China Economic Monitor

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Key takeaways

- China's real GDP growth rate reached 5% in 2024, which is below the 5.2% in 2023 but meets Beijing's "around 5.0%" growth target.
- GDP grew 5.4% in Q4 2024, 0.8 percentage points higher than that of Q3 2024, beating the market's expectations and making a decisive contribution to the successful achievement of annual growth target. The policy stimuli introduced last September led to a rebound of consumption and investment in Q4. Meanwhile, China's exports stayed strong due to the front-loading of exports ahead of US president Trump's inauguration. As the trade-in programme is being expanded and front-loading is ongoing, some related indicators may still perform well in Q1 2025.
- With the issuance of ultra-long special treasury bonds to support the implementation of trade-in policies for consumer goods in Q4, consumption picked up momentum, growing from 2.7% in Q3 to 3.8%. In 2024, trade-in policies collectively boosted related goods sales by more than RMB 1.3 trillion, raising the total retail sales growth rate by 1 percentage point. Fiscal funds leveraged consumption with a multiplier effect of around 2.1 times.
- The manufacturing investment growth rate increased slightly to 9.2% in Q4 from 8.8% in Q3, driven by both domestic and external demand recovery. Sectors with strong export demand boosted investment growth by 1.9 percentage points. Meanwhile, sectors driven by consumer demand jointly lifted manufacturing investment growth by 2.5 percentage points.
- Excluding the disruption of power investment, infrastructure investment grew 5.1%, up by 3.2 percentage points from Q3. This was supported by above-seasonal growth in fiscal spending in Q4. The growth rate of road and municipal investments rebounded with the rapid deployment of fiscal funds.
- Real estate investment growth rate declined by 12.4% in Q4 2024. High inventory pressure still prompted enterprises to stay cautious on investment despite an obvious improvement in sales. On the brighter side, house prices showed marginal stabilisation in Q4 and played a key role in domestic demand recovery.
- In the coming period, China's economy still faces major challenges. Indeed, the GDP deflator has remained negative for seven straight quarters, indicating insufficient domestic demand recovery. As President Trump took office, persistent geopolitical tensions and the rise of trade protectionism also bring significant uncertainty to Chinese exports.
- In response to economic headwinds, the Chinese government is preparing new stimulus measures. In early February 2025, Premier Li Qiang proposed to "dare to break conventions and introduce tangible and perceptible policy measures". We anticipate that the upcoming national Two Sessions will probably set an economic growth target of around 5%, while the intensity of macro policies should reach unprecedented levels.

China’s economic recovery sped up in Q4 2024

Growth rate of major economic indicators, YoY, %

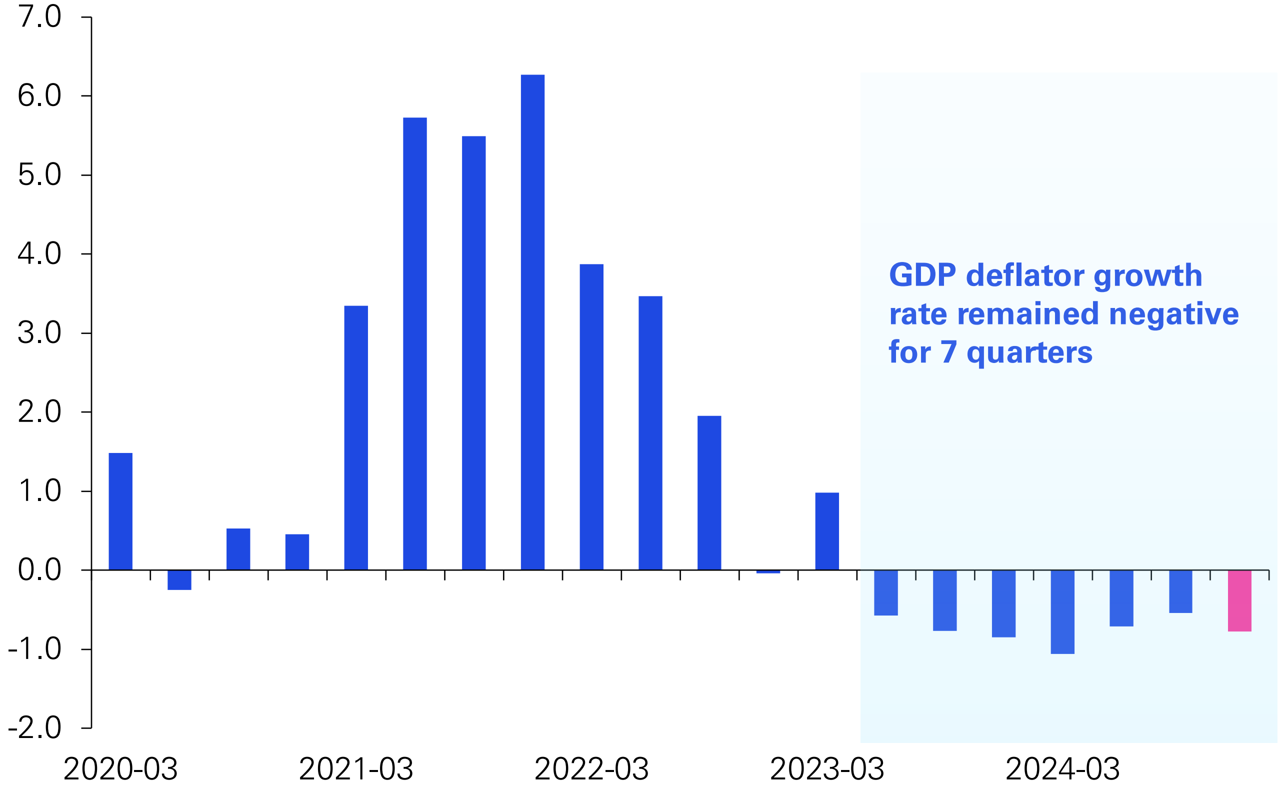
	2020-23 Average	2023Q4	2024Q1	2024 Q2	2024 Q3	2024 Q4
GDP	4.8%	5.2%	5.3%	4.7%	4.6%	5.4%
Industrial production	5.0%	5.2%	6.1%	5.9%	5.1%	5.8%
Retail sales	4.1%	8.3%	4.7%	2.6%	2.7%	3.8%
Fixed asset investment	4.4%	2.7%	4.5%	3.6%	2.6%	2.7%
Exports	9.0%	-1.2%	1.5%	5.6%	6.0%	9.9%
Imports	6.4%	0.8%	1.6%	2.5%	2.3%	-1.8%
Income per capita	4.8%	6.7%	6.2%	4.2%	4.1%	5.7%
Fiscal revenue	4.6%	-1.0%	-2.3%	-3.2%	-0.8%	13.1%
Fiscal expenditures	3.7%	9.2%	2.9%	1.1%	1.9%	8.0%

Source: Wind, KPMG analysis
Note: GDP growth, industrial production, and income per capita are in real terms, other indicators are in nominal terms.

- China's real GDP growth rate reached 5% in 2024, which is below 2023’s 5.2% but meets Beijing's “around 5.0%” growth target.
- GDP grew 5.4% in Q4 2024, 0.8 percentage points higher than in Q3 2024, beating the market's expectations and making a decisive contribution to the successful achievement of annual growth target.
- GDP growth recovery in Q4 was driven by a rebound in both domestic and external demand. The policy stimuli introduced last September also led to a rebound of consumption and investment in Q4. Meanwhile, China's exports stayed strong due to front-loading of exports ahead of Trump’s inauguration.
- As the trade-in programme is being expanded and front-loading is ongoing, some related indicators may still perform well in Q1 2025.

The Two Sessions may see the announcement of macro policies on an unprecedented scale

GDP Deflator, YoY, %



Source: Wind, KPMG analysis

- In the coming period, China's economy still faces major challenges.
- Indeed, the GDP deflator has remained negative for seven straight quarters, indicating insufficient domestic demand recovery. As President Trump took office, persistent geopolitical tensions and the rise of trade protectionism also bring significant uncertainty to China's export outlook.
- In response to economic headwinds, the Chinese government is preparing new stimulus measures. In early February 2025, Premier Li Qiang proposed to "dare to break conventions and introduce tangible and perceptible policy measures". We anticipate that the upcoming national Two Sessions will probably set an economic growth target of around 5%, while the intensity of macro policies should reach unprecedented levels.

