KPMG

China Economic Monitor

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Key takeaways

- China's real GDP grew by 5.4% year-on-year (YoY) in Q1 2025, matching the growth rate in Q4 2024 and exceeding market expectations. The robust start of China's economy was fueled by proactive policies implemented since last September, as well as front-loading exports ahead of US reciprocal tariffs. But the growth of major economic indicators including industrial production, retail sales and fixed asset investment marginally slowed in April due to the escalation in China-US tariff tensions.
- Thanks to policies to boost consumption, the YoY growth rate of total retail sales increased from 4.0% in Q4 2024 to 4.6% in Q1 2025. Meanwhile, as local government debt burdens ease, urban renewal and consumption-related infrastructure projects expand, infrastructure investment maintains strong. The growth rate of manufacturing investment remained relatively stable, decreasing slightly by 0.1 percentage points from the previous quarter to 9.1%.
- Supported by strong infrastructure investment, export front-loading, equipment upgrades and consumer goods trade-in programmes, industrial production grew by 6.5% year-on-year in Q1, further increasing from 5.8% of 2024 full year growth. Notably, manufacturing production grew from 6.1% of last year to 7.1% in Q1.
- Although the decline in real estate investment narrowed by 2.5 percentage points to -9.9% compared to Q4 2024, it still remains the largest drag on fixed asset investment, pulling down overall investment by 1.7 percentage points. Stabilising the real estate market is still a priority of government economic work this year.
- Underlying concerns about economic performance persist as export front-loading ends in the second half of this year. Overcapacity and fierce price competitions are eroding industrial profits. The GDP deflator for Q1 2025 was -0.8%, marking the eighth consecutive quarter of negative readings. In response to these challenges, the government has committed to a comprehensive policy package to steer the economy, as indicated in the Politburo meeting on April 25, including accelerating actions on existing policies and introducing targeted incremental policies: such as cuts in lending costs, additional quotas for relending facilities, to strengthen private enterprises, technological innovation, consumption, foreign trade, and the real estate and capital markets. Additional policy-based financial instruments are expected to be introduced to reinforce infrastructure investment.
- The substantial progress in China-US trade negotiations in May is expected to alleviate the downward pressure on China's economy for the rest of Q2 2025. Given the lingering uncertainties in global trade following the 90-day pause, Chinese enterprises are likely to accelerate their exports, thereby driving strong performance in China's industrial production-and manufacturing investment in Q2.

China's economy has shown a robust start in Q1 2025

Growth rate of major economic indicators, YoY, %

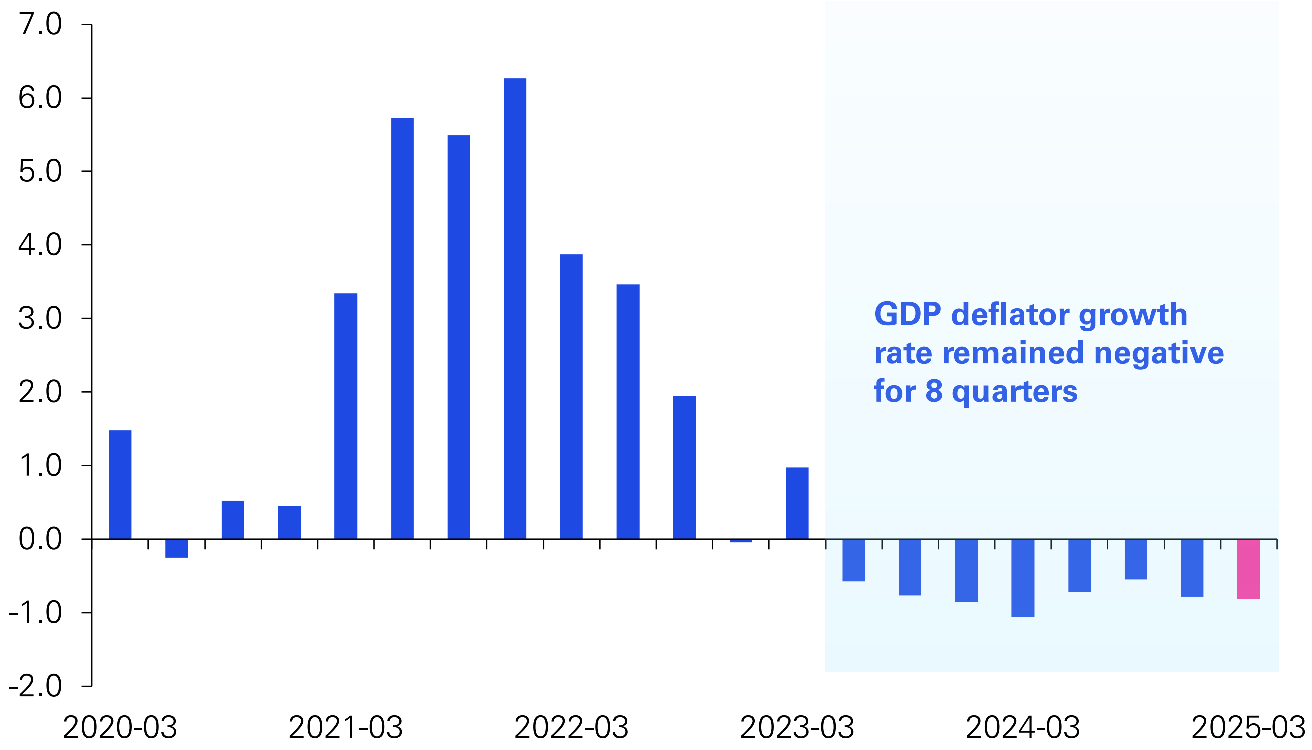
	2020-23 Average	2024	2024Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1
GDP	4.8%	5.0%	5.3%	4.7%	4.6%	5.4%	5.4%
Industrial production	5.1%	5.8%	6.1%	5.9%	5.1%	5.7%	6.5%
Retail sales	3.7%	3.5%	4.7%	2.7%	2.5%	4.0%	4.6%
Fixed asset investment	4.0%	3.2%	4.5%	3.5%	2.5%	2.6%	4.2%
Exports	7.8%	5.9%	1.5%	5.7%	5.9%	9.9%	5.8%
Imports	5.3%	1.1%	1.6%	2.5%	2.2%	-1.8%	-7.0%
Income per capita	4.8%	5.1%	6.2%	4.2%	4.1%	5.7%	5.6%
Fiscal revenue	4.6%	1.3%	-2.3%	-3.2%	-0.8%	13.1%	-1.1%
Fiscal expenditures	3.7%	3.6%	2.9%	1.1%	1.9%	8.0%	4.2%

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 grew by 5.4% in Q1 2025, consistent with the growth rate in Q4 2024 and exceeding market expectations.
- The robust start of China's economy was boosted by the proactive implementation of domestic policies, which supported the ongoing household consumption and corporate investment recovery. Meanwhile, China's exports maintained resilience in Q1, as enterprises front-loaded trade shipments in anticipation of US reciprocal tariffs in April.
- Following substantial progress in the China-US trade negotiations in May, Chinese enterprises are expected to accelerate their export front-loading to address future uncertainties, thereby driving strong performance in China's industrial production, manufacturing investment, and foreign trade in Q2. Meanwhile, consumer confidence and business expectations are also likely to improve in Q2, supporting stable spending by private sectors.

The government will timely introduce additional policies to expand domestic demand

