

China Economy

Solid growth to meet incoming headwinds

China saw another season of stronger-than-expected GDP growth, although the further contracting GDP deflator indicated that the deflation risk was still entrenched. Activity data all came in notably above market expectation, as retail sales further rallied driven by durable goods under trade-in scheme and industrial output robustly expanded thanks to the export front-loading. Fixed asset investment edged up due to the rising infrastructure investment. However, the property market has shown signs of softening as growth of new and second-hand housing sales both declined in early Apr. The tariff war may exert additional pressure on growth and deflation through multiple channels, including declining exports, weaker business investment and deteriorating consumer confidence, as we expect it may lead to 0.75-1.25 ppts decline in GDP. The policymakers might respond by further loosening monetary policy and implementing additional fiscal stimulus, which would partially offset the negative impact of the trade war. We expect China's GDP growth to decelerate from 5.4% in 1Q25 to 4.2% in 2Q25 and 4.6% in 2H25 with the full-year growth at 4.7%. The PBOC may cut RRR by 50bps and LPRs by 20bps soon in 2Q25. China might launch additional fiscal stimulus measures especially those targeting consumption in 2H25, including expanding consumer trade-in schemes, providing national child-birth subsidies, and strengthening social benefit net.

■ 1Q GDP growth beat expectation but GDP deflator was still negative.

China's GDP growth in YoY terms (all on a YoY basis unless otherwise specified) stayed flat at 5.4% in 1Q25, beating the market expectations of 5.2%. Meanwhile, the seasonally adjusted QoQ growth of GDP moderated from 1.6% in 4Q24 to 1.2% in 1Q25. GDP deflator dipped to -0.8% in 1Q25 compared to -0.78% in 4Q24, indicating the ongoing deflation risk was still entrenched.

■ A slowdown is emerging in the property market in Apr. The decline of gross floor area (GFA) sold for commercial housing narrowed to 3% in 1Q25 from -5.1% 2M25, according to NBS, with residence GFA narrowed to -2% from -3.4%. Housing start recovered to -10.6% in 1Q25 compared to -29.5% in 2M25. For new housing sales according to market data, YoY sales in 30 major cities dropped to -11.5% in first half of Apr from -0.5% in Mar, dragged by tier 2 & 3 cities dipping 18.2% and 13.2%. Tier-1 cities also moderated from 22.7% in Mar to 1.3% in first half of Apr. Second-hand housing sales in 11 selective cities compared to 2019 also saw a notable slowdown in first half of Apr to 107.5% from 134% in Mar, with its YoY growth moderated to 16.4% from 33.5%. Housing prices rebounded in tier-1 cities while lower-tier cities kept declining, trading price cuts for a higher sales volume. The negative shock from tariff war may weigh on housing market, particularly those cities with larger share of exports as % of GDP. The ongoing softening of housing market in 2Q might trigger additional policy stimulus to support the economy and equity market.

■ Retail sales picked up driven by trade-in subsidy items. Retail sales growth accelerated to 5.9% in Mar from 4% in 2M25, beating market consensus at 4.4%. Durables qualified for trade-in scheme remained in robust growth as home appliance, cultural & office products and furniture respectively further rose by 19.3%, 21.7% and 18.1% in Mar. The newly qualified telecom equip edged up to 26.9% in Mar from 26.2% in 2M25. Auto sales recovered to -0.8% in Mar from -4.4% in 2M25 while its volume rose 10.4%, indicating the intensifying price war. Staples like food and daily used good remained robust, while discretionary items including clothing and cosmetics moderated. Looking forward, retail sales may rise from 3.5% in 2024 to 4.7% in 2025, with possible strong recovery in 1H25 driven by the

