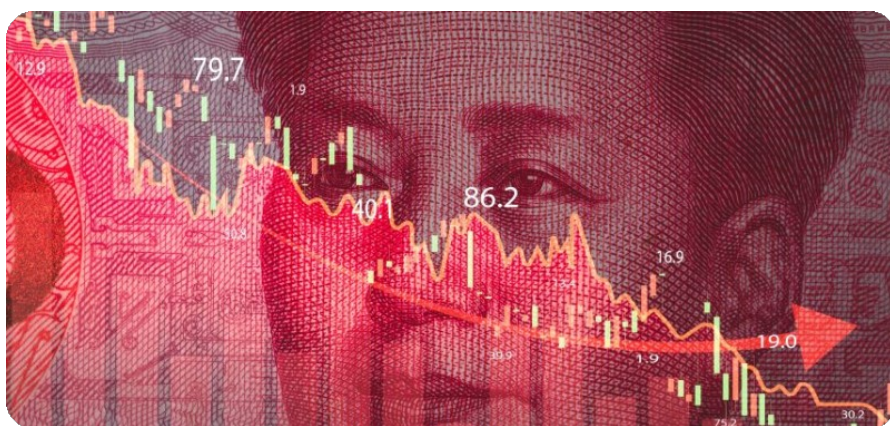


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CHINA UNITED STATES

# China's broad-based slowdown bolsters case for additional stimulus

China's economic momentum continues to weaken in the final stretch of the year, as all key activity data disappointed in November. Policymakers have lots of work to do if domestic demand is going to drive growth in 2026 as planned



## Retail sales growth falls to lowest since 2022 as trade-in policy turns from tailwind to headwind

China's retail sales significantly underperformed in November, falling to 1.3% year-on-year from 2.9% in October. This not only fell well short of forecasts but also marked the weakest month of retail sales growth since 2022.

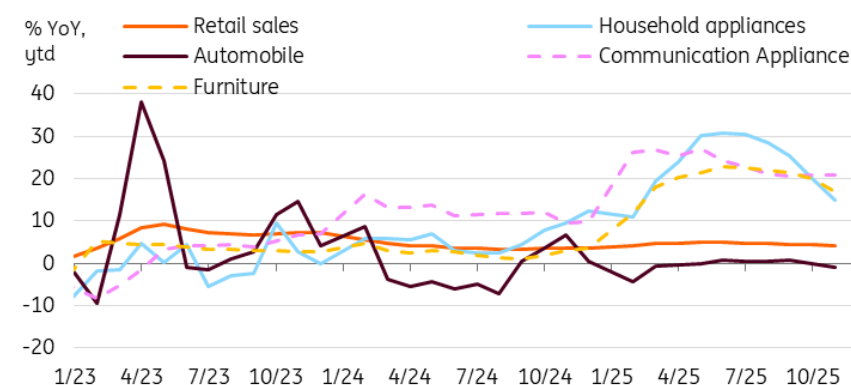
As we have covered in the past few months, the leading cause is the trade-in policy turning from a tailwind to a headwind. The most obvious example is in household appliances, which saw a -19.4% YoY contraction in November, bringing the year-to-date growth down sharply to 14.9%. Recall that the trade-in policy for household appliances ramped up significantly in the fourth quarter of 2024. This resulted in a wave of purchases, something for which the YoY data is now paying the price. The same impact will likely be observed at the start of 2026 for the communication appliance category.

While the trade-in policy has primarily been seen as successful in front-loading consumption, we need to see either an expansion of the policy to new categories next year -- or a new direction in supporting consumption. Otherwise, we will likely continue to see pressure on consumption as the policy is phased out.

China's electric vehicle (EV) transition is influencing soft retail sales data. Reduced petrol demand resulted in a contraction of -8.0% YoY for petrol sales, while the earlier purchases of EVs resulted in a -8.3% YoY drop in auto sales as well. Other categories tended to fare a little better, with catering (3.2%), grains and oils (6.1%), cosmetics (6.1%), and gold and jewellery (8.5%) all outperforming headline growth.

Boosting domestic demand in 2026 looks to be a top priority for policymakers, according to recent communications from the Politburo meeting and the Central Economic Work Conference. One point that has been mentioned several times: "special actions to boost consumption" will be implemented, along with plans to boost household incomes.

