

# China Economy

## Resilient data means no strong stimulus in near term

Economic activity broadly moderated in Apr but remained robust amid the tariff shocks. Retail sales slowed but maintained resilient growth supported by durable goods under the trade-in scheme. Industrial output and fixed asset investment growth rates moderately softened and yet stood above the 2024 level. The de-escalation of China-US trade war restored market sentiment but also tempered the pace of policy easing. We revise our projection of China's GDP in 2Q25 to 4.8% from 4.5%, with the 2H25 and full-year growth at 4.7% and 4.9%. China economy may face further headwinds in 3Q25 due to the softening property market, payback effect of export frontloading and the fading impact of trade-in program. Strong policy stimulus might be delayed to 4Q25 as the sense of urgency has diminished and measures to boost consumption and reduce overcapacity could serve as key bargaining chips for China in China-US negotiations.

- **Property market is likely to weaken due to the confidence shock.** The gross floor area (GFA) sold for commodity housing dropped 2.8% in 4M25 after declining 3% in 3M25. Housing starts remained muted at -23.8% in 4M25. New housing sales in 30 major cities dropped 3.3% in the first half of May after decreasing 11.7% in Apr. Second-hand housing sales as a leading indicator weakened as the recovery rate compared to 2019 in 11 selective cities dropped to 77.5% in the first half of May from 100.8% in Apr, with YoY growth dipping to -5.6% from 14.2%. Second-hand housing prices declined across all city tiers in Apr. The property market is likely to weaken due to the confidence shock from tariffs and the diminishing marginal effect of easing measures.
- **Retail sales slowed down but remained resilient.** Retail sales growth moderated to 5.1% in Apr from 5.9% in 4M25, missing market consensus at 5.5%. Retail sales growth exceeding 5% remains a sign of resilience, as durables qualified for trade-in scheme served as the primary support. Home appliances, cultural & office products, furniture and telecom equip respectively rose by 23.9%, 24.4%, 20.2% and 25.4% in Apr from 19.3%, 21.7%, 18.1% and 26.9% in Mar. However, auto sales remained subdued at -0.5% in Apr vs -0.8% in Mar, as auto was the first category covered by the trade-in program in Apr 2024, suggesting a similar trend could emerge in other trade-in categories. Staples like food and daily used goods remained robust, while discretionary items including clothing and alcohol and tobacco products moderated. Gold, silver & jewellery sales notably surged 10.4% in Apr amid rising gold prices and robust demand. Looking forward, retail sales may see a moderate slowdown in 2H25 due to the confidence shock from tariffs and higher comparison base from the trade-in program.
- **FAI edged down amid a widening decline in property investment.** Total FAI growth dropped to 4% in 4M25 from 4.2% in 3M25, slightly below market expectations at 4.26%. By sector, property development investment further contracted to -11.3% in Apr from -10% in Mar, as deleveraging among property developers continued. Infrastructure FAI dipped from 12.6% in Mar to 9.6%, despite robust government bond issuance in Apr. Manufacturing FAI edged down to 8.2% in Apr from 9.2% in Mar as most industries faced over-capacity pressure. Sectors including auto, general equipment, non-ferrous metals and metal products remained resilient with above 10% growth rate, while other transport equipment notably slowed down from 37.9% to 29.6%. Looking forward, FAI growth might mildly accelerate from 3.2% in 2024 to 3.5% in 2025 thanks to the narrower

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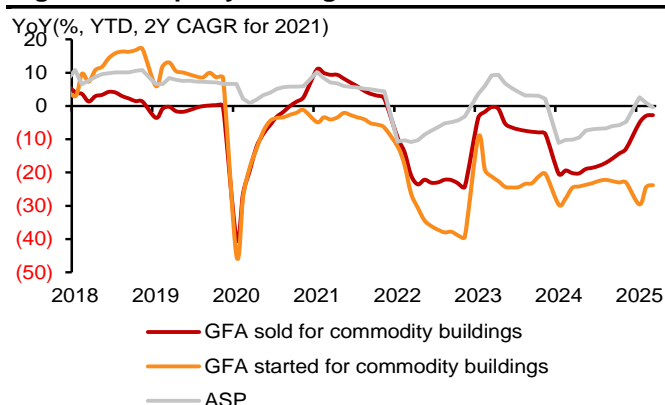
declines of property development investment. Manufacturing and infrastructure investment growth rates are likely to fall from 9.2% and 9.2% in 2024 to 8.5% and 8.2% in 2025.

