

China Economy

On track for a moderate recovery

China's economy continues its path of recovery as 2M25 activity data came in mostly better than market expectation. Retail sales edged up thanks to the expansion of trade-in scheme eligibility. Industrial output mildly moderated while fixed asset investments notably accelerated driven by robust infrastructure and manufacturing investments. The contraction in sales narrowed moderately while housing start further slumped. The ongoing policy support on household consumption, equity market and housing market should support continuous recovery in 2025. However, the economy may face increasing pressure heading into 4Q25, as the effects from policy stimulus gradually diminish and headwinds from trade tensions intensify. We expect China's GDP growth to decelerate from 5.1% in 9M25 to 4.5% in 4Q25 with full-year growth at 4.9%. China may maintain accommodative policy as the PBOC may cut RRR by 50bps soon in 2Q25 and LPRs by 20bps in 2H25.

- Housing supply and demand rebalance goes on as demand improves while supply continues to slump.** Gross floor area (GFA) sold for commercial housing narrowed its YoY decline to 5.1% in 2M25 from 12.9% in 12M24, while GFA started further dropped 29.6% in 2M25 after decreasing 23% in 12M24. Housing demand recovery was also uneven as second-hand housing sales performed better than new housing sales and higher-tier cities performed better than lower-tier cities. The recovery rate of second-hand housing sales compared to 2018-2019 in 11 selective cities remained strong at over 130% year to date, compared to 141% in Dec. However, the recovery rate of new housing sales in 30 major cities dropped to 34.5% in 2M25 from 68.2% in Dec. As oversupply condition remained in most cities, housing price was weak. Looking forward, the continuous property stimulus and monetary policy loosening should support a moderate recovery in housing sales in 2025. Tier-1 cities may see a tentative stabilisation of housing price this year as they have better supply and demand fundamentals.
- Retail sales rebounds thanks to rising trade-in subsidy.** Retail sales growth edged up to 4% in 2M25 compared to 3.7% in Dec, slightly above Bloomberg (BBG) consensus at 3.8%. Durables qualified for trade-in scheme remained the major driver as home appliance and furniture respectively rose by 10.9% and 11.7% in 2M25 compared to 39.3% and 8.8% in Dec. The newly qualified telecom equip under the scheme saw its growth from 14% in Dec to 26.2% in 2M25. Auto sales, however, dropped 4.4% in 2M25 after rising 0.5% in Dec as the intensifying price war dragged the sales value growth. Staples like food and daily used good remained robust. Discretionary items including clothing, cosmetics and gold, silver & jewellery also saw moderate rebound. Looking forward, retail sales may rise from 3.5% in 2024 to 4.7% in 2025 thanks to the expanding trade-in schemes and improving housing sales especially in higher-tier cities.
- FAI picked up due to robust manufacturing and infrastructure investments.** Total FAI growth accelerated to 4.1% in 2M25 from 2.2% in Dec, above BBG expectations at 3.2%. By sector, property development investments remained in deep contraction at -9.8% in 2M25, as the rebalance of housing supply and demand continued. Property developers were still reluctant to purchase new lands for development amid the squeeze of cash flow and the weakness of property prices. Infrastructure FAI notably picked up 10% in 2M25 after rising 7.4% in Dec as the latest fiscal expansion granted local governments with greater financial leverage to support economic growth. Manufacturing FAI growth edged up to 9% in 2M25 from 8.4% in Dec, driven by sectors including auto, other transport equip, general equip and non-ferrous metal. Looking forward, FAI growth may mildly accelerate from 3.2% in 2024 to 3.7% in 2025 thanks to the narrower

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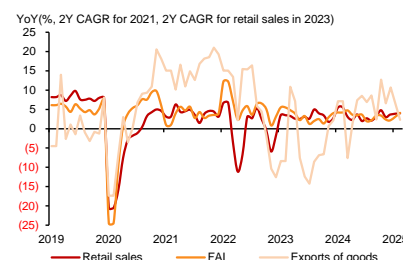
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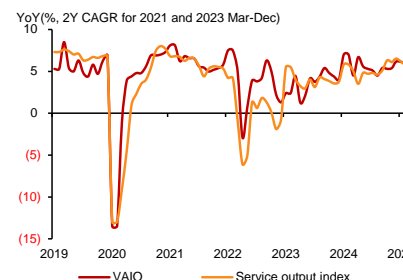
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Source: Wind, CMBIGM



