

# China Economy

## Mixed data exhibited unbalanced performance

China economy showed unbalanced growth as retail sales notably came in above market expectations supported by durable goods under the trade-in scheme, while property market lost the recovery momentum and industrial output slowed down broadly. The economy is likely to experience further headwinds as exports weaken and the effect of trade-in scheme for durables diminishes. We expect the GDP growth to slow from 5.4% in 1Q25 to 4.9% in 2Q25 and 4.7% in 2H25. If China could reach a trade deal with the US, it might focus on economy rebalancing with stronger fiscal expansion, additional consumption stimulus and faster overcapacity reduction.

■ **Property sales continued to deteriorate, prompting further policy easing.** The decline of gross floor area (GFA) sold for commodity buildings edged down to -2.9% in 5M25 from -2.8% in 4M25 according to NBS, while residence GFA further dropped to -2.6% from -2.1%. Housing starts slumped by -22.8% in 5M25 to 232mn sqm, back to the level in 2004. The steep decline in housing starts is set to curb future supply in 2-3 years, expediting the structural rebalancing of China's property market, in our view. For new housing sales, according to market data, YoY sales in 30 major cities dropped 5.9% in the first half of June compared to 0% in May. Tier-2 cities recovered to -12.6% in the first half of June from -17.6% in May, while tier-1 and -3 cities moderated to 1.9% and -2.4% from 18.2% and 15.9%. Second-hand housing sales continued to weaken, as 11 selective cities saw a YoY drop of 5.2% in the first half of June from 6.8% in May, potentially the first month of negative growth since May 2024, while second-hand housing prices dipped further across all city tiers in May, as softening demand weighed on both price and sales volume. The softening property market has prompted further policy easing, as more tier-2 cities could follow the full removal of property market restrictions in Guangzhou, though most measures are already in effect. Given the determination from policymakers to "stabilize the property market and prevent further declines", we believe the property market is likely to see a wave-like rebound in 2H25 under further policy support.

■ **Retail sales rebounded unexpectedly amid tariff truce.** Retail sales growth accelerated to 6.4% in May from 5.1% in Apr, notably beating market consensus at 4.9%. Durables qualified for the trade-in scheme continued to serve as the primary support, as home appliances, cultural & office products, furniture and telecom equipment further rose by 53%, 30.5%, 25.6% and 33% respectively in May, from 38.8%, 33.5%, 26.9% and 19.9% in Apr. Auto sales edged up to 1.1% in May from 0.7%, while the sales volume of passenger vehicles rose 14% in May, possibly reflecting the intensifying price competition in final retail. Staples like food, daily used goods and alcohol & tobacco products remained resilient. Gold, silver & jewellery sales notably surged 21.8% in May amid rising gold prices and robust demand. Looking forward, retail sales may rise from 3.5% in 2024 to 4.7% in 2025, with a possible strong recovery in 1H25 driven by the expanding trade-in scheme, but this could come at the expense of future demand, as we may see a notable slowdown in 4Q25.

■ **FAI continued to moderate amid weakening private sector investment.** Total FAI growth dropped to 3.7% in 5M25 from 4% in 4M25, below market expectations at 4%. Sectors dominated by private investment, including property development investment, further contracted to -12% in May from -11.3% in Apr, as contraction of housing starts continued. Manufacturing FAI edged down to 7.8% in May from 8.2% in Apr, as shocks from the trade war and slowing exports continued to weight on corporate Capex. Sectors including non-ferrous metals smelting & pressing, medicine, general

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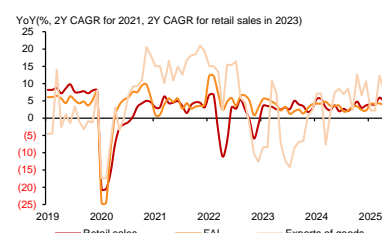
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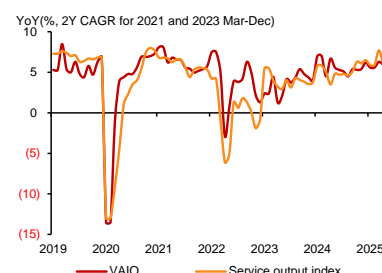
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Source: Wind, CMBIGM



