Economic Research Department

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Economic QuickView

Chinese Mainland: Growth momentum softened in August

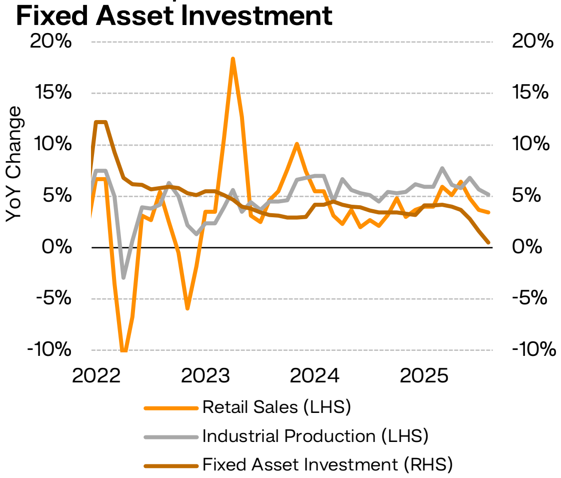
- Major growth indicators softened in August, with industrial production and services activity serving as resilient bright spots, while retail sales and investment decelerated.
- A new round of China-US trade negotiations resumed in September, though policy uncertainties persist.
- The authorities have achieved substantial progress in resolving local government hidden debt risks, potentially creating fiscal policy space for enhanced growth-support measures.

Overall economic momentum softened in August. Growth indicators continued their softening trends across most monthly metrics, particularly retail sales and fixed asset investment. The urban surveyed unemployment rate edged up by 0.1 percentage points (ppts) to 5.3% in August, reflecting seasonal factors as graduates entered the labour market. Meanwhile, advanced manufacturing and services sectors maintained robust performance, underscoring the economy's transition towards high-technology industries and services consumption as emerging growth drivers. Moving forward, the policy backdrop is likely to remain supportive, especially for boosting domestic consumption to support a firmer growth trajectory ahead.

Industrial production sustained solid expansion. Industrial production recorded 5.2% year-on-year (YoY) growth in August, down from 5.7% in July. During the month, growth of merchandise exports also eased from 7.2% YoY in July to 4.4%. Nevertheless, Chinese Mainland's integrated industrial value chain continued its rapid development in high-technology and equipment manufacturing sectors, which posted strong growth of 9.3% and 8.1% YoY in August, respectively. Particularly noteworthy, output of new energy vehicles and industrial robots rose by 22.7% and 14.4% YoY in August, respectively. Meanwhile, the authorities' recent emphasis on improved capacity management across several key industries may constrain production in certain traditional industries including steel and non-ferrous metal. This would deliver a boost to factory prices and industrial profits in the near term.

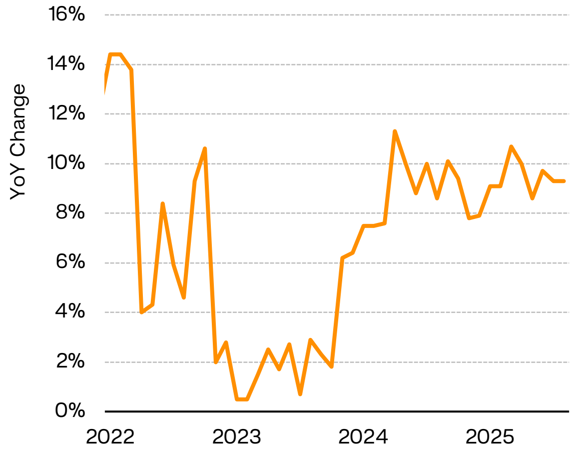
Retail sales growth moderated further. Total retail sales expanded by 3.4% YoY in August, down from 3.7% in July. Specifically, retail sales growth of goods eased from 4.0% YoY in July to 3.6% in August. While automobile sales recovered to a mild YoY 0.8% growth in August after a 1.5% drop in July, other durable goods categories recorded a substantial slowdown . For instance, retail sales growth of household appliances & audio/video equipment moderated from 28.7% to 14.3% YoY, while telecommunication equipment slowed from 14.9% to 7.3%. This trend likely reflected diminishing impacts of trade-in subsidies. By contrast, retail sales of services maintained resilience at 5.1% YoY growth in January-August, supported by accelerated growth in cultural leisure, telecommunication, tourism and transport services amid increased summer travel activity. On the supply side, services production sustained robust growth of 5.6% YoY in August. Recent consumer incentives introduced by the authorities, spanning childcare subsidies to interest subsidies for consumer loans, should establish favourite conditions to lift consumer capacity and willingness to spend.

Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

High-tech Manufacturing



Source: CEIC

Nominal fixed asset investment (FAI) slowed to nearly flat in January-August. Nominal FAI growth slowed further from 1.6% in January-July to 0.5% YoY in January-August. Across major FAI sectors, there was a broad-based deceleration, with manufacturing FAI growth down from 6.2% to 5.1%, infrastructure FAI growth down from 3.2% to 2.0%, and property FAI contracted further from -12.0% to -12.9%. Despite this slowdown, purchases of machinery and instruments recorded stronger growth of 14.4% YoY amid ongoing policy supports for equipment renewals. While construction delays from extreme weather partly contributed to the slower FAI, the National Bureau of Statistics previously highlighted that declining prices from building materials also played a significant role. As a result, real FAI growth should be higher than the nominal headline readings suggest.

Property market pressures persisted in August. Major housing indicators have remained volatile through 2025. Notably, sales value of residential buildings declined by 7.0% YoY in January-August. New home prices also extended their downtrend in August. On a positive note, housing inventory reduction continued, registering consecutive 6-month declines in private residential housing available for sale. Since August 2025, tier-1 cities including Beijing, Shanghai and Shenzhen eased their home purchase restrictions in non-core areas and eased their housing provident fund loan policies.

China-US trade negotiations resumed in September amid heightened uncertainties. On 14th September, Chinese Vice Premier He Lifeng and US Treasury Secretary Scott Bessent reportedly began a new round of trade negotiations in Madrid. However, recent developments preceding these discussions have intensified bilateral trade uncertainty. The US expanded its "Entity List" of export controls to include more Chinese companies, while media reports revealed that the US pressured G7 allies toward imposing 100% tariffs on China regarding Russian oil purchases. In response, China's Ministry of Commerce launched anti-dumping and anti-discrimination investigations targeting US chips and its measures against China's chip sector, respectively.

As for fiscal policy, the Mainland authorities have achieved substantial progress in resolving local government hidden debt risks. Since Q4 2024, the authorities implemented a package of measures addressing existing hidden local government debts. In particular, the local government debt swap program lowered the average interest cost by more than 2.5 ppts, saving more than RMB 450 billion in interest payments. Building on these efforts, the Ministry of Finance is planning to front-load a portion of 2026's local government debt quota for further resolving existing hidden debts. These developments demonstrate a meaningful progress in managing hidden debt risks, shoring up local governments' finances to resolve overdue payments owed to private enterprises and implement pro-consumption policies.

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