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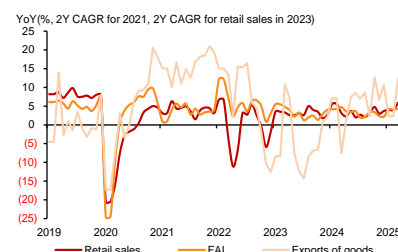
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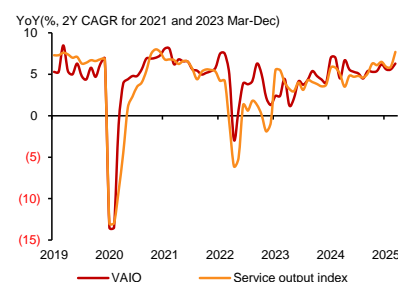
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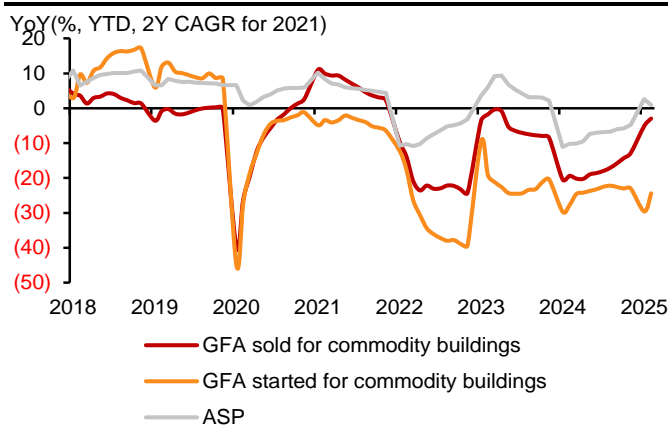
expanding trade-in schemes, but this could come at the expense of future demand, as we may see a slowdown in 2H25.

- **FAI edged up as infrastructure investment further rallied.** Total FAI growth inched up to 4.2% in 1Q25 from 4.1% in 2M25, above market expectations at 4%. By sector, infrastructure FAI accelerated to 12.6% in Mar from 10% in 2M25 as the current fiscal expansion granted LG greater financial leverage to facilitate economic growth. Manufacturing FAI, driven by sectors including auto, other transport equip, general equip and non-ferrous metal, edged up to 9.2% in Mar from 9%. Property development investment further contracted to -10% in Mar from -9.8% in 2M25, since financial conditions of most private developers remained challenging. 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 expanded robustly due to export front-loading.** VAI0 growth climbed to 7.7% in Mar compared to 5.9% in 2M25, above market consensus of 5.9%. Other transport equip, electrical equip and electronic equip remained robust at 19%, 13% and 13.1% in Mar. Growth of industrial output has picked up notably since Dec 2024, along with delivery value for exports, possibly driven by front-loading effect in exports after Trump got elected. Growth of service output index also increased from 6.3% in Mar from 5.6% in 2M25. Looking forward, industrial output may decelerate as headwinds from trade intensify and demand overdraft due to trade-in subsidy.
- **China might further loosen policies to defy the trade war shock.** China's GDP growth was stronger-than-expected over the past two quarters which was supported by vigorous consumption and rebound in housing market, both fuelled by policy stimulus, as well as robust industrial output driven by exports front-loading. However, the tariff war may exert downside pressure on growth and deflation through multiple channels, including declining exports, weaker corporate investment and deteriorating consumer confidence. The tariff war might lower China's GDP growth by 0.75-1.25ppts. China might further loosen monetary policy and expand fiscal stimulus to boost housing market and consumer demand, which could partially offset the negative impact of the tariff war. We expect China's GDP growth to decelerate from 5.4% in 1Q25 to 4.2% in 2Q25 and 4.6% in 2H25 with the full-year growth at 4.7%. The PBOC may cut RRR by 50bps and LPRs by 20bps soon in 2Q25. China might launch additional fiscal stimulus measures especially those targeting consumption in 2H25, including expanding consumer trade-in schemes, providing child-birth subsidies, and strengthening social benefit net.

