Economic Research

Economic Briefing

China – Q3 GDP slowed on weak domestic demand

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GDP growth eased to 4.8% yoy in Q3 but it would still put China's economy on track to meet the 5% official target. Growth was mainly supported by strong exports as household consumption slowed and fixed investment faltered.

Growth has been uneven

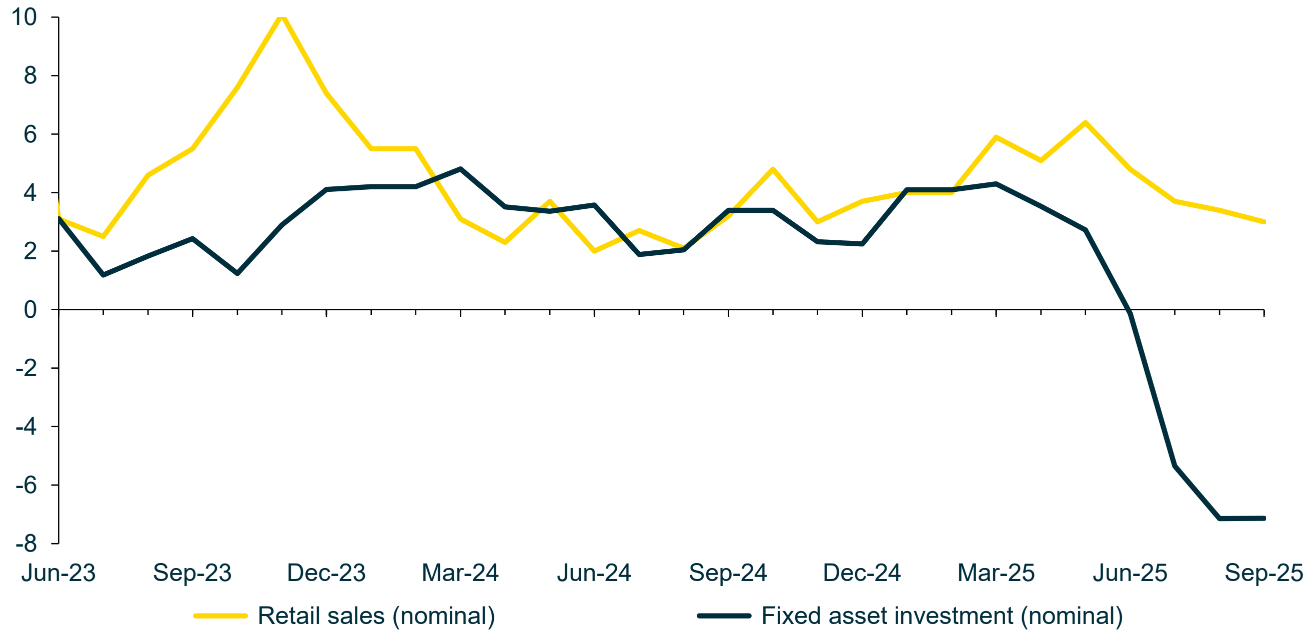
Key takeaways: While China's Q3 GDP expanded 4.8% yoy, beating our expectation, it disguised the underlying weakness in domestic demand. Admittedly, GDP in the first three quarters grew 5.2% yoy and this puts China's economy on track to meet the official 5% target goal. However, growth was mainly supported by strong exports. Household consumption growth slowed and fixed investment contracted.

In nominal terms, GDP growth slowed to just 3.7% yoy, much lower than the real growth figure as China experienced the 10th consecutive quarter of deflation, acco,rding to our estimated GDP deflator. This also highlights the continued weakness in domestic demand and the impact of "involution" (excessive and destructive, race-to-the-bottom competition).

Details: According to the household survey data, consumption per capita grew 3.4% yoy in Q3, down from 5.2% in Q1 and Q2. Monthly retail sales data also showed a similar slowdown in Q3 compared to Q2, and in September it registered just 3% yoy growth (Chart 1).

Chart 1 - Sharp fall in investment and a slowdown in retail sales in Q3

Year-on-year %



Source: NBS, CEIC, Commerzbank Research

Meanwhile, fixed asset investment contracted 7.1% yoy in September and fell 6.6% in Q3 (Chart 1). This was the first quarter of contraction since 2021. The decline was broad-based across investment in manufacturing, infrastructure, and real estate.

Industrial production was the bright spot. It grew 6.5% yoy in September and 5.8% in Q3, supported by strong exports which grew by around 10% yoy in real terms in Q3.

Price data from last week suggest deflationary pressure persists, albeit easing slightly, pointing to continued domestic demand weakness and excess market competition. Credit to households and businesses also remained weak.

Q4 outlook could be even more challenging

First, exports is facing escalating US-China trade tensions. It is also uncertain how long other markets can continue to absorb imports coming from China.

Second, we don't expect policymakers to roll out large stimulus for the rest of this year (nor would any possible stimulus be having any meaningful impact given that there are only a bit more than two months left for the year). Recently, Beijing has announced that it will allow provinces to tap CNY500 billion (USD70 billion) in unused bond quota from previous years to expand investment and to reduce off-balance-sheet debt. China's policy banks will also raise funds through bond issuance or other means to invest in projects. These policy measures may provide a boost of 0.5%-point to growth in the coming quarters, but the impact is small compared to the 5% target anyway.

Technically speaking, the high base effect from Q4 last year, when the economy grew 5.4% yoy, would also lead to lower yoy growth in Q4 this year.

Fourth Plenum kicks off

The Central Committee of the Chinese Communist Party is holding its Fourth Plenum, which starts today for a four-day meeting. The meeting reviews the 15th Five-Year Plan which covers 2026-2030. The detailed plan will only be released in March next year. However, the post-meeting readout could provide some meaningful policy signals from a medium-to-long term perspective.

We expect China will continue to focus on innovation and the development of AI, semiconductors, and robotics, as well as other areas including pharmaceutical and green energy. Domestic consumption will likely be a key theme as the country is transitioning away from relying on real estate and traditional industries.

Renminbi internationalization will also be another theme to watch for. Beijing is expected to seize the opportunity and strengthen the role of the Chinese currency, at a time when global investors will probably continue to diversify their portfolios away from the US.

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