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Economic Research

Economic Briefing

China – October data disappoint

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October activity data missed expectations across all major indicators, with retail sales, industrial production, and fixed-asset investment each falling short of consensus forecasts. Export growth remained elevated but decelerated modestly from September's surge. Beijing's latest round of support measures has yet to translate into a meaningful economic acceleration, raising questions about the durability of the recovery heading into year-end.

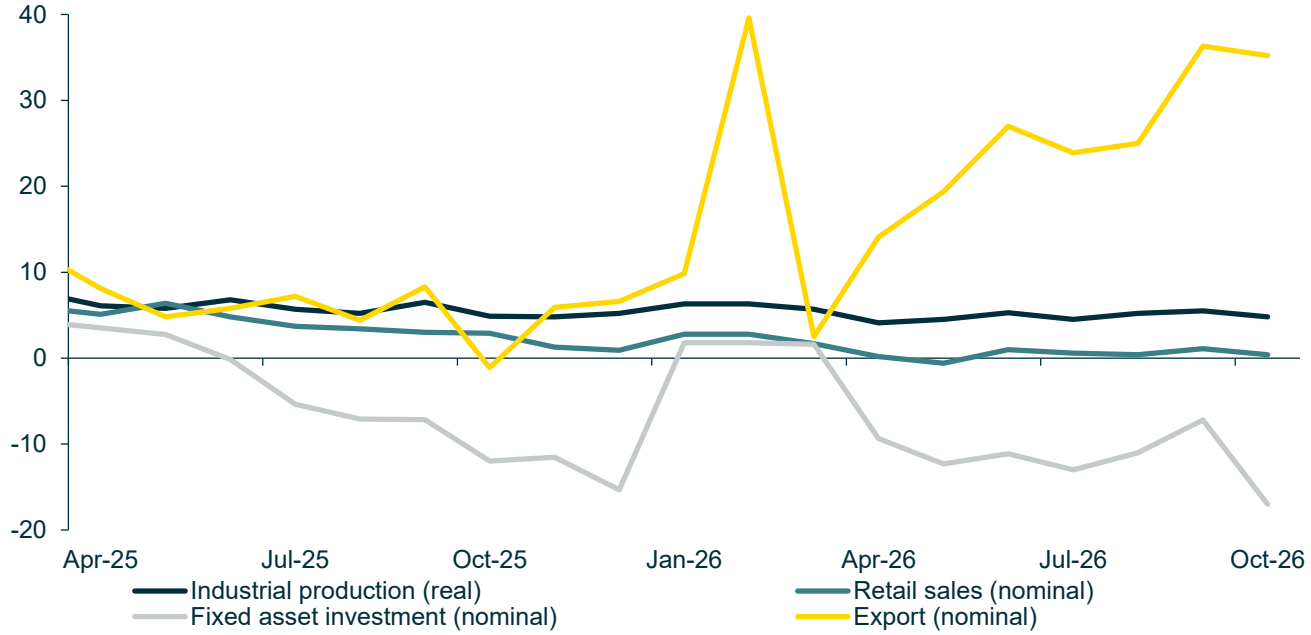
A broad miss undercuts recovery optimism

October's economic data release delivered a sweep of disappointments, reinforcing concerns that China's post-stimulus recovery remains fragile. Industrial production expanded 4.8% yoy (Bloomberg consensus: 5.3%) vs 5.5% in September. Retail sales grew just 0.4% yoy (Bloomberg consensus: 0.8%) vs 1.1% in September. Fixed-asset investment (FAI) contracted 8.1% on a year-to-date basis through October, worsening from the prior reading of -7.2%. The breadth of the miss signals that the policy easing deployed in recent months has not yet filtered through to the real economy in any meaningful way.

Trade data provided a brighter picture relative to the domestic activity miss. Exports grew 35.2% yoy in October in USD terms, a modest deceleration from September's 36.3% surge but still a remarkably elevated pace that reflects continued strong global demand for Chinese technology and manufactured goods (Chart 1).

