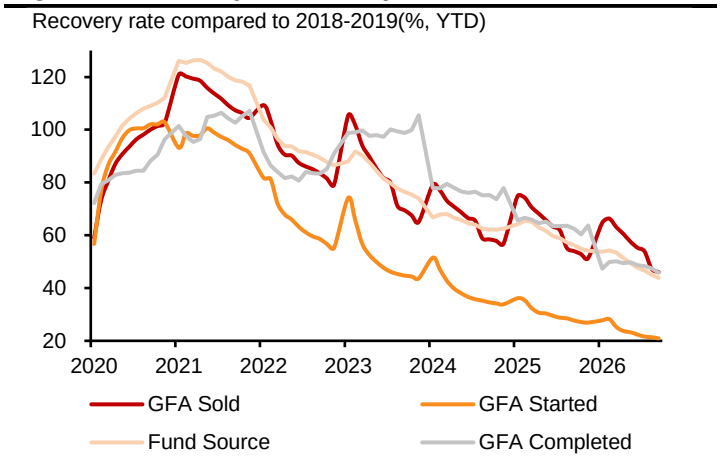
Source: Wind, CMBIGM estimates

Figure 2: Property sales growth



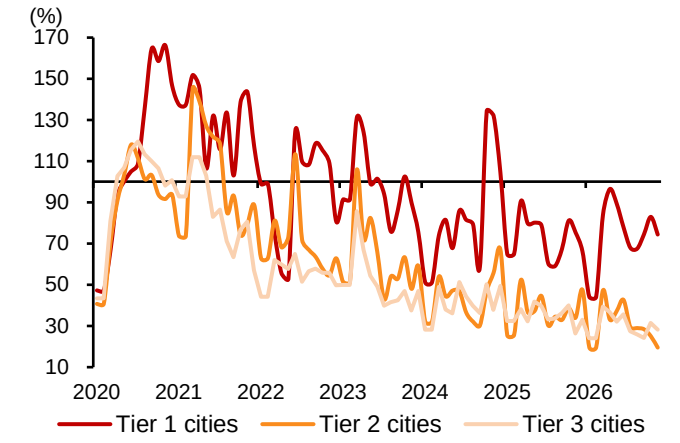
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019