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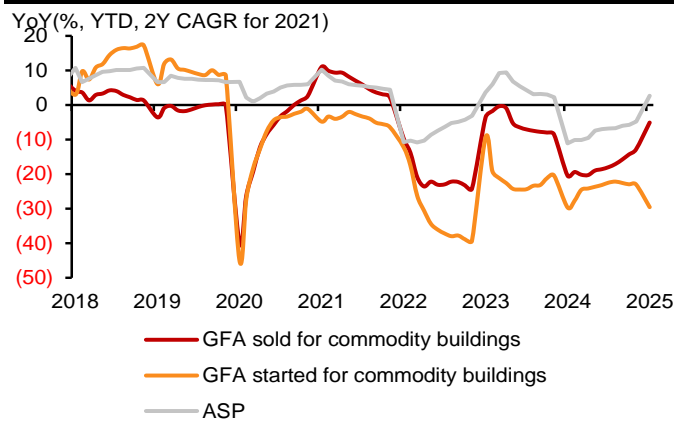
declines of property development investments. Manufacturing and infrastructure investment growth is likely to fall from 9.2% and 9.2% in 2024 to 8.5% and 8.7% in 2025.

- **Industrial output moderated.** VAIO growth inched down to 5.9% in 2M25 from 6.2% in Dec, still above BBG consensus of 5.3%. Other transport equip, electrical equip and metal product remained robust at 20.8%, 12% and 11.5% in 2M25 from 10.6%, 9.2% and 7.9% in Dec. Production in computers, telecom & electronic equipment, chemical products and general equipment also moderately picked up; while medicine, non-metal mineral products and ferrous metal slowed down. Growth of service output index edged down to 5.6% in 2M25 from 6.5% in Dec. Looking forward, industrial output may decelerate as headwinds from trade intensify and demand overdrift due to trade-in subsidy.
- **Economy remains on track for a moderate recovery.** The vigorous growth in consumption, fixed asset investments, industrial production as well as the trade surplus in 2M25 pointed to sturdy 1Q GDP growth. The tailwinds from trade-in subsidy and new housing market in tier-1 cities should sustain the continuous recovery in the second and third quarters. However, the economy may face pressure on slowdown heading into 4Q25, as the effects from policy stimulus gradually diminish and headwinds from trade tensions intensify. We expect China's GDP growth to decelerate from 5.1% in 9M25 to 4.5% in 4Q25 with full-year growth at 4.9%. China may maintain accommodative policy as the PBOC may cut RRR by 50bps soon in 2Q25 and LPRs by 20bps in 2H25.