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Chart 1 - Broad domestic miss contrasts with robust exports
Year-on-year %

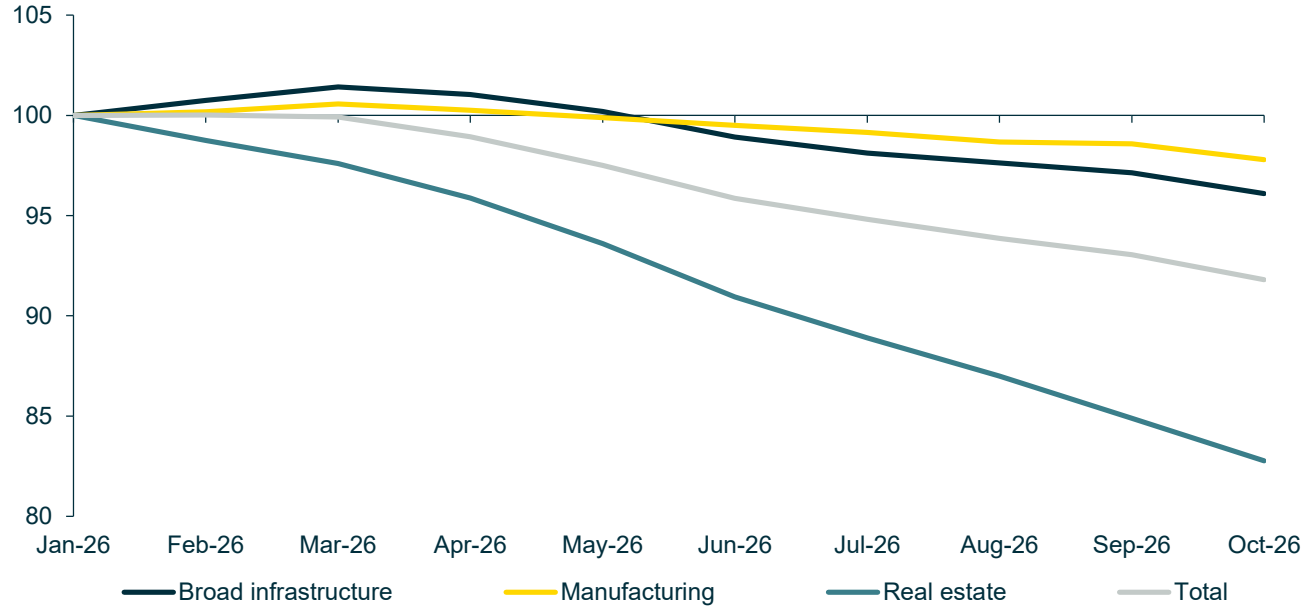


Source: NBS, CEIC, Commerzbank Research

Investment contraction reflects fiscal transmission lag

The contraction in FAI is not entirely surprising given that the re-acceleration in fiscal spending only began in September, and the typical transmission lag of two to three months means the bulk of that support has yet to flow through to actual investment activity. Property investment contracted 21.6% on a year-to-date basis through October, worsening from -20.6% previously. Residential property sales also continued to slide, falling 14.1% year-to-date compared with -13.7% previously. New home prices edged down 0.15% mom in October, while used home prices fell 0.24%. The property sector remains a persistent drag on capital formation, and any meaningful recovery in investment activity is unlikely to materialize before year-end (Chart 2).

Chart 2 - Deepening investment drag awaits infrastructure recovery
Trailing 12-month investment, Jan 2026=100