The pace of economic recovery marginally slowed down in January 2025

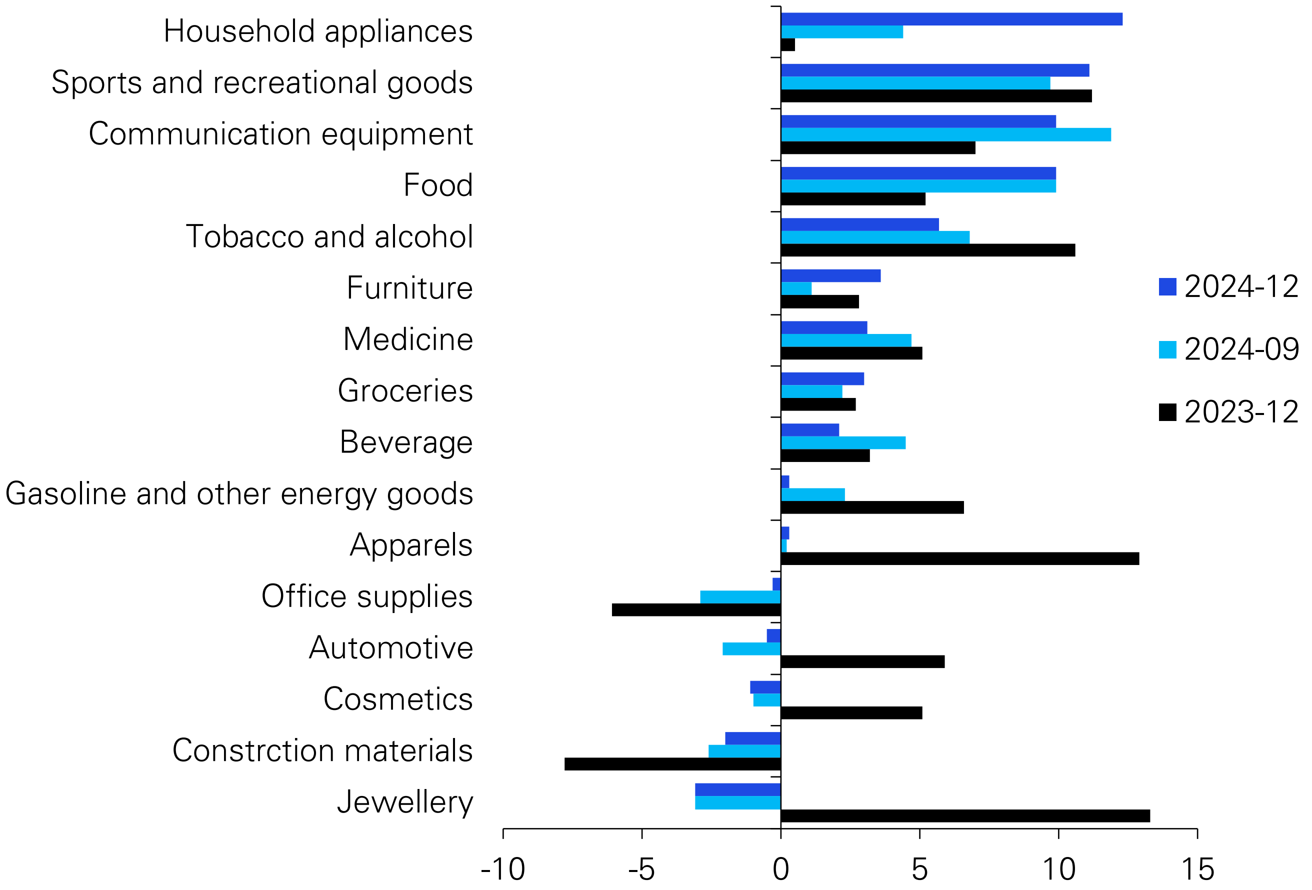
Manufacturing and non-manufacturing PMI

Source: Wind, KPMG analysis

- The manufacturing PMI in January 2025 dropped by 1.0 percentage points to 49.1% compared to December 2024, following a downward trend since October 2024. Meanwhile, the non-manufacturing PMI dropped by 2 percentage points compared to December 2024, falling to 50.2%.
- Current residents' consumption, industrial production, and real estate sales have declined since the end of last year.
- The relatively weak consumption and production performance is expected to be buoyed by the allocation and utilisation of more fiscal funds after the Lunar New Year.

Consumption has been boosted by trade-in policies

Growth rate of goods sales by category, YTD, %

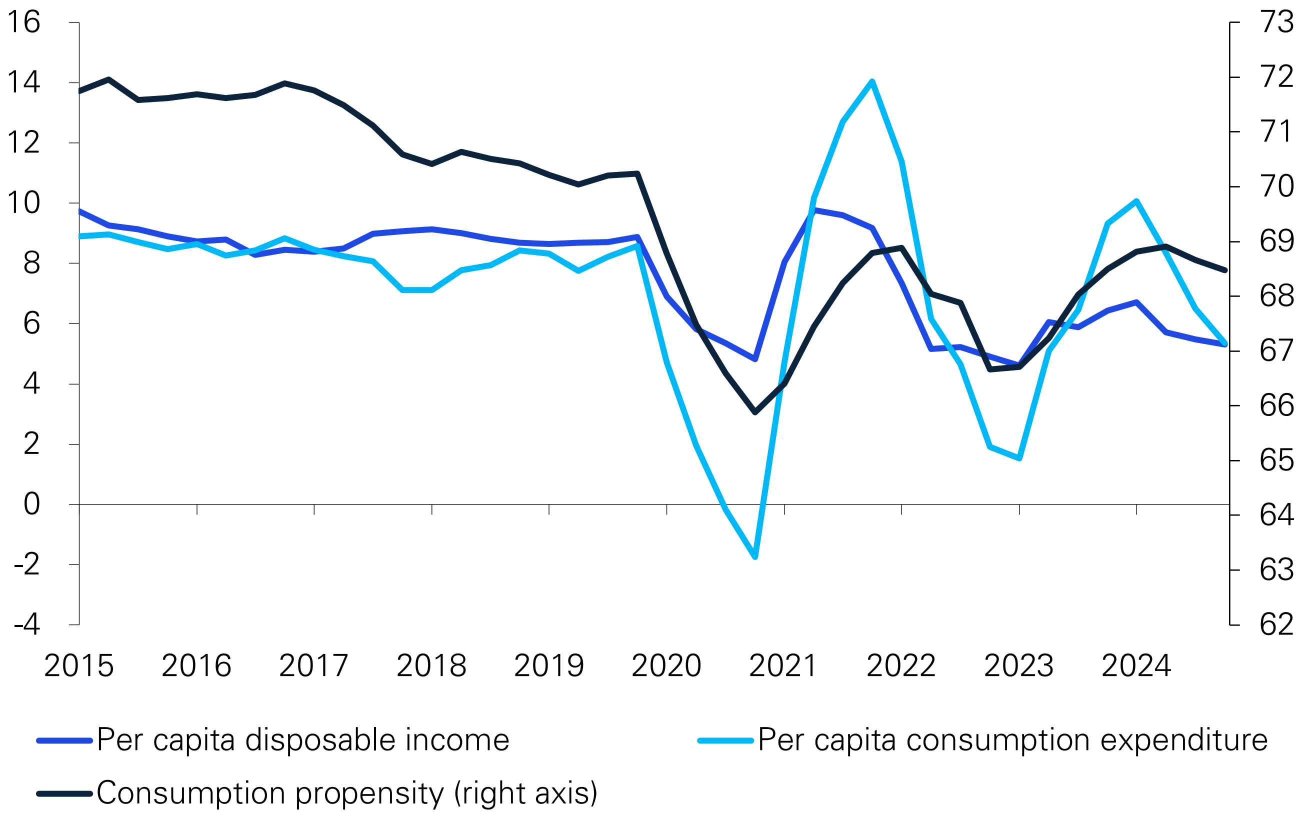


Source: Wind, KPMG analysis.
Note: Goods sales data are for above-size retail enterprises

- In 2024, trade-in policies collectively boosted related goods sales by more than RMB 1.3 trillion, raising the total retail sales growth rate by 1 percentage point. Fiscal funds leveraged consumption with a multiplier effect of around 2.1 times.
- Funds dedicated to consumer goods trade-ins were mainly allocated in Q4, driving a significant month-over-month increase of 14.2% in total retail sales in this quarter, exceeding the usual seasonal sales increase observed in previous years. Specifically, the year-on-year growth rates of retail sales for goods supported by the trade-in policies, including household appliances, furniture, office supplies, and automobiles, showed varying degrees of recovery in Q4.

