16 Jul 2025

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China Economy

Solid growth lowers policy easing likelihood

China's 2Q GDP remained robust thanks to exports front-loading, fiscal expansion and the trade-in scheme. However, the economy showed signs of moderation in June, as property sales, retail sales and fixed-asset investment notably softened. New and second-hand housing sales dropped to contraction in early July, as its recovery rate compared to 2019 dropped back to the level in Sep 2024. Retail sales in June moderated due to the fading policy effect and strict alcohol ban on government officials, while FAI lost steam across major sectors. However, the industrial output remained robust thanks to the exports surge in June following the tariff truce. China economy is likely to experience further headwinds in 2H25, as softening property sales, diminishing policy effect of the trade-in scheme and strict alcohol ban on government employees weigh on consumption, and payback from previous exports front-loading to suppress manufacturing output and investment. With the trade deal with the US being reached potentially in 4Q25, China might focus on economy rebalancing with stronger fiscal expansion, additional consumption stimulus and faster overcapacity reduction. In 4Q25, we expect a further 10bps LPR cut and 50bps RRR cut. We see the need to ramp up direct fiscal support to households and the property sector, as lifting purchase restrictions and trade-in scheme seem hardly sufficient now.

- **2Q GDP growth inline with market expectation but deflation pressure worsened.** China's GDP growth in YoY terms (all on a YoY basis unless otherwise specified) moderated to 5.2% in 2Q25 from 5.4% in 1Q25. Meanwhile, the seasonally-adjusted QoQ growth of GDP moderated from 1.2% in 1Q25 to 1.1% in 2Q25. GDP deflator dipped to -1.2% in 2Q25 compared to -0.8% in 4Q24, indicating the ongoing deflation pressure has intensified amid tariff shocks and supply-side price war.
- **Property sales further sank.** The decline of gross floor area (GFA) sold for commodity buildings dropped to -3.5% in 6M25 from -2.9% in May according to NBS, while residence GFA further dropped to -3.7% from -2.6%. Contraction of housing starts narrowed to -20% in 6M25 to 303 million sq.m., back to the level in 2004-05, which should curb future supply in 2-3 years and expedite the structural rebalancing of China's property market. For new housing sales, according to market data, YoY sales in 30 major cities notably dropped 30.7% in the first half of July compared to -10.3% in May, as housing sales slumped across different tiers of cities. The sales recovery rate of tier-1 cities compared to 2018&19 has dropped to 57.8% in the first half of July, close to the 58.6% in Sep 2024, prompting the likelihood of further policy easing. Second-hand housing sales also softened, as YoY growth of 11 selective cities dropped 8.8% in the first half of July from -5.7% in June. New and second-hand housing prices dipped further across all city tiers in July, as the softening demand from tariff shocks and fading policy effect weigh on both price and sales volume.
- **Retail sales moderated due to the fading policy effect and strict alcohol ban.** Retail sales growth slowed down to 4.8% in June from 6.4% in May, below market consensus at 5.6%. Most of the durables qualified for the trade-in scheme moderated, as home appliances, cultural & office products and telecom equipment eased to 32.4%, 24.4% and 13.9% in June from 53%, 30.5% and 33%. However, auto and furniture sales rose to 4.6% and 28.7 from 1.1% and 25.6%. Staples like food and beverage notably dropped to 8.7% and -4.4% in June compared to 14.6% and 0.1% in May. Catering service and alcohol & tobacco products also markedly eased to 0.9% and -0.7% in June from 5.9% and -0.7%, reflecting the recent stringent alcohol ban on government employees. Looking forward, retail sales may rise from 3.5% in 2024 to 4.7% in 2025. After the strong

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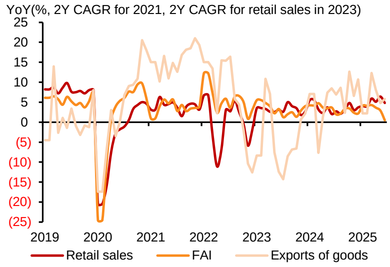
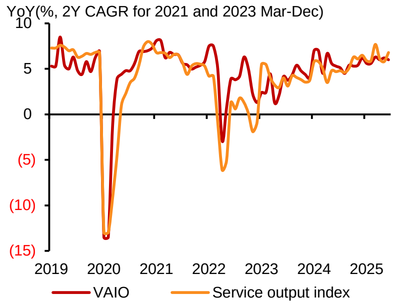


Source: Wind, CMBIGM



Source: Wind, CMBIGM

recovery in 1H25 driven by the expanding trade-in schemes, we may see a notable slowdown in the second half of the year, as the robust 1H25 came at the expense of future demand.

