China Home Appliances

Expert call takeaways: Soft demand, healthier inventory, targeted promotions

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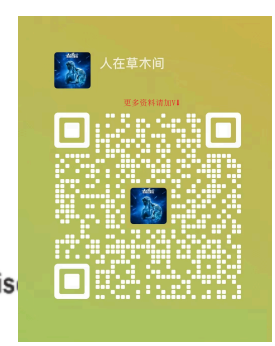
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We hosted an expert call with a regional home-appliance retailer in Shandong province, and the read was balanced rather than outright bearish: demand remains soft, but July's hot weather helped release delayed AC demand, channel inventory looks reasonably healthy, and price competition remains intense but not disorderly. This is clearly not a strong demand cycle, but the risk of a damaging destocking or irrational price-war cycle looks more contained.

- **Expert/channel scope:** The expert has over 20 years of experience in China's home appliance market and currently runs a regional offline retail chain covering 13 cities in Shandong province. Sales are effectively 100% offline, with B2C retail accounting for about 95% and B2B property channel (new home fit-out) around 5%. The channel skews towards mid- to high-end products, with sizable annual sales of c.RMB 2.8-3.1bn across major brands including Haier, Midea, Gree, Xiaomi and Hisense. As such, the takeaways should be viewed as a regional/offline perspective, not a direct proxy for the full China market.
- **July's AC rebound helped salvage the full year**. The expert started the year with a revenue growth budget of +5-8% and now expects full-year growth to land around 5%. Importantly, he believes – and we agree – this is still meaningfully ahead of most industry peers, suggesting this channel is outperforming despite soft underlying demand. Mar-Jun was weaker than expected despite promotions and 618 activity, but sustained extreme heat in July drove a sharp recovery in AC sell-through and helped narrow the gap versus budget. The key message is that demand was delayed rather than completely absent, and the July catch-up reduced downside risk to the channel's full-year target.
- **AC is the near-term swing factor, but still more catch-up than structural recovery**. AC was weak in spring and June due to delayed hot weather, but July's heat released pent-up seasonal demand and helped stabilize the overall channel run-rate. This also created spillover support for water heaters, as hotter weather increased usage frequency, and washing machines, helped by higher laundry frequency and upgrade demand in front-load / washer-dryer products. Refrigerators and kitchen appliances remain softer, so the recovery still looks category-specific rather than broad-based.
- **Inventory discipline is the key reason weak demand has not become a channel-stress story**. AC channel inventory appears to be in its healthiest position in three years, with the industry inventory level around 30% by end-August – within the normal range. Both manufacturers and distributors have been more disciplined this year, partly because weak June weather made dealers more cautious and cash-flow pressure limited overstocking. Refrigerators and washing machines also do not appear to have major inventory issues, reducing the risk of a damaging destocking cycle into year-end.
- **Despite heavy promotions, leaders have largely protected blended ASP through product-mix management.** Promotion intensity has been high throughout the year, especially in AC. For mid/low-end models, effective prices can be down around 10% YoY in July. However, high-end model prices

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are only down slightly, allowing leading brands to maintain blended ASP broadly stable. This suggests the promotion is targeted rather than blanket discounts, and that premium mix remains an important buffer for margins.

- **Subsidies remain important, but demand does not appear excessively pulled forward.** Consumers are rational and increasingly assume subsidies may continue into 2027, which limits the urgency to buy now but also suggests demand has not been heavily over-pulled. The key risk is policy dependency into 2027 the expert believes demand could be much weaker without subsidies than under a subsidy-extension scenario, although we would treat this as the expert's channel-level view rather than our base case.

Three Things Worth Knowing Beyond the Demand Debate

- **Distributor profitability is structurally rebate-dependent.** On a broader national distributor average basis, the expert estimates brand rebates typically account for 10-18% of distributor sales, while distributor net margins are only around 2-6% after all costs. In other words, rebates are not just upside incentives; they are essential to channel economics. Without rebates, many distributors would likely be loss-making, which helps explain why brand policy, year-end rebates, and channel incentives remain critical to dealer behaviour.
- **Midea's channel reform is directionally positive, but execution could create short-term volatility.** Midea is trying to move away from the traditional prepayment/channel-stuffing model toward smaller-batch, faster-turn orders and better sell-through discipline. This is generally welcomed by distributors because it reduces working-capital pressure. However, if competitors such as Gree continue to use aggressive prepayment incentives, distributors may redirect capital towards those brands, creating potential near-term pressure on Midea's cash collection, shipment momentum, and market share. The expert therefore sees the reform as strategically bold, but difficult to execute cleanly during a competitive transition year.
- **Xiaomi's real long-term threat is not just value-for-money, but generational mindshare.** Xiaomi's current impact is more visible in small appliances than in major white goods, where it still lacks the scale and procurement advantages of Midea, Haier and Gree. But the expert's more important point is longer term: Xiaomi has strong appeal among younger consumers, especially Gen Z, through design and ecosystem familiarity. As these consumers form households and become the next wave of white-goods buyers, Xiaomi could become a more meaningful competitive threat over the next 3-5 years.