

China | Economic activities have continued sliding

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Today, China's National Bureau of Statistics (NBS) announced the October economic activity indicators, which showed continuing sliding. Similar to the previous month, all of these activity indicators are below the previous month's readings and the market consensus amid the weak market sentiments. And fixed asset investment (FAI) and retail sales further declined to historical low since Covid-19 pandemic.

These weak economic activity figures in the past several months combined suggest that after the external shock from China-US trade war almost settled after China-US four rounds negotiations and Xi-Trump Busan meeting, domestic risks have surged to become the prime factor that lead to growth slowdown.

Chief among these domestic risks remains the housing market crash, in which we have not observe any bottomed-out signals yet. As housing sector and its related upstream and downstream sectors take account around 20% of total GDP, the authorities need to take effect to make sure its soft-landing in the future. In addition, weak consumption also remains the main drag of growth slowdown. Although the authorities have promoted its "trade-in old durable goods" program etc. based on expansionary fiscal policy, it seems like not enough to reverse the current weak sentiments of households as their income growth and income expectation have weakened since 2021 regulatory storms. Other domestic risks also include overcapacity and long-lasting deflationary environment which have been caused by long-lasting demand-supply mismatch.

The authorities are expected to unveil more stimulative measures to reverse the market sentiments in the next year amid rising domestic risks. On the other hand, as 1H GDP already reached 5.3% and Q3 GDP achieved 4.8%, it is easy to get the authorities' 5% growth target if Q4 GDP grew above 4.5%. Thus, we raise our 2025 GDP forecast from 4.8% previously to 5%, in line with the target, and maintaining 2026 GDP forecast at 4.5%.

From the perspective of long-term policy outlook, the 15th Five-Year Plan (2026-2030) has been approved recently, which sketches the blueprint of the economic and social development of the next five years aiming for achieving "socialist modernization" in 2035. Although it is a comprehensive economic and social plan, we believe the plan is still emphasizing supply side, such as self-sufficient tech, national security and industrial modernization and less on demand side. That means, going forward, supply-demand mismatch issue will continue, so will the deflationary environment.

Below we include the analyses in more details regarding the 2025 October economic activities:

On the supply side, the year-on-year growth of industrial production decelerated to 4.9% from 6.5% in the previous month, lower than the market consensus at 5.5% y/y; its seasonal adjusted m/m growth decelerated to 0.17% m/m from 0.64% m/m in the previous month after the backwards adjustment by the NBS.

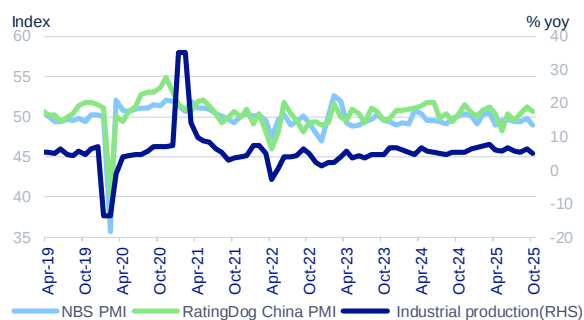
By categories, the pillars of China's industrial production in October is hydroelectricity which grew by 28.2% y/y, following that is EV production, which grew by 19.3%, in line with the policy initiatives of 2060 carbon neutrality target and the national policy support of high-end manufacturing. Beyond these high-growth sectors, the main drag is steel which dipped to -12.1% and cement at -15.8% y/y amid housing market slowdown.

On the demand side, retail sales decelerated to 2.9% y/y from 3% y/y (consensus: 2.7%) in the previous month, which continues to display an unbalanced supply and demand structure. That means, although the authorities are continuing to promote "trade-in old durable goods" program, its effectiveness to comprehensively support consumption recovery is still not significant due to weakening income growth and income expectation as well as high unemployment rate in young age group. However, a probably good signal is that its month-on-month growth accelerated to 0.16% m/m from -0.12% m/m in the previous month. By component, the largest growth is jewelry by 37.6% y/y and communication equipments by 23.2% y/y.

