Economic Research Department

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Economic QuickView

Chinese Mainland Economy: Moderating momentum calls for stronger supportive measures

- The Chinese Mainland monthly economic indicators mostly moderated in August.
- Exports accelerated, while industrial production, retail sales and investment softened.
- Mainland authorities are actively implementing and enhancing the macro-policies to boost domestic demand, ensuring a steady growth outlook ahead.

The Chinese Mainland economy grew steadily in August. Extreme weather conditions like high temperatures and heavy rainstorms continued to cause disruption to economic activity in August, leading to moderating growth for most monthly economic indicators. That said, Chinese Mainland exports have maintained solid growth since 2024, resulting in widening trade surpluses to provide notable tailwinds for the economy. On balance, the Chinese Mainland economy maintained stable momentum in August, despite moderating domestic demand.

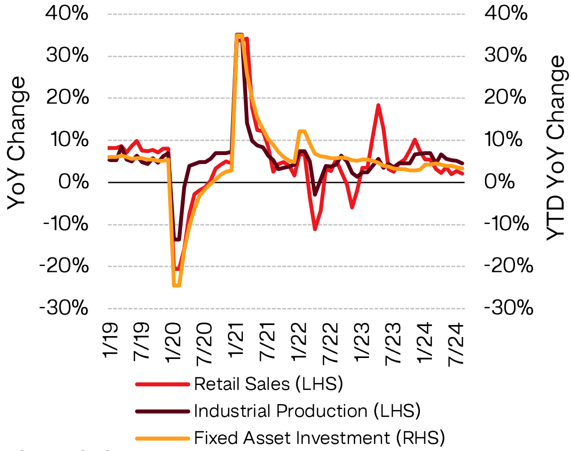
Robust exports lifted industrial production. The value-added by industrial enterprises grew by 4.5% year-on-year (YoY) in August, down from 5.1% in July. The slowdown reflected high base effects from a year ago, a production halt due to adverse weather conditions as well as insufficient market demand in several sectors. Meanwhile, external demand for Chinese goods remained strong, with merchandise exports accelerating from 7.0% YoY in July to 8.7% in August. Moreover, advanced manufacturing in Chinese Mainland continued to outperform, with equipment and high-tech manufacturing surging by 6.4% YoY and 8.6% in August (after 7.3% and 10.0% in July), respectively. With the support from a vast domestic market, industrial production is likely to sustain stable growth ahead.

Consumer demand has yet to recover meaningfully. Growth of total retail sales softened from 2.7% YoY in July to 2.1% in August. Retail sales of services remained resilient, growing by 6.9% YoY in

January – August (7.2% for January – July). This reflected buoyant summer travel demand, driven by discounts for a wide range of cultural & entertainment activities. However, the details of retail sales of goods showed divergent trends, with merely half of the 16 major product categories posting growth in August. This revealed that consumer confidence still needs to be boosted further. In connection, Mainland authorities have repeatedly highlighted a policy focus on expanding domestic demand by increasing consumer spending. Relevant policy supports have been intensified. Furthermore, provincial and local governments are recently optimising their trade-in policies to promote the trade-in of consumer goods. With stronger policy support, consumer demand is set to be unleashed further, solidifying the foundation for consumption recovery.

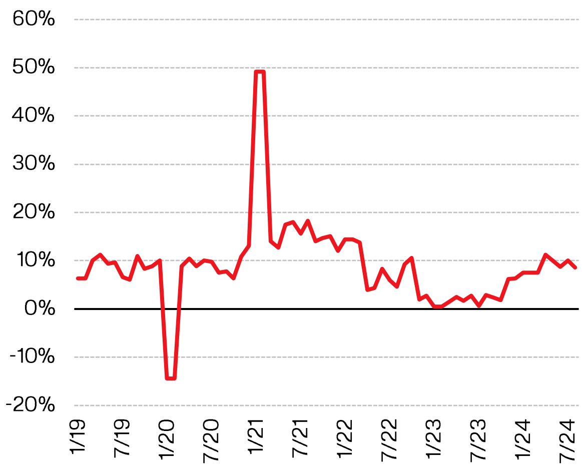
Investment slowed further amid extreme weather conditions. Growth of total FAI eased to 3.4% YoY in January – August from 3.6% in January – July, as high temperatures and heavy rainstorms delayed the progress of key development projects. Notably, infrastructure investment expanded at a slower pace, from 5.4% YoY in January – June to 4.9% in January – July, and then to 4.4% in January – August. However, fiscal policy has become more supportive, with a significant increase in government bond issuances in August to fund public investment, particularly in projects to implement major national strategies and build up security capacity. Moreover, manufacturing investment, driven by the push for industrial upgrades and green technology, remained robust, growing by 9.1% YoY in January – August (9.3% in January – July). This reflects continued demand for advanced equipment and green technology.

Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

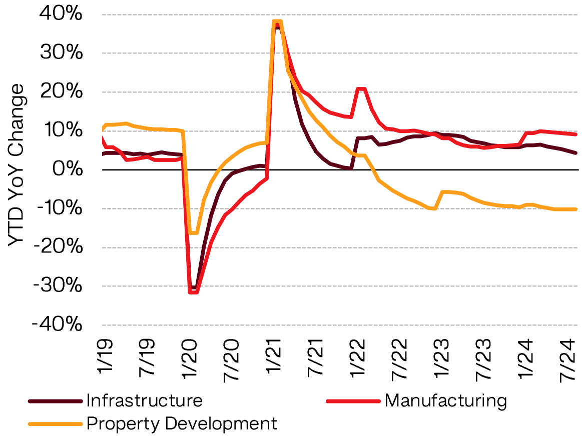
High-tech Manufacturing



Source: CEIC

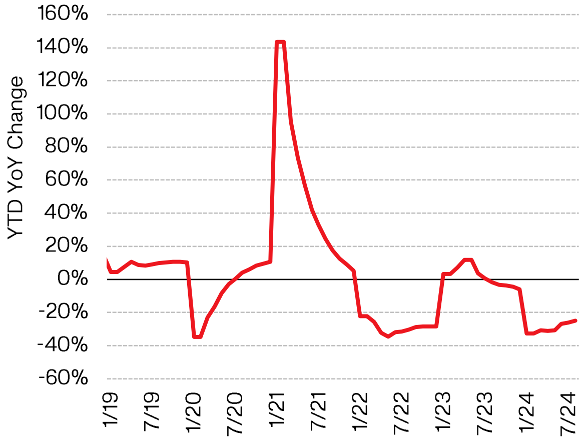
Stronger property market measures are expected. The property market remained in consolidation, with some marginal improvements. The sales of residential buildings declined by 25.0% YoY in January – August, compared to a drop of 25.9% in January – July. The investment funds for real estate developers also recorded a narrower contraction of 20.2% YoY in January – August, up from -21.3% in January – July. Local governments have been refining their supportive measures since May, and recent media reports suggested that Mainland authorities are preparing to introduce stronger measures to stabilise the property markets. Specifically, a reduction of mortgage rates on RMB 38 trillion worth of outstanding mortgages would reduce the interest burden for existing homeowners. Such measures would free up household cash flows, boost market sentiment, and potentially lead to a gradual recovery in property demand.

Fixed Asset Investment of Selected Sectors



Source: CEIC

Sales Value of Commercial Residential Property



Source: CEIC

There is ample policy space to support growth ahead. Despite the recent moderation in economic momentum, Mainland authorities have significant policy space to support the economy. The sharp increase in government bond issuances in August, following the Ministry of Finance's call for faster utilisation of the full-year quota of special local government bonds and ultra-long special treasury bonds, reflected the commitment to prop up growth. More fiscal resources have also been allocated to boost consumer spending, such as the enhancements to existing trade-in programs. On the monetary front, the People's Bank of China has the ability to further ease monetary policy, either through cutting interest rates or reducing reserve requirement ratios. Looking ahead, with these tools at their disposal, Mainland authorities are well positioned to maintain steady growth ahead.

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