

Softer China data could restore urgency for stimulus rollout

While anti-involution remains a long-term priority, an economic slowdown may necessitate a short-term focus to swing back to stimulus ahead of key policy meetings



Extreme weather has been blamed for China's economic slowdown in July

Weak July economic activity data shows slowing domestic momentum

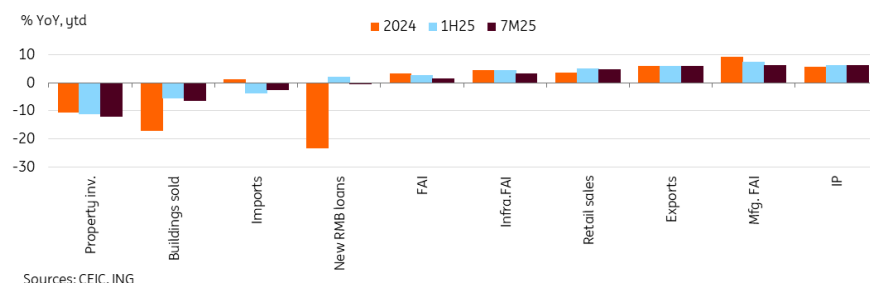
After a stronger-than-expected first half of 2025, we had been expecting a cooling of the economy in the second half of the year; however the moderation of growth in July was more than anticipated.

While exports continued to surprise on the upside in July amid a surprisingly resilient external demand environment, overall, other economic activity data were down across the board, with retail sales, fixed asset investment, and value added of industry growth all reaching the lowest levels of the year. Domestic confidence has remained soft, and this is being translated into softer consumption and investment activity.

Furthermore, China's 70-city property price index showed that prices continued to decline, with widespread weakness on a city level.

Extreme weather has been blamed for the slowdown in July, and as such, some rebound is expected in August, but data has been slowing for several months regardless and could once again present a case for more policy support.

Domestic activity indicators slowed in July while exports accelerated



Immediate priorities could shift from anti-involution to stimulus

Much attention has been placed on the anti-involution theme in the past few months. This concept advocates reducing the amount of unhealthy, excessive competition in the economy, a move that is undoubtedly essential for the long-term well-being of both the economy and society. However, the poor July data also shows that the risks to the short-term outlook may mean that anti-involution measures will be gradual, as measures to crack down on excess capacity and price competition would likely come with immediate costs.

We expect renewed urgency on policy support to close out the year, especially if August data continues to disappoint. This may have already started, with policymakers unveiling a programme to help subsidise 1% of consumption loan interest in an effort to further support consumption. The recent acceleration of property price declines should also be sounding some warnings, and we also saw that Shanghai further eased home-buying rules in late August.

All eyes on Fourth Plenum and 15th five-year plan

The Fourth Plenum will be held in October, at which time the Five-Year Plan will be discussed in detail, before being put up for approval at next year's Two Sessions.

China's five-year plans tend to set the big picture strategy for the upcoming five years, and as such, it will be important to see where the main focuses are and if there are any shifts in policy direction or priorities. China's longer-term goal is to become a moderately developed economy and achieve socialist modernisation by 2035, and the next five years are vital to keep this goal on track.

Author

Lynn Song

Chief Economist, Greater China

lynn.song@ing.com

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