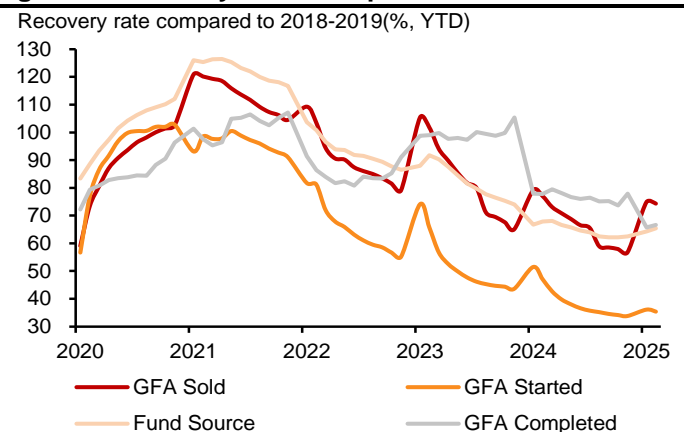
Figure 1: China's economic indicators

YoY(%)	2019	2020-2021	2022-2023	2024	2Q24	3Q24	4Q24	1Q25	2M25	Mar
GDP	%	5.3	4.1	5.4	4.7	4.6	5.4	5.4		
VAIO	%	6.1	4.1	4.6	5.9	5.0	5.6	6.5	5.9	7.7
-Mining	%	2.9	4.8	2.3	3.3	4.0	3.7	6.2	4.3	9.3
-Manufacturing	%	6.6	4.0	5.0	6.3	4.9	6.3	7.1	6.9	7.9
-Public utility	%	6.6	4.6	4.3	5.0	7.0	2.7	1.9	1.1	3.5
Delivery value for exports	%	8.3	0.7	(3.9)	6.0	5.0	7.2	6.7	6.2	7.7
Service output index	%	6.3	3.9	8.1	4.3	4.8	6.3	5.8	5.6	6.3
Retail sales	%	4.0	3.4	7.2	2.6	2.7	3.8	4.6	4.0	5.9
Exports of goods	%	15.9	0.3	(4.7)	5.7	5.9	9.9	5.8	2.3	12.4
Imports of goods	%	13.7	(2.4)	(5.5)	2.5	2.2	(1.7)	(7.0)	(8.4)	(4.3)
Urban FAI (YTD)	%	3.9	4.0	3.0	3.9	3.4	3.2	4.2	4.1	4.2
-Property development	%	5.7	(9.8)	(9.6)	(10.1)	(10.1)	(10.6)	(9.9)	(9.8)	(9.9)
-Manufacturing	%	5.4	7.8	6.5	9.5	9.2	9.2	9.1	9.0	9.1
-Infrastructure	%	1.8	9.9	8.2	7.7	9.3	9.2	11.5	10.0	11.5
GFA sold for commodity building (YTD)	%	2.2	(16.8)	(8.5)	(19.0)	(17.1)	(12.9)	(3.0)	(5.1)	(3.0)
GFA started for commodity building (YTD)	%	(6.4)	(30.5)	(20.4)	(23.7)	(22.2)	(23.0)	(24.4)	(29.6)	(24.4)

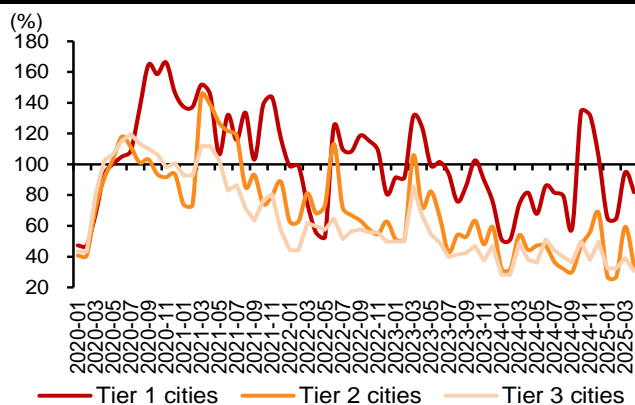
Source: Wind, CMBIGM

Figure 2: Property sales growth

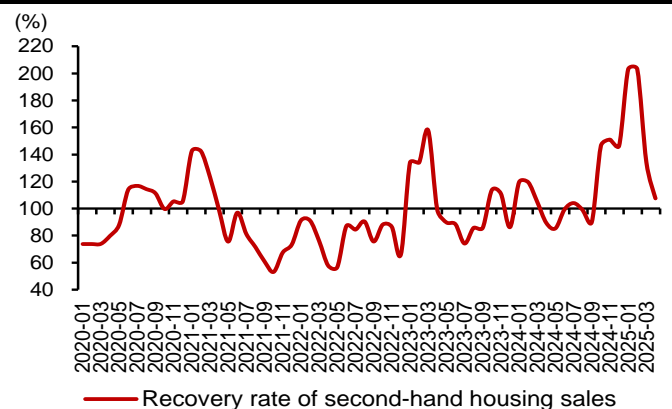
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019

Source: Wind, CMBIGM

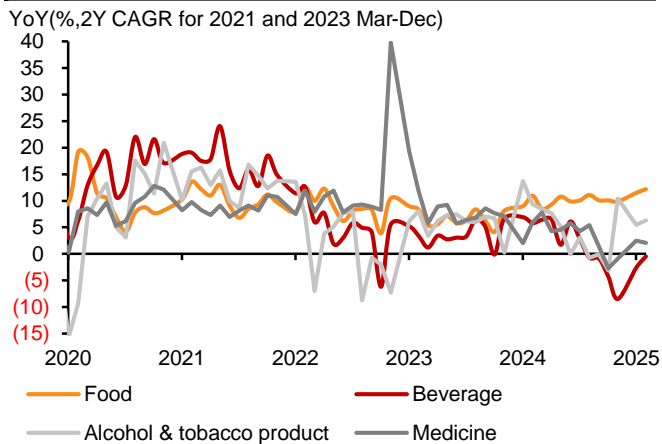
Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities

