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Global Markets Research

Research Alert

China's 3Q GDP growth slowed to 4.8% y/y

3Q growth marks its second consecutive quarter of deceleration and lowest in a year
Slight pick-up in quarterly growth driven by exports; domestic demand stays weak
5.0% GDP growth target achievable; PBoC likely to maintain policy rates for now

Summary

Although better than expected, China's economy grew at a softer pace for the second straight quarter and at its slowest in a year at 4.8% y/y in 3Q (2Q: 5.2% y/y). Growth continued to be underpinned by resilient external demand, while weak confidence continues to weigh on consumption, investment and property market on the domestic front.

Details

The better-than-expected GDP data was likely thanks in part to a stronger than expected rebound in IPI for September (6.5% y/y vs 5.2% y/y) which has benefitted from still resilient external demand at this juncture. Looking at the sectors, output growth was driven by double digit growth for industrial robots and motor vehicles.

Weak confidence, meanwhile, continues to be a drag on domestic economic activity. Retail sales slowed for the fourth month and to its softest pace this year at 3.0% y/y (prior: 3.4% y/y) as household appliances slowed sharply to 3.3% y/y after growing double-digit the past few months, partially due to the trade-in program running off steam and amid budget constraints amongst local government funding, particularly in poorer region.

The property market continues with its steep decline (-13.9% YTD), while fixed asset investment (FAI) turned negative at -0.5% YTD. While state-owned enterprises led growth at 1.0% y/y YTD, private investment fell 3.1% y/y/ All sectors slowed with manufacturing at 4.0% y/y, mainly supported by autos but offset by machineries and telecommunications/computer.

Outlook

With YTD growth at 5.2%, **China's growth target of 5.0% for this year remains reachable, and will likely see less policy urgency on the monetary policy front although the underlying softening trend suggests there may be a need for more policy support. The People's Bank of China (PBoC) left its key 1Y and 5Y lending rates unchanged at 3.00% and 3.50% in its latest decision**, and we opine that they will maintain status quo at this juncture with focus on fiscal stimulus, pending clarity post US-China 90-day tariff pause on 10-November as well as the Fourth Plenum meeting. The latter will give us some insights into China's 5Y plan, which we expect to focus on steps to boost consumption, tech development and structural reforms.

Moving into 2026, the IMF is expecting growth to moderate to 4.2% with the worsening downturn in the property market and weak confidence likely to undermine China's efforts to pivot towards a domestic demand-driven growth model, while prospects for the manufacturing sector is weak given the gap between key industrial sectors and the rest of the economy, mounting evidence that subsidies are reaching their limits and amid paybacks from front-loading, policy and tariff uncertainty on the external front.

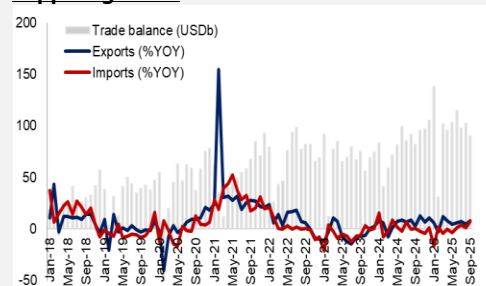
Meanwhile, the decision to maintain lending rates were within our expectations, and with status quo expected for PBoC and BNM, there is no change in our view that CNY/MYR will be hold steady at 0.59 over the next 12-months. Against USD, there is

Figure 1: Yearly and quarterly growth has remained resilient, albeit moderated



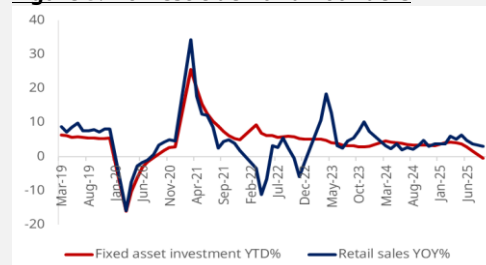
Source: Bloomberg

Figure 2: External demand continues to support growth



Source: Bloomberg

Figure 3: Domestic demand flounders



Source: Bloomberg

Figure 4: House View and Forecasts

	4Q-25	1Q-26	2Q-26	3Q-26
1Y LPR (%)	3.00	3.00	3.00	3.00
USD/CNY	7.08	7.06	6.99	6.94
CNY/MYR	0.59	0.59	0.59	0.59

Source: Bloomberg; HLBB Global Markets Research

also no change in our view that USD/CNY could strengthen to 7.08 by end-2025 and 6.94 within a 12-month period in an environment of USD depreciation over the medium term, expectations that Fed will ease its monetary policy and our view that China will likely hold the upper hand in any trade negotiations with the US.

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