- **Industrial output moderated.** VAIO growth moderated to 6.1% in Apr from 7.7% in Mar, above market consensus of 5.2%. The slowdown was broad-based, as auto, other transport equipment and electronic equipment edged down but remained robust at 9.2%, 17.6% and 10.8% in Apr. Mining and public utility industries also slowed down from 9.3% and 3.5% in Mar to 5.7% and 2.1% in Apr. Growth of service output index moderated to 6% in Apr from 6.3% in Mar. Looking forward, industrial output may decelerate with headwinds from trade and demand overdraft due to trade-in subsidies.
- **The de-escalation of trade war boosted market sentiment but tempered the pace of policy easing.** With 90-day suspension of reciprocal tariffs, China may continue to see robust exports and manufacturing activity, supported by export rerouting and front-loading. We raise our projection of China's GDP in 2Q25 to 4.8% from 4.5%, with the 2H25 and full-year growth at 4.7% and 4.9%. However, China may face further headwinds in 3Q25 due to the softening property market, payback effect of export frontloading and fading impact of trade-in program. Policy stimulus might be delayed to 2H25 as the sense of urgency has diminished and measures to boost consumption and reduce overcapacity could serve as key bargaining chips for China in China-US negotiations. China might launch additional fiscal stimulus measures especially those targeting consumption, including expanding consumer trade-in schemes, providing child-birth subsidies, and strengthening social benefit net in 4Q25.

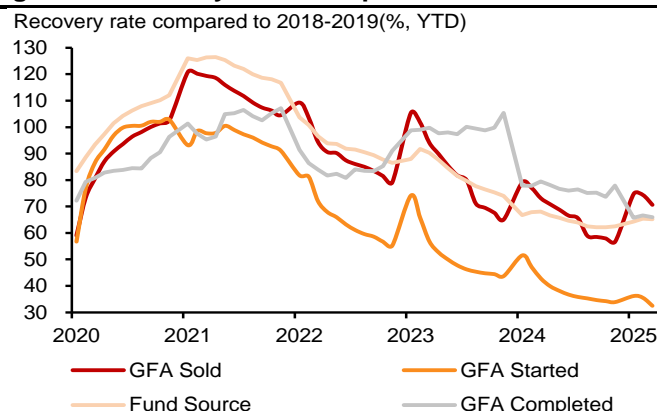
**Figure 1: China's economic indicators**

YoY(%)	2019	2020-2021	2022-2023	2024	2Q24	3Q24	4Q24	1Q25	Mar	Apr
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	7.7	6.1
-Mining	5.0	2.9	4.8	3.1	3.3	4.0	3.7	6.2	9.3	5.7
-Manufacturing	6.0	6.6	4.0	6.1	6.3	4.9	6.3	7.1	7.9	6.6
-Public utility	7.0	6.6	4.6	5.3	5.0	7.0	2.7	1.9	3.5	2.1
Delivery value for exports	1.3	8.3	0.7	5.1	6.0	5.0	7.2	6.7	7.7	0.9
Service output index	6.9	6.3	3.9	5.2	4.3	4.8	6.3	5.8	6.3	6.0
Retail sales	8.0	4.0	3.4	3.5	2.6	2.7	3.8	4.6	5.9	5.1
Exports of goods	0.5	15.9	0.3	5.8	5.7	5.9	9.9	5.7	12.3	8.1
Imports of goods	(2.7)	13.7	(2.4)	1.1	2.5	2.2	(1.7)	(7.0)	(4.4)	(0.2)
Urban FAI (YTD)	5.4	3.9	4.0	3.2	3.9	3.4	3.2	4.2	4.2	4.0
-Property development	9.9	5.7	(9.8)	(10.6)	(10.1)	(10.1)	(10.6)	(9.9)	(9.9)	(10.3)
-Manufacturing	3.1	5.4	7.8	9.2	9.5	9.2	9.2	9.1	9.1	8.8
-Infrastructure	3.3	1.8	9.9	9.2	7.7	9.3	9.2	11.5	11.5	10.9
GFA sold for commodity building (YTD)	(0.1)	2.2	(16.8)	(12.9)	(19.0)	(17.1)	(12.9)	(3.0)	(3.0)	(2.8)
GFA started for commodity building (YTD)	8.5	(6.4)	(30.5)	(23.0)	(23.7)	(22.2)	(23.0)	(24.4)	(24.4)	(23.8)