GDP Deflator, YoY, %

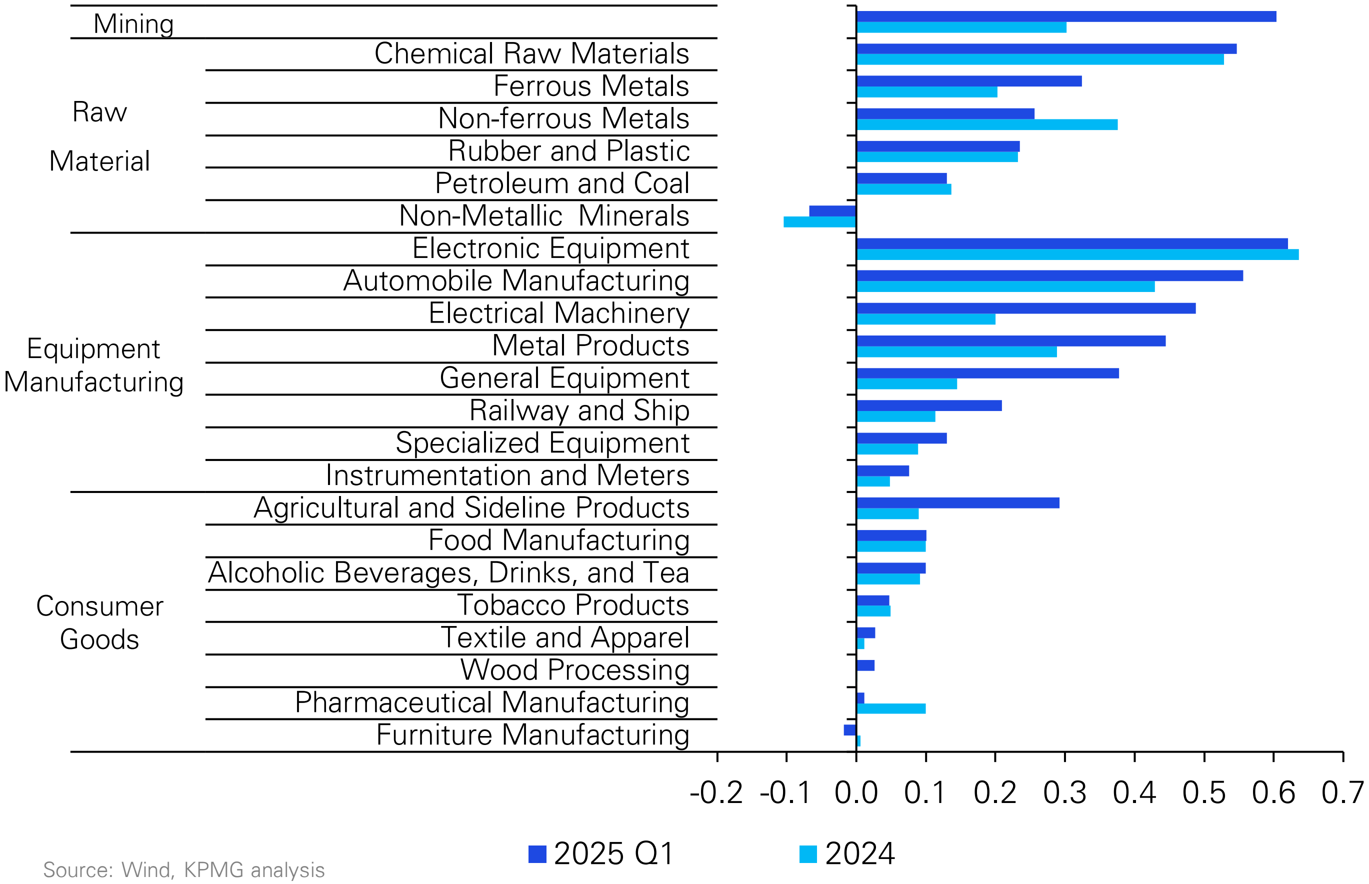


Source: Wind, KPMG analysis

- It should be noted that there are still underlying concerns regarding future economic performance.
- Firstly, current domestic production remains stronger than demand, with prices still fluctuating at low levels. The GDP deflator for Q1 was -0.8%, marking the eighth consecutive quarter of negative readings. Secondly, inventory pressures for property developers remain unresolved, and the outlook for stabilisation in the real estate market remains unclear. Thirdly, the stimulus effect of trade-in programmes for durable goods may weaken over time.
- In the face of the uncertainty brought by rapidly changing external conditions and the need to further solidify the foundation for a sustained economic recovery, the government has stated that it has ample macro-policy reserves and will timely introduce additional policies to expand domestic demand.

Industrial production strengthened in Q1 2025

Contributions to industrial production growth, by sector, percentage points

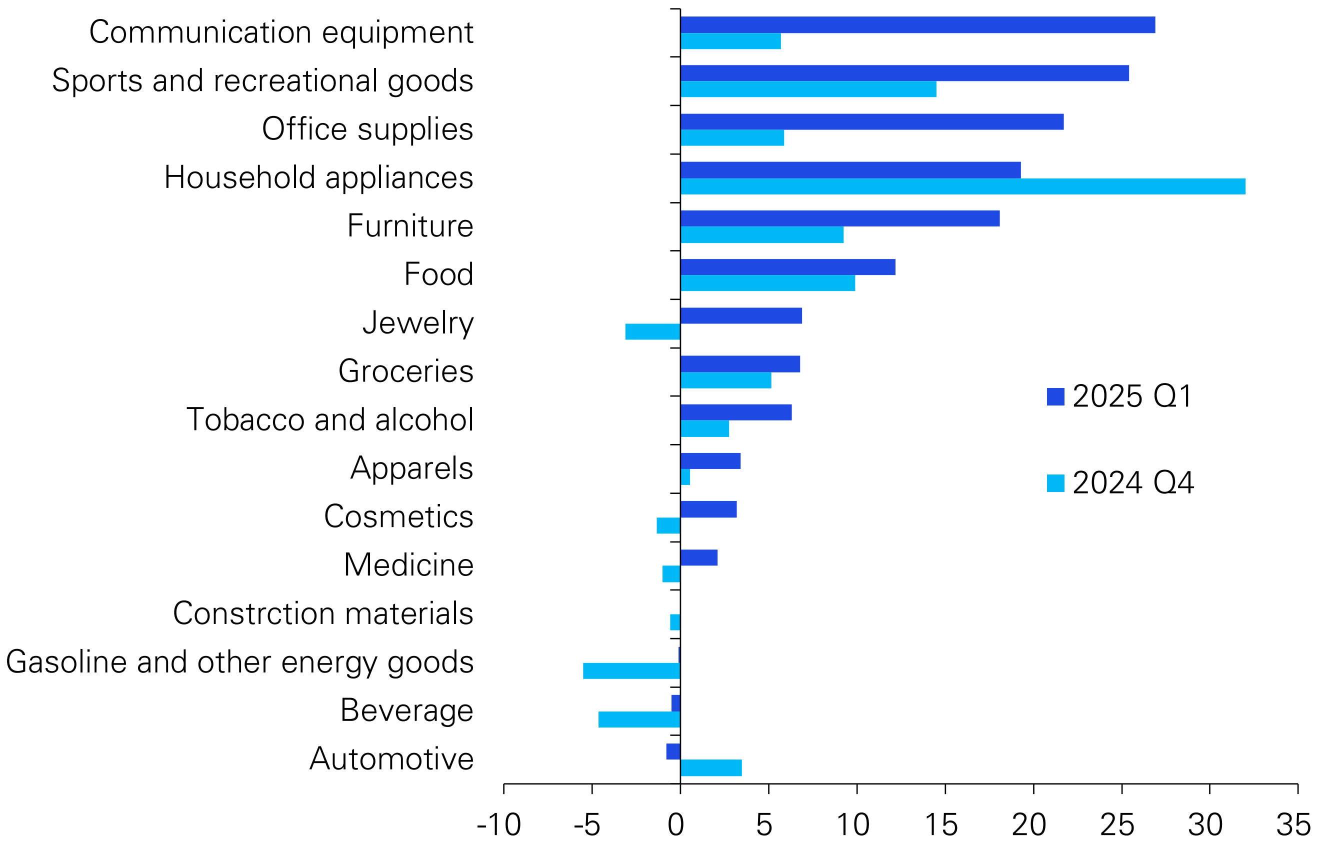


Source: Wind, KPMG analysis

- In Q1 2025, industrial production increased by 6.5% YoY, further rising from 5.8% for the whole of last year. The growth rate of manufacturing production increased from 6.1% last year to 7.1% in Q1.
- The strengthening of manufacturing production in Q1 was mainly driven by three factors. Firstly, the front-loading of exports boosted the rapid growth of the electrical machinery and computer communication equipment industries. Secondly, the growth rate of the general equipment and automotive industries related to the domestic equipment renewals and consumer goods trade-in policies increased significantly. Thirdly, infrastructure investment and production activities were vigorous, leading the growth rate of upstream products such as steel and cement production to maintain a high position.