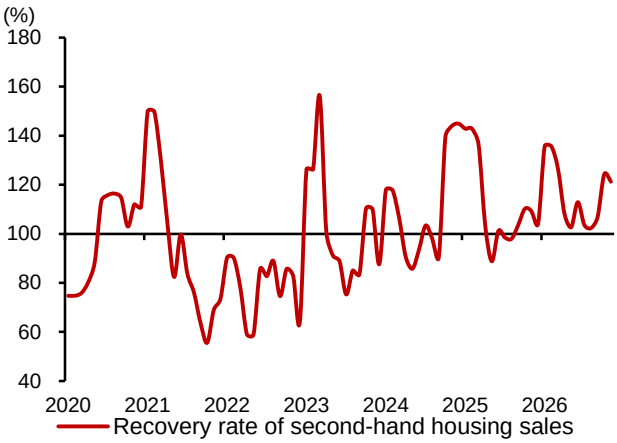
Source: Wind, CMBIGM

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



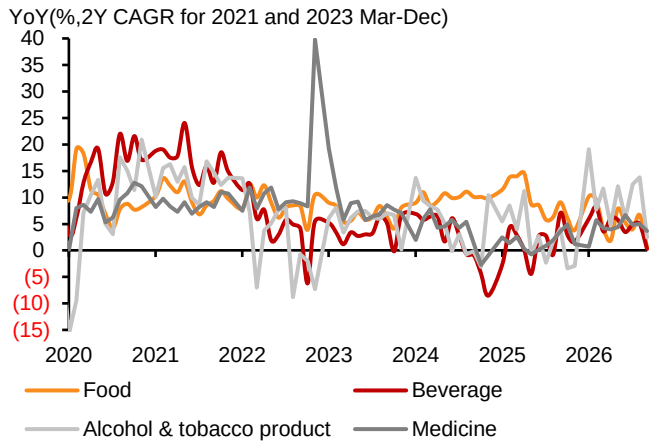
Source: Wind, CMBIGM

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



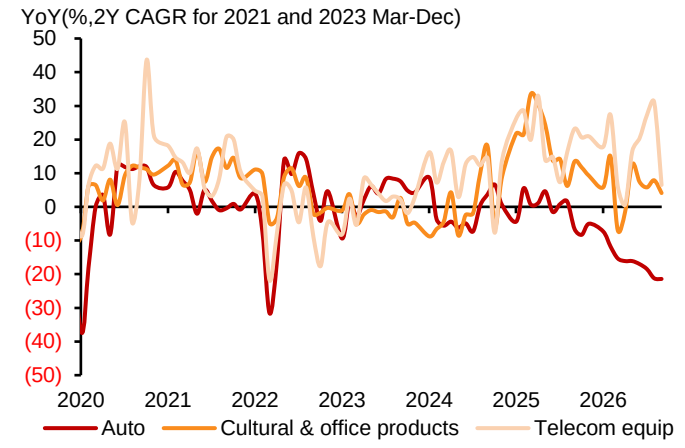
Source: Wind, CMBIGM
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples



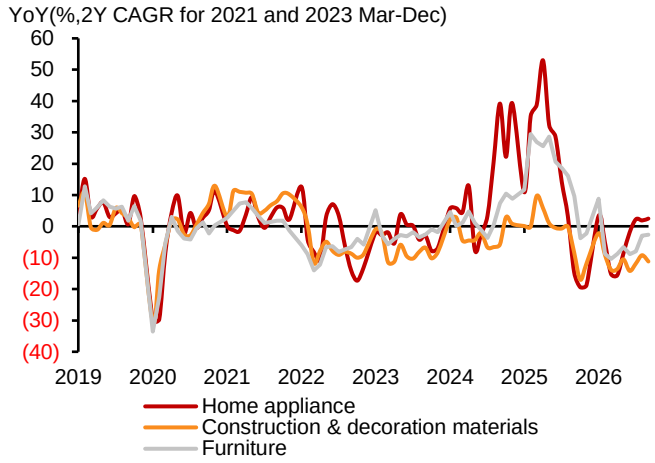
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics



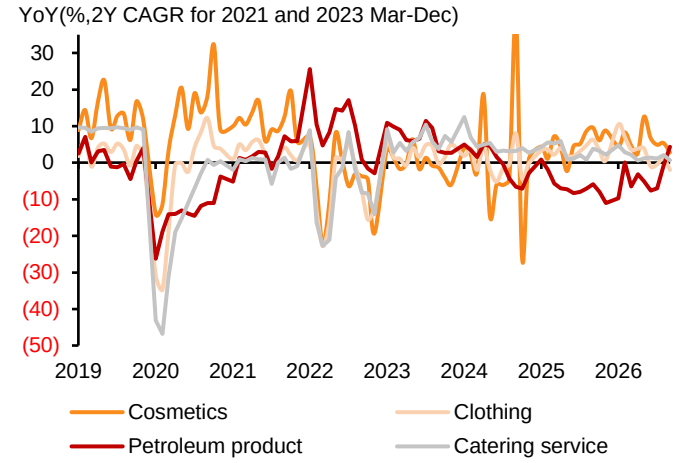
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales



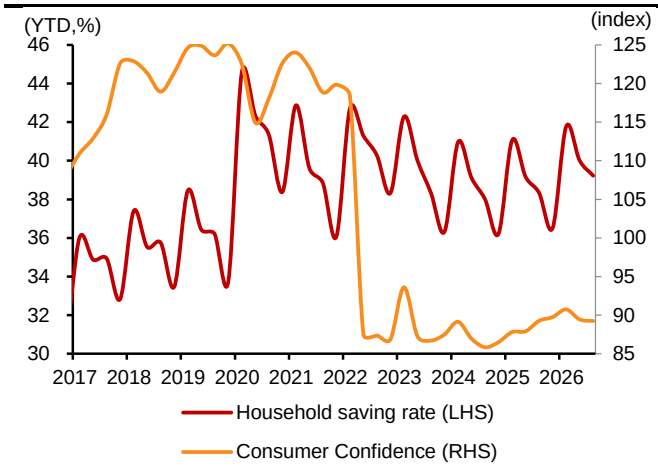
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities



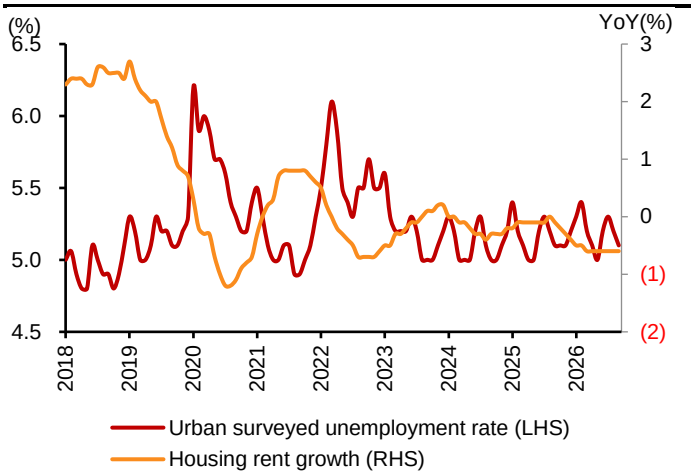
Source: Wind, CMBIGM

Figure 10: Consumer confidence



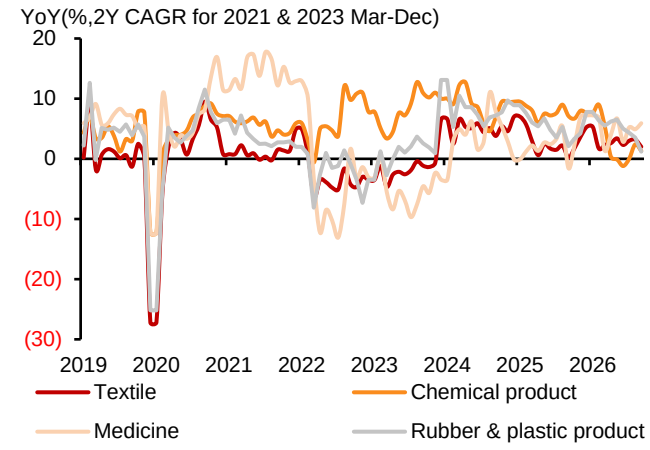
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent



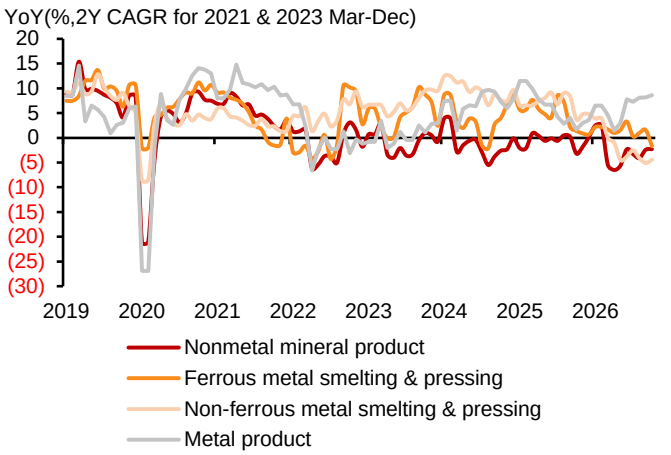
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products