Continued consumption recovery still requires further policy support

Growth rate of per capita disposable income and consumption expenditure, 4QMA, %

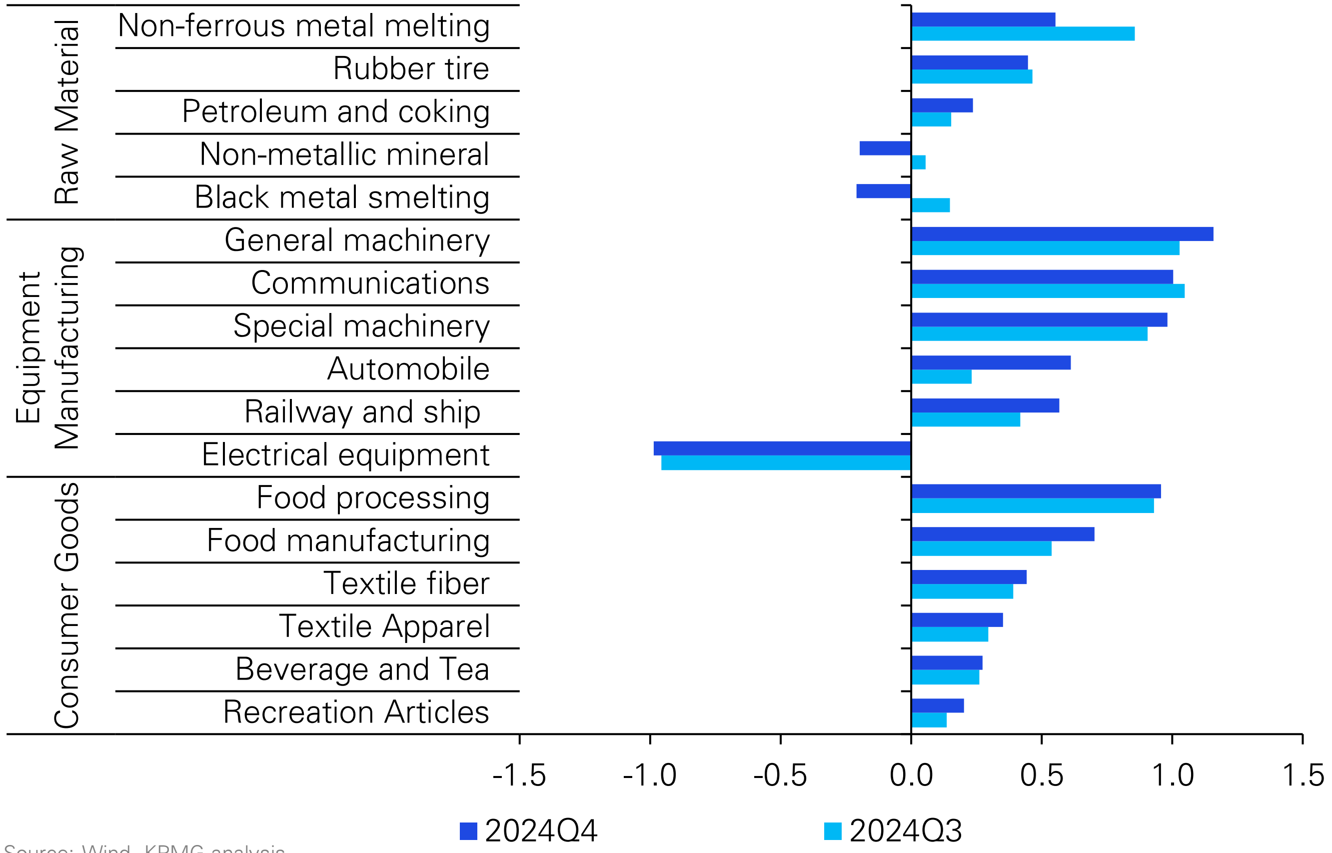


Source: Wind, KPMG analysis
Note: Consumption propensity = per capita disposable income / per capita consumption expenditure

- The growth rates of residents' disposable income and expenditure slowed down in 2024. In Q4, residents' propensity to consume dropped to 73.2%, the second-lowest level on record for the same period. This indicates that the continued recovery of consumption in 2025 still requires further policy support.
- In December 2024, the Central Economic Work Conference put "vigorously boosting consumption" at the top of their 2025 agenda and proposed to enhance and expand trade-in policies for consumer goods. Additionally, measures to support residents' income growth are expected to be further implemented, addressing bottlenecks in the "employment-income-consumption" cycle and improving residents' consumption capacity and willingness.

Demand recovery supports manufacturing investment growth

Contributions to manufacturing investment growth by sector, %

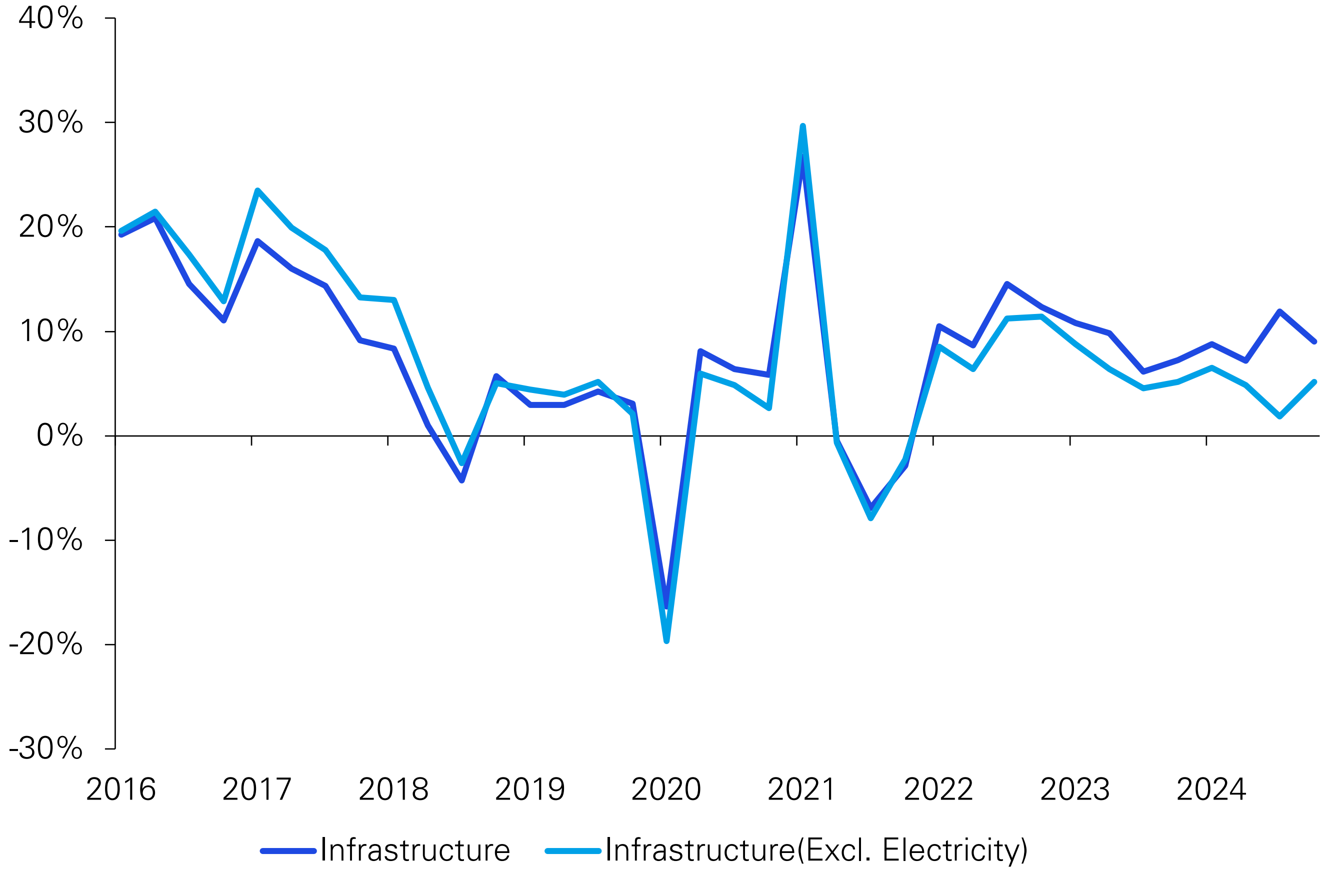


Source: Wind, KPMG analysis

- The manufacturing investment growth rate increased slightly to 9.2% in Q4 from 8.8% in Q3. Sectors with strong export demand such as general machinery and textile and apparel collectively boosted investment growth by 1.9 percentage points, up 0.2 percentage points from the previous quarter. Meanwhile, sectors like food processing, automotive, and entertainment, driven by improved consumer demand, jointly lifted manufacturing investment growth by 2.5 percentage points, up 0.7 percentage points from prior levels.
- In 2024, manufacturing investment growth reached 9.2%, exceeding the average annual growth rate of 6.6% from 2020 to 2023. Supported by export recovery and domestic equipment upgrade policies, manufacturing investment became the primary driver of fixed asset investment.

The rapid deployment of fiscal funds is leading to a revival in narrowly-defined infrastructure investment