The trade-in programme drove the sustained recovery of consumption

Growth rate of goods sales by category, YoY, %

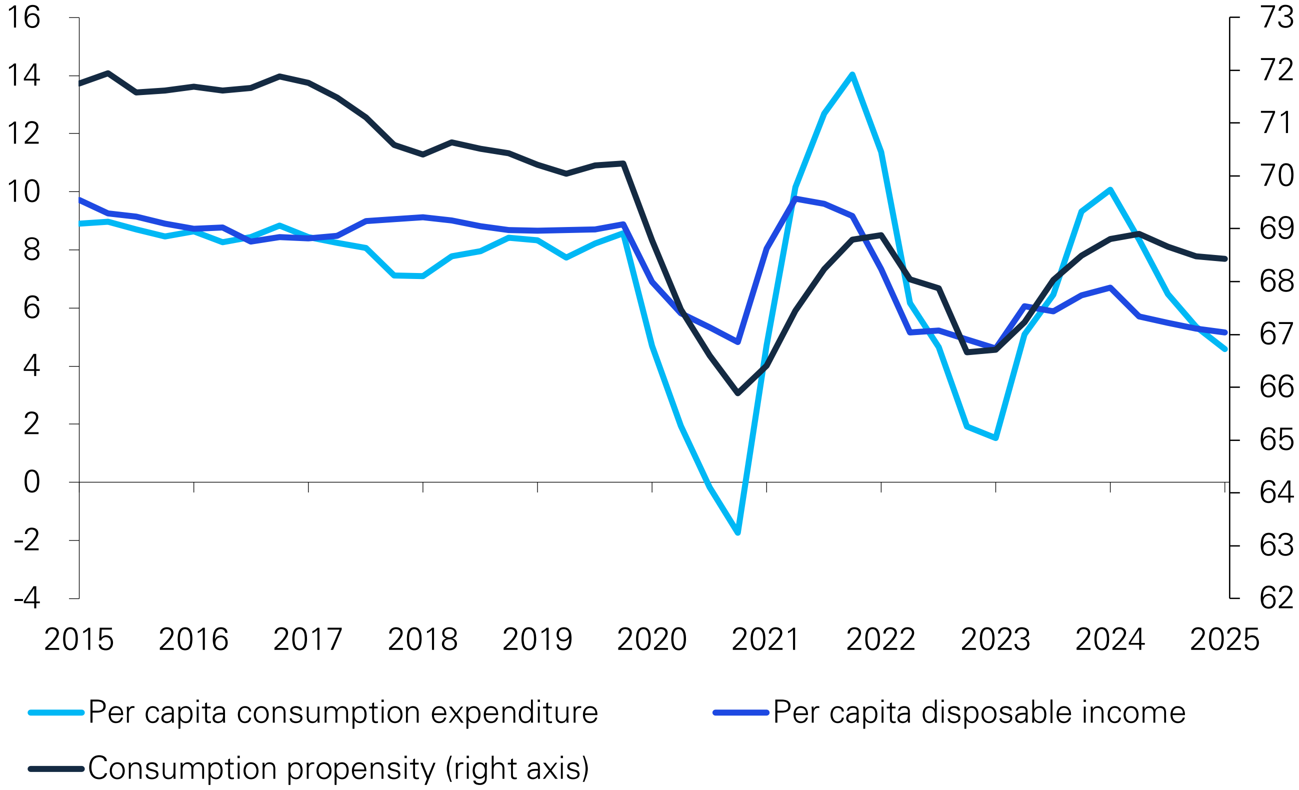


- Thanks to the intensified and expanded trade-in programmes, sales of durable goods such as communication equipment, office supplies, household appliances, and furniture, maintained double-digit growth, contributing a combined 1.4 percentage points to the increase in total retail sales in Q1.
- In line with the heat in entertainment service consumption, sales of sports and recreational goods rose by 25.4% YoY, underscoring the high growth potential of emotional consumption.
- Under the synergistic effects of policies targeting income growth, burden reduction, consumption experience enhancement, and property and stock market stabilisation, consumption recovery has gradually spread to categories beyond the scope of trade-in subsidies, spanning most daily necessities and optional consumer goods.

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

Unlocking the residents' employment-income-spending cycle is crucial to boost consumption

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

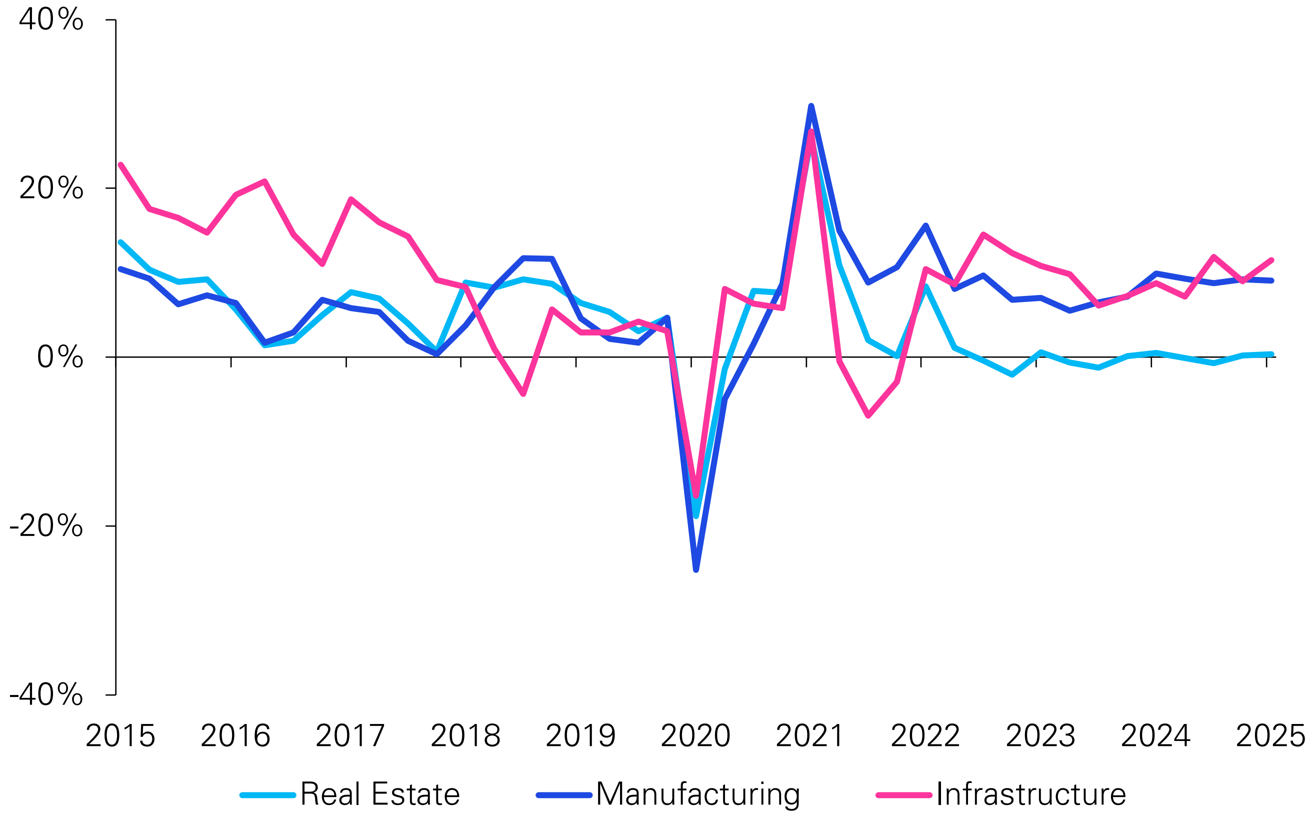


- From the perspective of 4 quarters moving average, the upward trend in residents' income and expenditure growth rates and consumption propensity has not been fundamentally reversed. The virtuous cycle of residents' employment-income-consumption still needs to be unlocked.
- Looking ahead, employment stabilisation is the top priority for the government to hedge external uncertainties and maintain steady economic growth. Meanwhile, the government accelerated its efforts to boost consumption, with focus on increasing consumption subsidies, optimising service supply, and reducing restrictions on consumption. It is expected that the consumption recovery will continue in Q2.