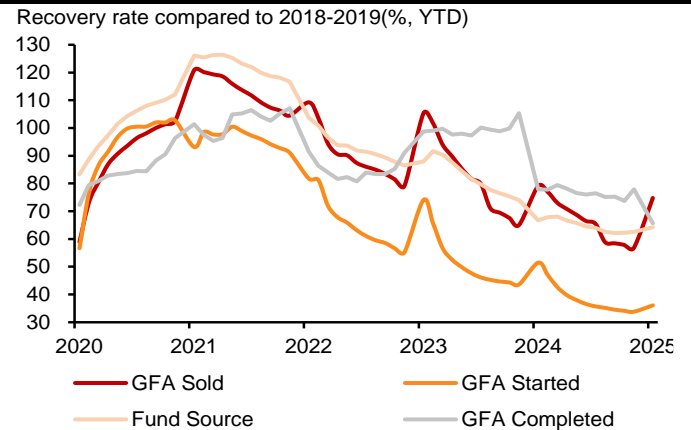
Figure 1: China's economic indicators

YoY(%)	2019	2020-2021	2022-2023	2023	2024	1Q24	2Q24	3Q24	4Q24	Dec	2M25
GDP	6.1	5.3	4.1	5.4	5.0	5.3	4.7	4.6	5.4		
VAIO	5.7	6.1	4.1	4.6	5.8	6.1	5.9	5.0	5.6	6.2	5.9
-Mining	5.0	2.9	4.8	2.3	3.1	1.6	3.3	4.0	3.7	2.4	4.3
-Manufacturing	6.0	6.6	4.0	5.0	6.1	6.7	6.3	4.9	6.3	7.4	6.9
-Public utility	7.0	6.6	4.6	4.3	5.3	6.9	5.0	7.0	2.7	1.1	1.1
Delivery value for exports	1.3	8.3	0.7	(3.9)	5.1	0.8	6.0	5.0	7.2	8.8	6.2
Service output index	6.9	6.3	3.9	8.1	5.2	5.5	4.3	4.8	6.3	6.5	5.6
Retail sales	8.0	4.0	3.4	7.2	3.5	4.7	2.6	2.7	3.8	3.7	4.0
Exports of goods	0.5	15.9	0.3	(4.7)	5.9	1.5	5.7	5.9	9.9	10.7	2.3
Imports of goods	(2.7)	13.7	(2.4)	(5.5)	1.1	1.6	2.5	2.3	(1.8)	1.0	(8.4)
Urban FAI (YTD)	5.4	3.9	4.0	3.0	3.2	4.5	3.9	3.4	3.2	3.2	4.1
-Property development	9.9	5.7	(9.8)	(9.6)	(10.6)	(9.5)	(10.1)	(10.1)	(10.6)	(10.6)	(9.8)
-Manufacturing	3.1	5.4	7.8	6.5	9.2	9.9	9.5	9.2	9.2	9.2	9.0
-Infrastructure	3.3	1.8	9.9	8.2	9.2	8.8	7.7	9.3	9.2	9.2	10.0
GFA sold for commodity building (YTD)	(0.1)	2.2	(16.8)	(8.5)	(12.9)	(19.4)	(19.0)	(17.1)	(12.9)	(12.9)	(5.1)
GFA started for commodity building (YTD)	8.5	(6.4)	(30.5)	(20.4)	(23.0)	(27.8)	(23.7)	(22.2)	(23.0)	(23.0)	(29.6)

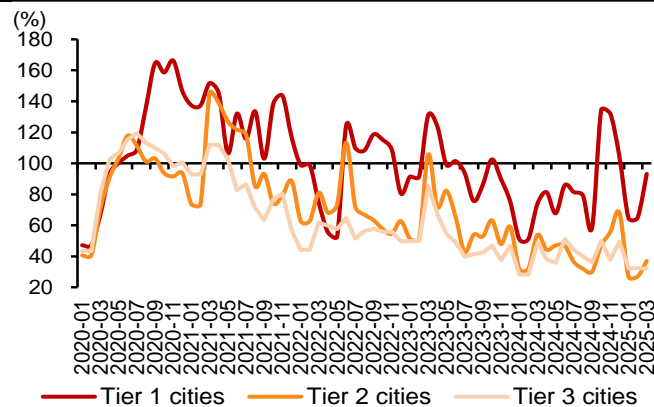
Source: Wind, CMBIGM

Figure 2: Property sales growth

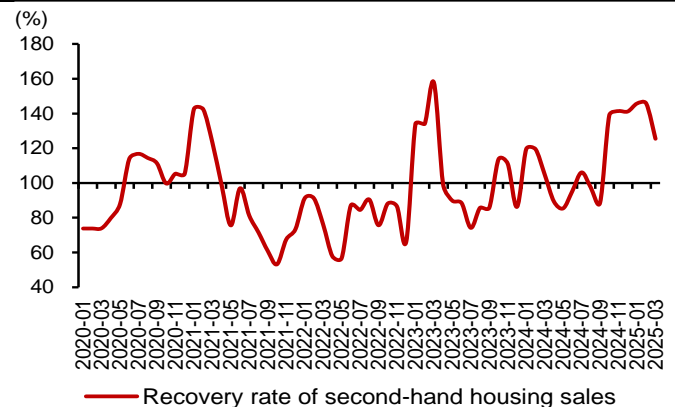
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019

Source: Wind, CMBIGM

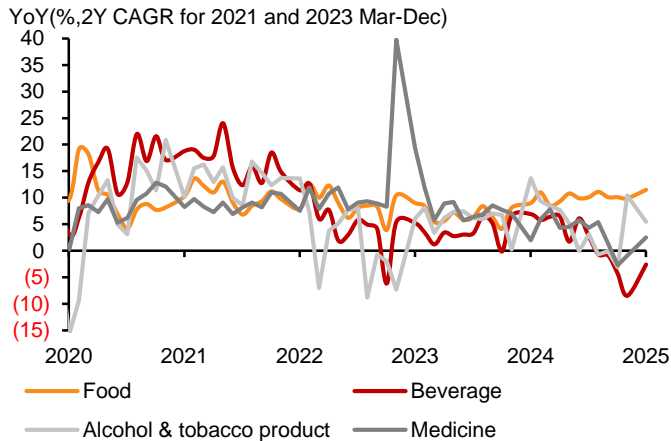
Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities

Source: Wind, CMBIGM

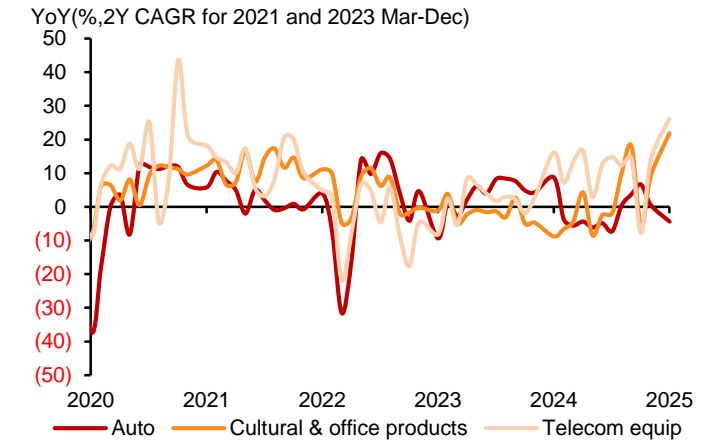
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities

Source: Wind, CMBIGM

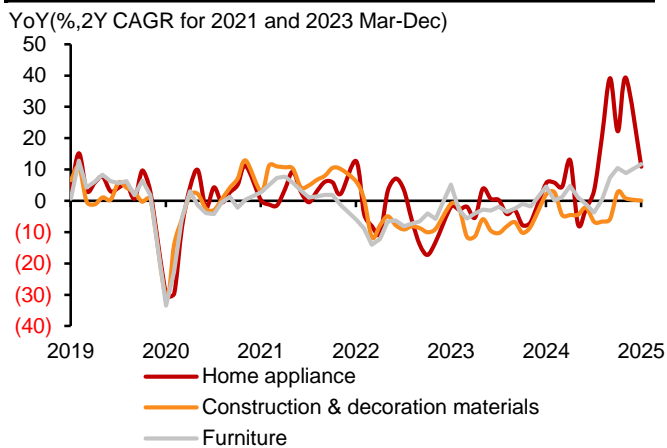
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples

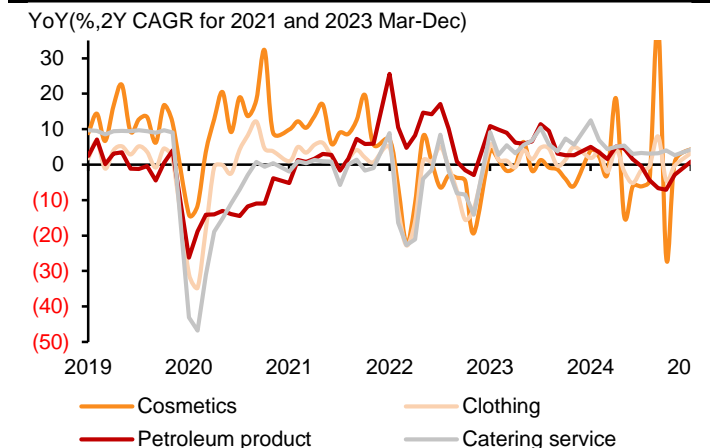
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics

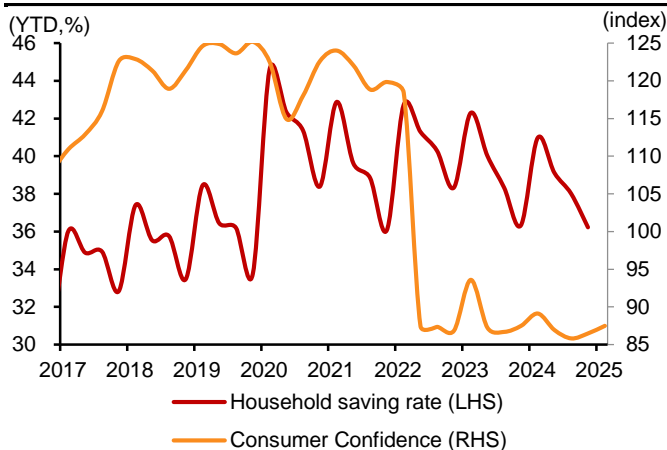
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales

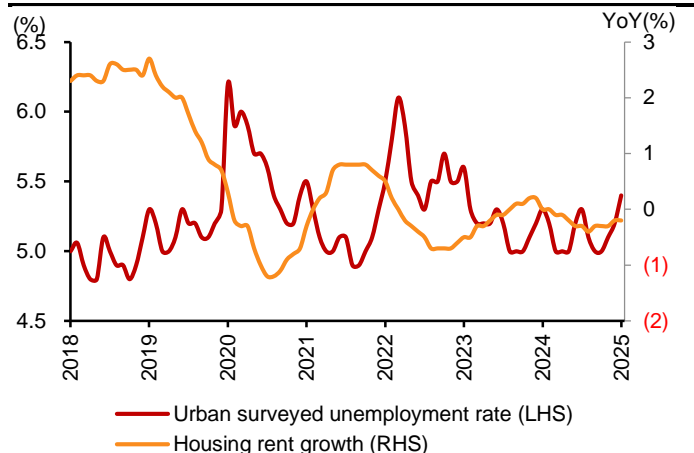
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities

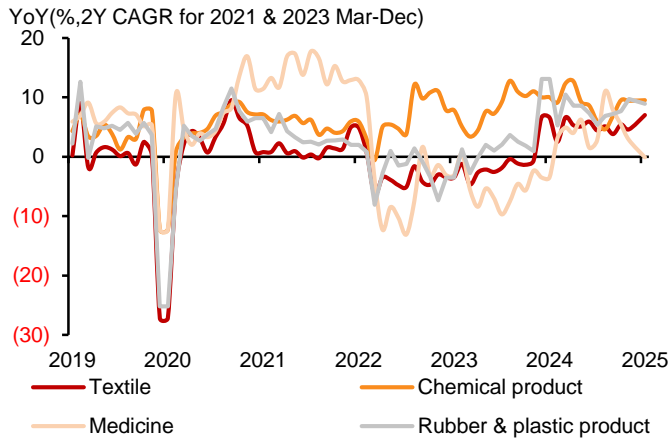
Source: Wind, CMBIGM

Figure 10: Consumer confidence

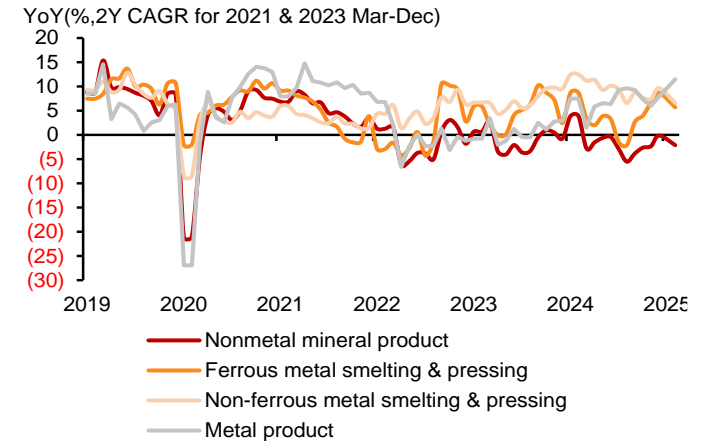
Source: Wind, CMBIGM

Figure 11: Unemployment rate & housing inflation

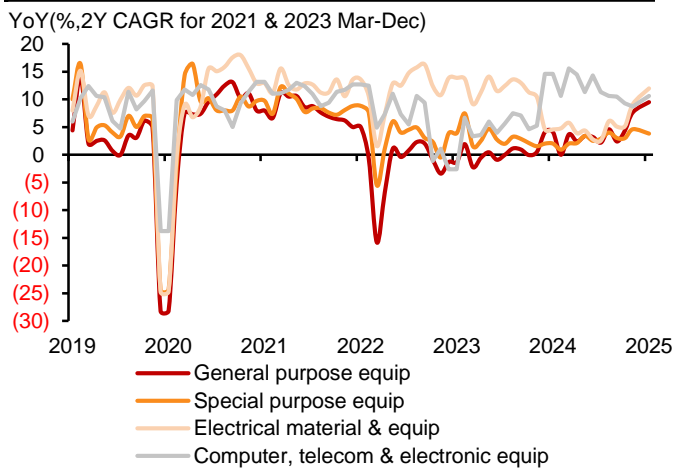
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products