Growth rate of infrastructure investment, year-on-year (YoY), quarterly, %

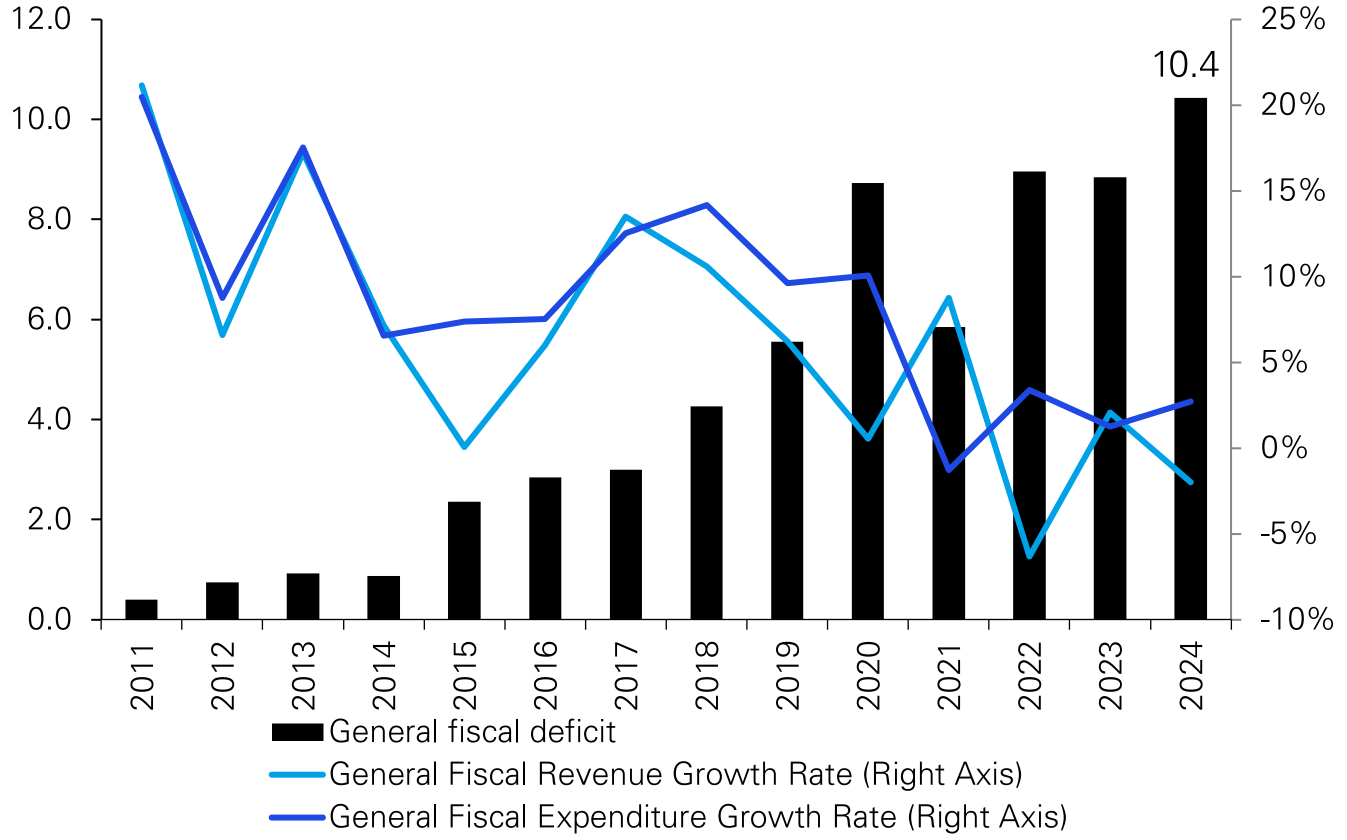


Source: Wind, KPMG analysis

- Infrastructure investment growth dropped to 9.0% in Q4 from 11.9% in Q3. The power infrastructure investment demand reached a historical high in Q3 due to damage caused by extreme weather, creating a high comparison base for Q3 and dragging down the overall performance of infrastructure investments.
- Excluding the disruption of power investment, infrastructure investment grew 5.1%, up by 3.2 percentage points from Q3. This was mainly supported by increase in fiscal spending in Q4.
- In 2024, infrastructure investment grew by 9.2%, 0.9 percentage points higher than 2023 and the third consecutive year when the government has increased infrastructure investment to offset the property market decline.

The general fiscal deficit hit a record high in 2024

Growth rate of general fiscal revenues, expenses, and general fiscal deficit, YoY, trillion yuan, %

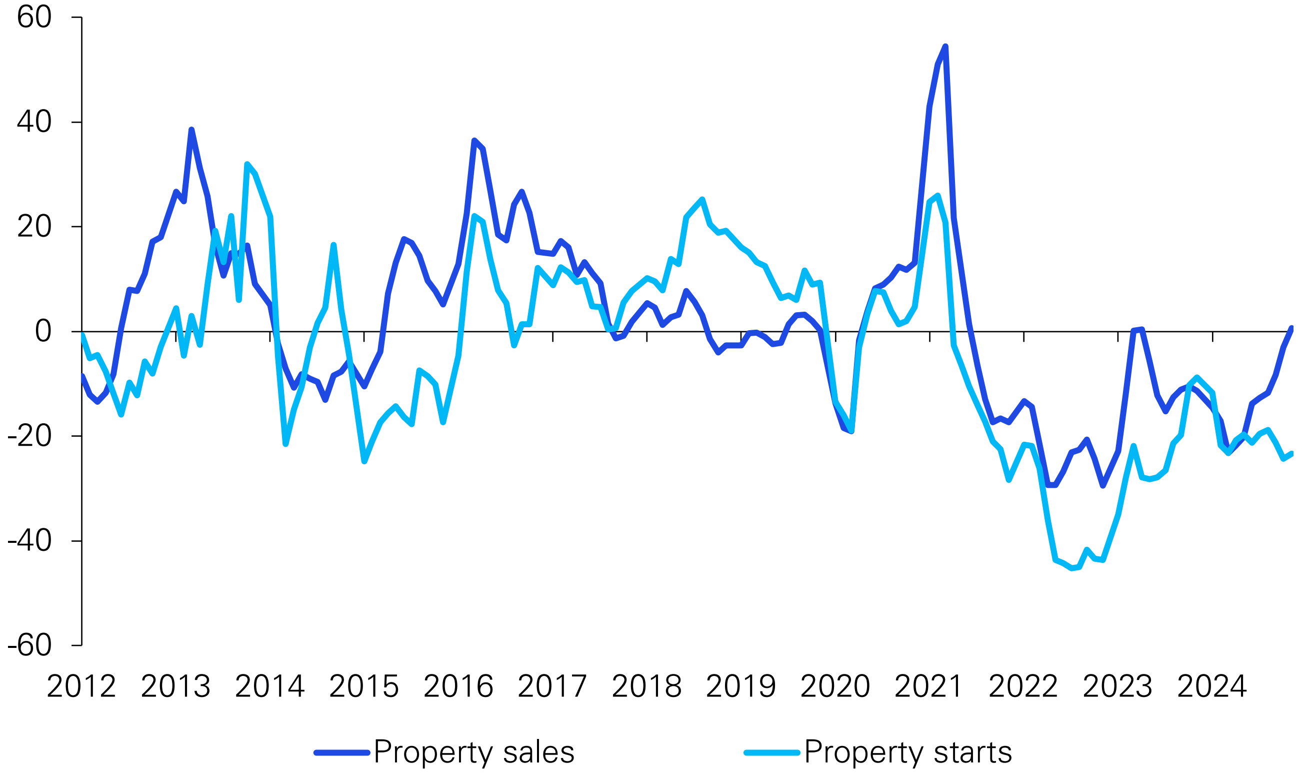


Source: Wind, KPMG analysis

- Due to weak domestic demand and property markets, both government tax and land sale revenue fell short of the initial budget targets for 2024. The general revenue decreased by 2.0% in 2024, marking the second-lowest revenue in history.
- To ensure a robust fiscal expansion, the government actively raised non-tax revenue during the year. The general fiscal deficit reach 10.4 trillion yuan with a 2.7% expenditure growth rate, roughly in line with the compound annual growth rate of 2.8% from 2020 to 2023.
- Specifically, fiscal spending on infrastructure, social security and employment, science and technology, and consumption exceeded the initial budget targets. We believe these areas will remain a key focus of the government's 2025 fiscal policy.