Source: Wind, CMBIGM

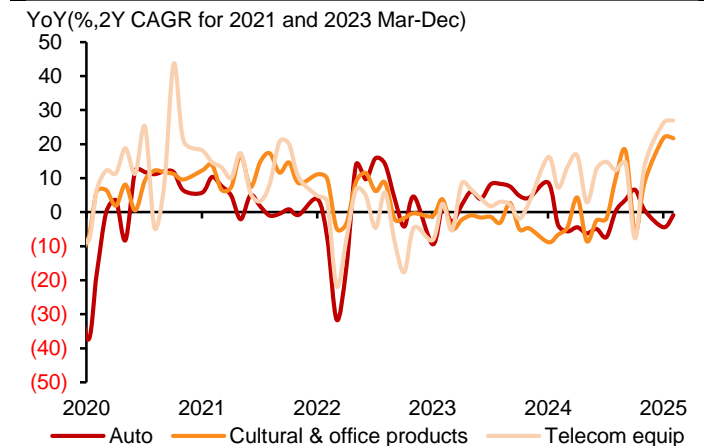
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities

Source: Wind, CMBIGM

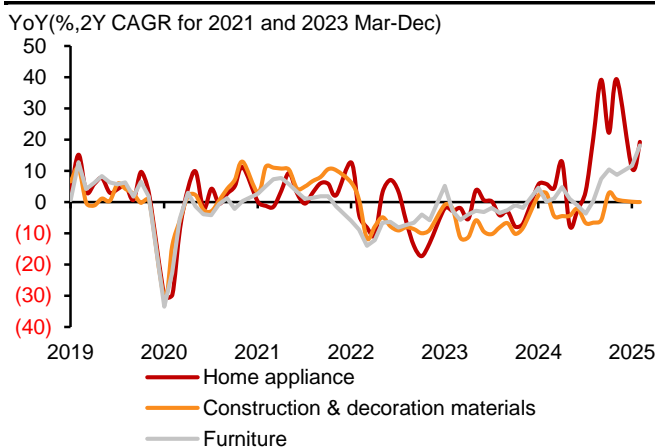
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples

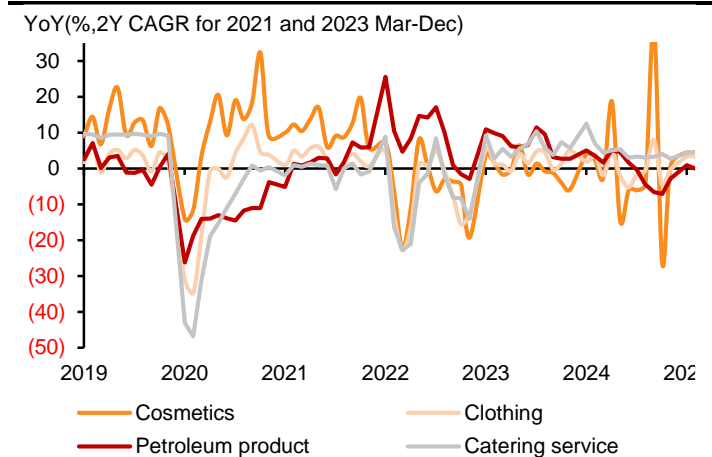
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics

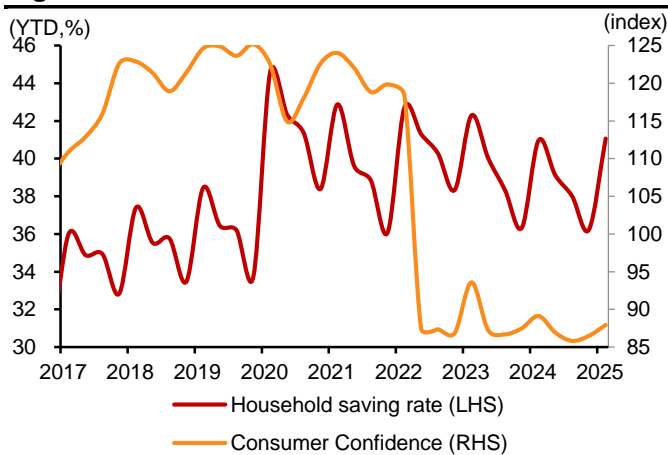
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales

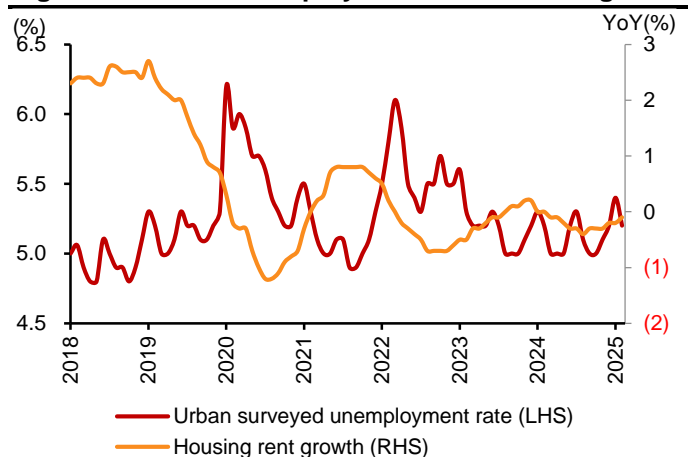
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities

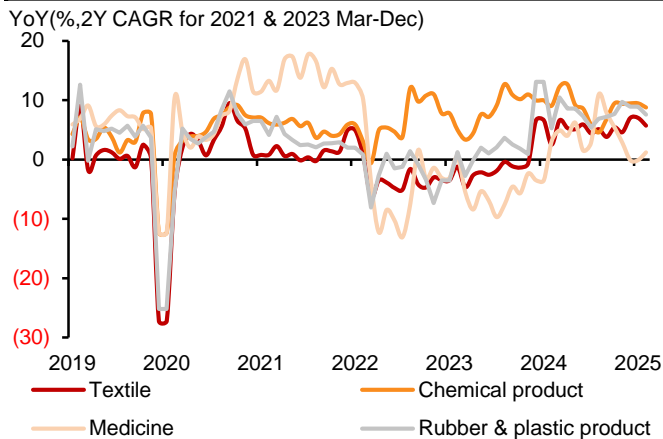
Source: Wind, CMBIGM

Figure 10: Consumer confidence

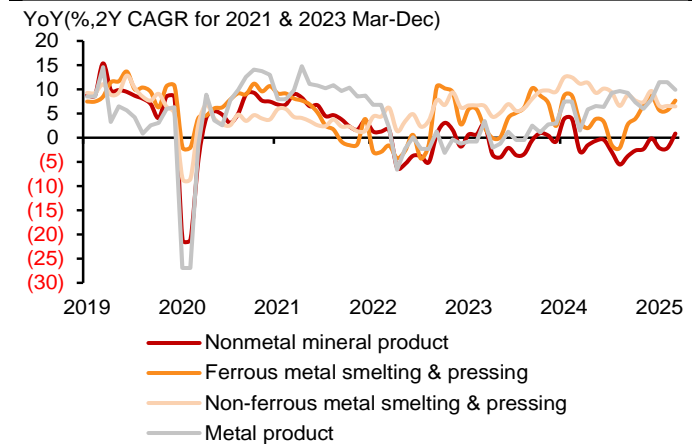
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent

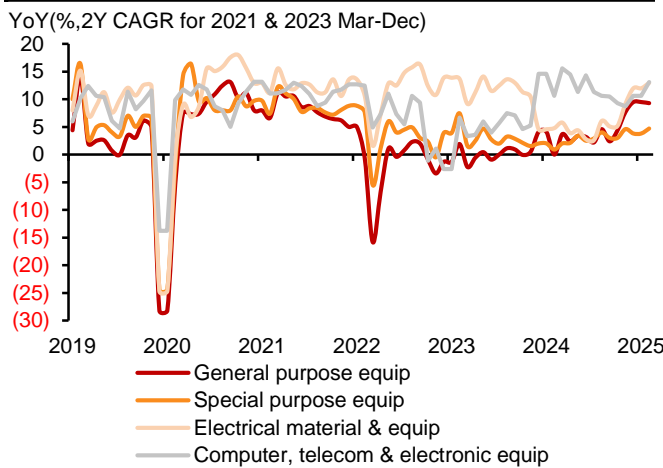
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products