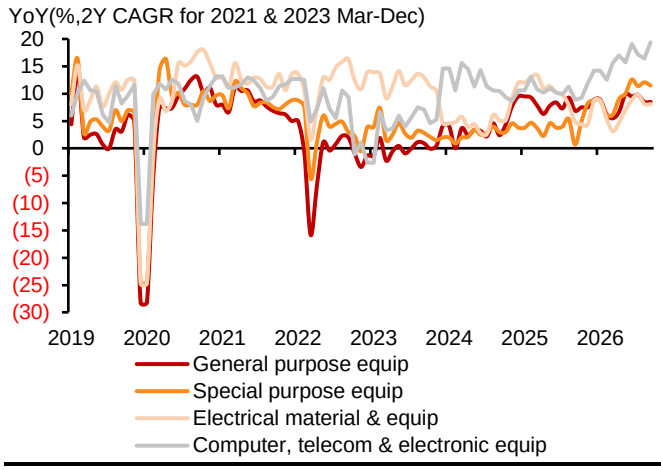
Source: Wind, CMBIGM

Figure 13:VAIO in mineral & metal products



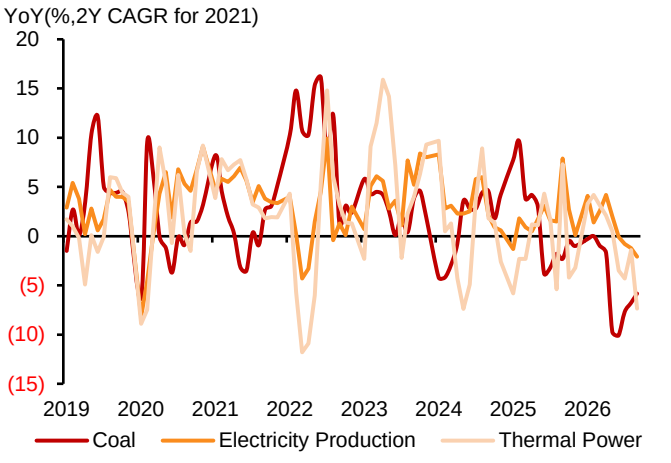
Source: Wind, CMBIGM

Figure 14: VAIO in equipment



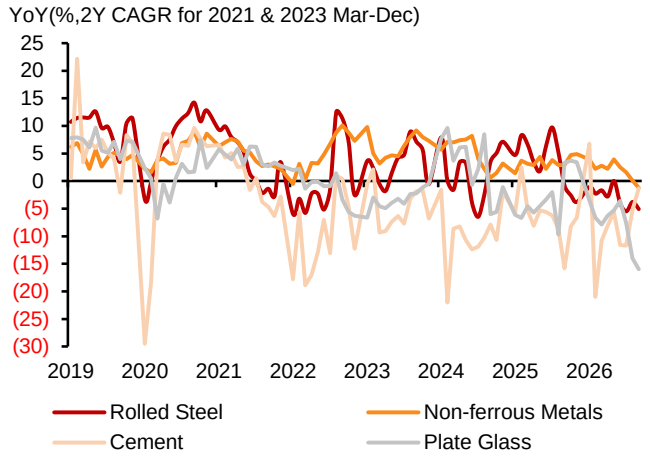
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity



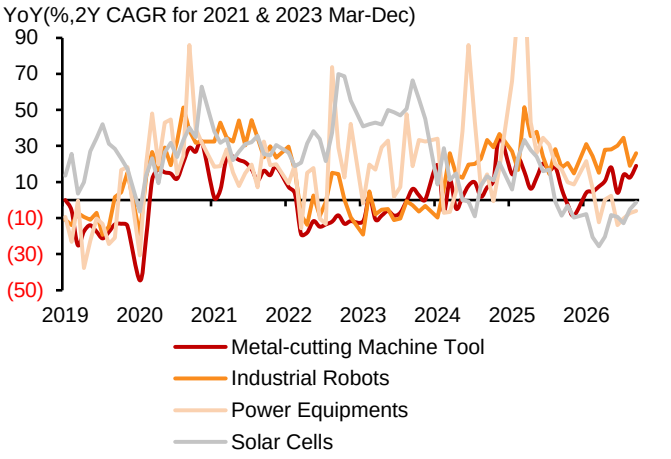
Source: Wind, CMBIGM

Figure 16: Output in steel & construction material



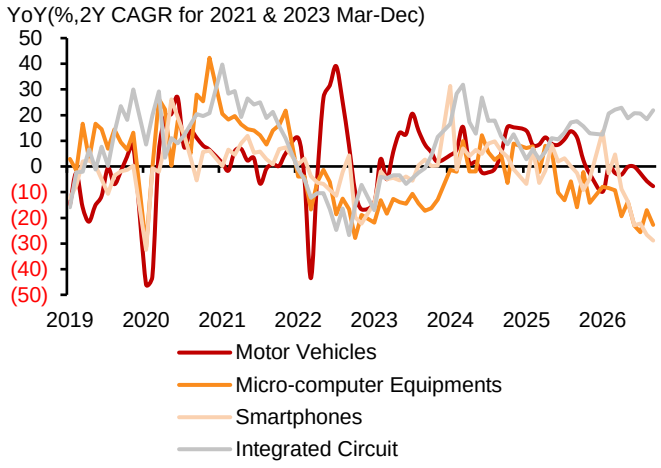
Source: Wind, CMBIGM

Figure 17: Output in capital goods



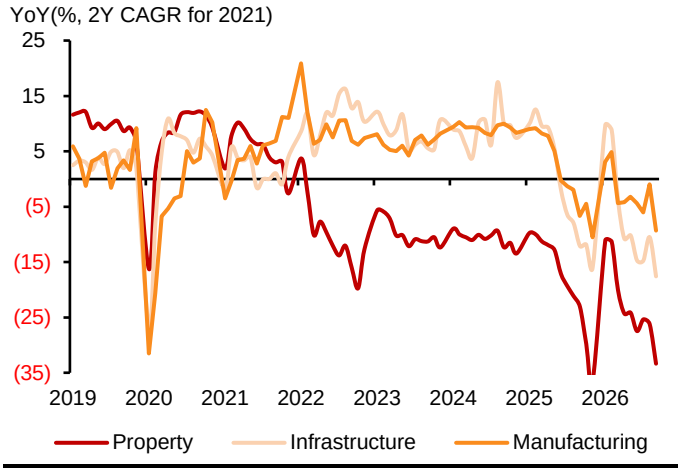
Source: Wind, CMBIGM

Figure 18:Output in auto, computer & smartphone



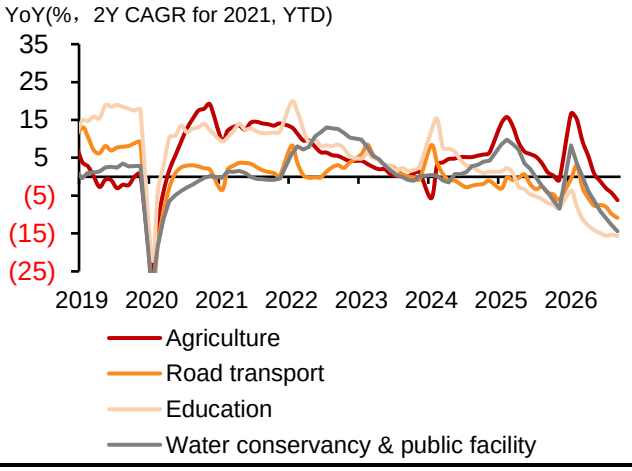
Source: Wind, CMBIGM

Figure 19: FAI by sector



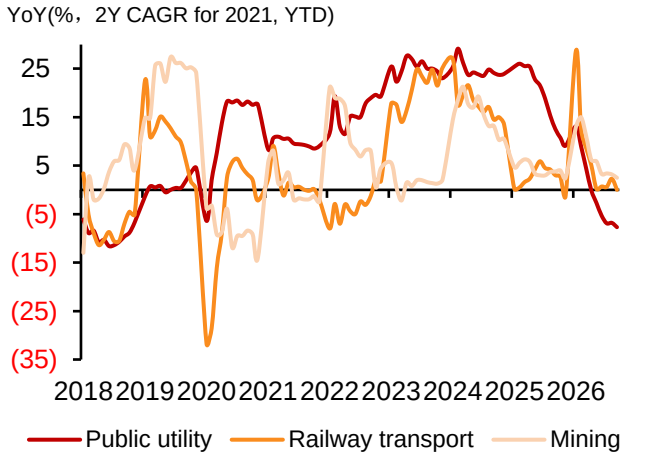
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure



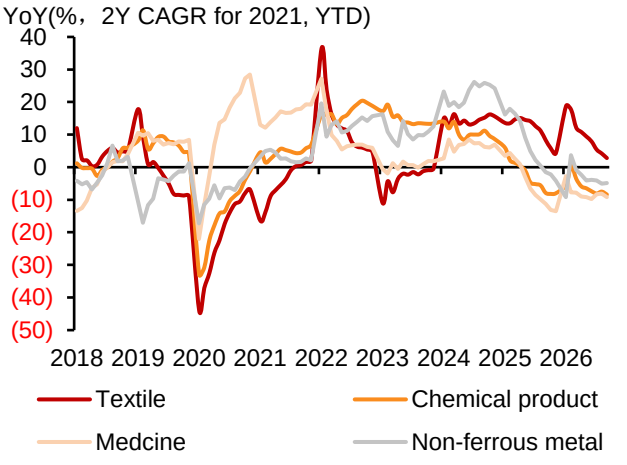
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining



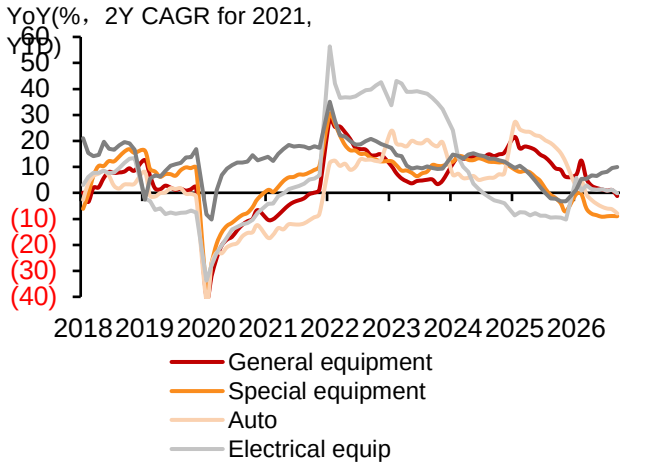
Source: Wind, CMBIGM

Figure 22: FAI in chemical products



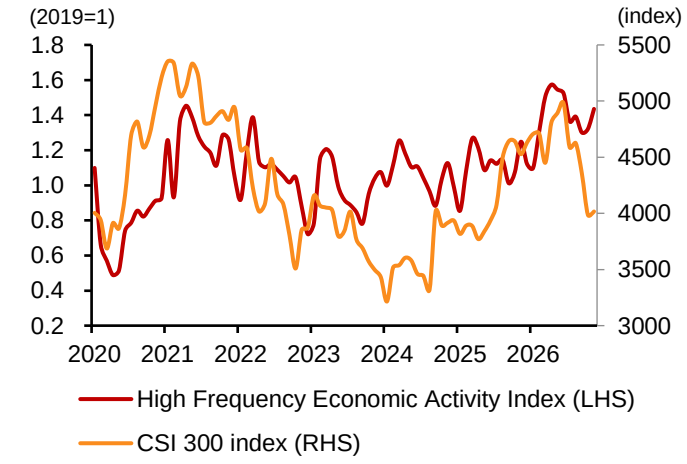
Source: Wind, CMBIGM

Figure 23: FAI in equipment



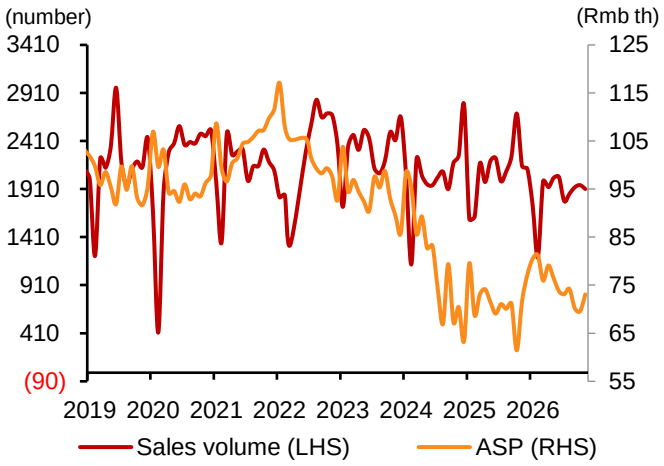
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index



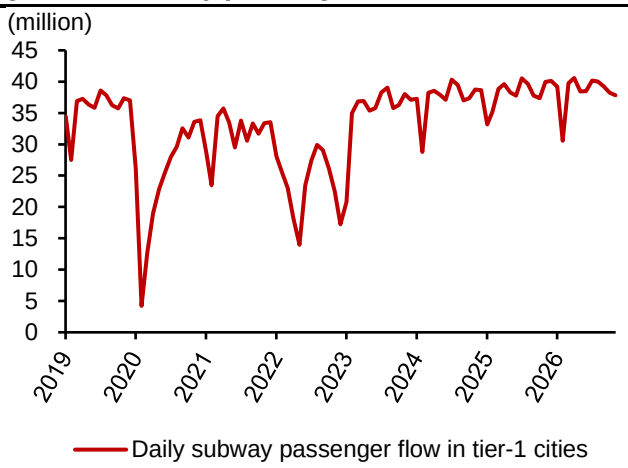
Source: Wind, CMBIGM

Figure 25: Used vehicle sales in Shanghai market



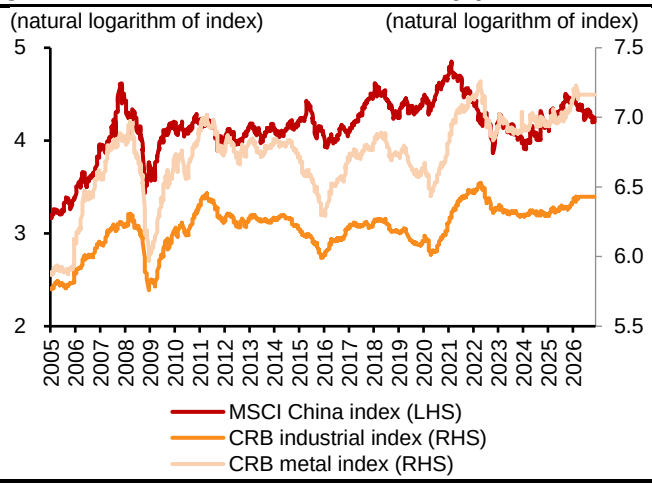
Source: Wind, CMBIGM

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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