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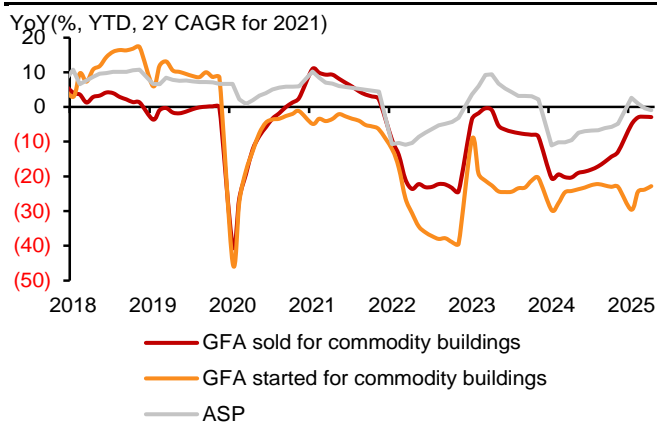
equipment, electrical equipment and other transportation equipment saw notable moderation. Infrastructure FAI remained resilient at 9.3% in May, thanks to the robust government bond issuance. Looking forward, FAI growth might mildly accelerate from 3.2% in 2024 to 3.7% in 2025 thanks to the narrower declines of property development investment. Manufacturing and infrastructure investment growth is likely to fall from 9.2% and 9.2% in 2024 to 8.5% and 8.7% in 2025.

- **Industrial output moderated broadly while service output recovered.** VAIO growth eased to 5.8% in May from 6.1% in Apr, roughly in line with market consensus of 5.7%. The broad-based slowdown in manufacturing continued, as textile, chemical products, other transport equipment, and electrical equipment moderated, while autos and non-ferrous metal smelting& pressing rebounded. Mining remained flat at 5.7% while public utility edged down to 6.2% in May from 6.6%. Growth of service output index inched up to 6.2% in May from 6% in Apr. Looking forward, industrial output may decelerate as headwinds from trade intensify and demand overdraft kicks in due to trade-in subsidies.
- **The economy faces further headwinds with possible additional policy support in 2H25.** China economy is likely to experience further headwinds in 2H25, as weakening property sales and diminishing effect of the trade-in scheme may weigh on durables consumption and shocks from trade tensions could suppress private sector confidence. We expect the GDP growth to slow from 5.4% in 1Q25 to 4.9% in 2Q25 and 4.7% in 2H25. If China could reach a trade deal with the US, it might focus on economy rebalancing with stronger fiscal expansion, additional consumption stimulus and faster overcapacity reduction. In 2H25, we expect a further 10 bps LPR cut, along with a possibly moderate increase in the broad fiscal deficit.

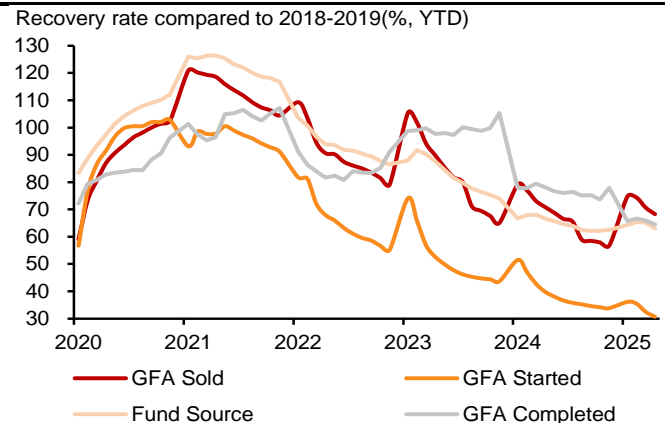
**Figure 1: China's economic indicators**

YoY(%)	2019	2020-2021	2022-2023	2024	2Q24	3Q24	4Q24	1Q25	Apr	May
GDP	6.1	5.3	4.1	5.0	4.7	4.6	5.4	5.4		
GDP Deflator	1.3	2.5	0.7	(0.7)	(0.7)	(0.5)	(0.7)	(0.8)		
VAIO	5.7	6.1	4.1	5.8	5.9	5.0	5.6	6.5	6.1	5.8
-Mining	5.0	2.9	4.8	3.1	3.3	4.0	3.7	6.2	5.7	5.7
-Manufacturing	6.0	6.6	4.0	6.1	6.3	4.9	6.3	7.1	6.6	6.2
-Public utility	7.0	6.6	4.6	5.3	5.0	7.0	2.7	1.9	2.1	2.2
Delivery value for exports	1.3	8.3	0.7	5.1	6.0	5.0	7.2	6.7	0.9	0.6
Service output index	6.9	6.3	3.9	5.2	4.3	4.8	6.3	5.8	6.0	6.2
Retail sales	8.0	4.0	3.4	3.5	2.6	2.7	3.8	4.6	5.1	6.4
Exports of goods	0.5	15.9	0.3	5.8	5.7	5.9	9.9	5.7	8.1	4.8
Imports of goods	(2.7)	13.7	(2.4)	1.1	2.5	2.2	(1.7)	(7.0)	(0.2)	(3.4)
Urban FAI (YTD)	5.4	3.9	4.0	3.2	3.9	3.4	3.2	4.2	4.0	3.7
-Property development	9.9	5.7	(9.8)	(10.6)	(10.1)	(10.1)	(10.6)	(9.9)	(10.3)	(10.7)
-Manufacturing	3.1	5.4	7.8	9.2	9.5	9.2	9.2	9.1	8.8	8.5
-Infrastructure	3.3	1.8	9.9	9.2	7.7	9.3	9.2	11.5	10.9	10.4
GFA sold for commodity building (YTD)	(0.1)	2.2	(16.8)	(12.9)	(19.0)	(17.1)	(12.9)	(3.0)	(2.8)	(2.9)
GFA started for commodity building (YTD)	8.5	(6.4)	(30.5)	(23.0)	(23.7)	(22.2)	(23.0)	(24.4)	(23.8)	(22.8)