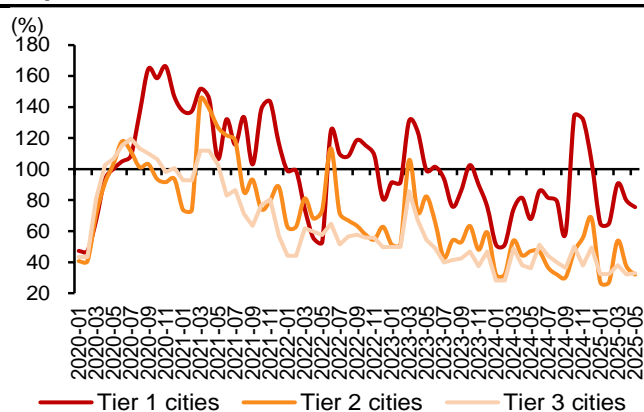
Source: Wind, CMBIGM

**Figure 2: Property sales growth**

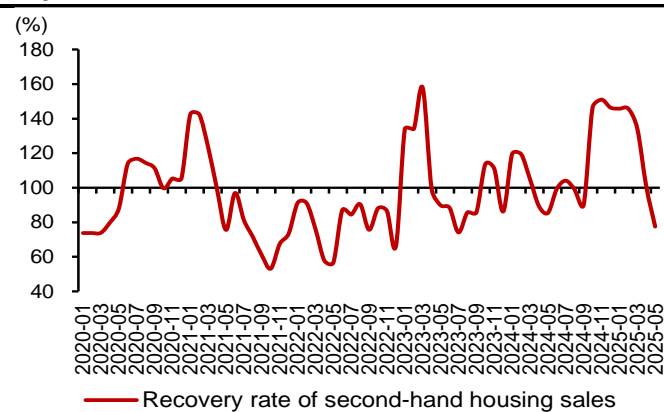
Source: Wind, CMBIGM

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

Source: Wind, CMBIGM

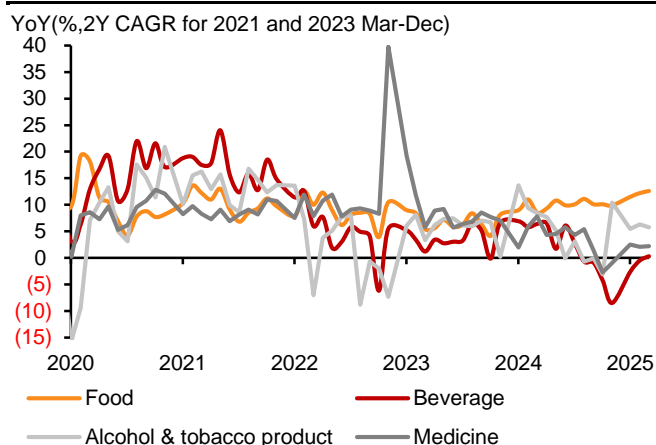
**Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities**

Source: Wind, CMBIGM

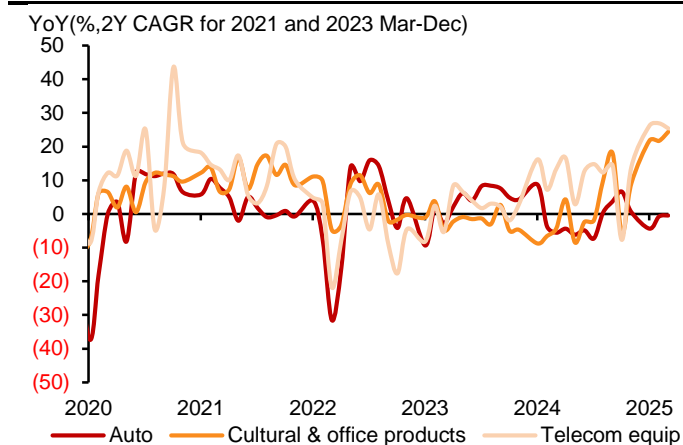
**Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities**