Real estate investment remained subdued under inventory pressure

Property starts and new home sales, YoY, three-month moving average, %

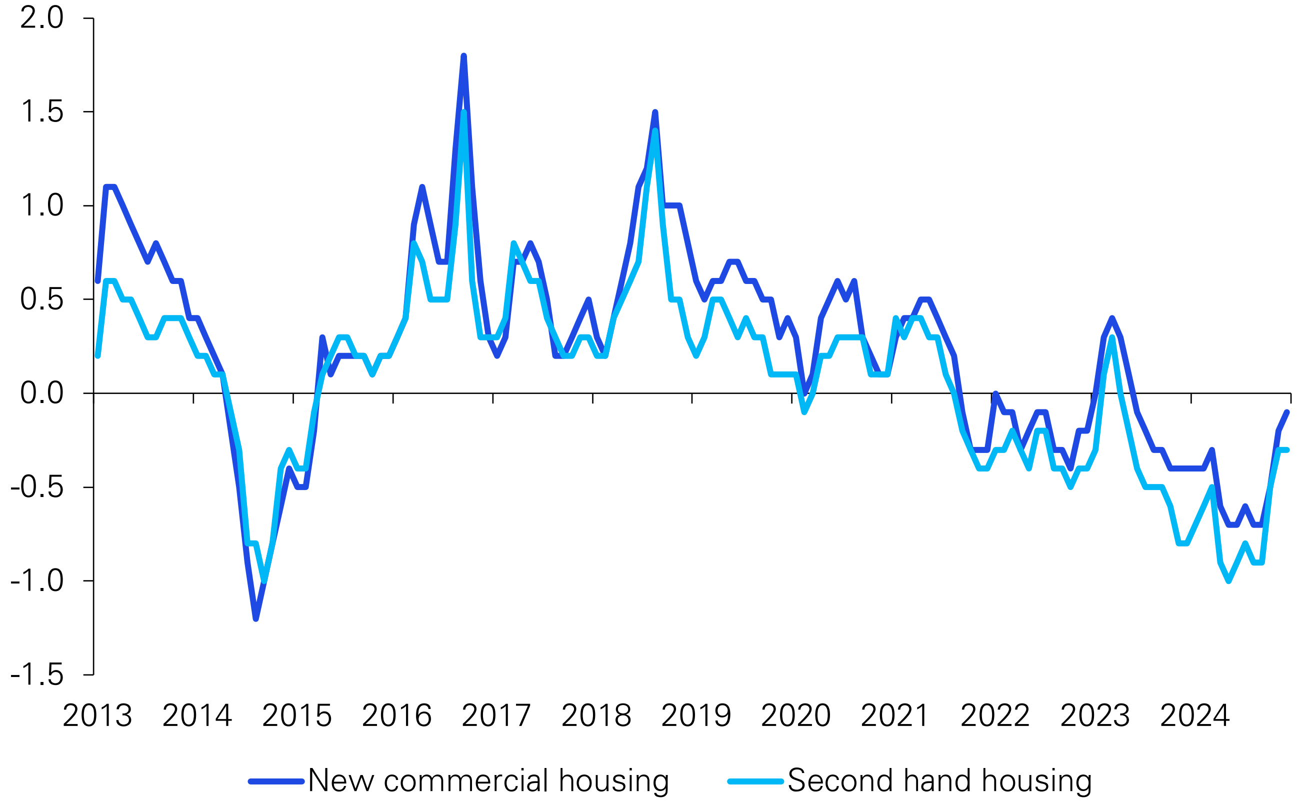


Source: Wind, KPMG analysis

- Driven by a series of policies in September aiming to stimulate property demand, housing sales growth rate rose from -12.7% in Q3 to 0.3% in Q4. Meanwhile, the growth rate of property investment fell to -12.4%, from -10.1% in Q3.
- The divergence between sales and investment is primarily due to high inventory pressure and tight liquidity. Additionally, restrictions on limited land supply may further drag down property investment performance over the coming period.
- In 2024, the growth rate of real estate investment stood at -10.6%, continuing on the downward trend observed since 2022 and remained the largest drag factor on fixed asset investment.

House prices showed marginal stabilisation in Q4

Housing price index(HPI) of new and second-hand housing in 70 large and medium-sized cities, MoM, %

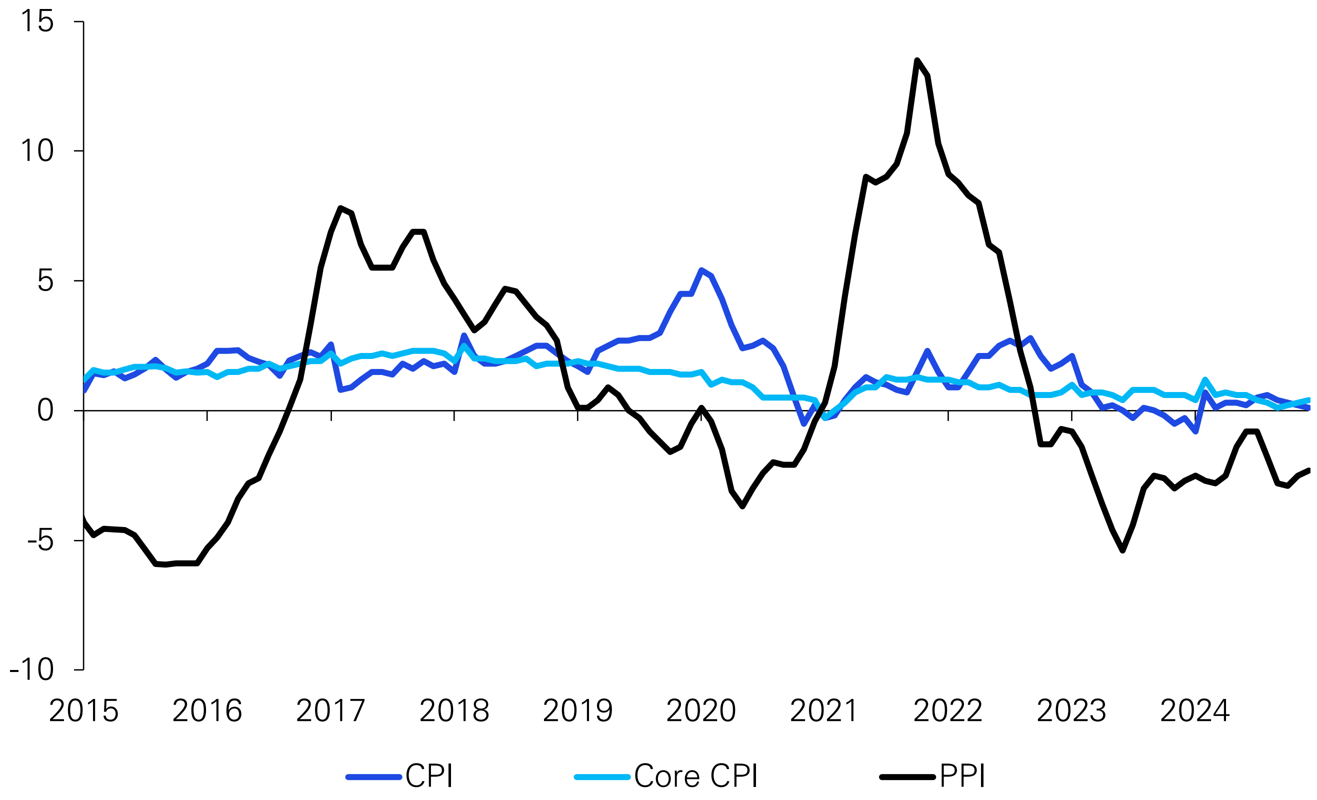


Source: Wind, KPMG analysis

- On the backdrop of weak investment performance there was a marginal recovery in new and second-hand residential properties prices in Q4 after the introduction of new policies in September.
- Notably, the month-over-month growth rate of the HPI for second-hand residential properties in first-tier cities turned positive for the first time since June 2023, reaching 0.4%, and remained positive in November and December, reflecting an improvement in residents' expectations regarding housing prices.
- The stabilisation of asset prices, led by the real estate sector, has become an important driver behind the rebound in consumer spending and residents housing demand in Q4. Looking ahead, maintaining stable housing prices will still be the key for demand recovery in 2025.