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

Infrastructure investment supported fixed asset investment growth in Q1 2025

Growth rate of fixed asset investment by sector, YoY, %

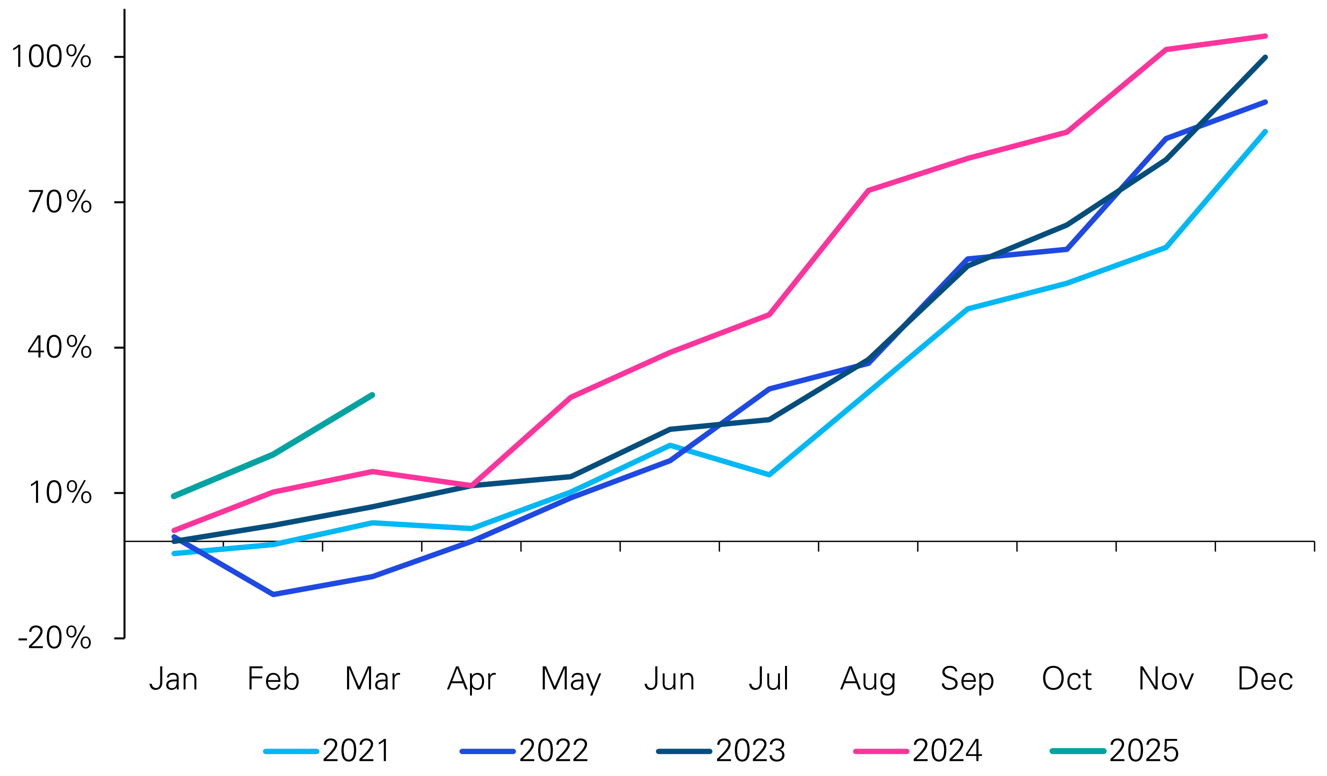


Source: Wind, KPMG analysis

- In Q1 2025, the growth rate of fixed asset investment reached 4.2% YoY, an increase of 1.5 percentage points from Q4 2024.
- The growth rate of real estate and infrastructure investment both improved in Q1, reaching -9.9% and 11.5% YoY, respectively, each increased by 2.5 percentage points from Q4 2024. Manufacturing investment growth remained relatively stable, reaching 9.1% YoY in Q1.
- Due to proactive fiscal measures, infrastructure investment contributed 3.2 percentage points to overall investment, an increase of 0.5 percentage points from Q4 2024. While real estate continued to drag down overall investment by 1.7 percentage points.

Proactive fiscal policies promoted growth momentum in infrastructure investment

Net financing progress of treasury bond over the years, %

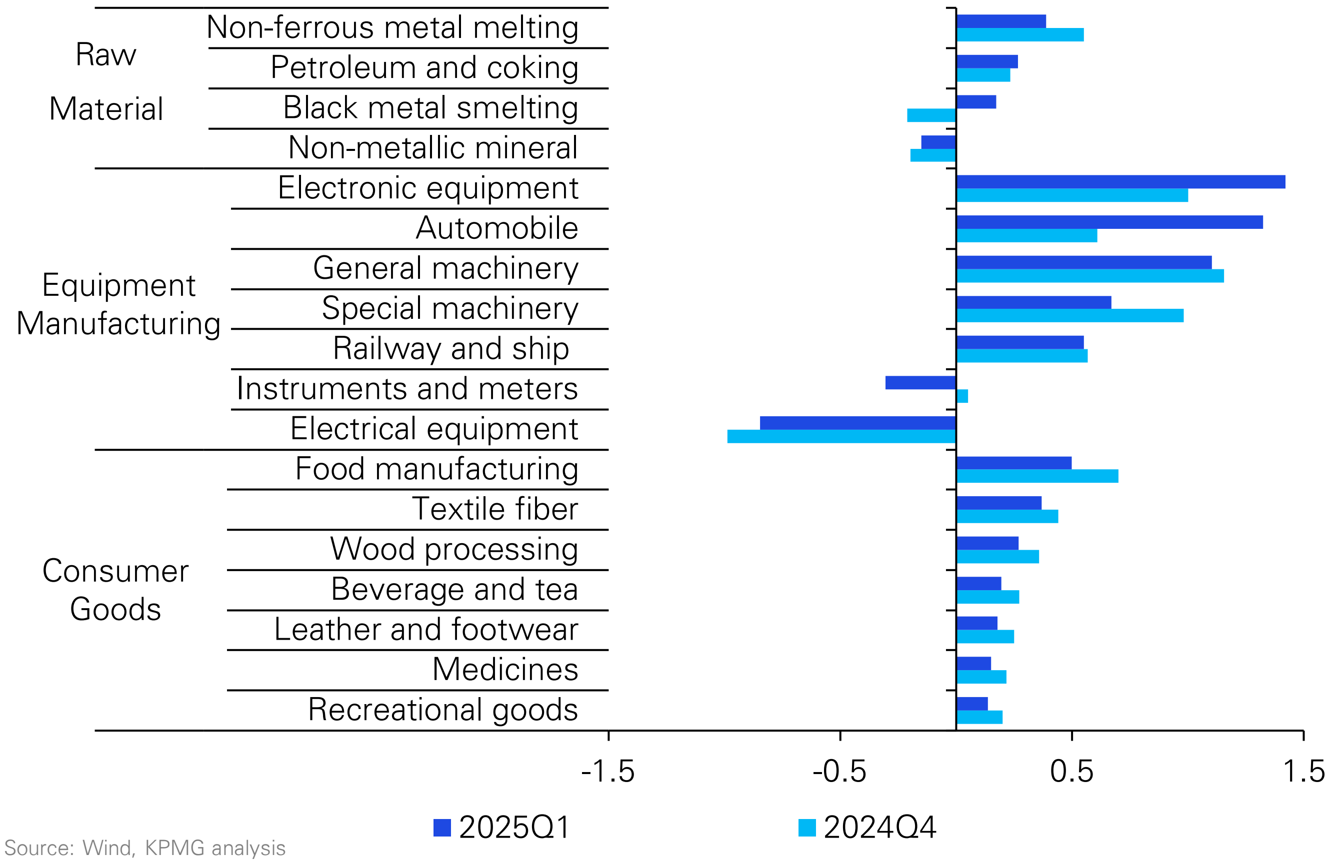


Source: Wind, KPMG analysis

- Due to the low inflation and the prepaid corporate income tax by the end of 2024, fiscal revenue in Q1 2025 continued to weaken, with a YoY growth rate of -1.1%, significantly lower than the target growth rate of 5.0%, reaching the lowest level since 2021.
- To offset the decline in public revenue, the government issued large bond in Q1 2025. Net government bond financing hit a historical high, reaching 30.2% of 2025 budget, a significant increase compared to the average issuance of 3.6% in the same period of 2019-2024.
- Against the backdrop of revenue falling short of expectations, the fiscal authorities actively utilised central pre-distributed funds in Q1 and accelerated the allocation of special bonds and policy bank loans to stabilise government investment scale, enabling infrastructure investment to remain at a high level.