Source: Wind, CMBIGM

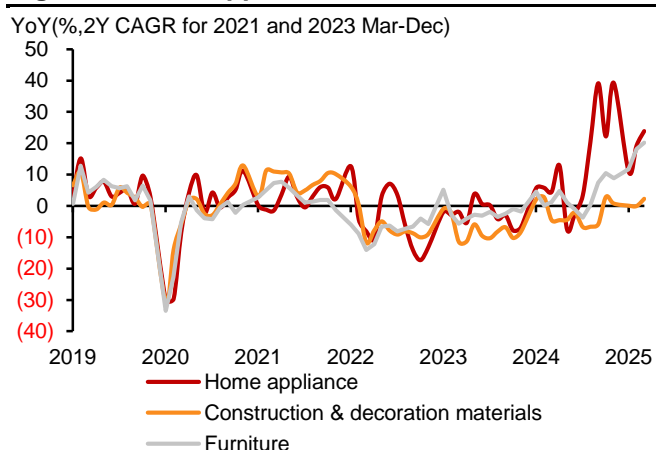
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

**Figure 6: Retail sales of staples**

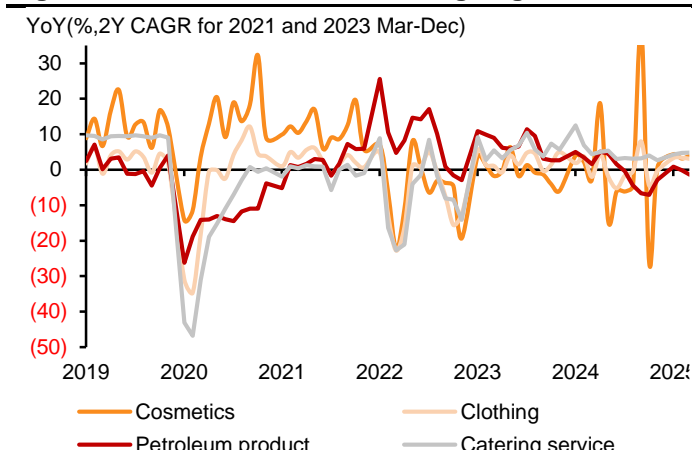
Source: Wind, CMBIGM

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

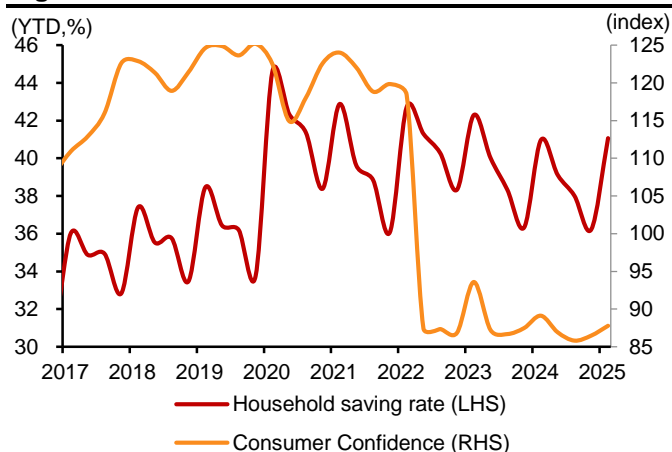
Source: Wind, CMBIGM

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

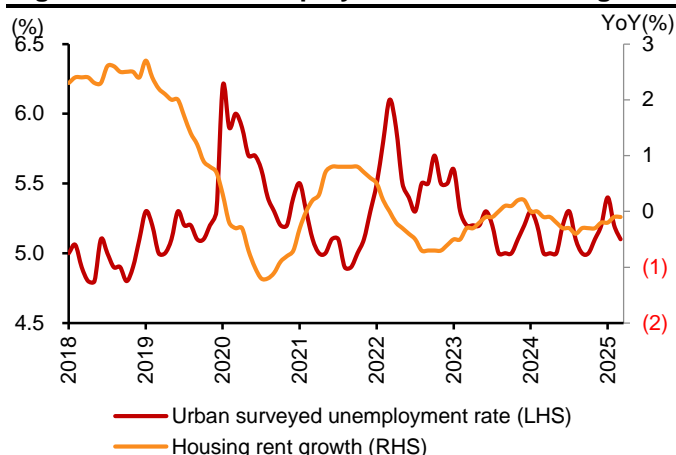
Source: Wind, CMBIGM