Core inflation has showed an upward trend

China Consumer Price Index (CPI) and Producer Price Index (PPI), YoY, %

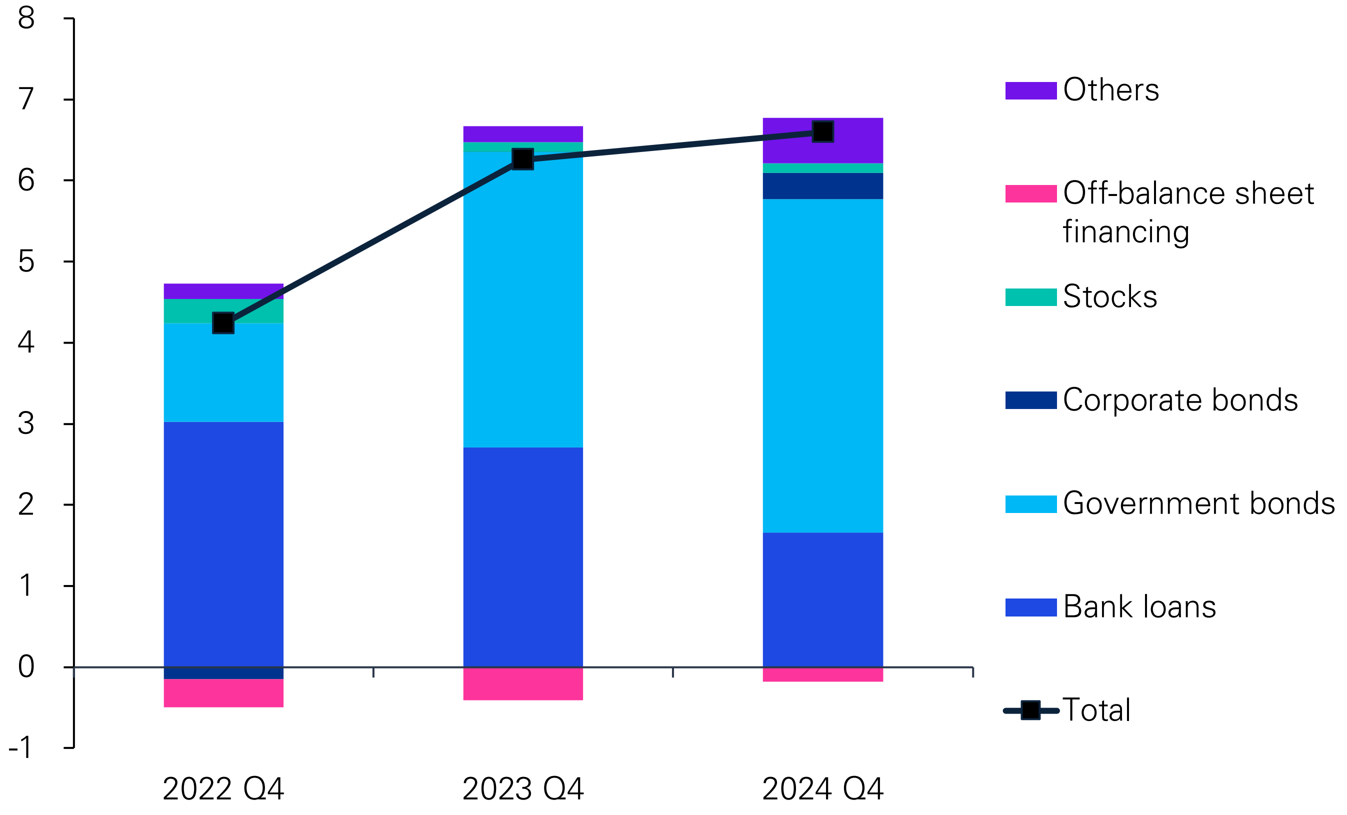


Source: Wind, KPMG analysis

- Inflation remained relatively low in 2024, with the CPI only increasing by 0.2% YoY, the same as in 2023. In December, the CPI rose by 0.1% YoY, 0.1 percentage points lower than November, mainly due to an unusual decline in food prices. However, with the stabilisation and improvement of domestic demand, core CPI growth rebounded for three consecutive months, reaching 0.4% YoY in December.
- PPI fell by 2.3% YoY in December 2024, marking the 27th consecutive month of negative growth. The supply-demand imbalance in certain industries, along with low real estate investment, continued to constrain the recovery of industrial demand and prices. However the PPI is expected to follow an upward trajectory in 2025 thanks to continued policy support.

Government bond issuances continued to support social finance

Growth of total social financing (TSF) by sector, RMB trillion

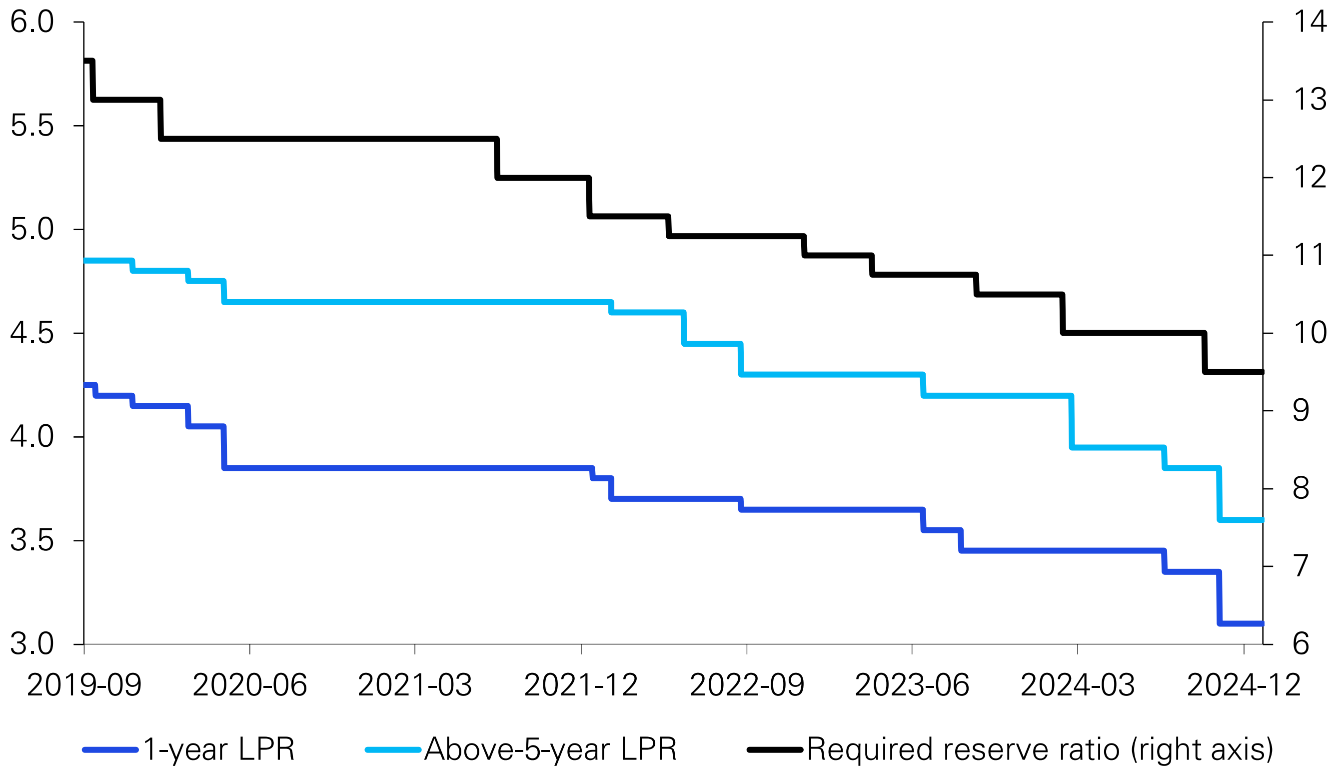


Source: Wind, KPMG analysis

- In Q4 2024, as special refinancing bonds used to replace local government's debt were issued at an accelerated pace, net government bond financing totaled RMB 4.1 trillion, accounting for more than 62% of total social financing, a YoY increase of RMB 2.9 trillion.
- In Q4, bank loans issued to the real economy increased by RMB 1.7 trillion, a YoY decrease of RMB 1.0 trillion. New bank loans to enterprises decreased significantly by RMB 1.4 trillion YoY. On one hand, the slow recovery of enterprises' profitability has constrained their willingness to expand capital expenditure. On the other hand, the concentrated issuance of refinancing special bonds has led some financing platforms to repay their loans in advance.

The monetary policy loosens moderately

Required reserve ratio (RRR) and Loan Prime Rate (LPR), %

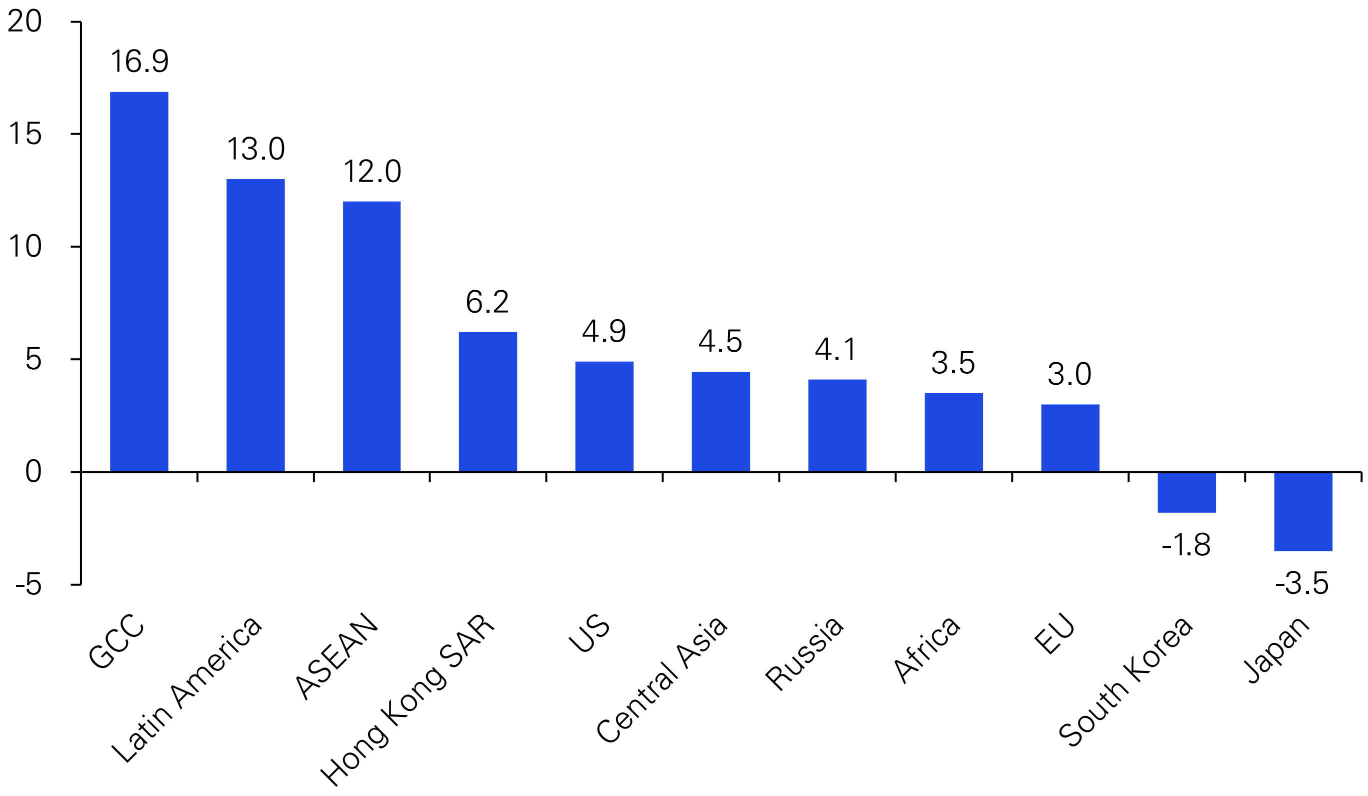


Source: Wind, KPMG analysis

- In 2024, the central bank cumulatively cut the RRR and interest rate by 100 and 30 basis points respectively, and led the 1-year and 5-year LPR to shrink by 35 and 60 basis points respectively, marking the most significant shifts in recent years.
- According to the Central Economic Work Conference, the central bank will adopt a moderately loose monetary policy in 2025, signaling a shift from the prudent policy orientation in the past 14 years, which indicates certain room for further RRR and interest rate cuts. Additionally, the central bank will gradually normalise its use of tools such as the net purchase of government bonds and buyout reverse repurchases, to provide liquidity in coordination with government bond issuances.