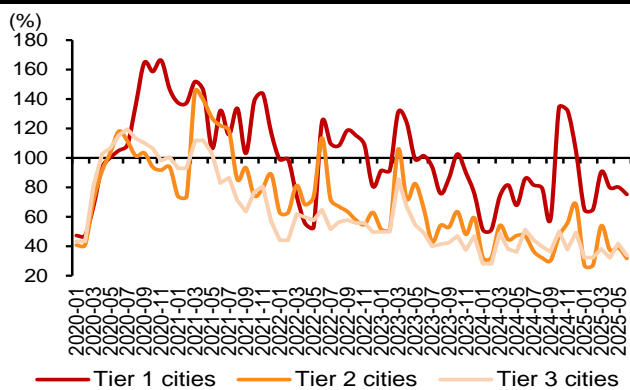
Source: Wind, CMBIGM estimates

**Figure 2: Property sales growth**

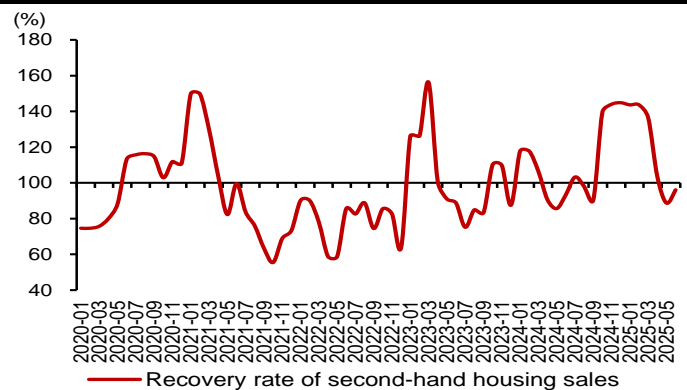
Source: Wind, CMBIGM

**Figure 3: Recovery rates compared to 2018-2019**

Source: Wind, CMBIGM

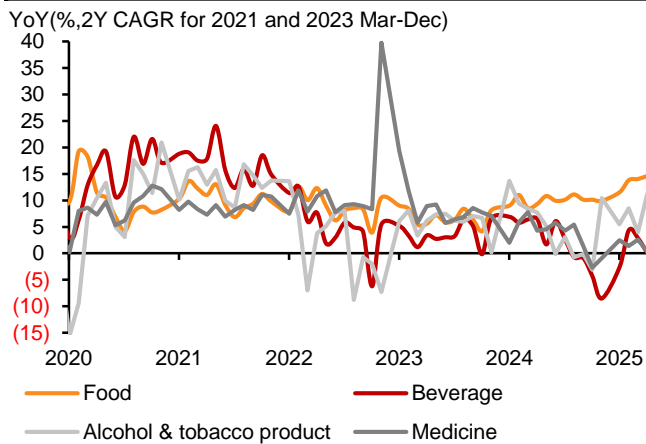
**Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities**