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

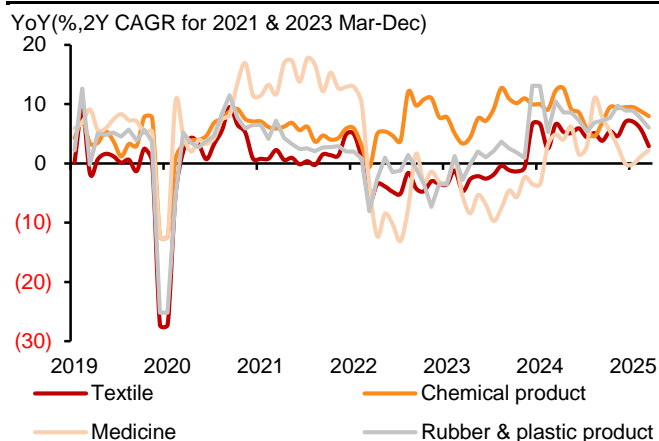
Source: Wind, CMBIGM

**Figure 10: Consumer confidence**

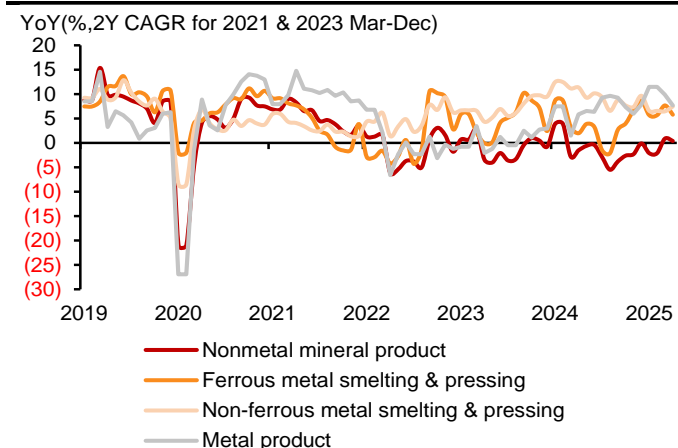
Source: Wind, CMBIGM

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

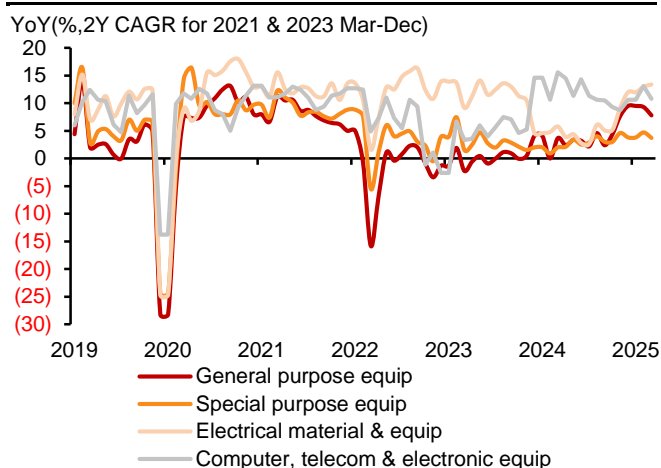
Source: Wind, CMBIGM

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

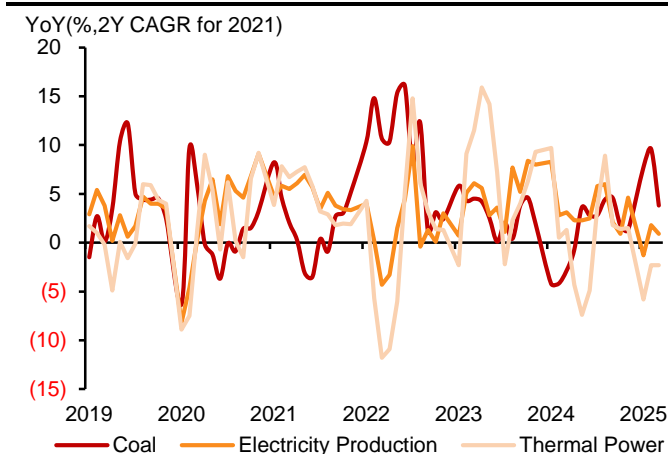
Source: Wind, CMBIGM

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