Equipment upgrading and export front-loading support manufacturing investment

Contributions to manufacturing investment growth by sector, %

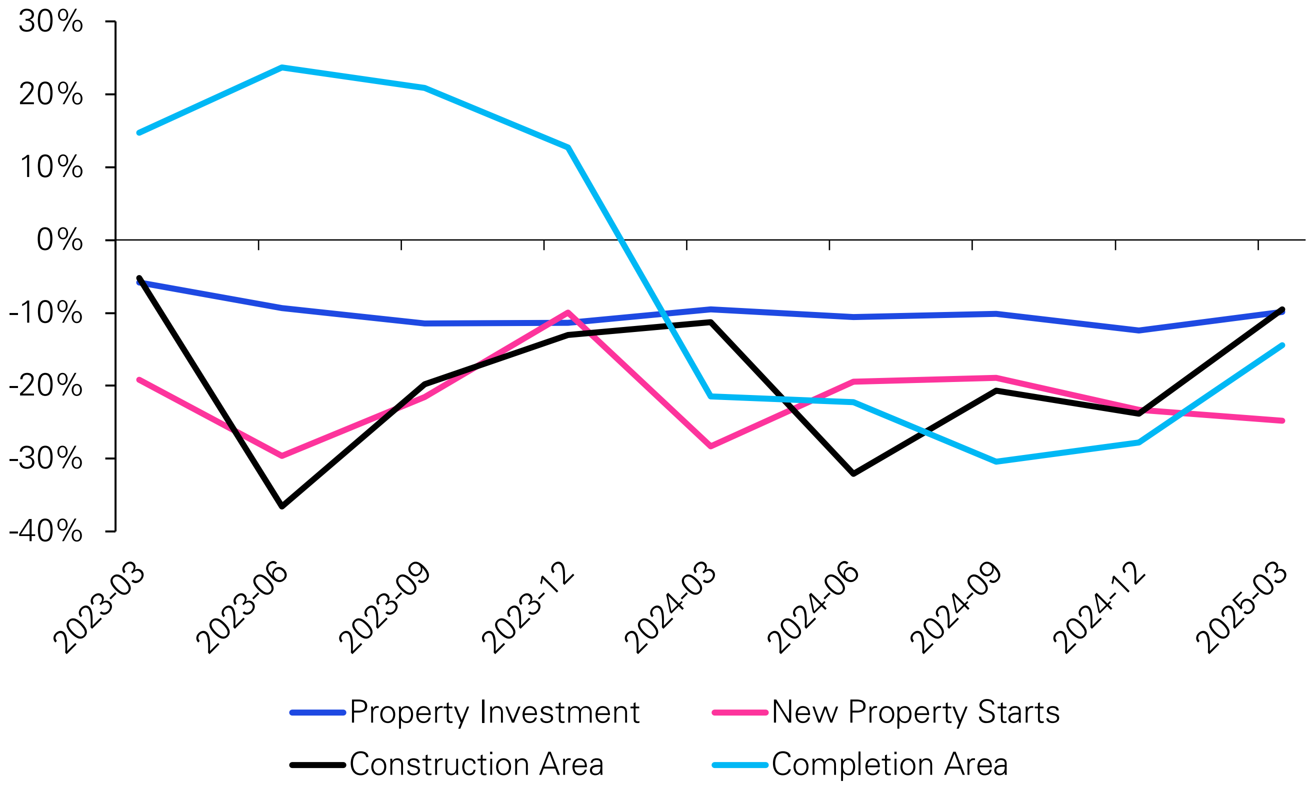


Source: Wind, KPMG analysis

- In Q1 2025, the year-on-year growth rate of manufacturing investment reached 9.1%, which was consistent with the 9.2% in Q4 2024. Affected by the US tariff hikes, the consumer goods manufacturing sector, which covers most labour-intensive industries, dragged down manufacturing investment in Q1 2025.
- By sector, the textile, wood processing, leather and footwear, and recreational goods sectors saw a significant weakening in investment in the first quarter, contributing to a decline of 1 percentage point ~~to~~in overall manufacturing investment, down by 0.3 percentage points from the previous quarter.

The decline in real estate investment has narrowed

Real estate investment and the area of new construction starts, construction, and completion, YoY, %



Source: Wind, KPMG analysis

- Real estate investment declined by 9.9% YoY in Q1 2025, an improvement from a -10.6% decline in 2024 and a rise of 2.5 percentage points from a -12.4% decline in Q4 2024.
- The recovery in real estate investment in Q1 was mainly driven by the acceleration of construction and completion of pre-sold houses at the end of last year. The YoY growth rates of real estate construction and completion areas in Q1 saw significant improvements, declining by 9.5% and 14.4%, respectively, up 14.2 and 13.4 percentage points from Q4 2024, while new starts continued to weaken.

The process of housing price recovery has stalled

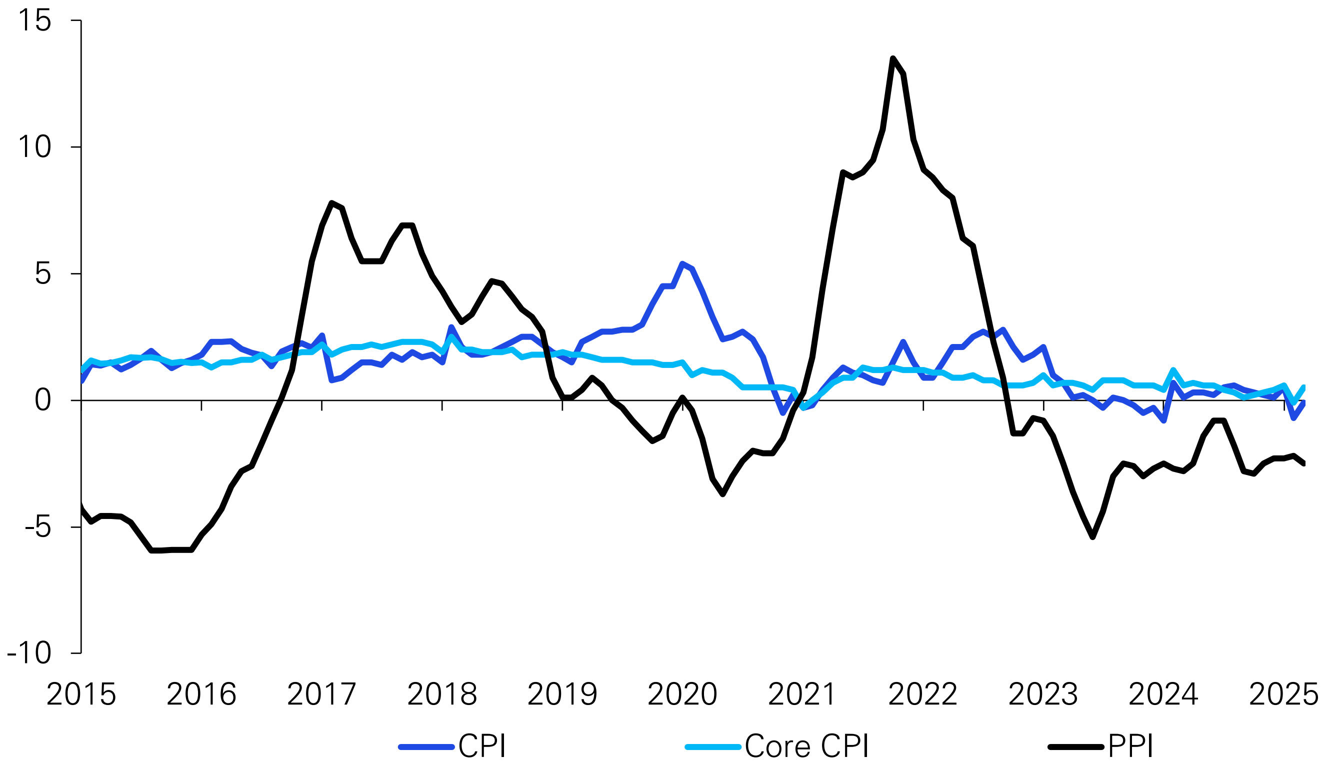
Housing price index (HPI) of new and second-hand housing in 70 large and medium-sized cities, MoM, %

Source: Wind, KPMG analysis

- With the overall housing sales weakening in Q1, the process of housing price recovery has also stalled. After a package of stimuli in September 2024, the month-over-month marginal recovery of new and second-hand home prices in China's 70 major cities resumed. However, the process of housing price recovery stalled in Q1 2025. The month-over-month growth of new commercial housing prices in the 70 major cities remaining at -0.1% for three consecutive months, while the second-hand housing prices remained at -0.2%.
- Currently, stabilizing real estate prices remains a prerequisite for stimulating domestic demand. Further optimization of real estate policies in lower-tier cities is still necessary.

The low inflationary environment remains

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

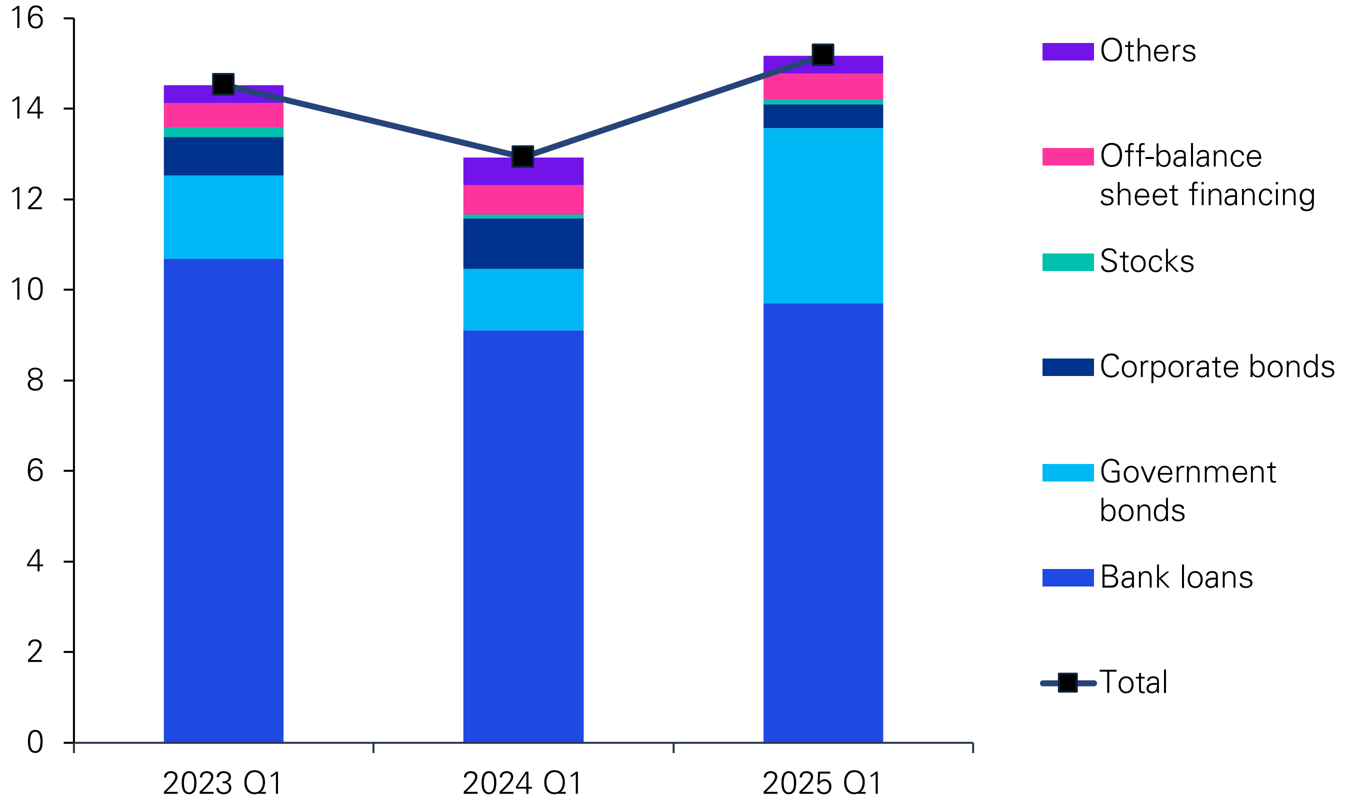


Source: Wind, KPMG analysis

- In Q1 2025, inflation remained at a low level. As the impact of the Spring Festival shift faded, the YoY growth rates of the CPI and core CPI in March both increased by 0.6 percentage points compared to the previous month, reaching -0.1% and 0.5%, respectively. The continued CPI decline was mainly due to the falling prices in food, energy, and travel services.
- The PPI decline worsen by 0.3 percentage points in March compared to the previous month, reaching -2.5%, marking 30 consecutive months of negative growth. The sustained downturn in industrial product prices reflected both the global tariff shocks and overcapacities.