### Trade-in policy headwinds will likely intensify in coming months



Sources: CEIC, ING

### Investment contraction steepened in November

China's fixed asset investment (FAI) growth fell to -2.6% YoY ytd through November, down from -1.7% YoY ytd from a month ago. This once again underperformed market forecasts for -2.3%, though it slightly beat our house forecast of -2.8%.

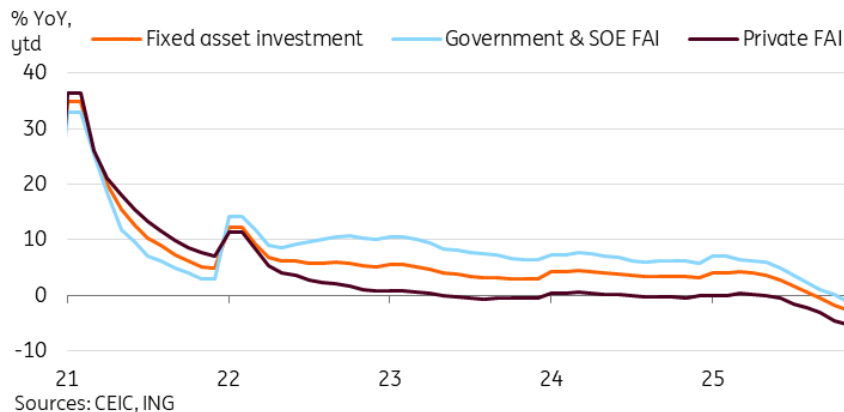
Despite industrial modernisation being at the core of the next Five-Year Plan, the manufacturing FAI continues to slow down to just 1.9% YoY ytd. The rail, ship, and aeroplane manufacturing sector continued to see investment growth accelerate to 22.4% YoY ytd, but auto sector investment moderated to 15.3% YoY ytd.

As we expected in [last month's report](#), public investment tipped into negative territory by November, dropping to -1.1% YoY ytd. Private investment also continued to fall at a faster pace, down to -2.6% YoY ytd.

There was also a mention of promoting a halt to the investment decline next year at the Central Economic Work Conference. How the government plans to do this, while also cracking down on redundant investments, will be worth monitoring in the coming months. We expect

public investment to stage a recovery in 2026, but the private sector is a bigger question mark for China's investment picture. It will likely be seen as a more important gauge of investment appetite and business confidence.

## Next year's government investment could recover amid policy support



## Stable industrial production continues to outperform

China's value added of industry inched down to 4.8% YoY in November, down from 4.9% in October. This outcome was weaker than market forecasts, but the industrial sector remains a clear outperformer despite soft consumption and investment data.

By sector, we saw outperformance in the usual suspects, with rail, ships, and aerospace, as well as the auto manufacturing sectors, both outperforming at 11.9% YoY in November. We also saw solid production growth of industrial robots (20.6%) and semiconductors (15.6%).

As we saw in the November trade data earlier this month -- [China's trade surplus eclipsed USD 1tn on the year](#) -- external demand has been the main bright spot for China's economy. This has helped support industrial production. Resilient demand from non-US economies has been a key reason China's growth is likely to remain on track this year, but there are signs that this trend faces risks next year. We recently saw Mexico increase tariffs on Chinese products to up to 50% in an attempt to appease the US. The EU also signalled potential tariff action if trade imbalances were not addressed in short order.

## Property price slide continued in November

China's 70-city property prices continued to show downward momentum in November, consistent with expectations following another month of limited support. New home prices fell -0.39% month-on-month, slightly less than October. Used-home prices fell by -0.66% MoM, unchanged from October. From the peak, new home prices are now down -12.1%, while used

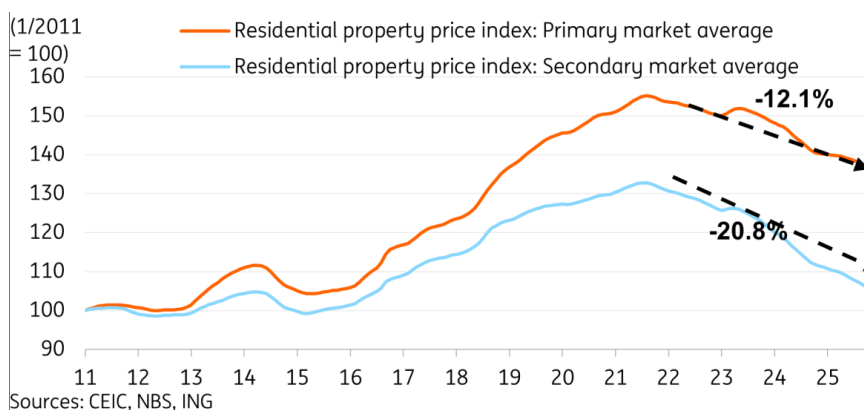
home prices are down -20.8%. Of the 70 cities, 46 have seen secondary-market prices decline by 20%-30% from their peak, while 4 have declined by more than 30%.

