China's summer slowdown may spark economic déjà vu

China's third-quarter data softened after a strong first half of 2025, fuelling debate on whether more stimulus is needed before year-end. We say yes

After a strong start to the year, China's industrial activity is softening

Weak summer data echoes last year's lull

China's industrial activity is moderating after a strong start to the year, as weak sentiment weighs on consumption and investment. In particular, momentum has softened over the last several months. We will need to see more stimulus to reverse this dynamic.

You could be excused for feeling a strong sense of déjà vu. The section above is almost verbatim what we wrote in last year's September Monthly, as economic conditions followed an eerily similar path.

However, unlike last year's big policy easing package from the People's Bank of China, no high-profile September stimulus came to the rescue. Market participants are split on the necessity for further stimulus. Some argue that support for the economy is needed, while others worry it might fuel a risky asset bubble. We're in the former camp. We still see weak confidence as the main issue

hindering investment and consumption despite the strong equity market rally.

Moderate stimulus support before year-end would secure growth target

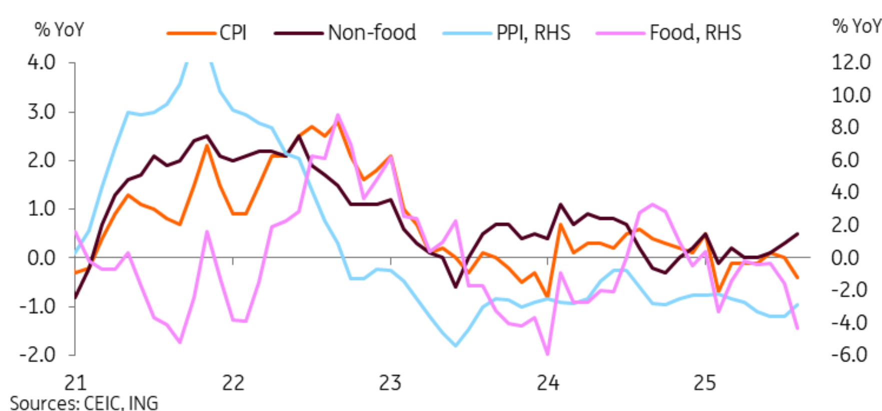
Barring a strong turnaround in September's data – which is off to a decent start with a stronger-than-expected manufacturing purchasing manager's index – we are likely to see a fairly steep deceleration of third-quarter growth. We're looking for a 4.5% year-on-year growth after 5.3% in the first half. Maintaining such a pace would be enough to reach this year's "around 5%" growth target. However, some policy support would likely be beneficial in securing this outcome.

Aside from the upcoming September economic data and third-quarter GDP, China's Golden Week travel and consumption activity will help gauge the level of urgency required for additional stimulus.

Considering that deflationary pressures persist, we expect moderate monetary easing with 10bp of rate cuts and 50bp of reserve-requirement-ratio (RRR) cuts. There's also a possibility we could see new policy support for consumption and the property market.

Absent fresh stimulus, risks to our 2025 GDP growth forecast of 4.9% look slightly balanced to the downside. Overall, though, the economy should remain on track to achieve this year's growth target.

Persistent deflationary pressure shows room for monetary easing



Sources: CEIC, ING

Fourth Plenum could shed some light on the next Five-Year Plan

China's Fourth Plenum meetings are set for 20-22 October. They're expected to discuss the 15th Five-Year Plan covering the years 2026-30. We could get more details on the strategic focus. Among the key themes policymakers are likely to discuss are plans to expand China's consumption sector, increasing the focus on tech and innovation, and, potentially, longer-term strategies to address involution, or aggressive price competition.

Details made available at this stage will likely be quite broad, rather than focused on specific policies for implementation. Additional quantitative targets and specifics should be made available when the final plan is approved and published at next year's Two Sessions, scheduled for March.

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