Government bond issuance will continue to support social financing

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

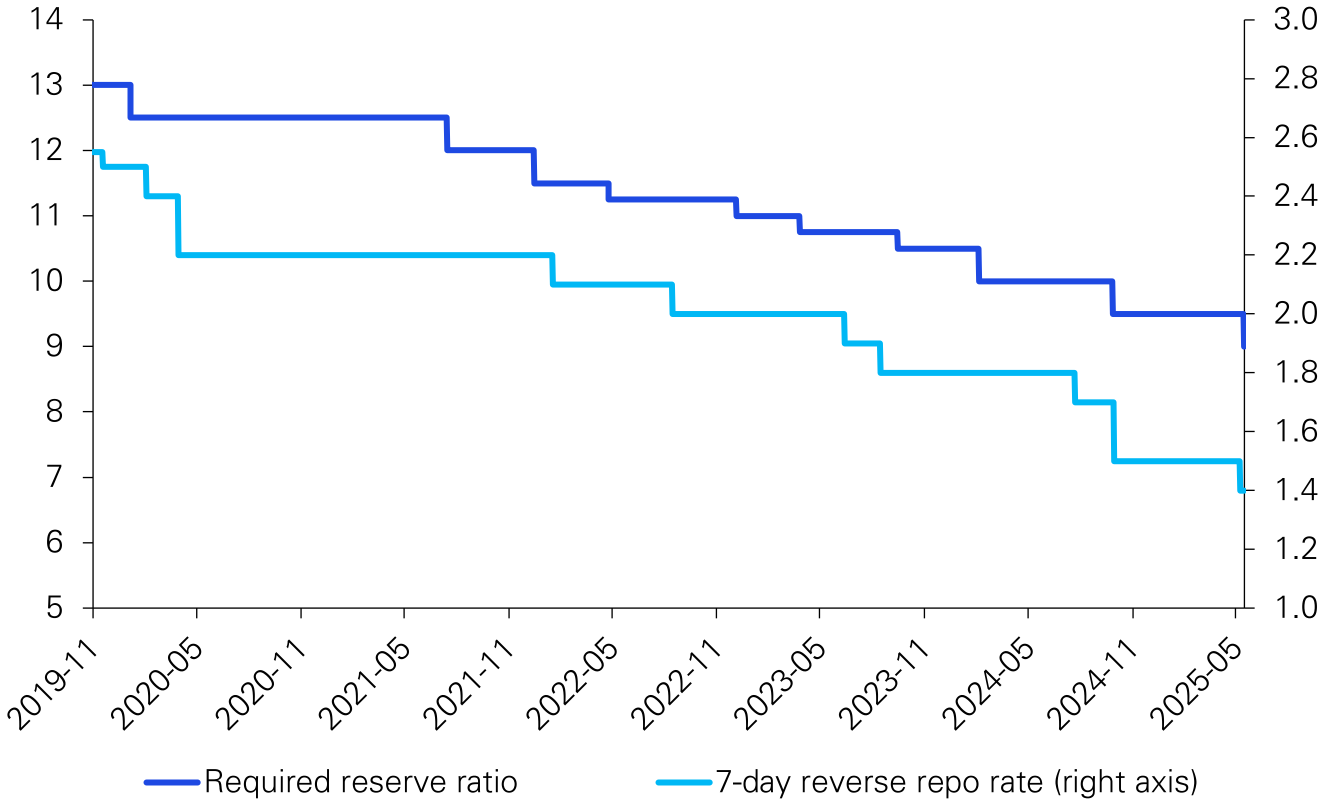


Source: Wind, KPMG analysis

- Net government bond financing remains the largest contributor to the YoY increase in social financing, with an additional RMB 3.9 trillion issued in Q1 2025, a significant increase of RMB 2.5 trillion compared to the same period last year. There is still considerable room for government bond issuance within the year, and the issuance pace in Q2 may further accelerate, continuously supporting the growth of social financing.
- The demand for real economy financing recovered in Q1, with bank loans issued to the real economy rising by RMB 9.7 trillion, a YoY increase of RMB 0.6 trillion.
- However, net financing of corporate bonds decreased by RMB 0.6 trillion YoY, mainly due to the fluctuations in the bond market and the rising issuance costs.

The monetary policy is expected to be appropriately accommodative

Required reserve ratio and 7-day reverse repo rate, %



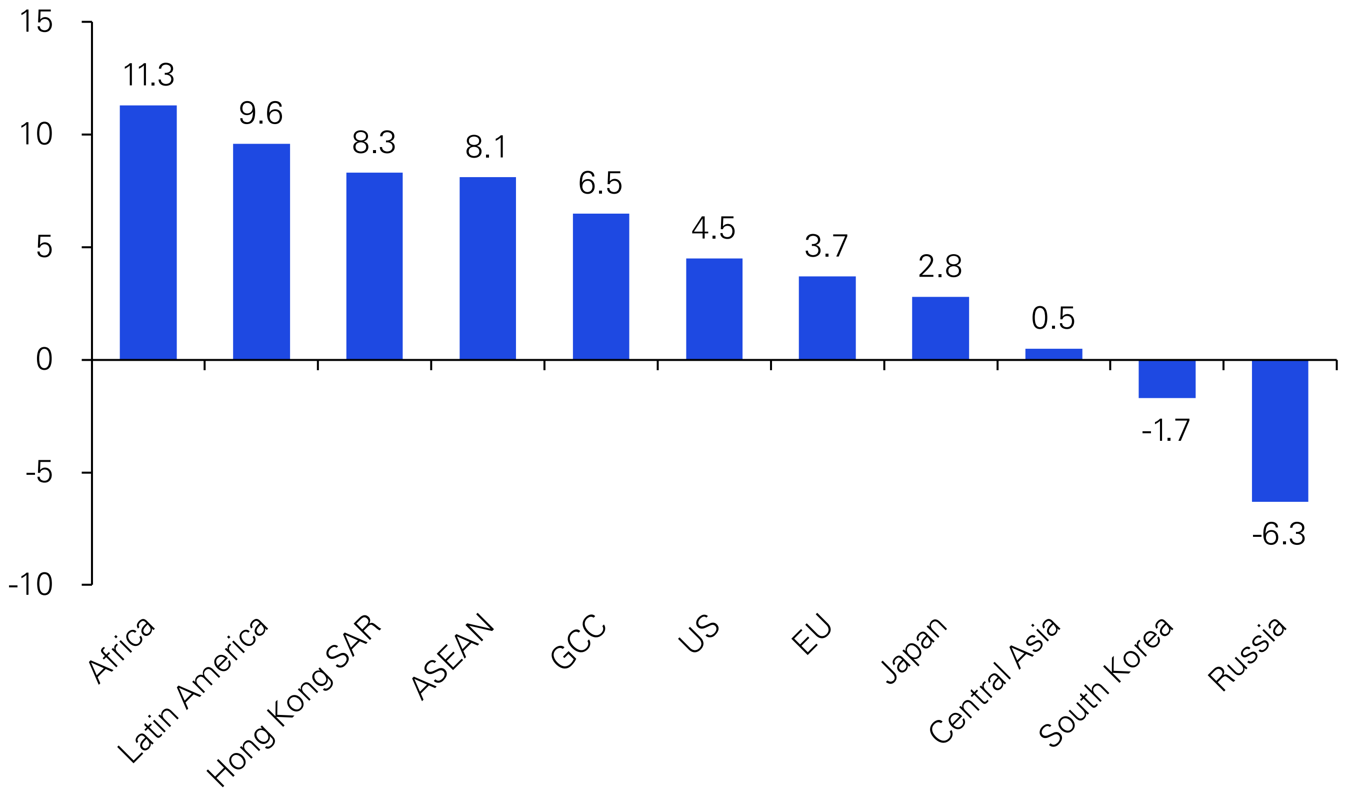
Source: Wind, KPMG analysis

- In mid-May, China's central bank lowered the required reserve ratio (RRR) by 0.5 percentage points and the policy interest rate (i.e., the 7-day reverse repo rate) by 0.1 percentage points respectively, pushing for the continued decline of social financing costs. Looking ahead, there is still room for further reductions in the RRR and interest rates, but the timing will remain contingent upon economic development, such as the progress of US-China tariff negotiations, export performance, etc.