In the primary market, 11 of 70 cities saw prices stabilise or increase, marking a three-month high. In the secondary market, we saw a third consecutive month of price declines across the entire sample. Secondary market prices remain the key to watch; they have the most direct impact on household wealth effects.

As expected, the downturn of property investment continued, now down -15.9% YoY ytd.

The continued slide in the property market remains one of the most significant risks to China's efforts to shift to a domestically demand-driven growth model. Comments from the Central Economic Work Conference on actively and prudently resolving key risks focused on the property market. This suggests property market support could be on the way. The directions in the readout included encouraging the acquisition of existing housing, focusing on affordable housing, and city-specific policies to reduce inventories and optimise supply. Market discussions have also centred on measures to improve housing affordability, such as tax breaks for first-time buyers and potential reduction of mortgage burdens. The wave of support in 2024 showed some promise, with prices stabilising toward the start of 2025. However, this may require continued and concerted efforts, as the downturn resumed after a few months of policy inertia. There remains no easy answer for ending the downturn.

### No relief yet for housing prices



### There's much work to be done if domestic demand is to drive growth in 2026 and beyond

Policymakers make clear that domestic demand-led growth is the priority moving forward. November's data showed that a lot of work remains for this scenario to play out successfully, with all key domestic activity data continuing to weaken. This year's growth targets should still be on track, though a weak set of November data further pushes risks to the downside from our 5.0% YoY forecast.

A bigger question mark lies ahead for next year, and the years ahead. In our view, the biggest issue suppressing China's economy is downbeat confidence, which risks becoming entrenched. While official confidence indicators have been inching higher over the past year, they remain well below historical averages.

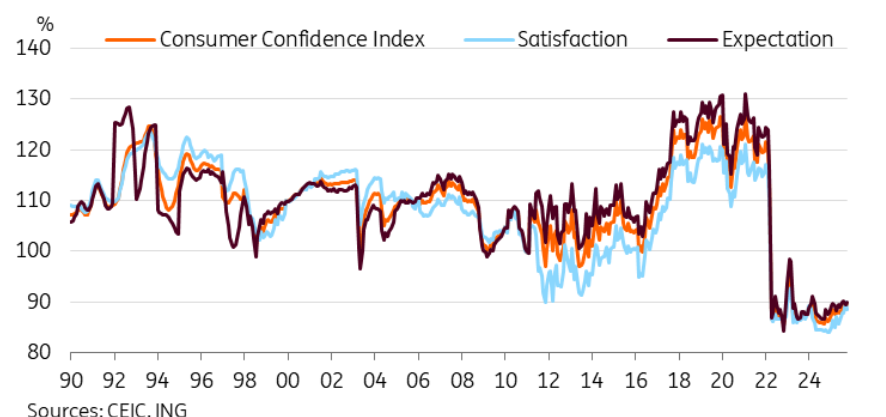
We believe the negative wealth effect from falling property prices remains a major drag on confidence. Falling property prices have thus far overshadowed a solid equity market recovery, which is unsurprising given the greater weight of property prices in household balance sheets.

The other key area is the widespread cost-cutting environment, which has led to sluggish wage growth and layoffs. This decreased labour market dynamism is resulting in less hiring and labour mobility. This increases challenges for youth unemployment as well, where the unemployment rate for ages 16 to 24 reached 17.3% in October. It has generally been in the mid-high teens since the pandemic, versus an average of around 11% between 2018-19. A generation of underemployed and unemployed youth will likely constrain their purchasing power in the future.

These factors feed into an overall deflationary environment, which is a key drag on both consumption and investment. We see some improvement in inflation next year, though food prices will likely drive the recovery. The trajectory of core inflation, which has also shown some positive signs in recent months, will likely be more important.

It's certainly easier said than done to restore confidence, but it will be key to domestic demand becoming the main driver of growth. To unlock China's savings and transition the economy to the next phase of domestic demand-led growth, households need to feel confident that tomorrow will be better than today.

### Confidence has edged up slowly and painfully but remains still much closer to historical lows than averages



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