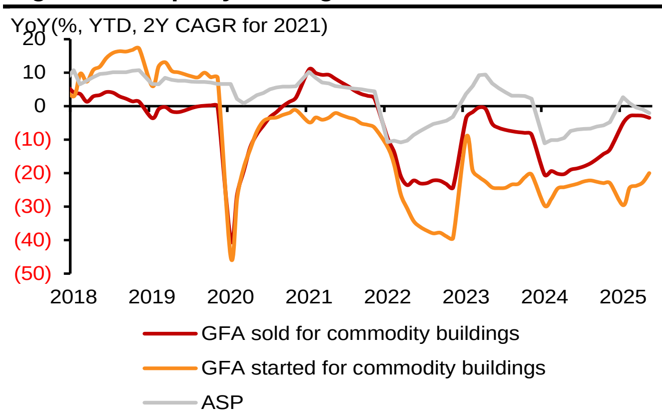
- **FAI continued to moderate across major sectors.** Total FAI growth dropped to 2.8% in 6M25 from 3.7% in 5M25, below market expectations at 3.7%, while its monthly YoY dropped to 0.5% in June from 2.9%, one of the lowest growth rates in the past 4 years. The moderation was broad-based. Property development investment further contracted to -12.9% in June from -12% in May, as the housing market remained in over-supply. Manufacturing FAI edged down to 5.1% in June from 7.8%, as shocks from the trade war and narrowing profit margins continued to weight on corporate Capex. Sectors including textile, non-ferrous metals smelting & pressing, medicine, general equipment, electrical equipment and computer & electronics saw notable moderation. Infrastructure FAI notably slowed down to 5.3% in June from 9.2%, despite the robust government bond issuance. Looking forward, FAI growth might mildly moderate from 3.2% in 2024 to 2.3% in 2025 as property development investment remained in deep contraction. Manufacturing and infrastructure investment growth is likely to fall from 9.2% and 9.2% in 2024 to 6.5% and 7.0% in 2025, on our estimates.
- **Industrial output beat market expectation amid robust manufacturing output.** VAIO growth accelerated to 6.8% in June from 5.8% in May, notably above market consensus at 5.5%. Mining edged up to 6.1% in June from 5.7% while public utility edged down to 1.8% in May from 2.2%. VAIO of manufacturing rebounded thanks to the robust exports in June, as textile, chemical products, rubber & plastic products, and general and special-purpose equipment picked up, while other transport equipment, and ferrous metal smelting & pressing moderated. Growth of service output index edged down to 6% in June from 6.2% in May. Looking forward, industrial output may decelerate due to the headwinds from exports and demand overdraft from trade-in subsidies.
- **The softening demand signals broader economic weakening in 2H25.** China economy is likely to experience further headwinds in 2H25, as softening property sales, diminishing policy effect of the trade-in scheme and strict alcohol ban on government employees weigh on consumption, and softening exports suppress manufacturing output and investment. With the trade deal with the US being reached potentially in 4Q25, China might focus on economy rebalancing with stronger fiscal expansion, additional consumption stimulus and faster overcapacity reduction. In 4Q25, we expect a further 10bps LPR cut and 50bps RRR cut. We see the need to ramp up direct fiscal support to households and property sector, as lifting purchase restrictions and the trade-in scheme seems insufficient now.

Figure 1: China's economic indicators

YoY(%)	2019	2020-2021 CAGR	2022-2023 CAGR	2024	3Q24	4Q24	1Q25	2Q25	May	June
GDP	6.1	5.3	4.1	5.0	4.6	5.4	5.4	5.2		
GDP Deflator	1.3	2.5	0.7	(0.7)	(0.5)	(0.7)	(0.8)	(1.2)		
VAIO	5.7	6.1	4.1	5.8	5.0	5.6	6.5	6.2	5.8	6.8
-Mining	5.0	2.9	4.8	3.1	4.0	3.7	6.2	5.8	5.7	6.1
-Manufacturing	6.0	6.6	4.0	6.1	4.9	6.3	7.1	6.7	6.2	7.4
-Public utility	7.0	6.6	4.6	5.3	7.0	2.7	1.9	2.0	2.2	1.8
Delivery value for exports	1.3	8.3	0.7	5.1	5.0	7.2	6.5	2.0	0.6	4.0
Service output index	6.9	6.3	3.9	5.2	4.8	6.3	5.8	6.1	6.2	6.0
Retail sales	8.0	4.0	3.4	3.5	2.7	3.8	4.6	5.4	6.4	4.8
Exports of goods	0.5	15.9	0.3	5.8	5.9	9.9	5.7	6.2	4.8	5.8
Imports of goods	(2.7)	13.7	(2.4)	1.1	2.2	(1.7)	(7.0)	(0.9)	(3.4)	1.1
Urban FAI (YTD)	5.4	3.9	4.0	3.2	3.4	3.2	4.2	2.8	3.7	2.8
-Property development	9.9	5.7	(9.8)	(10.6)	(10.1)	(10.6)	(9.9)	(11.2)	(10.7)	(11.2)
-Manufacturing	3.1	5.4	7.8	9.2	9.2	9.2	9.1	7.5	8.5	7.5
-Infrastructure	3.3	1.8	9.9	9.2	9.3	9.2	11.5	8.9	10.4	8.9
GFA sold for commodity building (YTD)	(0.1)	2.2	(16.8)	(12.9)	(17.1)	(12.9)	(3.0)	(3.5)	(2.9)	(3.5)
GFA started for commodity building (YTD)	8.5	(6.4)	(30.5)	(23.0)	(22.2)	(23.0)	(24.4)	(20.0)	(22.8)	(20.0)