- Meanwhile, the central bank has optimised and created a series of structural monetary policy tools, increasing support for private enterprises, technological innovation, green development, expanding consumption, stabilising foreign trade, and stabilising the real estate and stock markets.

China's export to emerging markets grew rapidly

Growth rate of China’s exports to major trading partners in 2025 Q1, YoY, %

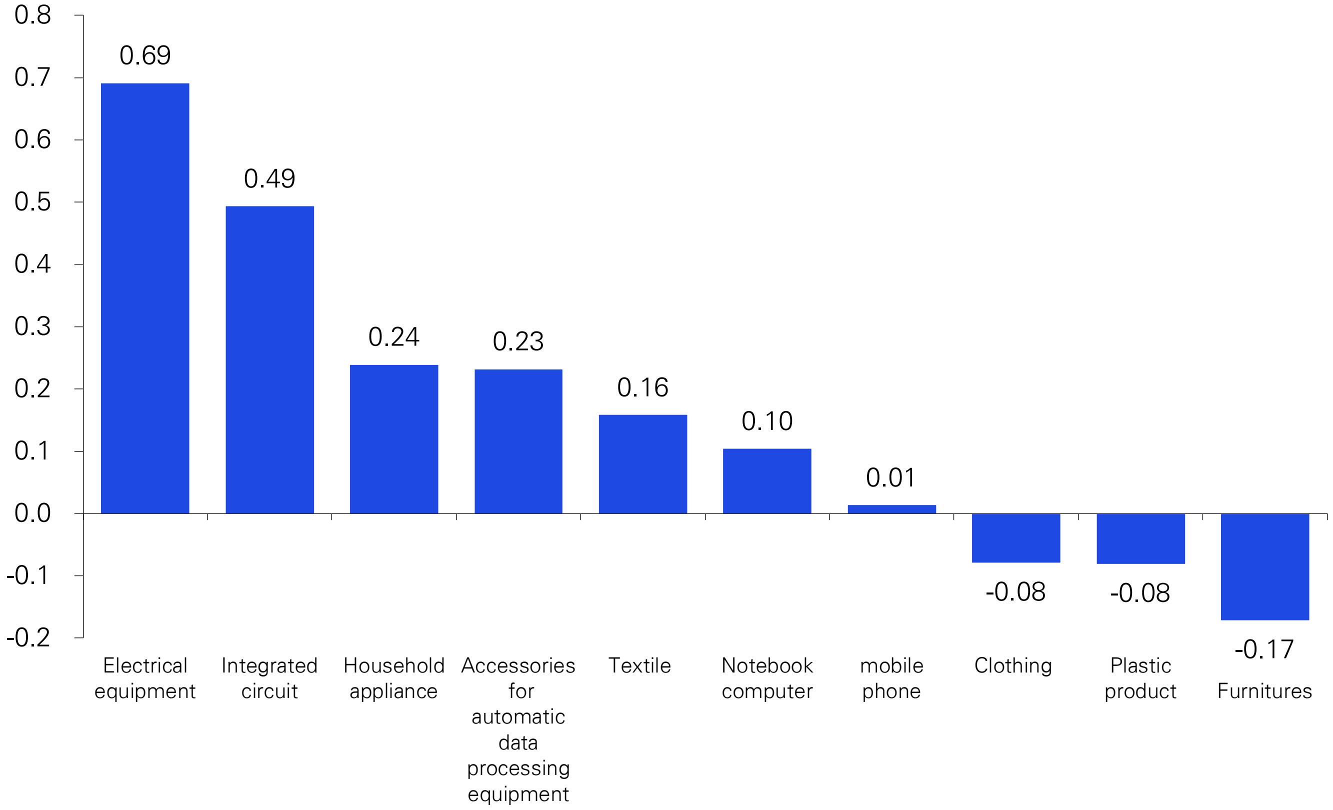


Source: Wind, KPMG analysis
Note: The Gulf Cooperation Council (GCC) economies include the United Arab Emirates, Saudi Arabia, Oman, Kuwait, Qatar, and Bahrain; The Central Asia economies include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

- In Q1 2025, China's exports to emerging markets grew rapidly, such as to Africa (11.3%), Latin America (9.6%), and ASEAN (8.1%). Among them, ASEAN continued to maintain its position as China's largest trading partner, totaling USD 237.8 billion, up 6.0% YoY. At the same time, exports to the United States (4.5%) and the European Union (3.7%) rebounded in Q1.
- Hong Kong (8.3%), as a transit hub for the Chinese Mainland’s expansion into international markets, benefited from global supply chain restructuring and the front-loading effects of entrepot trade. Additionally, China's exports to the GCC grew by 6.5% in Q1, reflecting achievements in strengthening economic relations with Gulf countries.

Electromechanical product exports maintained competitiveness

Contributions to export growth by category in 2025 Q1, percentage points



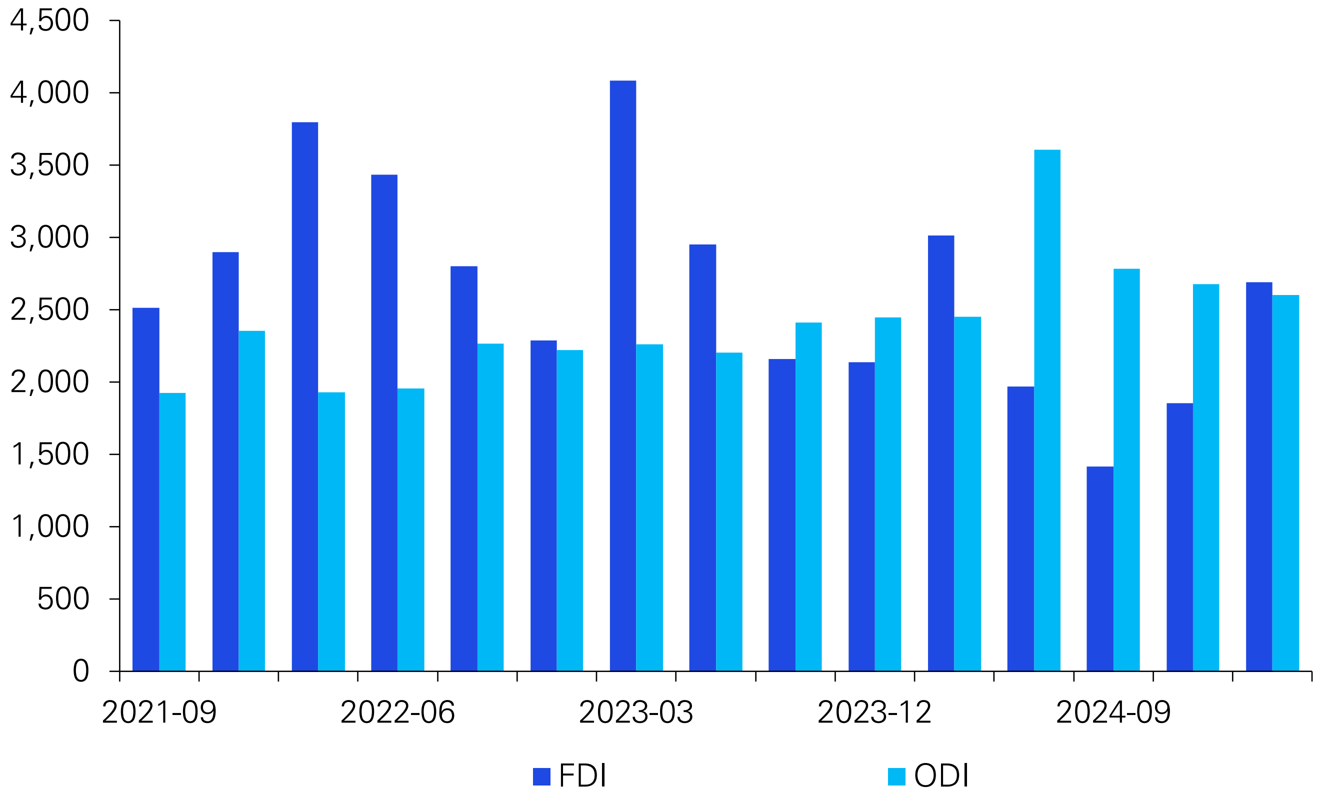
Source: The General Administration of Customs, KPMG analysis

- Exports of intermediate electromechanical products, such as electrical equipment, integrated circuits, and accessories for automatic data processing equipment, continued to be major contributors in Q1. However, the contribution of certain consumer electronics exports, such as laptops and mobile phones, diminished due to the impact of tariffs.