Source: Wind, CMBIGM

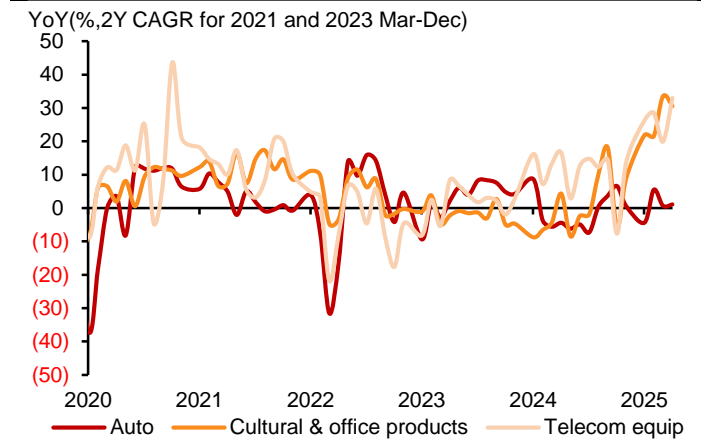
**Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities**

Source: Wind, CMBIGM

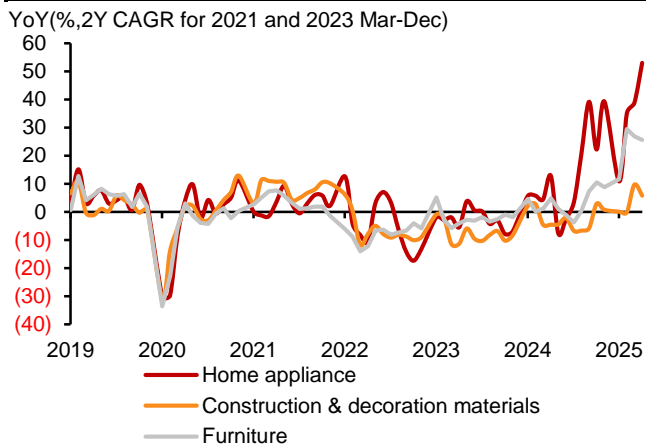
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