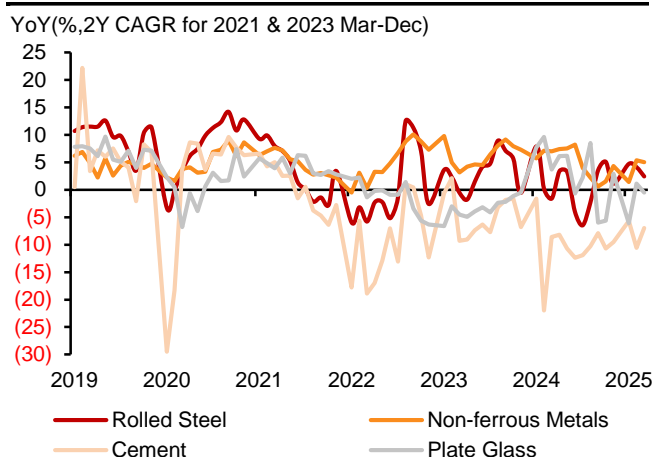
Source: Wind, CMBIGM

**Figure 14: VAIO of equipment**

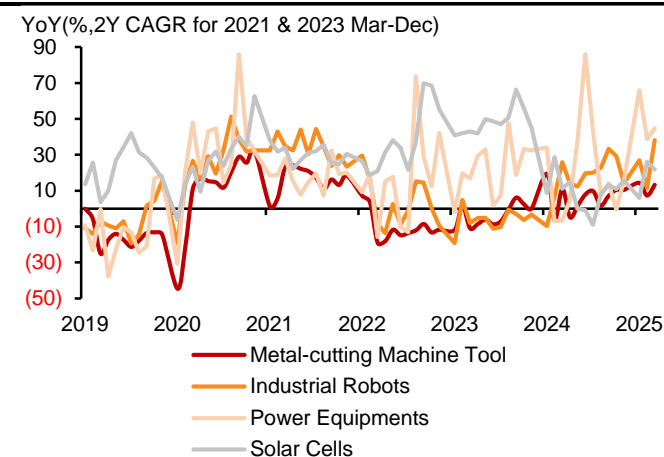
Source: Wind, CMBIGM

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

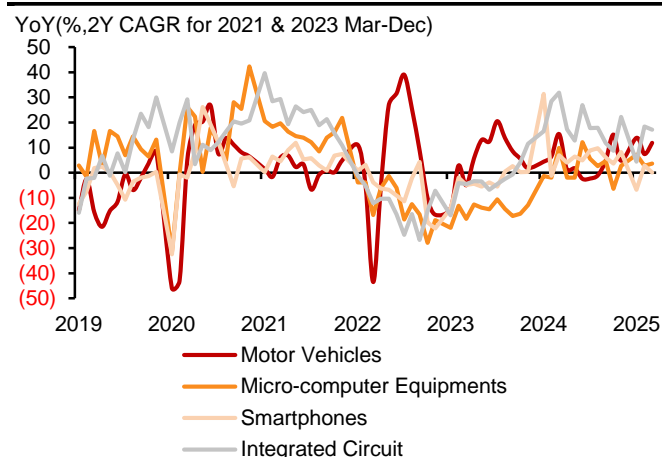
Source: Wind, CMBIGM

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

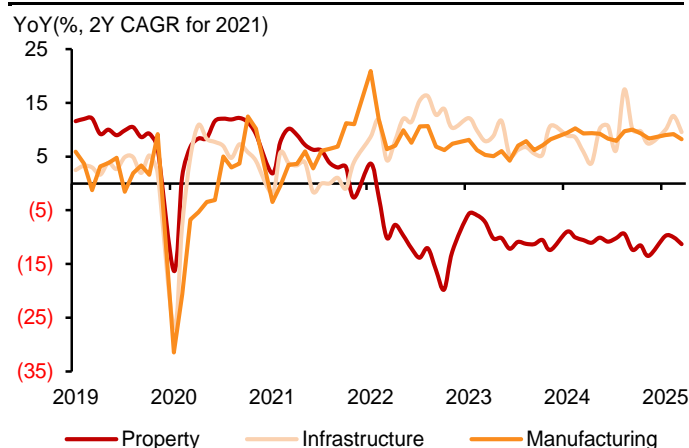
Source: Wind, CMBIGM

**Figure 17: Output of capital goods**

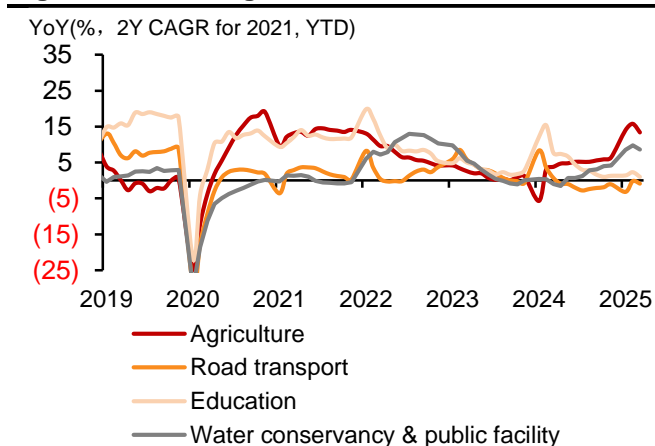