Traders are rushing to export ahead of rising global trade protectionism

Growth rate of China's exports to major trading partners in 2024, YoY, %

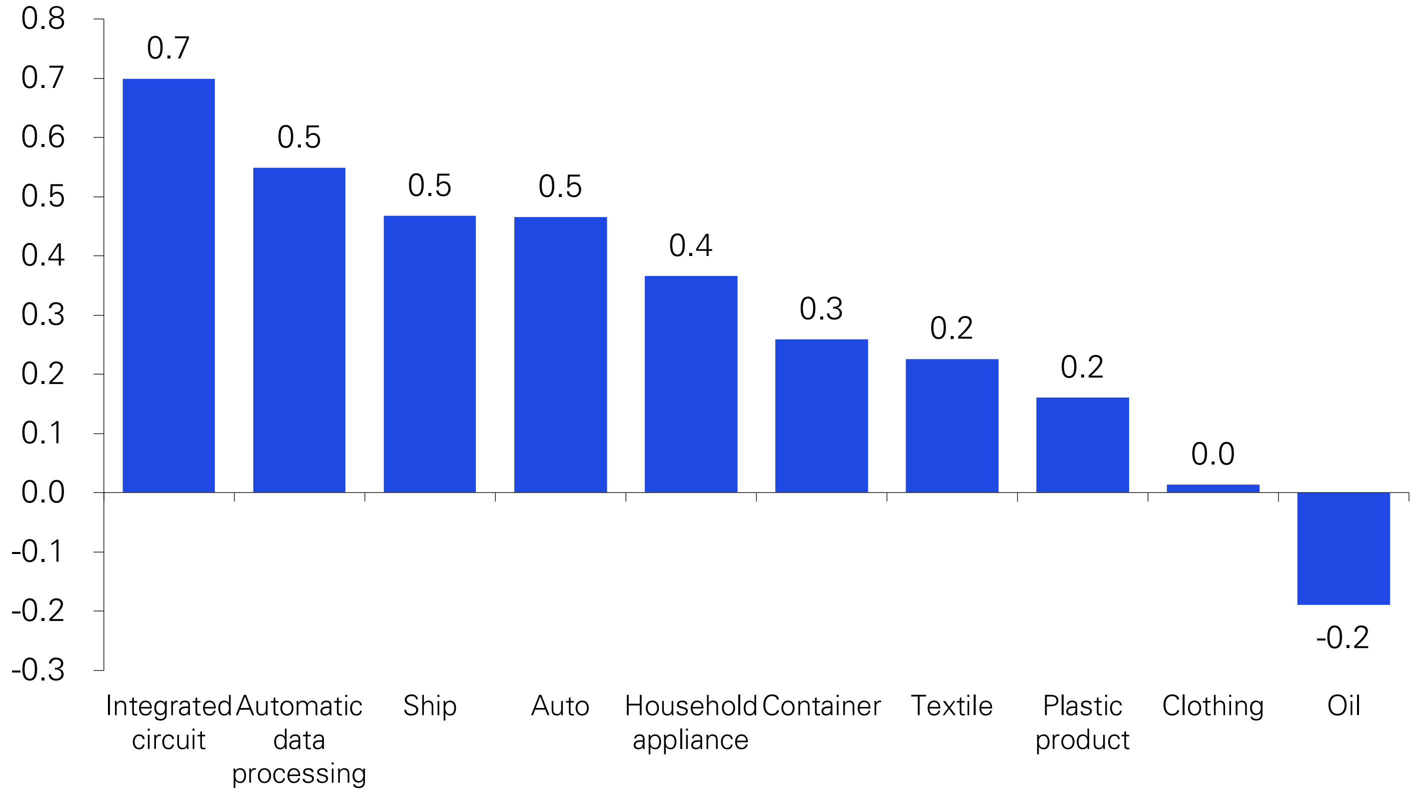


Source: Wind, KPMG analysis
Note: The Golf Cooperation Council (GCC) economies include the United Arab Emirates, Saudi Arabia, Oman, Kuwait, Qatar, and Bahrain; The Central Asia economies include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

- China's foreign trade enterprises are rushing to export ahead of potential escalation in global trade protectionism. Exports to the United States rose by 10.5% YoY in Q4 2024, up 5.5 percentage points from Q3. However, influenced by shifts in China-U.S. trade, Hong Kong's role as a trade intermediary has weakened, resulting in a 3.0% YoY decrease in mainland China's exports to Hong Kong in Q4.
- China's economic and trade cooperation with Belt and Road economies is strengthening, with the share of imports and exports to these economies exceeding 50% in 2024 for the first time. In 2024, China's exports to the GCC, central Asia, and Africa increased by 16.9%, 4.5%, and 3.5% YoY respectively.

High-tech products accelerate their overseas expansion

Contributions to export growth by category in 2024, percentage points

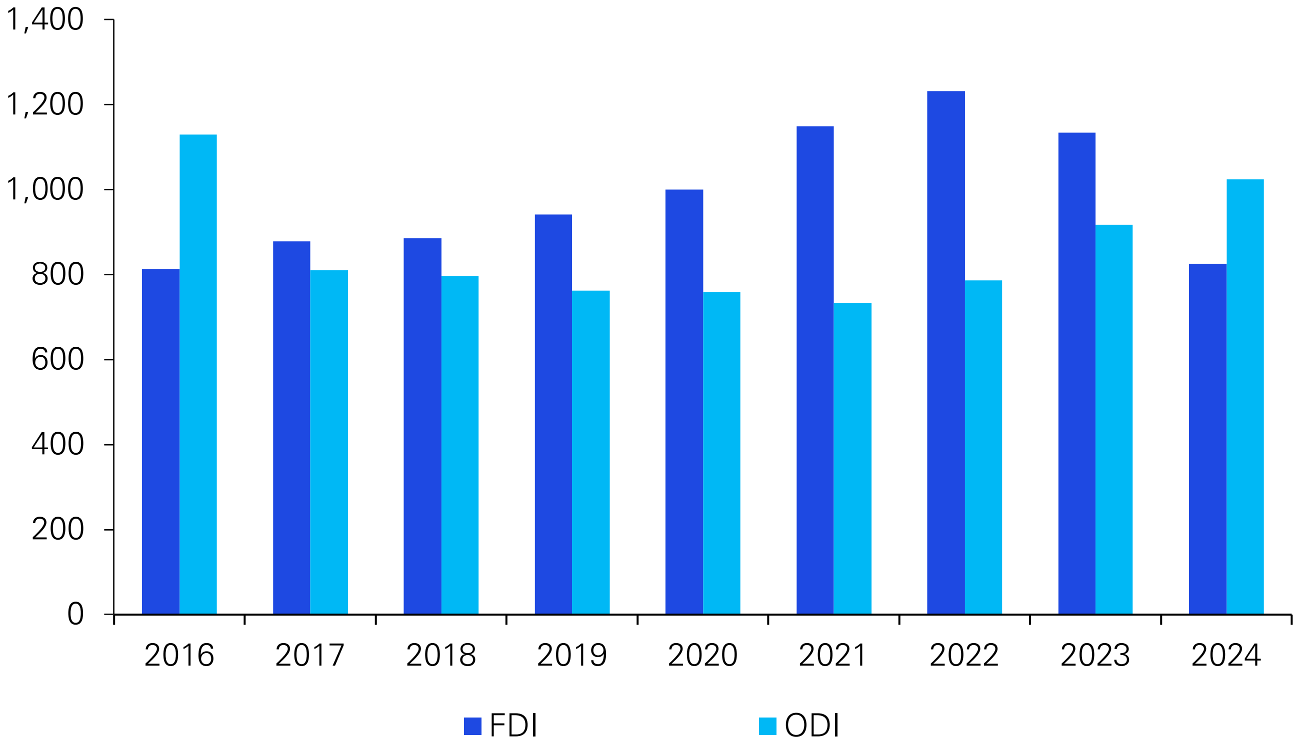


Source: The General Administration of Customs, KPMG analysis

- China's export commodity structure has been further optimised, with more high-tech products accelerating their overseas expansion. The growth rate of high-tech product exports rose to 4.8% in 2024, representing 20.9% of total exports.
- With the booming development of the global artificial intelligence industry and the continuous recovery of the consumer electronics market, integrated circuits, automatic data processing equipment, and household appliances had a strong driving effect on exports in 2024. In addition, thanks to the recovery of global trade and the strong demand for transportation in the international shipping market, exports of ships and containers saw significant growth.