- The US and China issued a joint statement, announcing an agreement to cut reciprocal tariffs for 90 days. The pause of the US-China tariff tensions has brought about a window period since May 14. It is expected that front-loading exports will continue to support China's export momentum in Q2. However, the international trade situation remains uncertain in H2 2025.

China is expected to continue to be attractive to foreign investment

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

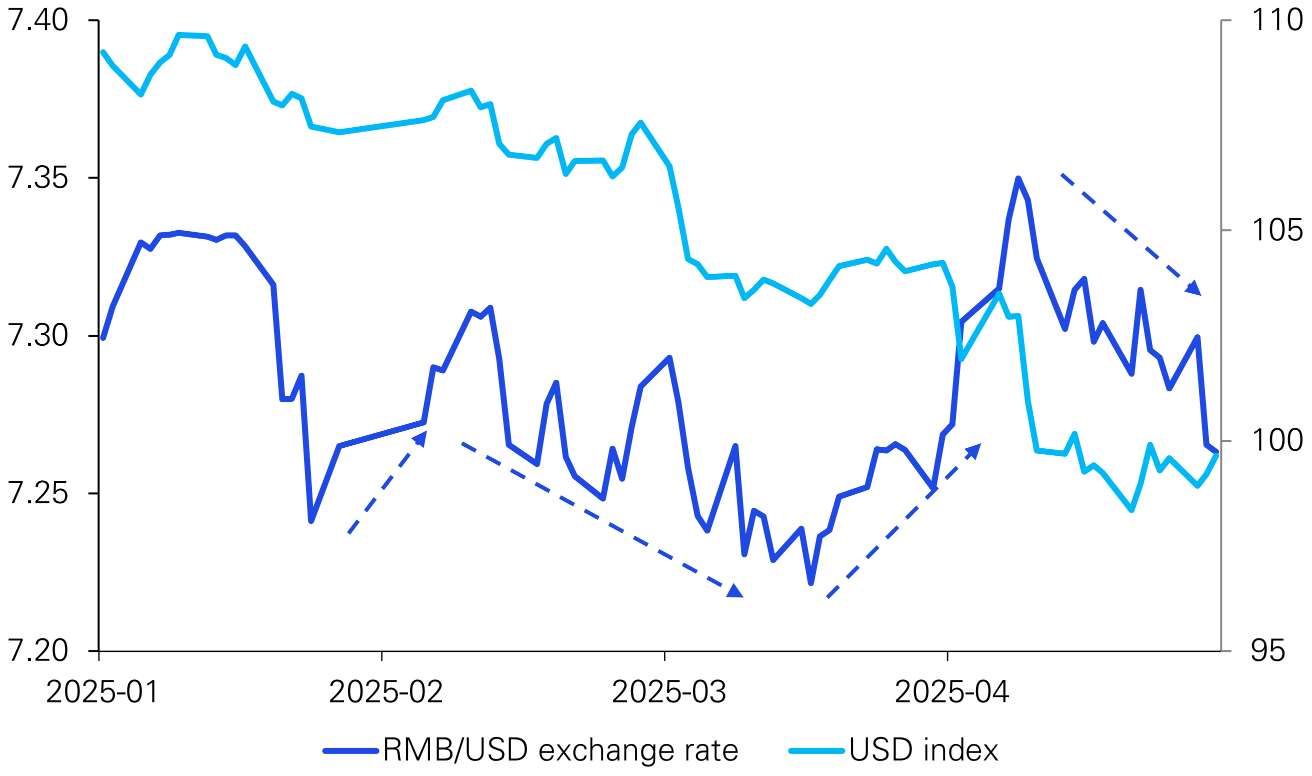


Source: Wind, KPMG analysis

- In Q1 2025, FDI into China fell by 10.8% YoY, while the number of newly registered foreign-invested enterprises rose by 4.3% YoY. The structure of foreign capital utilisation continued to optimise, with FDI in high-tech industries accounting for 29.1% of the total in Q1 2025, up 17.4 percentage points from 2024. China will probably remain an attractive destination for foreign investment, due to its vast domestic market potential, robust industrial capabilities, abundant talent resources, and a continuously improving business environment under the government's ongoing efforts.
- As China deepened the cooperation with Belt and Road economies, and Chinese enterprises actively expanded overseas markets in early 2025, ODI from China rose by 7.3% YoY in Q1.

The RMB exchange rate should maintain resilience over the long term

USD index and RMB/USD exchange rate

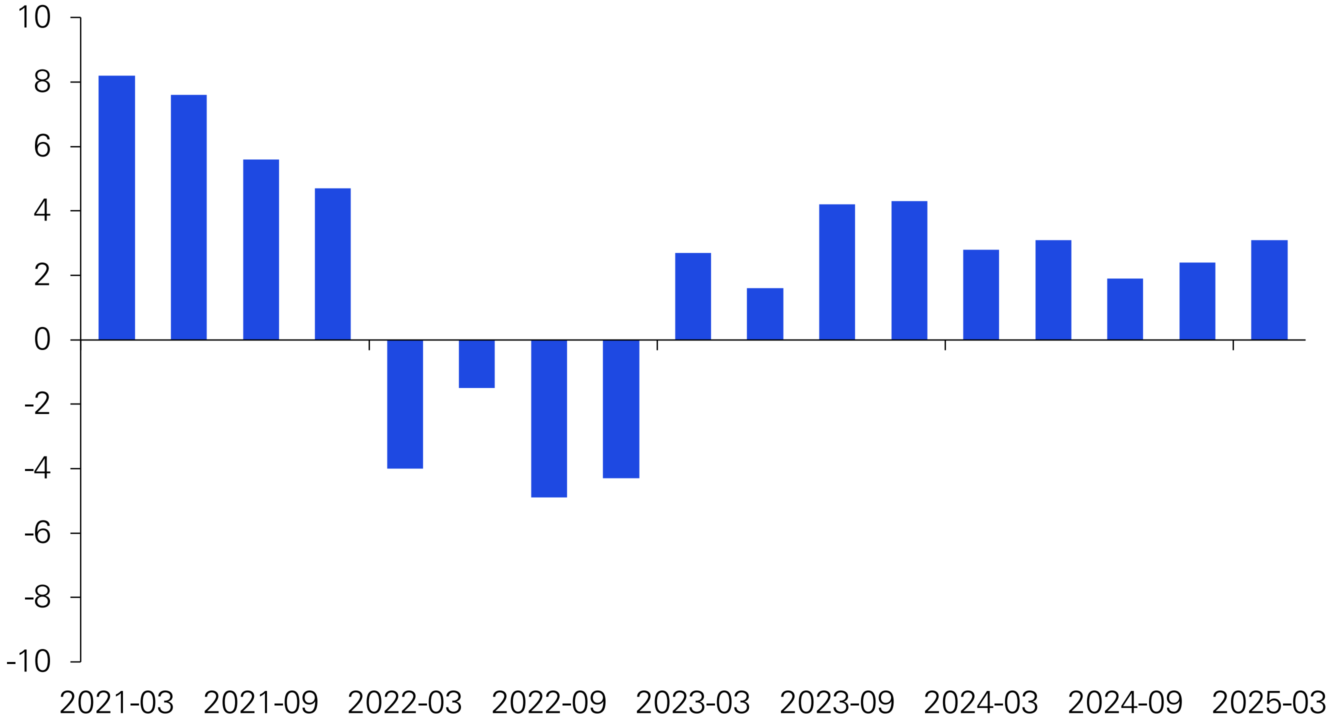


Source: Wind, KPMG analysis

- Amid the US-China tariff shocks, the RMB exchange rate has demonstrated strong resilience in a two-way fluctuation, with a slight appreciation of 0.5% against the USD in the first four months of the year.
- However, due to the hikes of additional tariffs imposed by the US on China compared to other countries, the RMB exchange rate against a basket of currencies came under pressure in the first four months. The CFETS RMB exchange rate index depreciated by 5.8%.
- Looking ahead, the RMB exchange rate is expected to remain fluctuating in the short term, yet it should maintain strong resilience over the long term. With the gradual implementation of domestic stimuli and the continuous facilities to stabilise the capital market, the downside risks associated with the RMB exchange rate should be effectively hedged.

Hong Kong's economy expanded steadily

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



Source: Wind, KPMG analysis

- Hong Kong SAR's economy reached robust growth in Q1 2025, with a YoY GDP growth of 3.1%, an increase of 0.7 percentage points from the 2.4% recorded in Q4 2024.
- Under the expectation of tariffs imposed by the Trump administration, front-loading exports on the Chinese Mainland were vigorous, driving up the heat of entrepot trade in Hong Kong. In addition, the rebound of the tourism contributed to the strong economic performance in Q1.
- As US tariffs on China fell significantly in May, the Chinese Mainland's export front-loading momentum is expected to continue in Q2, sustaining trade resilience and supporting economic growth in Hong Kong.

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