**Figure 6: Retail sales of staples**

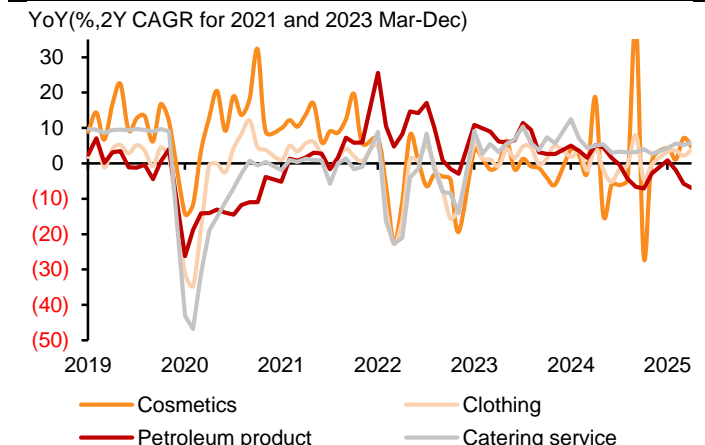
Source: Wind, CMBIGM

**Figure 7: Retail sales of auto & electronics**

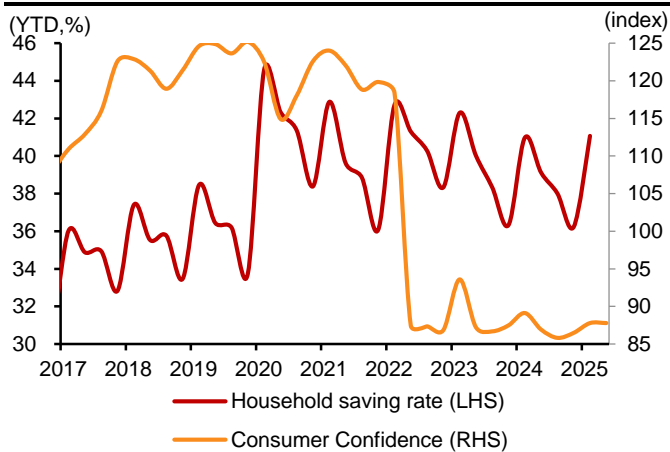
Source: Wind, CMBIGM

**Figure 8: Home appliance & furniture retail sales**

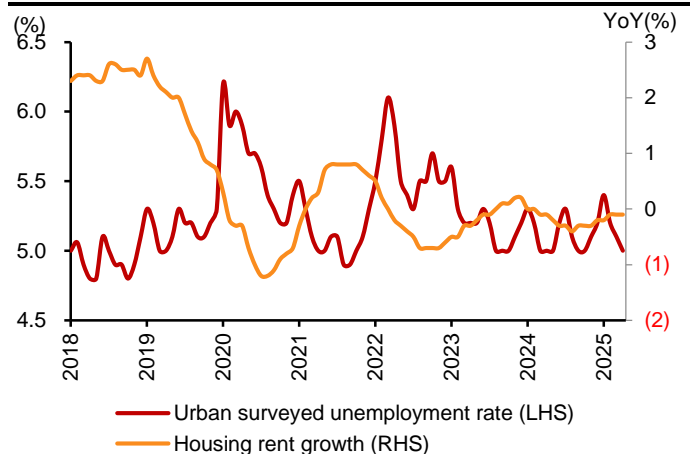
Source: Wind, CMBIGM

**Figure 9: Retail sales related to outgoing activities**

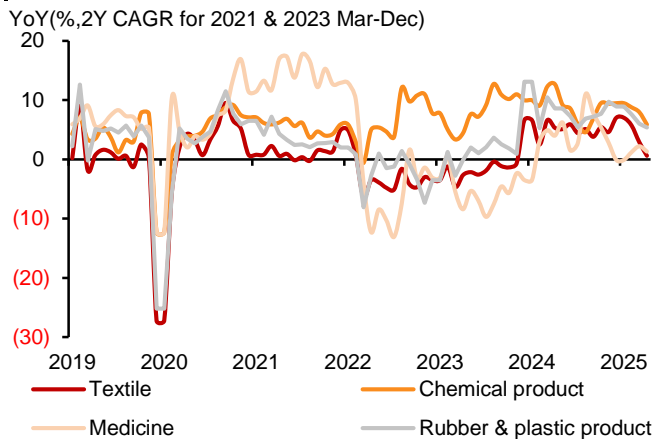
Source: Wind, CMBIGM

**Figure 10: Consumer confidence**

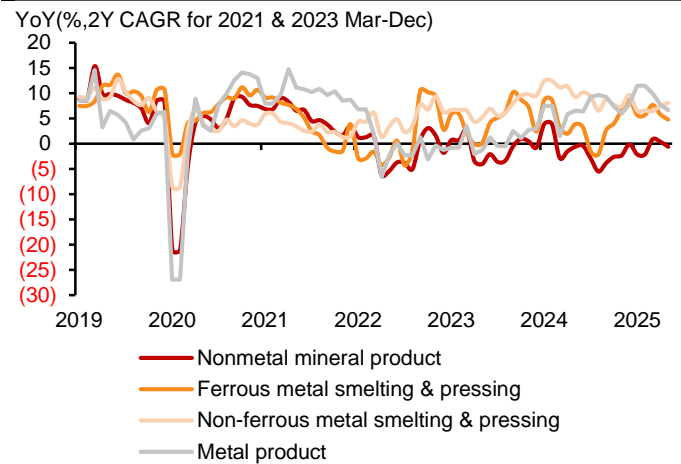
Source: Wind, CMBIGM