Also from the demand side, fixed-asset investment (FAI) further decelerated to -1.7% ytd y/y from -0.5% ytd y/y in the previous month (market consensus: -0.8% ytd y/y), the historical low since Covid-19 pandemic. while its month-on-month growth remained negative at -1.62% m/m from -0.9% m/m in the previous month.

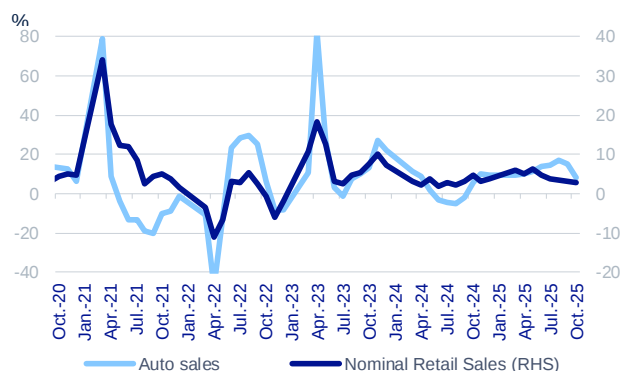
By components, the largest drag of FAI remained the sluggish housing investment, which further expanded its decline to -14.7% ytd y/y. That means, China's housing market still has not bottomed out yet. On the other hand, infrastructure FAI which is supported by easing fiscal measures also decelerated to -0.1% ytd y/y due to the deleveraging campaign and not sufficient fiscal stimulus, while the manufacturing FAI remained the leading role of investment but slowed to 2.7%, dragged by the "anti-involusion" campaign. On the other hand, the multiplier effect from public FAI to private FAI is still very weak, dragged by weak sentiments of private enterprises after experiencing 2021 regulatory reforms and the ongoing housing market crash. (Figure 4)

Figure 1: Industrial production slowed down amid deleveraging campaign



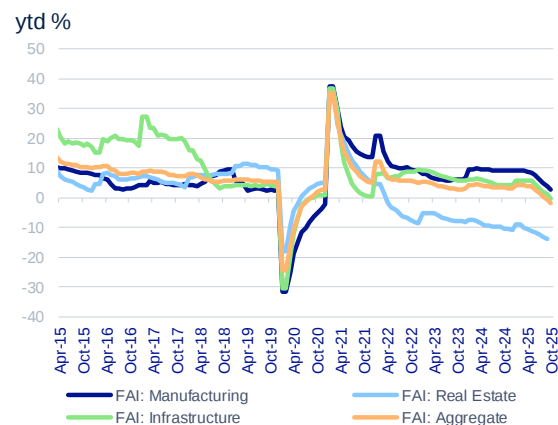
Source: CEIC and BBVA Research

Figure 2: Retail sales decelerated significantly due to weak sentiments



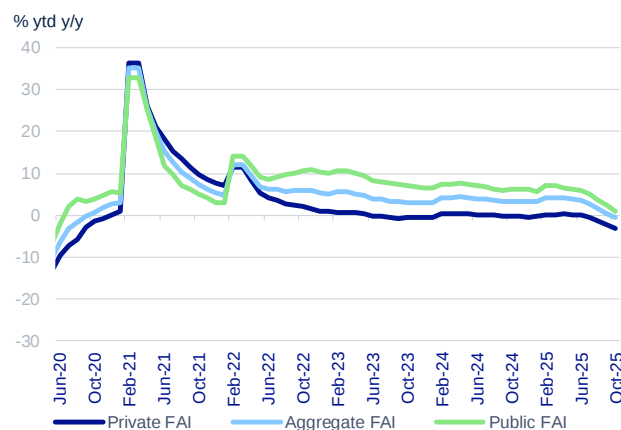
Source: CEIC and BBVA Research

Figure 3: Fixed asset investment declined to historical low dragged by housing market



Source: CEIC and BBVA Research

Figure 4: The multiplier effect from public FAI to private FAI remains weak



Source: CEIC and BBVA Research

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