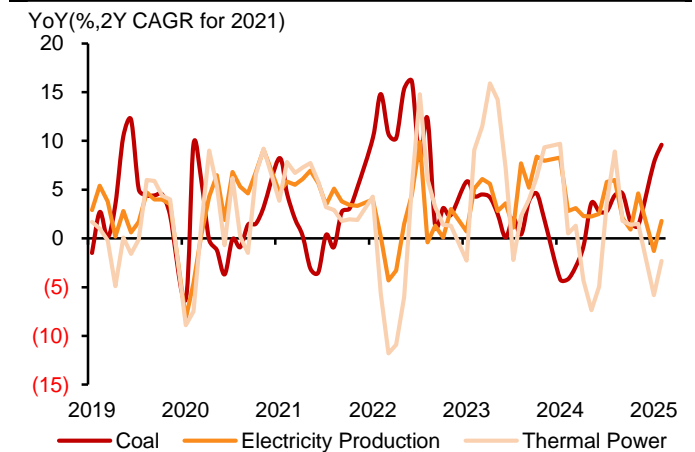
Source: Wind, CMBIGM

Figure 13: VAIO in mineral & metal products

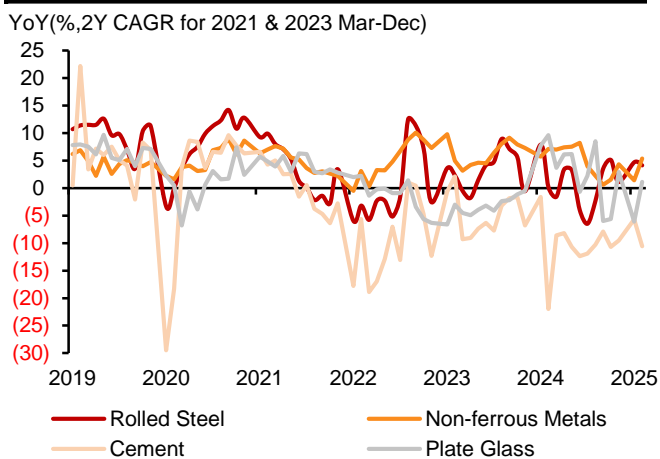
Source: Wind, CMBIGM

Figure 14: VAIO in equipment

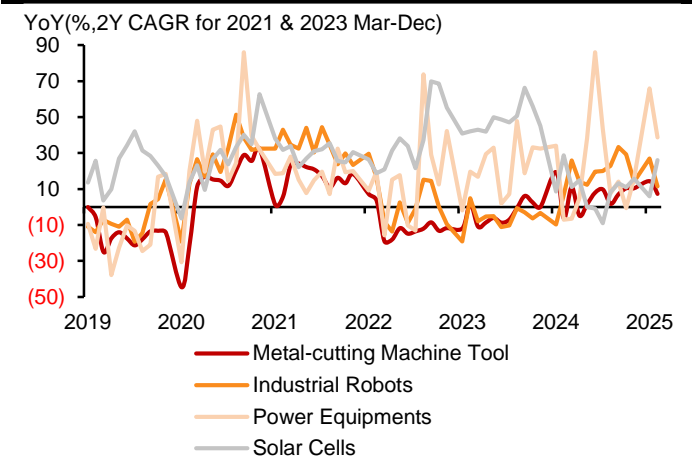
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity

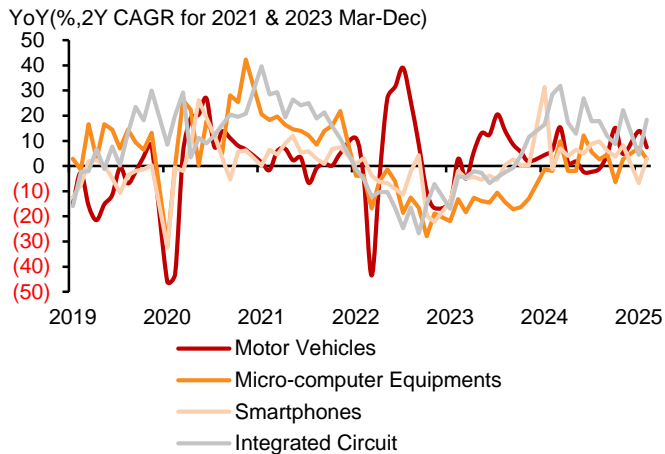
Source: Wind, CMBIGM

Figure 16: Output in steel & construction materials

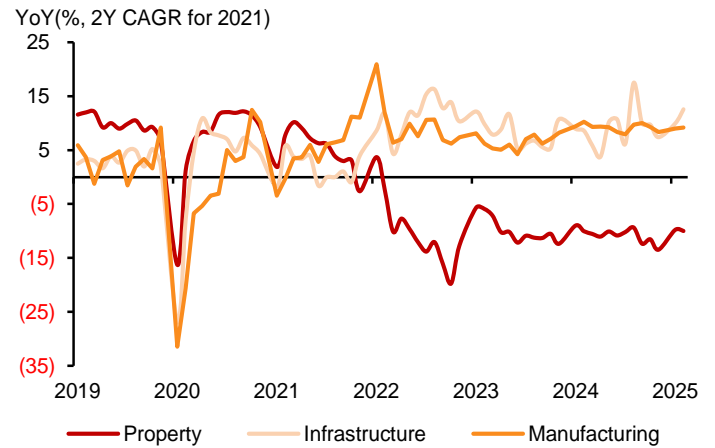
Source: Wind, CMBIGM

Figure 17: Output in capital goods

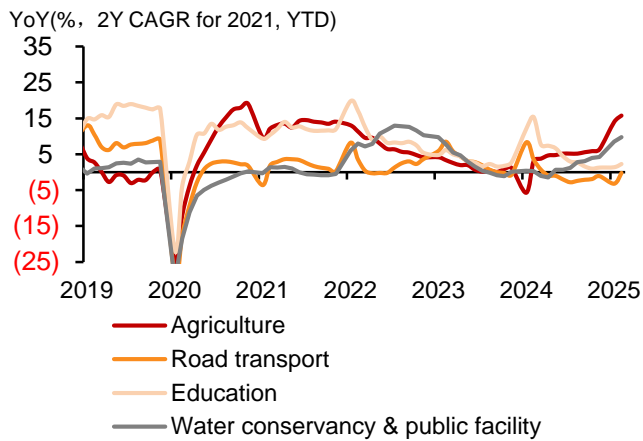
Source: Wind, CMBIGM

Figure 18: Output in autos, computer & smartphones

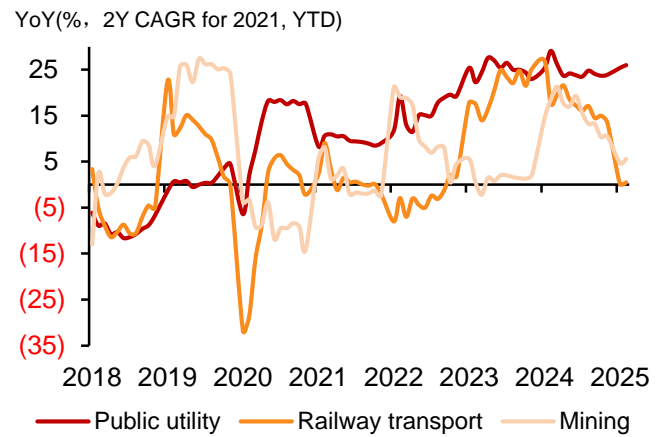
Source: Wind, CMBIGM

Figure 19: FAI by sector

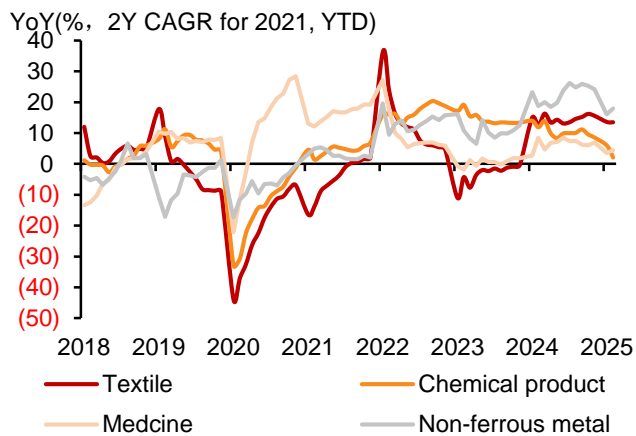
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure

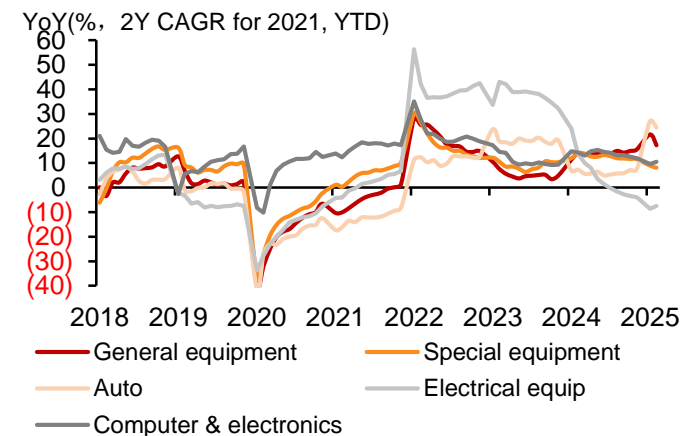
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining

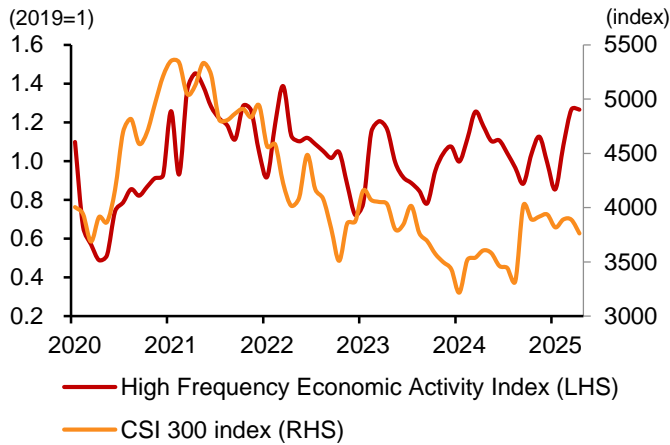
Source: Wind, CMBIGM

Figure 22: FAI in chemical products

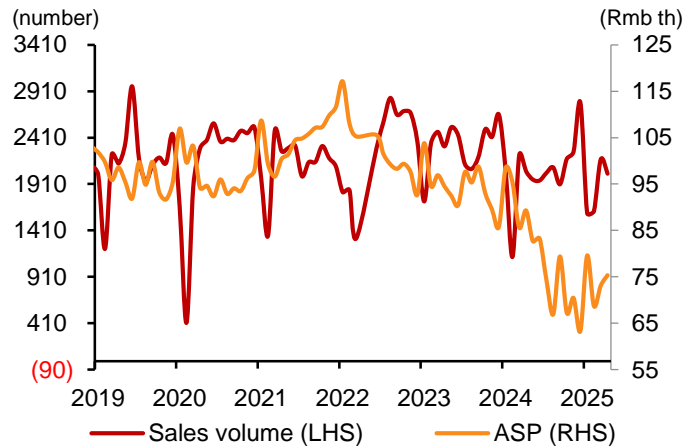
Source: Wind, CMBIGM

Figure 23: FAI in equipment

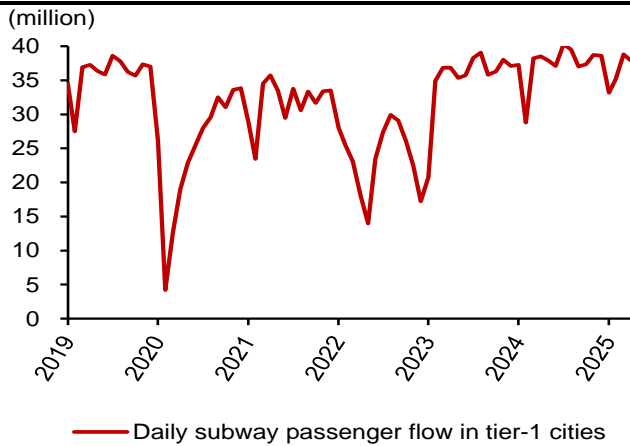
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index

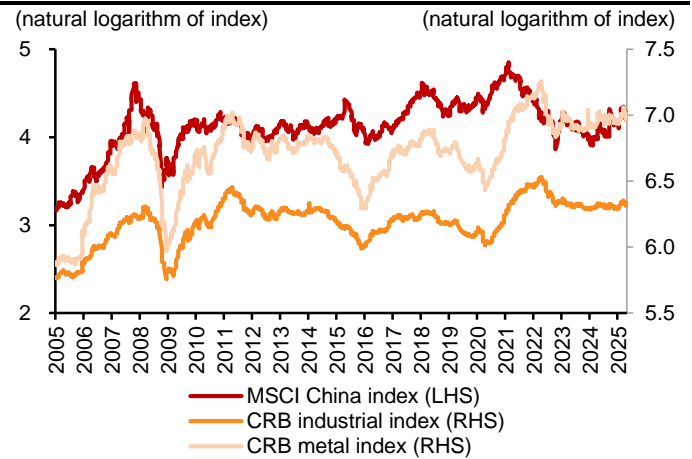
Source: Wind, CMBIGM

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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