**Figure 11: Urban unemployment rate & housing rent**

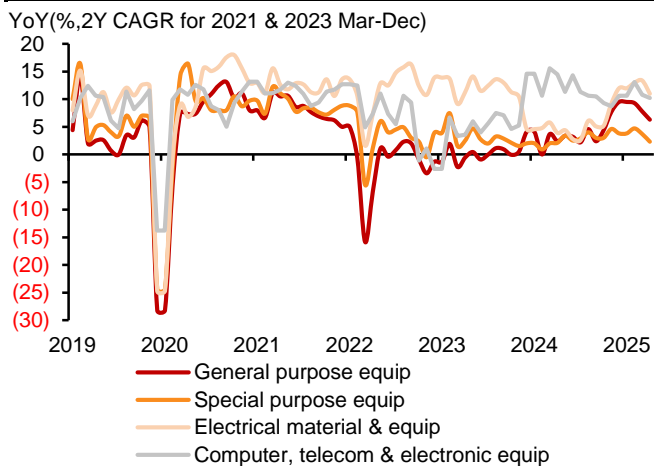
Source: Wind, CMBIGM

**Figure 12: VAIO in textile & chemical products**

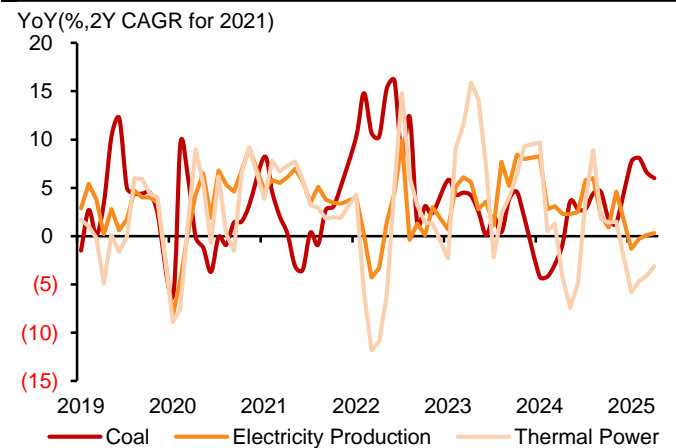
Source: Wind, CMBIGM

**Figure 13: VAIO in mineral & metal products**

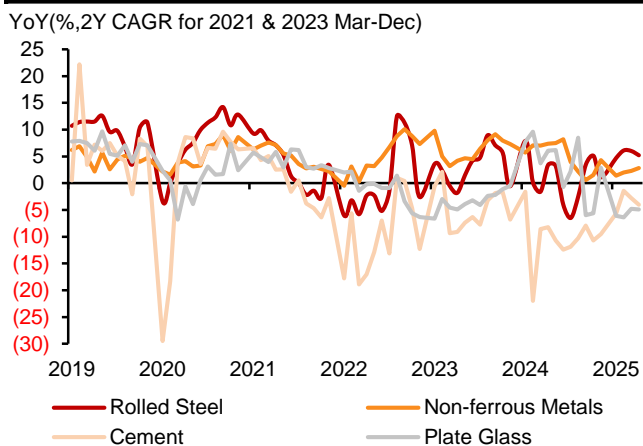
Source: Wind, CMBIGM

**Figure 14: VAIO in equipment**

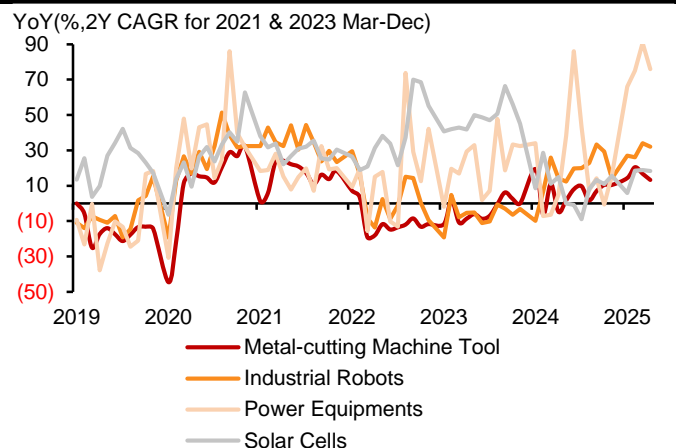
Source: Wind, CMBIGM

**Figure 15: Output in energy and electricity**

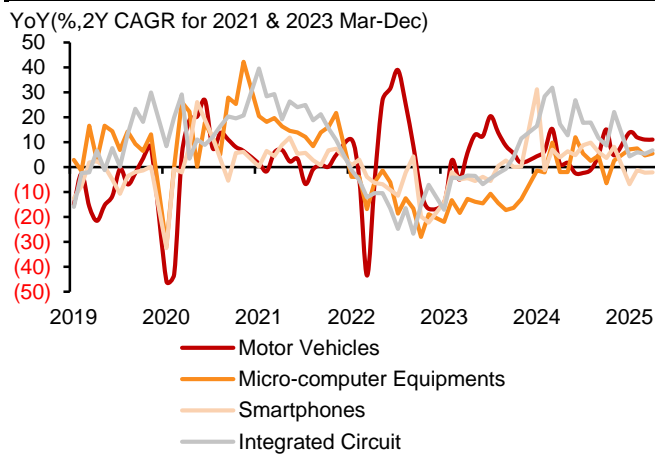
Source: Wind, CMBIGM

**Figure 16: Output in steel & construction materials**

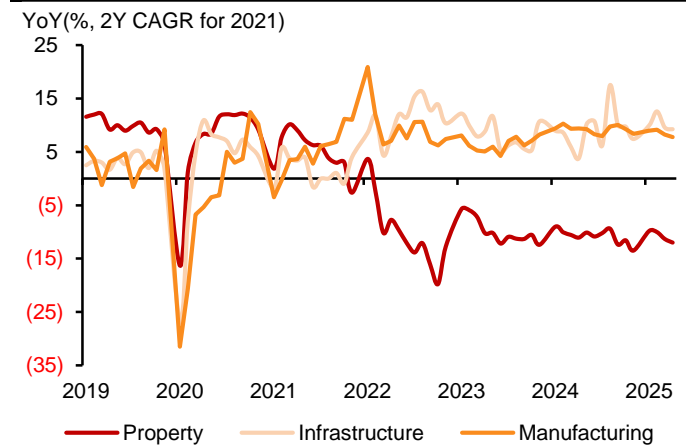