Source: Wind, CMBIGM

**Figure 18: Output of auto, computer & smartphone**

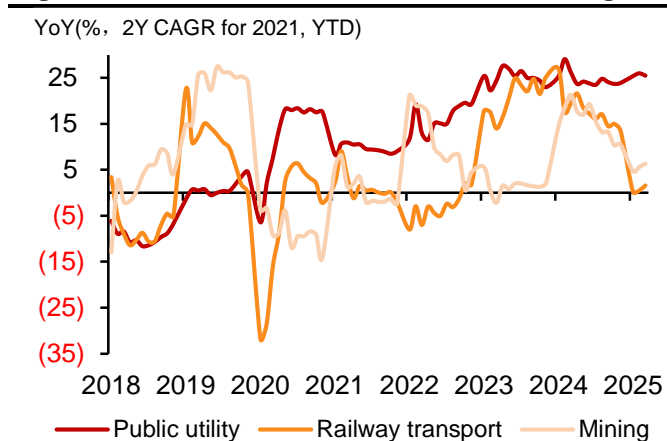
Source: Wind, CMBIGM

**Figure 19: FAI by sector**

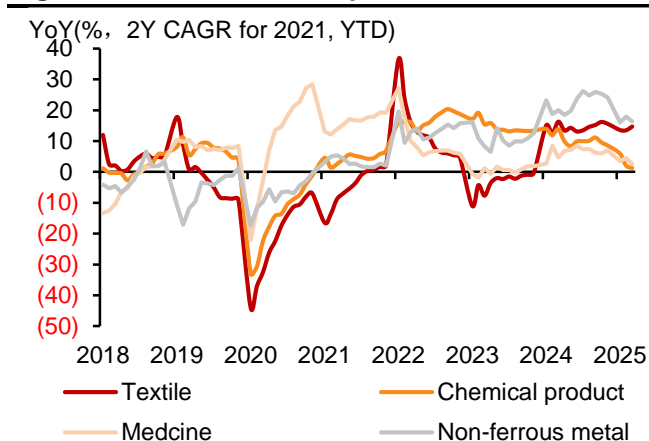
Source: Wind, CMBIGM

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

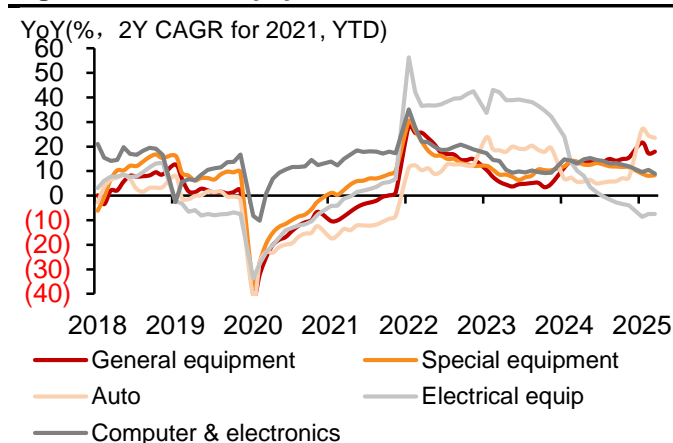
Source: Wind, CMBIGM

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

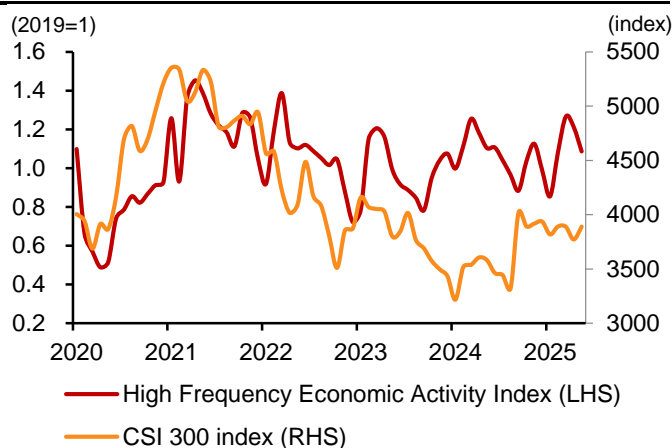