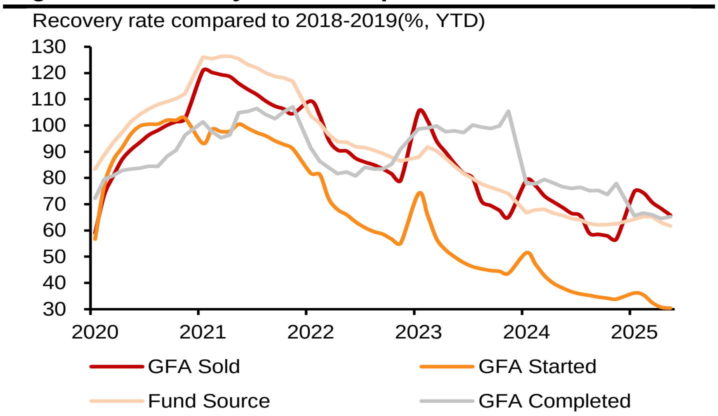
Source: Wind, CMBIGM

Figure 2: Property sales growth



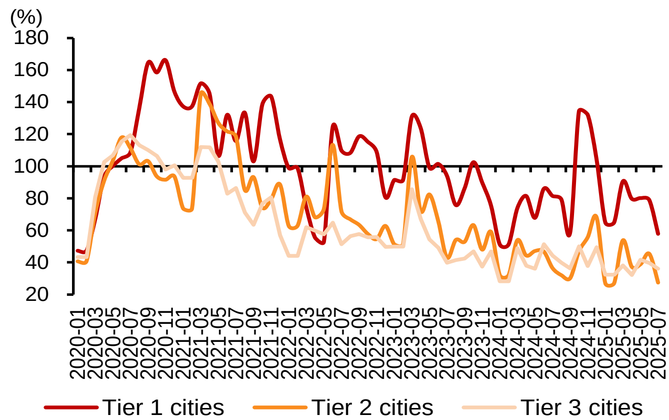
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019



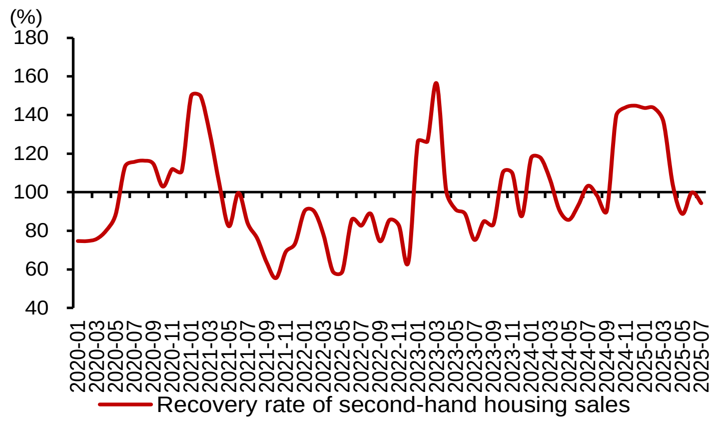
Source: Wind, CMBIGM

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



Source: Wind, CMBIGM

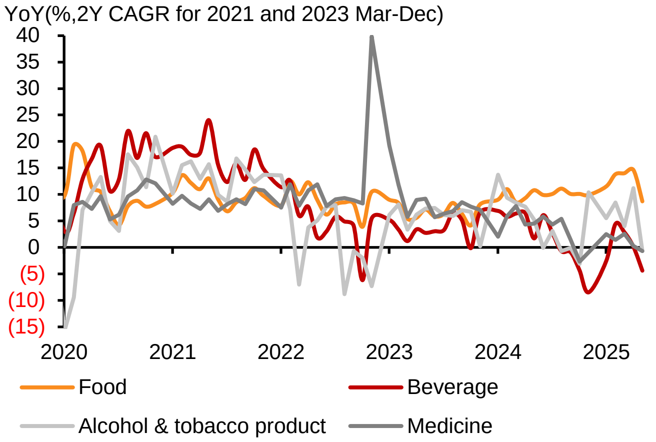
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities



Source: Wind, CMBIGM

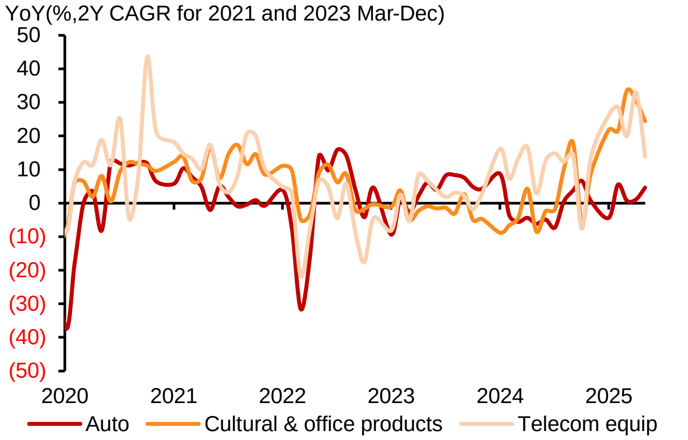
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples



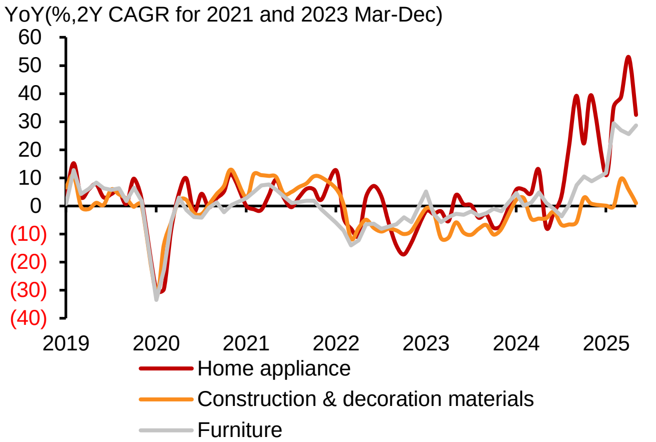
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics



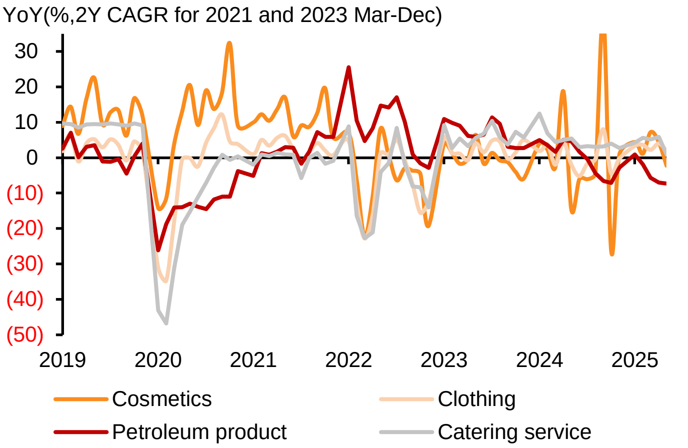
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales



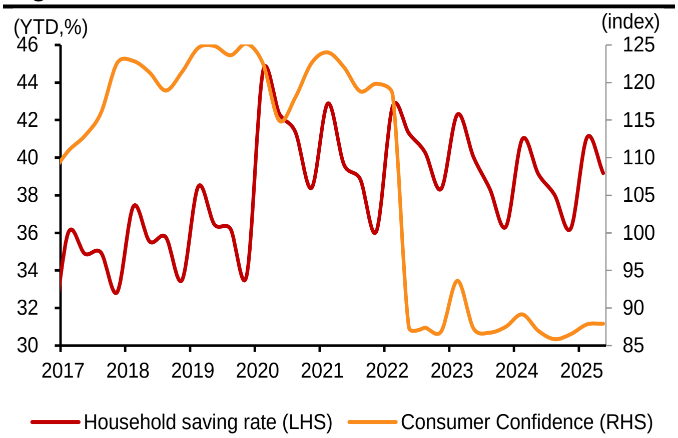
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities



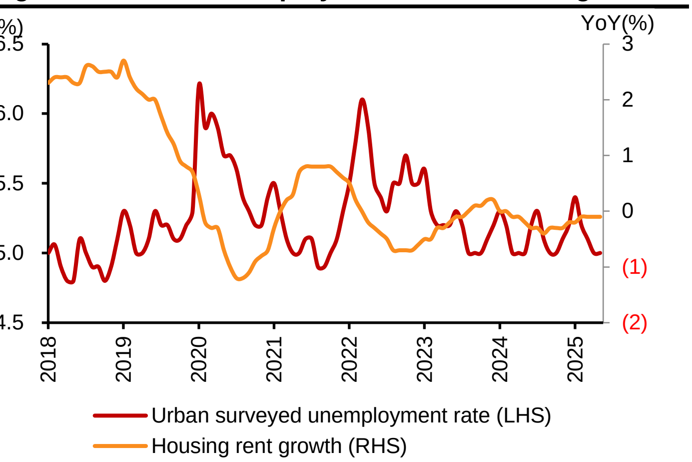
Source: Wind, CMBIGM

Figure 10: Consumer confidence



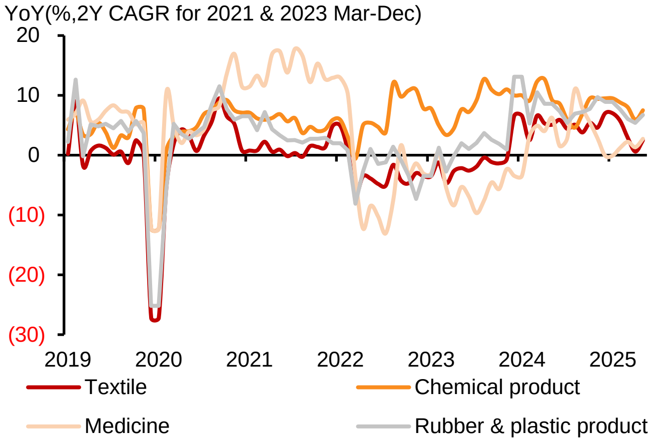
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent



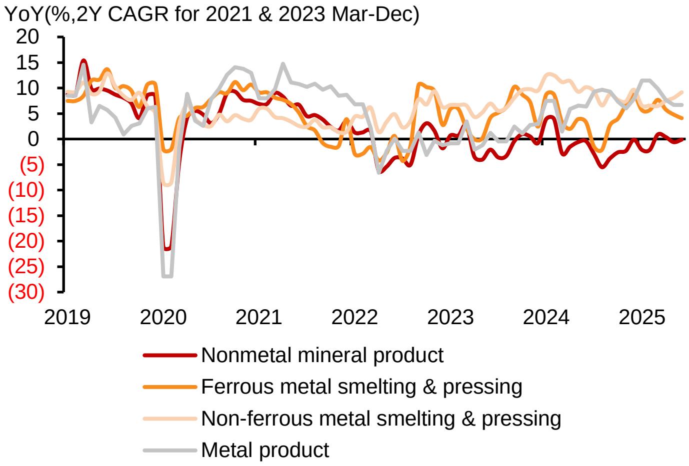
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products