Source: Wind, CMBIGM

**Figure 17: Output in capital goods**

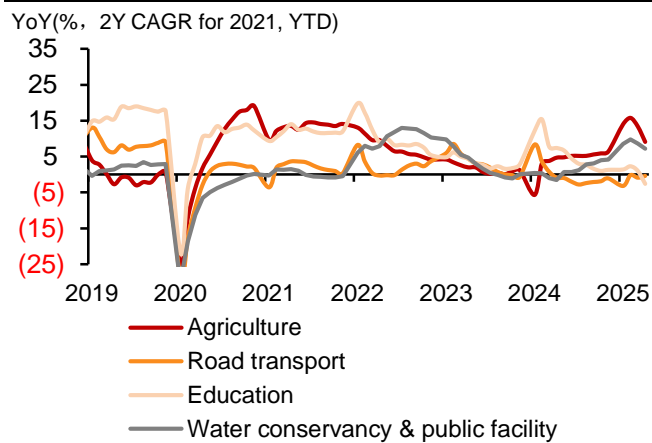
Source: Wind, CMBIGM

**Figure 18: Output in autos, computers & smartphones**

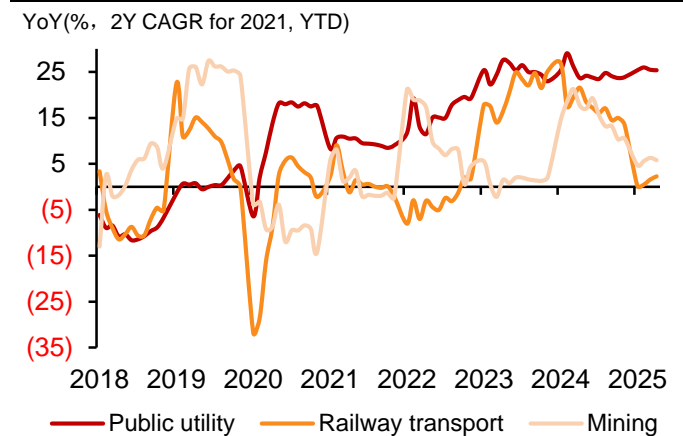
Source: Wind, CMBIGM

**Figure 19: FAI by sector**

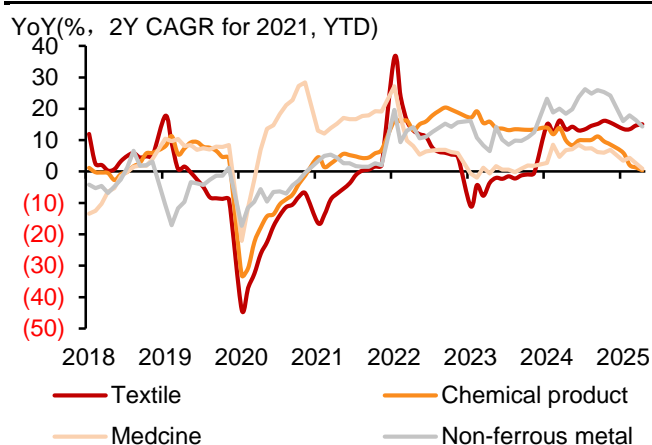
Source: Wind, CMBIGM

**Figure 20: FAI in agriculture & local infrastructure**

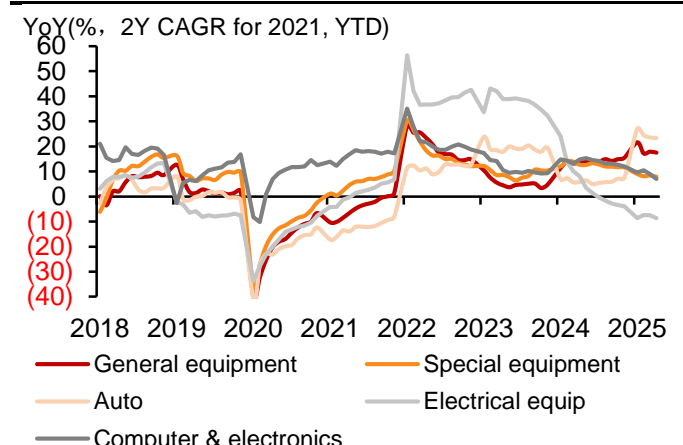
Source: Wind, CMBIGM

**Figure 21: FAI in central infrastructure & mining**

Source: Wind, CMBIGM

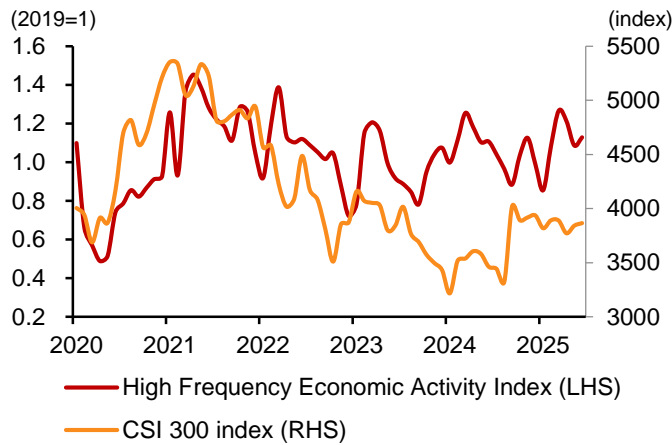