Source: Wind, CMBIGM

**Figure 22: FAI in chemical products**

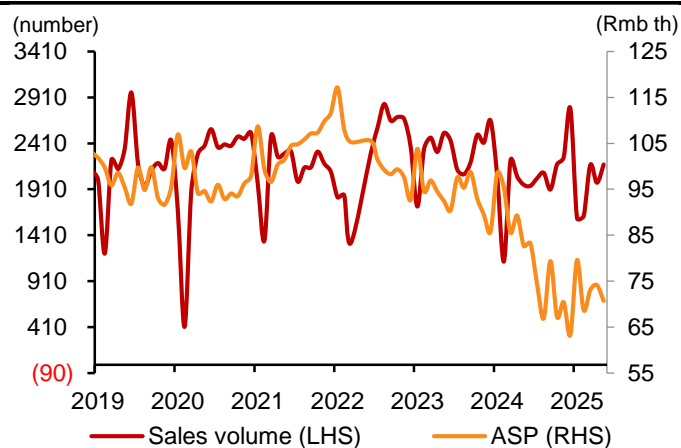
Source: Wind, CMBIGM

**Figure 23: FAI in equipment**

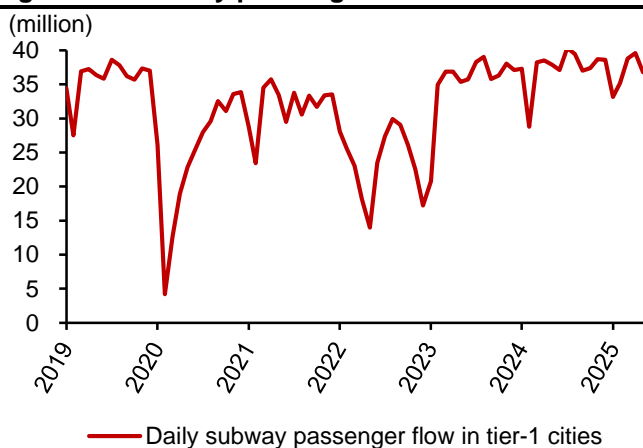
Source: Wind, CMBIGM

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

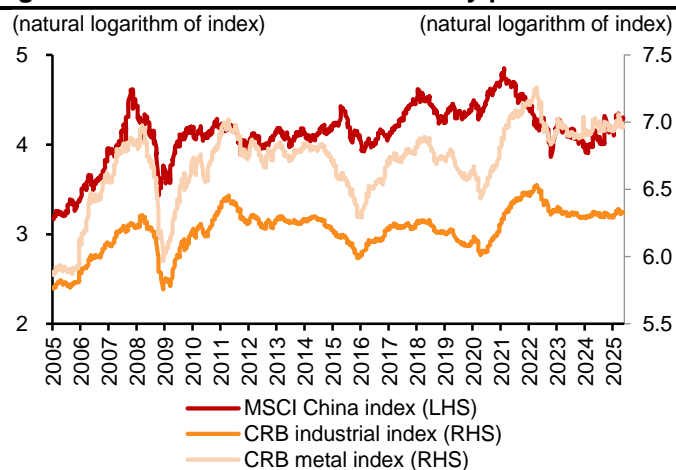
Source: Wind, CMBIGM

**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**

Source: Wind, CMBIGM



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