BEA東亞銀行

Economic Research Department

14 November 2025

Economic QuickView

Chinese Mainland: Economic transformation continued despite softening growth

- Major economic indicators softened further in October, but the government's annual GDP growth target of around 5.0% remains within reach.
- Transformation towards high-end and advanced technology sustained resilient industrial production growth, while retail sales slowed and investment recorded deeper contraction.
- Other key economic indicators showed progress, as reflected in declining unemployment rates and improving producer prices.

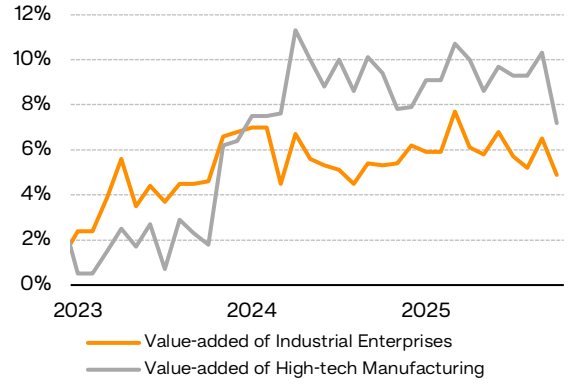
The Chinese Mainland's economic momentum moderated slightly in October. Monthly economic indicators pointed to slower growth momentum in October, with industrial production, retail sales and fixed asset investment softening further compared to the previous month. In the meantime, the property market remained in contraction. Nonetheless, the economy demonstrated positive developments in key strategic areas, such as industrial upgrading, unlocking the potential of services consumption, lower unemployment rates and stabilising prices. Overall, the government's annual growth target for 2025 of around 5.0% remains within reach.

Industrial production maintained resilient growth. Industrial production grew by 4.9% year-on-year (YoY) in October, down from 6.5% in September. The slowdown could be linked to seasonal factors, as the 8-day National Day and Mid-Autum festival holiday resulted in fewer working days compared to a year ago. Besides, weakened external demand posed a drag, as Chinese Mainland's merchandise exports shifted from growth to decline, down by 1.1% YoY in October after surging by 8.3% in September, partly due to higher base effects. That said, industrial sector continued to progress towards digital, smart and green transformation, as evidenced by solid 7.2% YoY growth in high-tech manufacturing in October.

Retail sales slowed slightly with diverging trends in goods and services. Total retail sales growth eased from 3.0% YoY in September to 2.9% in October. Notably, retail sales of goods slowed significantly, from 3.3% YoY to 2.8%. This slowdown was primarily driven by sharp reversals in the sales of automobile (from 1.6% YoY growth to 6.6% drop) and household appliances & audio/video equipment (from +3.3% to -14.6%). These figures reflected a higher base of comparison, as these items recorded strong gains in the same period last year when enhanced policies of trade-in subsidies were implemented. Conversely, the sales of gold, silver and jewellery stood out in October, surging by 37.6% YoY (up from 9.7% in September), led by soaring gold prices. Moreover, increased travel activity during the National Day and Mid-Autum Festival holiday boosted services spending, such as cultural leisure, telecommunication, tourism and transport services. Retail sales of services grew by 5.3% YoY in January-October, up from 5.2% in the first three quarters. On the supply side, services production maintained resilient growth at 4.6% YoY in October.

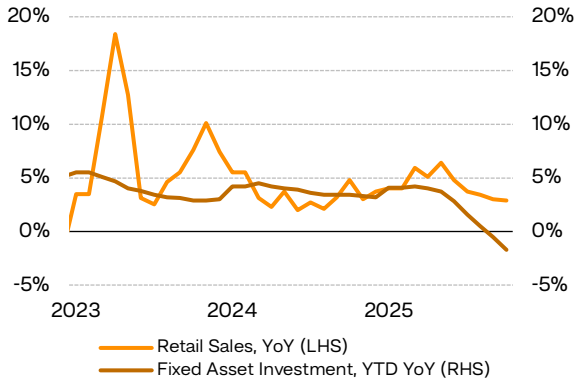
Nominal fixed asset investment (FAI) recorded deeper contraction. Nominal FAI declined by 1.7% YoY in January-October, widening from a 0.5% drop in the first three quarters. According to the National Bureau of Statistics (NBS), this decline was partly attributed to cautious sentiment among the business sector regarding investment decisions, as a result of heightened external challenges and intense domestic competition. Among major sectors, manufacturing FAI slowed to 2.7% YoY in January-October, while infrastructure FAI registered its first YoY decline of 0.1% since January-August 2020. Meanwhile, property FAI remained the primary drag, contracting by 14.7% YoY. That said, the NBS noted that real FAI recorded slight growth, as the contraction in headline FAI was partially influenced by price deflation in certain building materials. In late October, the National Development and Reform Commission announced an additional quota of special bonds worth RMB 200 billion, which will inject an impetus for public investment projects ahead.

Industrial Production (YoY)



Source: National Bureau of Statistics

Retail Sales and Fixed Asset Investment



Source: National Bureau of Statistics

The property market remained in contraction. Most property market indicators showed wider YoY declines. In January-October, the sales value of newly-built residential buildings, the floor space of newly-started residential buildings and the funds for real estate investment dropped by 9.4% YoY, 19.3% and 9.7%, respectively. Meanwhile, new home prices in tier-1 & 2 cities fell by 0.3% month-on-month (MoM) and 0.4% in October, respectively. These trends highlighted the need for adjustments toward a new development model.

The latest China-US trade deal has helped ease trade tensions. In early November, China and the US agreed to extend their trade truce for one year and roll back certain protectionist measures, including tariffs, export controls and trade practice investigations. Specifically, the US announced a one-year suspension of the 24% reciprocal tariffs and a 10-percentage-point reduction in fentanyl-related tariffs. In return, China suspended the global implementation of new export controls on rare earths and issue general export licenses for critical minerals for US users and their supplies. While uncertainties remain regarding the trade outlook, due to the unpredictability of private sector responses under the evolving global trade landscape and the potential effects of front-loading, the deal is expected to support bilateral trade, with reduced trading costs, enhanced supply chain stability and greater certainty in trade policy.

The authorities unveiled new policy guidance to stimulate private investment. In early November, the State Council announced a 13-point plan aimed at revitalising private investment. Key measures include permitting private companies to hold more than 10% stakes in eligible infrastructure projects such as railway and energy facilities, encouraging private capital participation in new urban infrastructure projects, and stepping up government procurement support for SMEs. Overall, the policy package underscored the government's commitment to expanding investment opportunities for the private sector.

Despite moderating growth momentum, other key economic indicators showed progress. While headline economic indicators softened, the government initiatives to stabilise employment, support businesses, and boost confidence continued to yield positive outcomes. Labour market conditions improved steadily, with the urban surveyed unemployment rate declining from 5.2% in September to 5.1% in October, marking two consecutive months of improvement. Moreover, supply-side prices showed signs of recovery, as the producer price index recorded its first MoM growth of 0.1% since November 2024. Industrial profitability also returned to expansion, with 3.2% YoY growth in January-September. These developments are expected to provide a robust foundation for the Chinese Mainland to advance a growth model focused on modernising its industrial system and expanding domestic consumption.

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