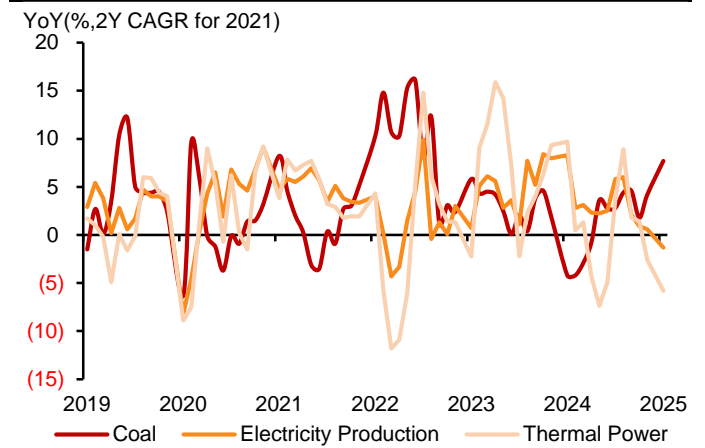
Source: Wind, CMBIGM

Figure 13: VAIO in mineral & metal products

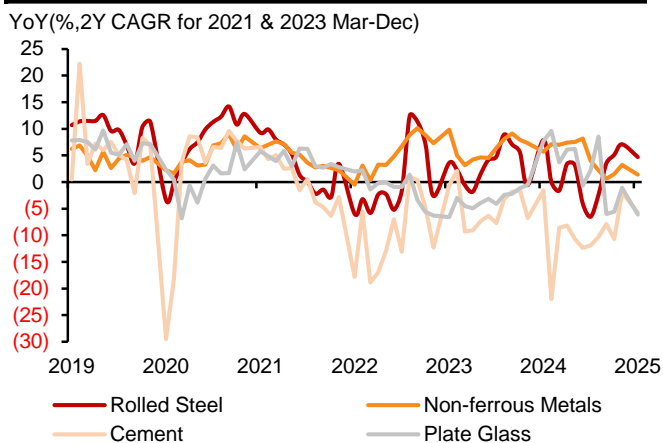
Source: Wind, CMBIGM

Figure 14: VAIO in equipment

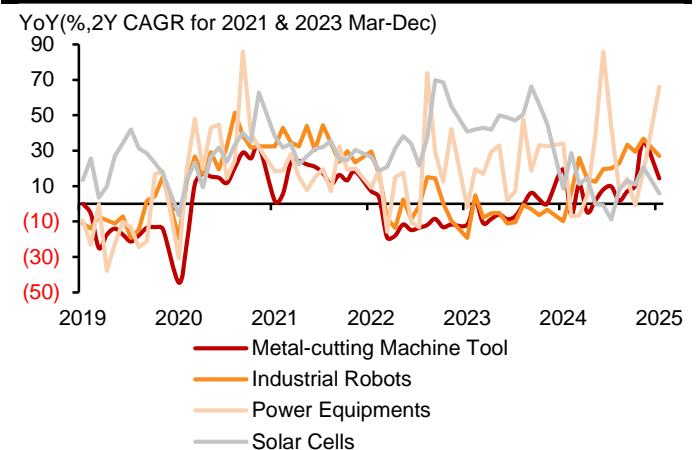
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity

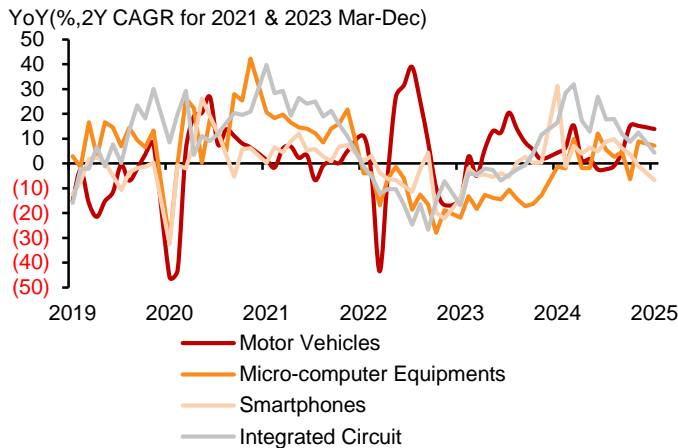
Source: Wind, CMBIGM

Figure 16: Output in steel & construction material

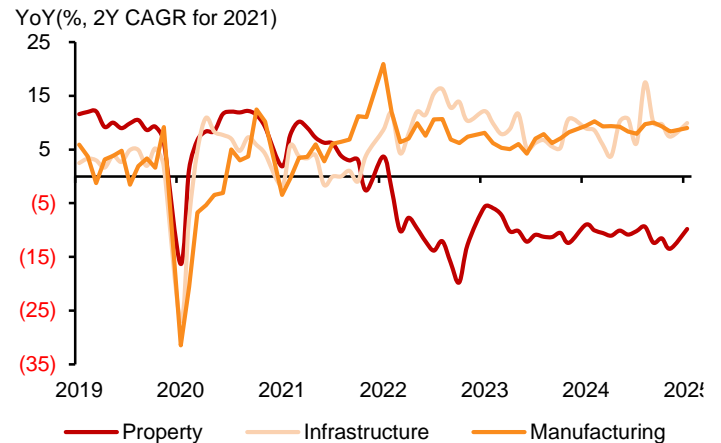
Source: Wind, CMBIGM

Figure 17: Output in capital goods

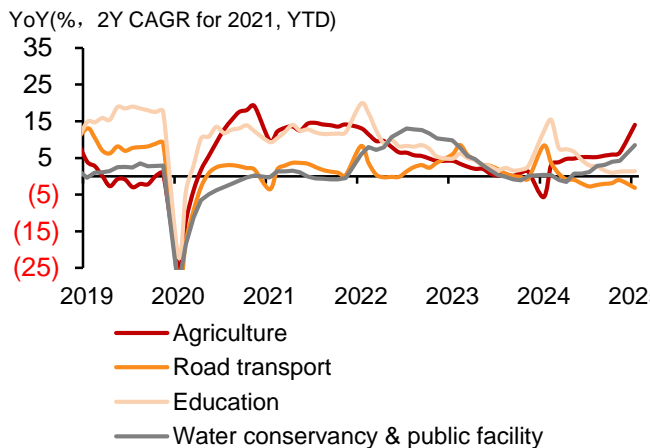
Source: Wind, CMBIGM

Figure 18: Output in auto, computer & smartphone

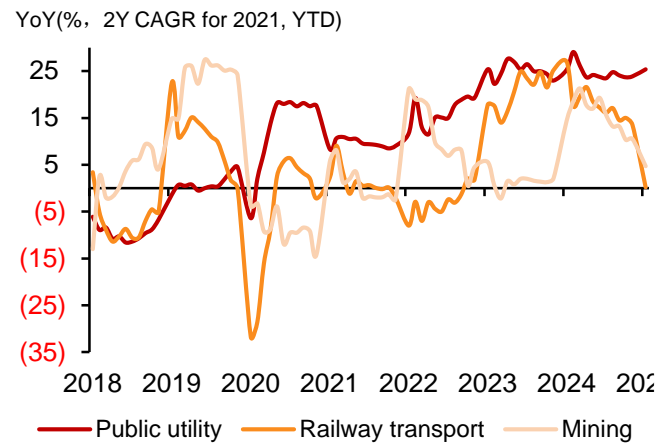
Source: Wind, CMBIGM

Figure 19: FAI by sector

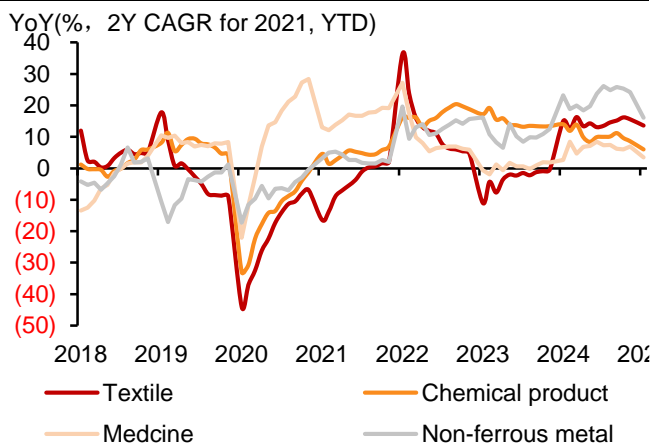
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure

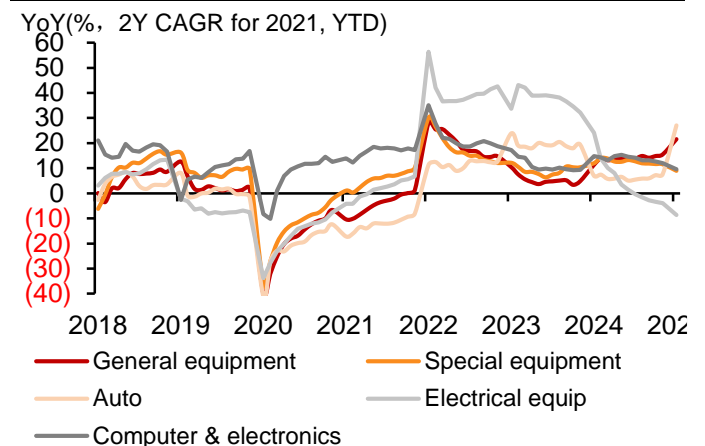
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining

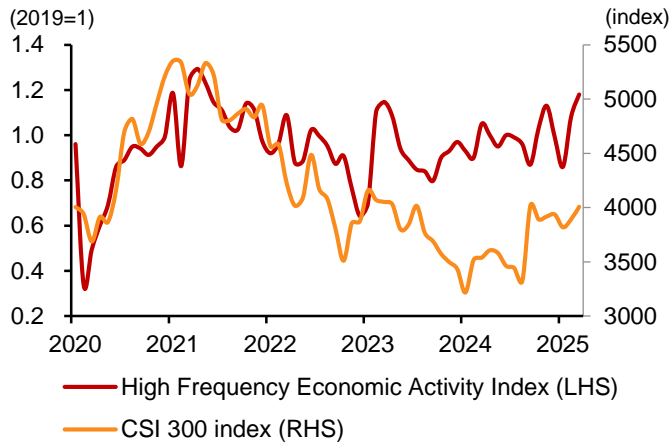
Source: Wind, CMBIGM

Figure 22: FAI in chemical products

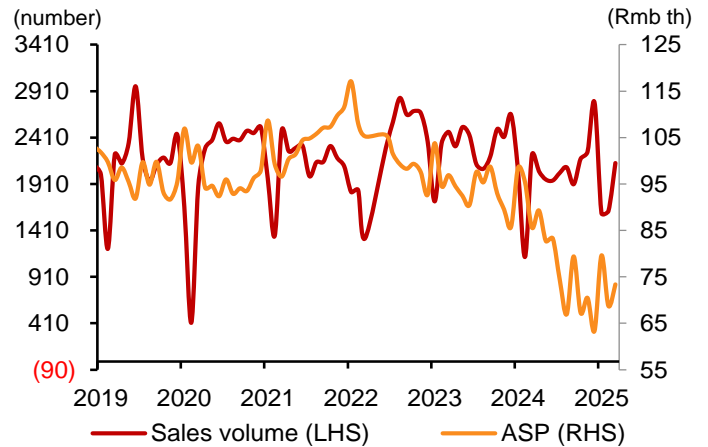
Source: Wind, CMBIGM

Figure 23: FAI in equipment

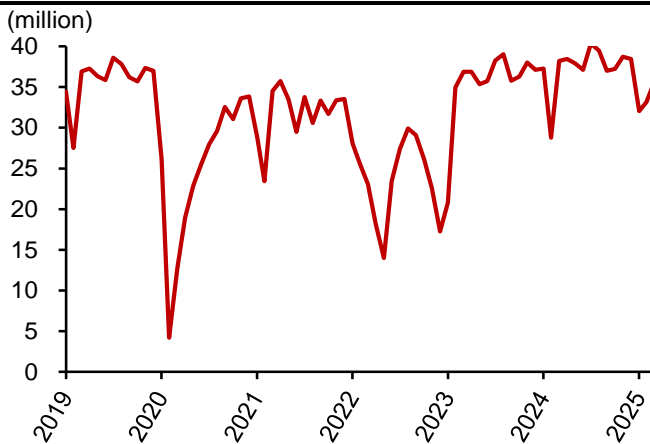
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index

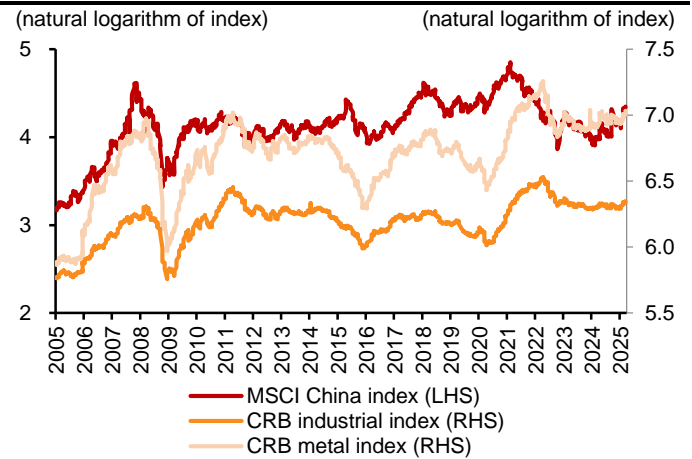
Source: Wind, CMBIGM

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

Source: Wind, CMBIGM

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