The foreign investment structure continued to shift

China's foreign direct investment (FDI) and outbound direct investment (ODI), RMB billion



Source: Wind, KPMG analysis

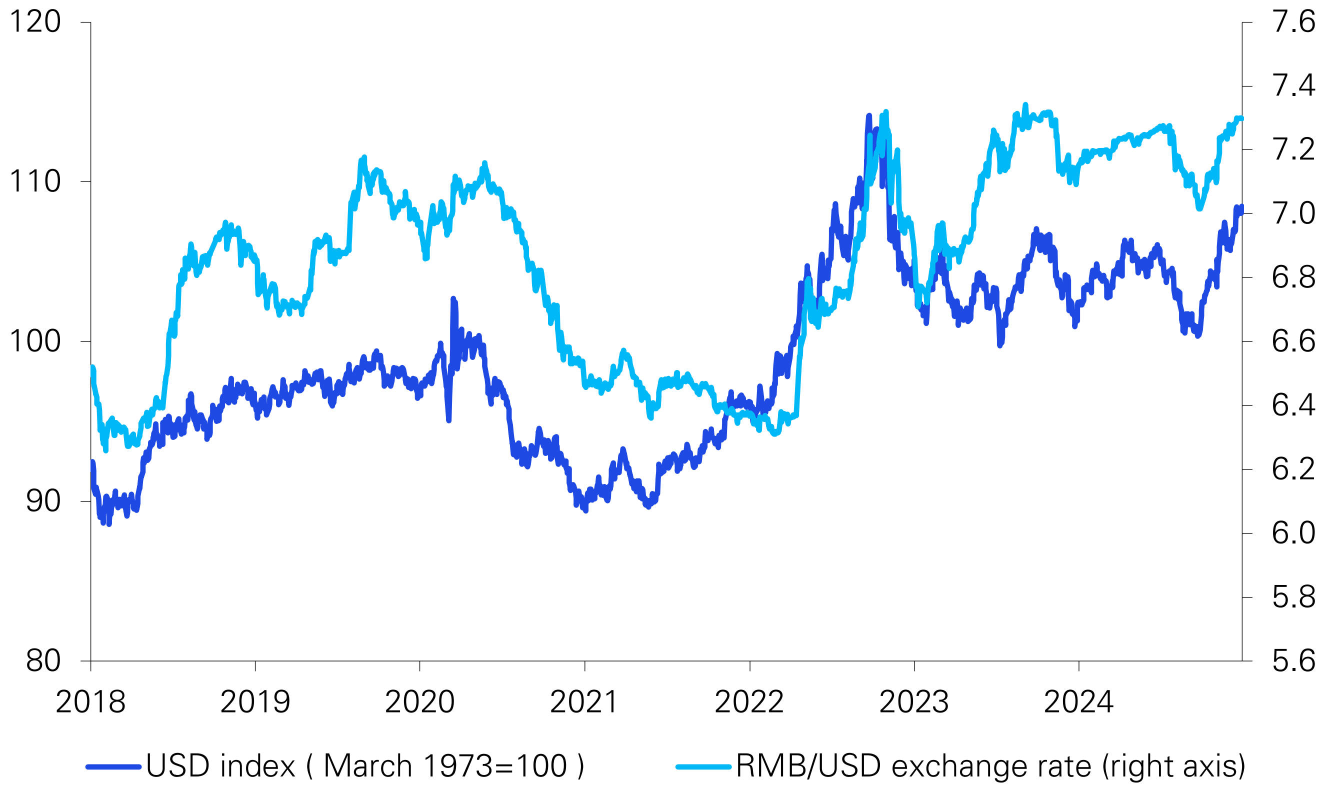
- FDI into China fell by 27.1% YoY in 2024, partly influenced by rising international uncertainties and instability and a slower-than-expected recovery of China's economy, but more related to continuous shifts in the FDI structure.

- In 2024, FDI in high-tech manufacturing and services accounted for 11.7% and 70.7% of total FDI, up 0.6 and 2.0 percentage points from 2023, respectively. The light-asset nature of the service sector may have had a certain impact on the overall scale and growth of foreign investment. Nevertheless, the number of newly established foreign-invested enterprises still grew by 9.9% YoY in 2024.

- ODI from China rose by 11.7% YoY in 2024, 10.6% as Chinese enterprises continue to go global.

The RMB exchange rate is under temporary pressure

USD index and RMB/USD exchange rate

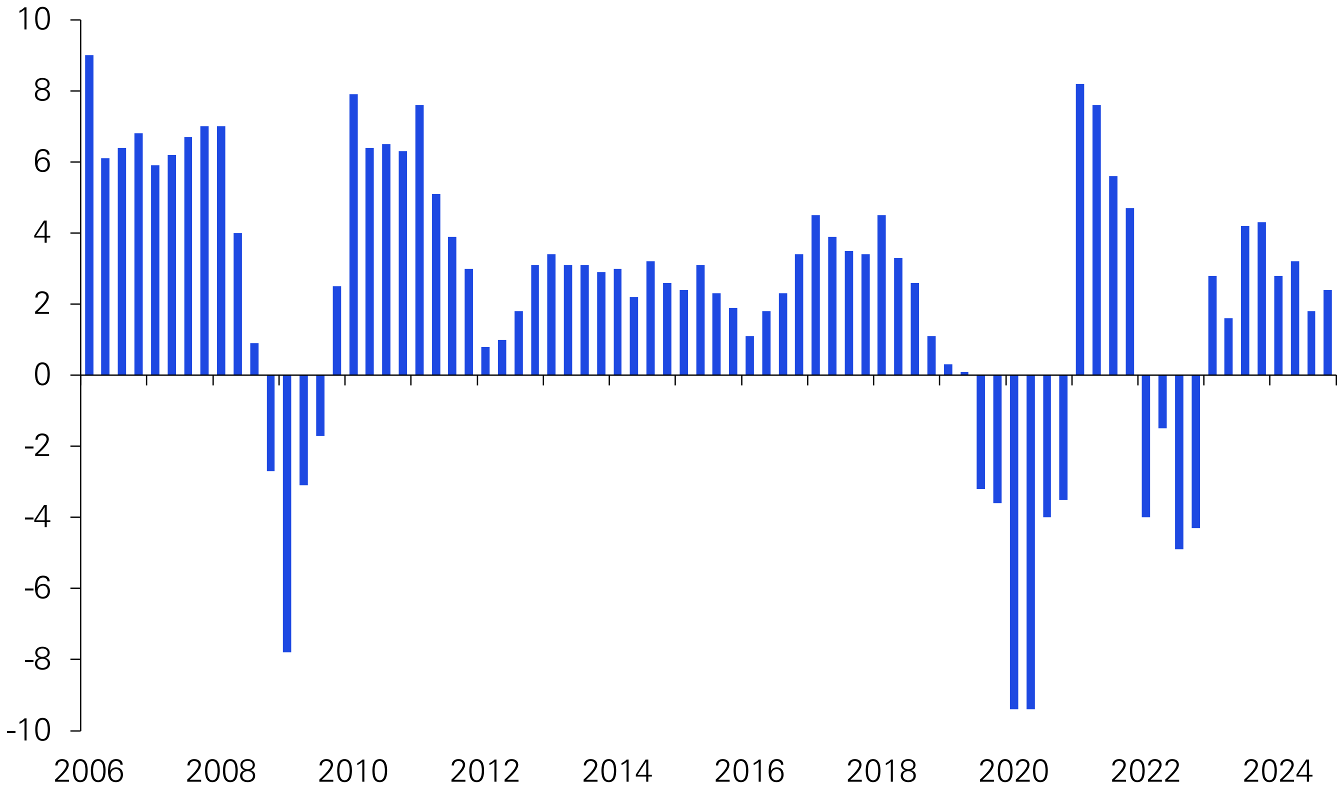


Source: Wind, KPMG analysis

- Driven by the anticipation of the "Trump 2.0" policy, the US Dollar Index rebounded strongly to 108.48 in Q4, putting pressure on the RMB exchange rate. The RMB depreciated by more than 4% against the USD in Q4.
- Looking ahead to 2025, the RMB exchange rate is expected to maintain bidirectional fluctuations with a slight downward trend. External uncertainties will further intensify, including the Federal Reserve's policies, U.S. tariffs on China, and geopolitical risks.
- However, China's more proactive counter-cyclical macro-control policies could further consolidate the positive momentum of economic recovery, providing a solid foundation for the stability of the RMB exchange rate.

Hong Kong maintained steady economic progress

Hong Kong's real GDP growth rate, YoY, %



Source: Wind, KPMG analysis

- With the recovery of visitor numbers, exports, and capital investment, Hong Kong SAR's GDP grew moderately by 2.5% YoY in 2024. In Q4, the growth rate of GDP reached 2.4% YoY, up 0.5 percentage points from Q3.
- Looking ahead, Hong Kong's economy may face external challenges due to U.S. trade protectionism and high global interest rates.
- However, with the support of Chinese Mainland economic improvement and the central government's pro-Hong Kong measures, combined with a series of initiatives taken by the SAR government to promote economic growth, Hong Kong's economy is expected to grow steadily in 2025.

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