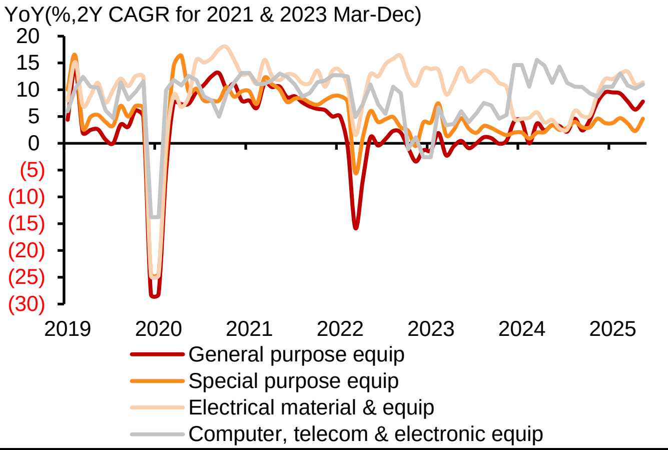
Source: Wind, CMBIGM

Figure 13:VAIO in mineral & metal products



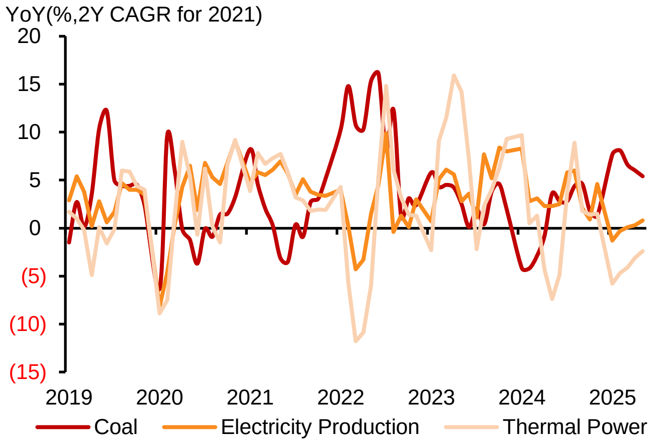
Source: Wind, CMBIGM

Figure 14: VAIO in equipment



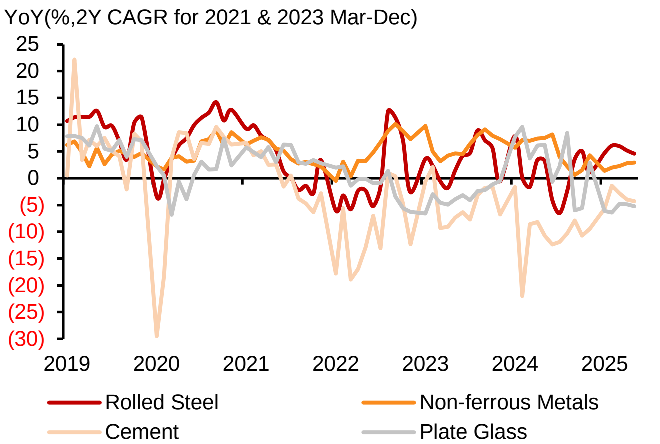
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity



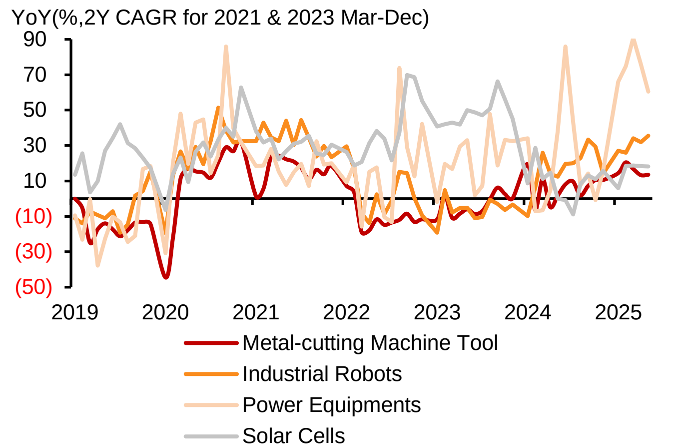
Source: Wind, CMBIGM

Figure 16: Output in steel & construction materials



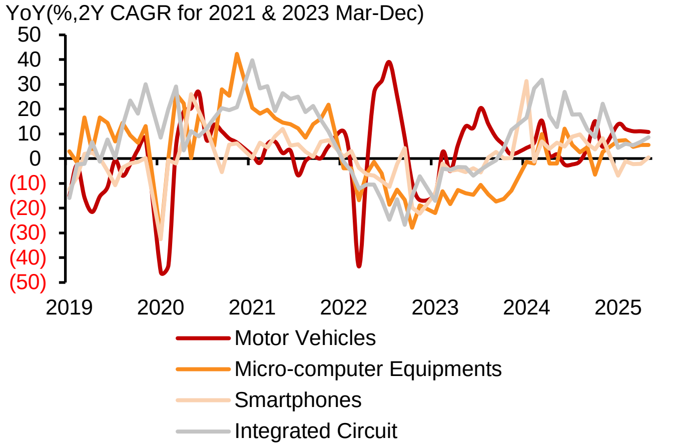
Source: Wind, CMBIGM

Figure 17: Output in capital goods



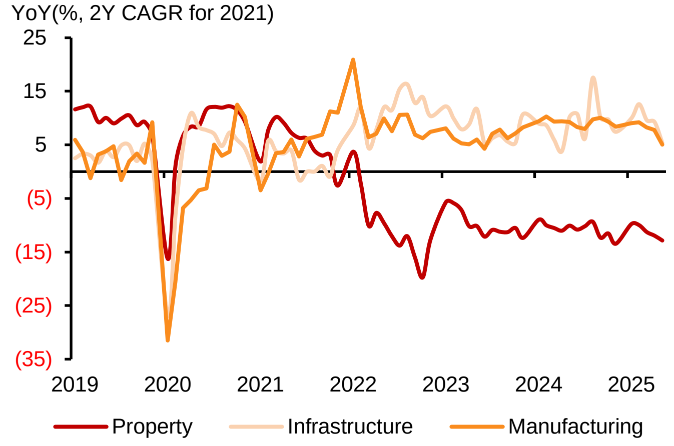
Source: Wind, CMBIGM

Figure 18:Output in auto, computer & smartphone



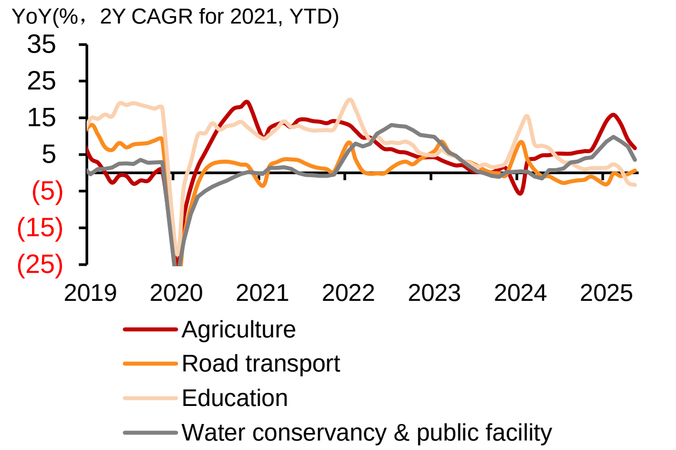
Source: Wind, CMBIGM

Figure 19: FAI by sector



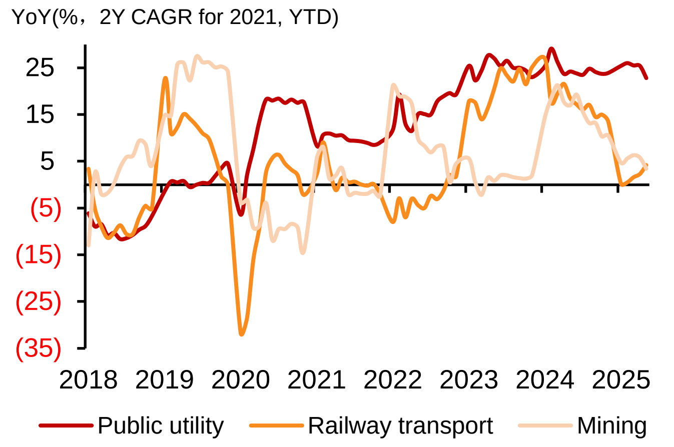
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure



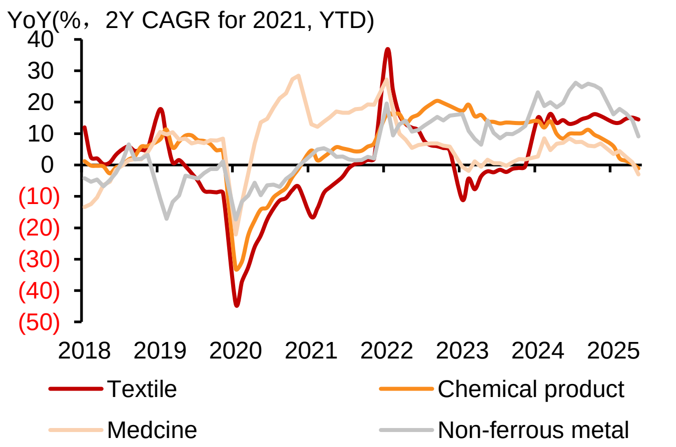
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining



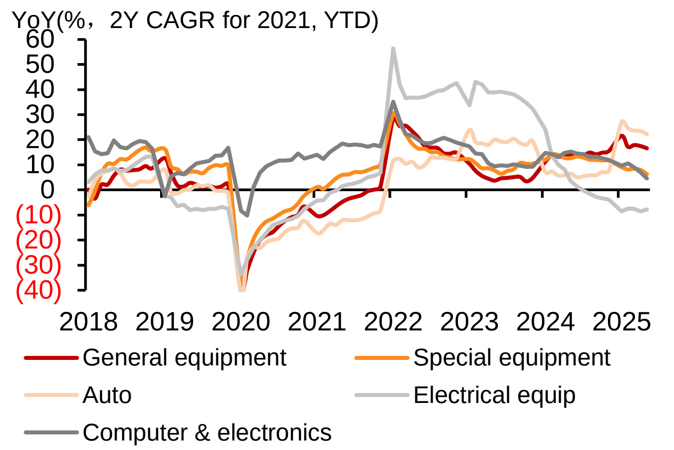
Source: Wind, CMBIGM

Figure 22: FAI in chemical products



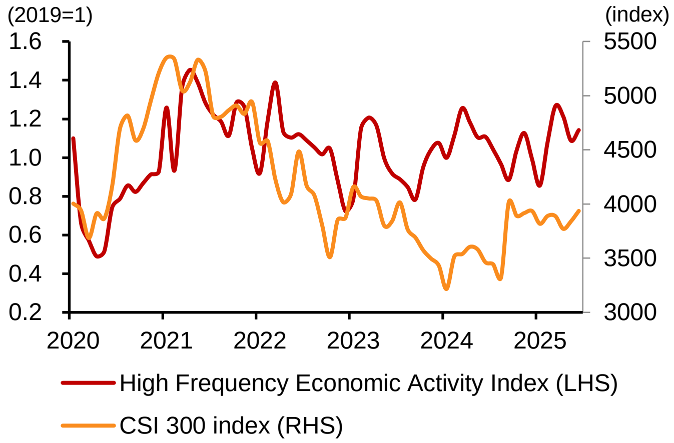
Source: Wind, CMBIGM

Figure 23: FAI in equipment



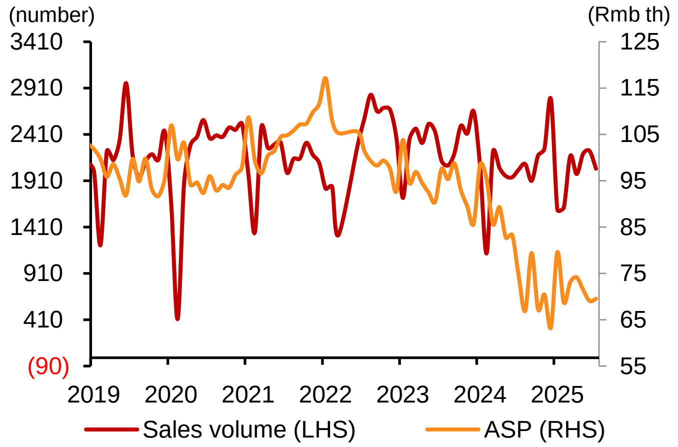
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index



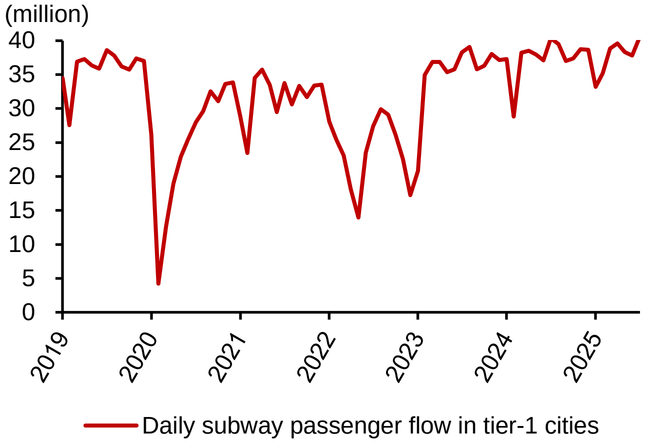
Source: Wind, CMBIGM

Figure 25: Used vehicle sales in Shanghai market



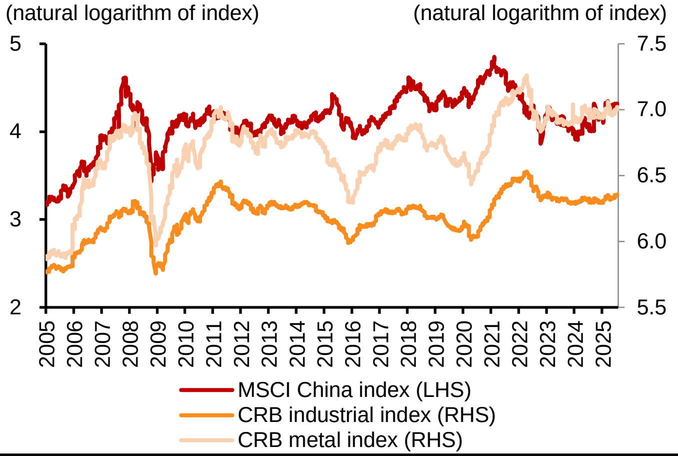
Source: Wind, CMBIGM

Figure 26: Subway passenger flow in tier-1 cities



Source: Wind, CMBIGM

Figure 27: MSCI China and commodity prices



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