**Figure 22: FAI in chemical products**

Source: Wind, CMBIGM

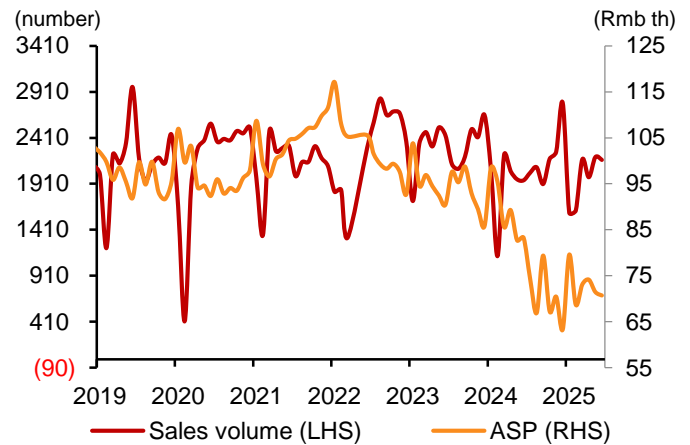
**Figure 23: FAI in equipment**

Source: Wind, CMBIGM

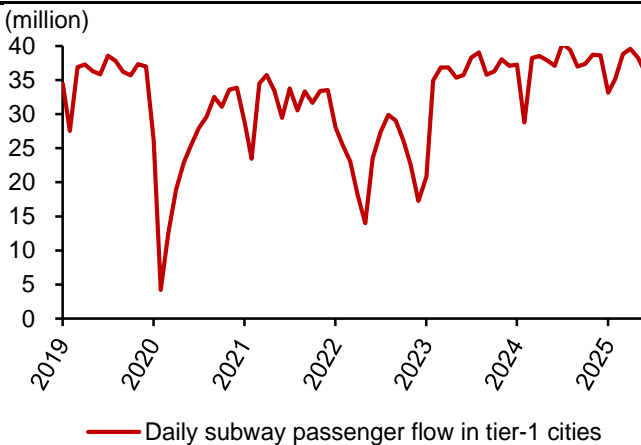


**Figure 24: Economic activity & A-share index**

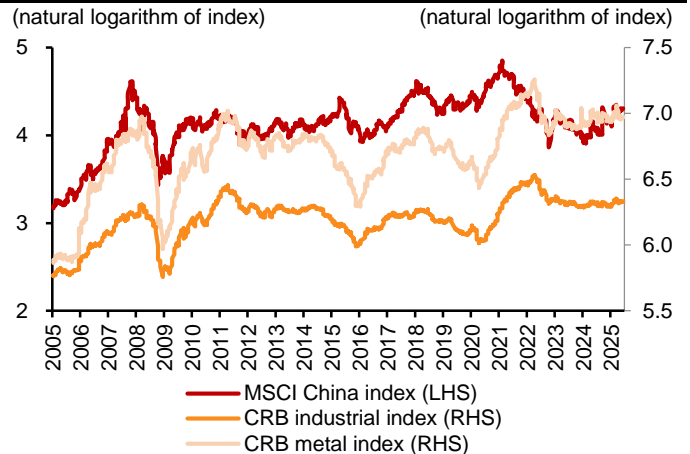
Source: Wind, CMBIGM

**Figure 25: Used vehicle sales in Shanghai market**

Source: Wind, CMBIGM

**Figure 26: Subway passenger flow in tier-1 cities**

Source: Wind, CMBIGM

**Figure 27: MSCI China and commodity prices**

Source: Wind, CMBIGM

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