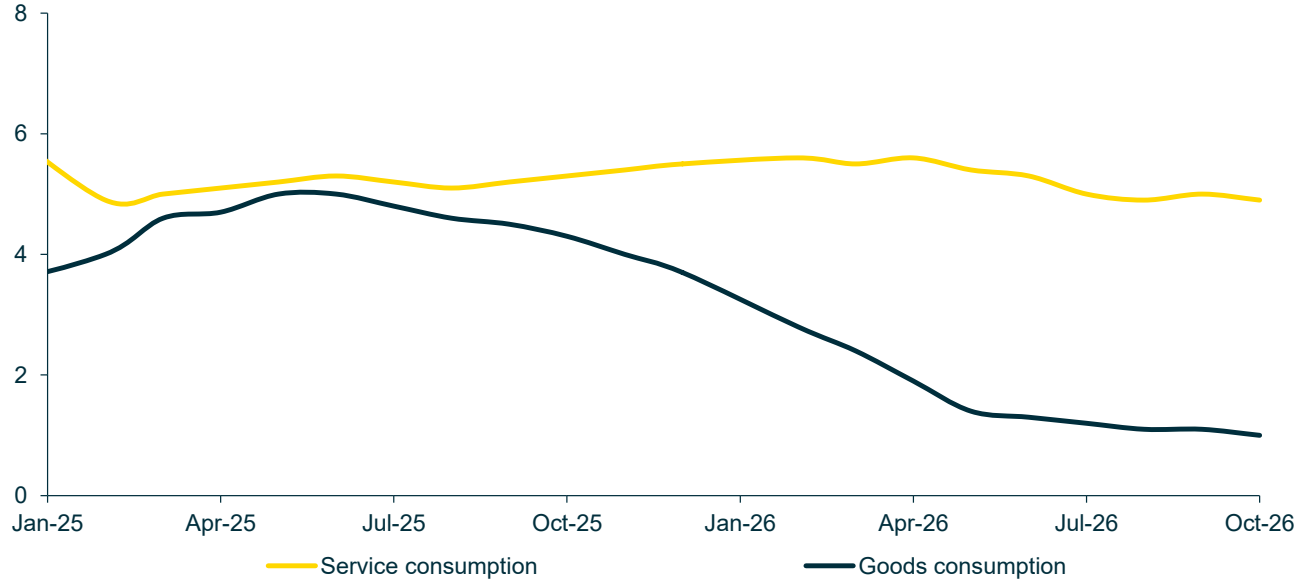
Source: NBS, CEIC, Commerzbank Research
Broad infrastructure investments include investment in power grid in addition to investments in transport, storage, and utility

Consumer demand falters after Golden Week

Domestic consumption continues to underperform, with retail sales growth of 0.4% year-on-year representing one of the weakest readings in recent quarters. The deceleration from September's 1.1% suggests that any boost from the Golden Week holiday period was short-lived and failed to generate sustained spending momentum. Service sector sales revenue surged 19.5% yoy during the National Day holiday itself, and cross-regional passenger trips reached 2.14 billion over the seven-day break. The collapse from that holiday-period momentum to a near-flat monthly reading confirms that the spending burst was concentrated, short-lived, and failed to generate any sustained carry-through into broader consumption activity.

A structural shift is also visible beneath the headline: retail sales of services have been consistently outpacing goods sales throughout 2026, reflecting a consumer base that increasingly allocates discretionary spending toward experiences, travel, and entertainment rather than durable goods (Chart 3). This rotation away from goods-based consumption is a headwind for the manufacturing and retail sectors, and it helps explain why the headline retail sales figure, which captures goods spending more directly, continues to underperform. Year-to-date retail sales growth through October stands at 1.0%, down from 1.1% through September, underscoring the absence of any meaningful re-acceleration in consumer activity despite successive rounds of policy support.

Chart 3 - Services outpace goods as Chinese consumers favor experiences
Retail sales of goods and services, YTD year-on-year growth %



Source: NBS, CEIC, Commerzbank Research

Policy pressure mounts ahead of December meetings

The across-the-board miss in October's activity data arrives at a critical juncture. Policymakers are set to convene for the Central Economic Work Conference in December, where the 2027 growth target and the scale of next year's fiscal support package will be debated. The PBoC, which recently signaled that loan rates are already relatively low by global standards, faces limited room to rely on conventional rate cuts as the primary policy lever. With the Overnight Reverse Repo Rate now serving as the central policy anchor following the PBoC's recent framework shift, the focus is increasingly on fiscal transmission and whether local governments can accelerate spending drawdowns before year-end. Markets are likely to remain in a holding pattern until January, when seasonal credit expansion typically provides a temporary boost to activity data. The risk is that without a more forceful and targeted policy response, the economy enters 2027 with insufficient momentum to meet its annual growth objectives.

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