

China: Slipping momentum amid policy uncertainty

China/Economics

DBS Group Research

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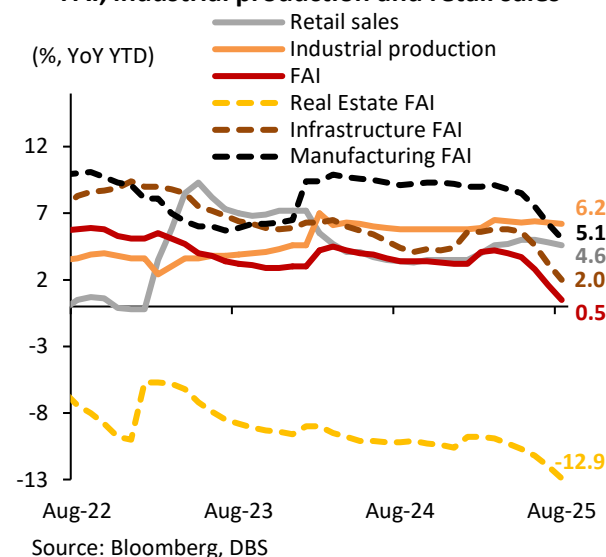
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- August data show weakening domestic and external demand.
- Trade outlook is hampered by US transshipment tariffs.
- Corporates are scaling back production under the “anti-involution” campaign.
- Household sentiment remains under pressure from weak job prospects and slowing income growth.
- Corporates are cautious on investment and borrowing against this backdrop.
- **Implications for forecast:** We expect additional 10bps LPR and 50bps RRR cuts to support growth in 2H.

August’s data prints signalled a broad-based slowdown in the economy. Industrial activities slowed as both external and domestic demand weakened, while overcapacity weighed further. Investment and credit demand stayed subdued, pressured by the capacity reduction campaign and ongoing property stress. Trade tensions continue to pose downside risks, underscoring the need for timely policy support.

FAI, industrial production and retail sales



Exports

Export growth slowed from 7.7%yoy in July to 4.4% in August, as front-loading cooled. Exports to the US fell 33.1% YoY. The 40% transshipment tariffs have already hit US trade partners, with exports to Latin America seeing a 2.3% decline. **Trade outlook remains uncertain, although China-US trade talks are continuing, with Trump-Xi meetings around the corner.**

Retail sales

Retail sales growth eased to 3.4% YoY in August, down from 3.7% in July, despite subsidies for durable goods such as appliances and electronics. **Household sentiment remains weak amid poor job prospects, slowing income growth, and elevated precautionary savings.** Declining property prices continue to offset any wealth effect from equities. Consumption demand is likely to remain subdued.

Industrial production

Aside from moderated domestic and external demand, industrial activity is also constrained by overcapacity. Industrial production growth slowed from 5.7%yoy in July to 5.2%yoy in August. Corporates are scaling back production under the “anti-involution” campaign. Growth in NEVs, robotics, and tech hardware also lost momentum. Industrial profits fell for the third consecutive month as utilization rates declined.

Fixed asset investment (FAI)

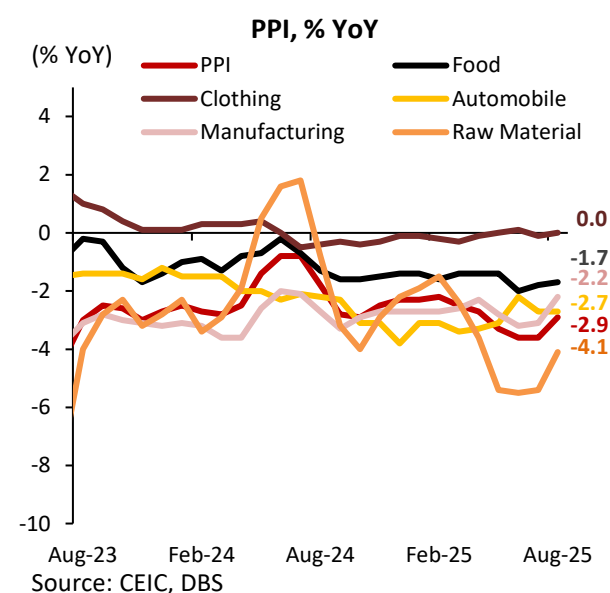
Against this backdrop, corporates turned cautious on capital expenditure. FAI growth slowed to its weakest pace since the 2020 COVID lockdowns, easing from 1.6% YoY YTD in July to 0.5% in August. Private FAI contracted further from -2.0% YoY in July to -2.3% in August. State-led investment also cooled, particularly in infrastructure and tech hardware. Meanwhile, foreign direct investment plunged 15.4%, extending 26 months of contraction. Corporates are perhaps becoming hesitant to invest in China amid persisting trade tensions.

Property investment

Real estate sector remained as a major drag with investment falling -12.9%yoy YTD, compared with -12.1%yoy in July. Developers focused on completing unfinished projects, but residential inventory amounting to about 26 months of turnover have been keeping property prices under pressure.

Inflation

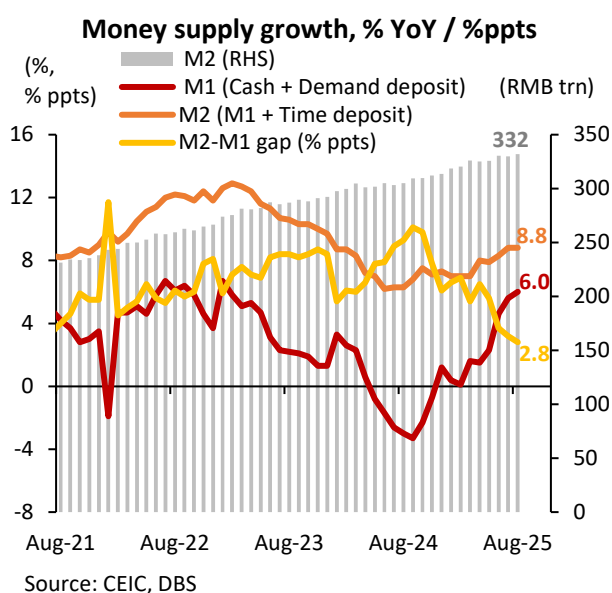
Slowing production led to narrowed producer prices, from -3.6%yoy to -2.9%yoy in August. On a MoM basis, PPI stabilised after eight straight months of decline. On consumer side, CPI dropped 0.4%yoy, largely dragged by food prices. Core inflation, however, accelerated for the fourth straight month to 0.9%yoy. Looking ahead, both PPI and CPI should stay soft amid weakened aggregate demand.



Loan and deposit

Monetary data also pointed to caution. Outstanding loan growth slipped to a two-decade low of 6.8%yoy in August. Both corporate and household mid- to long-term

loans fell, reflecting early repayments. The M1–M2 gap further narrowed from 3.2%ppt in July to 2.8%ppt in August. The rise in M1 growth was available to lead to A-shares market uptrend. However, weak credit data suggests that incremental liquidity has yet to fully transmit into the real economy.



Looking ahead

China's 2H outlook is challenging. Exports face tariff headwinds, the property downturn weighs on household confidence, and consumption stays weak despite equity gains. The PBoC is likely to maintain an accommodative stance to reduce borrowing costs and support reinvestment. **We anticipate another 10bps reduction in 1-year Loan Prime Rate in 2H25.** The central bank is also likely to continue easing through quantitative measures, having already injected RMB1.7trn into the financial system via open market operations last quarter. Reportedly, Beijing is planning to inject another CNY1trillion for financing the local government backlog through state and policy banks.

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