



China Economic Monitor

Issue: 2025 Q3

August 2025

kpmg.com/cn



Key takeaways

- In H1 2025, China's GDP grew by 5.3%, exceeding the government's 2025 growth target of 'around 5%.' Real GDP growth in Q2 reached 5.2% year-on-year, down 0.2 percentage points from Q1. On a seasonally adjusted quarter-on-quarter basis, GDP grew by 1.1%, above the historical average since 2021 and stronger than market expectations. Despite the drag from elevated U.S. tariffs, China's Q2 economic growth continued to demonstrate resilience. On one hand, export front-loading activities remained active, supporting robust domestic production. On the other, under the equipment upgrades and consumer goods trade-in programmes, household consumption and manufacturing investment provided a solid foundation for domestic demand.
- For consumption, total retail sales of consumer goods in H1 rose 5.0% year-on-year, 1.3 percentage points higher than the same period last year, maintaining the strong recovery momentum seen since Q4 2024. Q2 growth accelerated by 0.8 percentage points to 5.4%, driven by the dual boost from national subsidies for the trade-in programme and the major mid-year e-commerce promotional events.
- China's exports showed stronger-than-expected resilience amid global tariff headwinds, with growth accelerating from 5.7% in Q1 to 6.1% in Q2. Key drivers included: a cyclical rebound in global manufacturing sentiment during the U.S. reciprocal tariff exemption period; further diversification of China's foreign trade markets; a short-term continuation of export front-loading and transshipment to the U.S. as bilateral trade tensions eased from May; and the sustained improvement of China's international competitiveness in high-end manufacturing and new energy products.
- Mainly due to softer export growth, industrial production grew by 6.4% year-on-year in Q2, down 0.1 percentage points from Q1. Two factors helped cushion the slowdown: (1) strong domestic demand for certain goods offset weaker external demand; and (2) stronger copper and crude oil prices in Q2, which boosted production in non-ferrous metal smelting and petroleum refining.
- Manufacturing and infrastructure investment both weakened. Manufacturing investment growth slowed from 9.1% in Q1 to 6.7% in Q2, while infrastructure investment growth eased to 7.6% in Q2 from 11.5% in Q1. Real estate investment fell further, with year-on-year growth declining from -9.9% in Q1 to -12.9% in Q2. Weak housing demand and high inventories continue to restrain real estate investment.
- Underlying concerns remain as the divergence between domestic supply and demand widens and exports may soften in H2. The GDP deflator stood at -1.3% in Q2 2025, marking the ninth consecutive quarter of negative readings. To stabilise expectations and boost domestic demand, the July Politburo meeting emphasised the need for macro policies to be sustained and strengthened in a timely manner, and leveraging more proactive fiscal policy and moderately accommodative monetary policy. Local government-led urban renewal projects, along with centrally implemented major national strategies and programs to enhance security capacity in key areas, are expected to expand again, becoming key drivers of domestic demand recovery in H2. The timing and scale of new fiscal funding will determine the pace and magnitude of economic stabilisation in the second half of the year.

China's economy continued to show resilience Q2 2025

Growth rate of major economic indicators, YoY, %

	2020-23 Average	2024	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2
GDP	4.8%	5.0%	4.7%	4.6%	5.4%	5.4%	5.2%
Industrial production	5.1%	5.8%	5.9%	5.1%	5.7%	6.5%	6.4%
Retail sales	3.7%	3.5%	2.7%	2.5%	4.0%	4.6%	5.4%
Fixed asset investment	4.0%	3.2%	3.5%	2.5%	2.6%	4.2%	2.1%
Exports	7.8%	5.9%	5.7%	5.9%	9.9%	5.7%	6.1%
Imports	5.3%	1.1%	2.5%	2.2%	-1.8%	-7.0%	-0.8%
Income per capita	4.8%	5.1%	5.4%	5.2%	5.3%	5.6%	5.4%
Fiscal revenue	4.6%	1.3%	-3.2%	-0.8%	13.1%	-1.1%	0.6%
Fiscal expenditures	3.7%	3.6%	1.1%	1.9%	8.0%	4.2%	2.6%

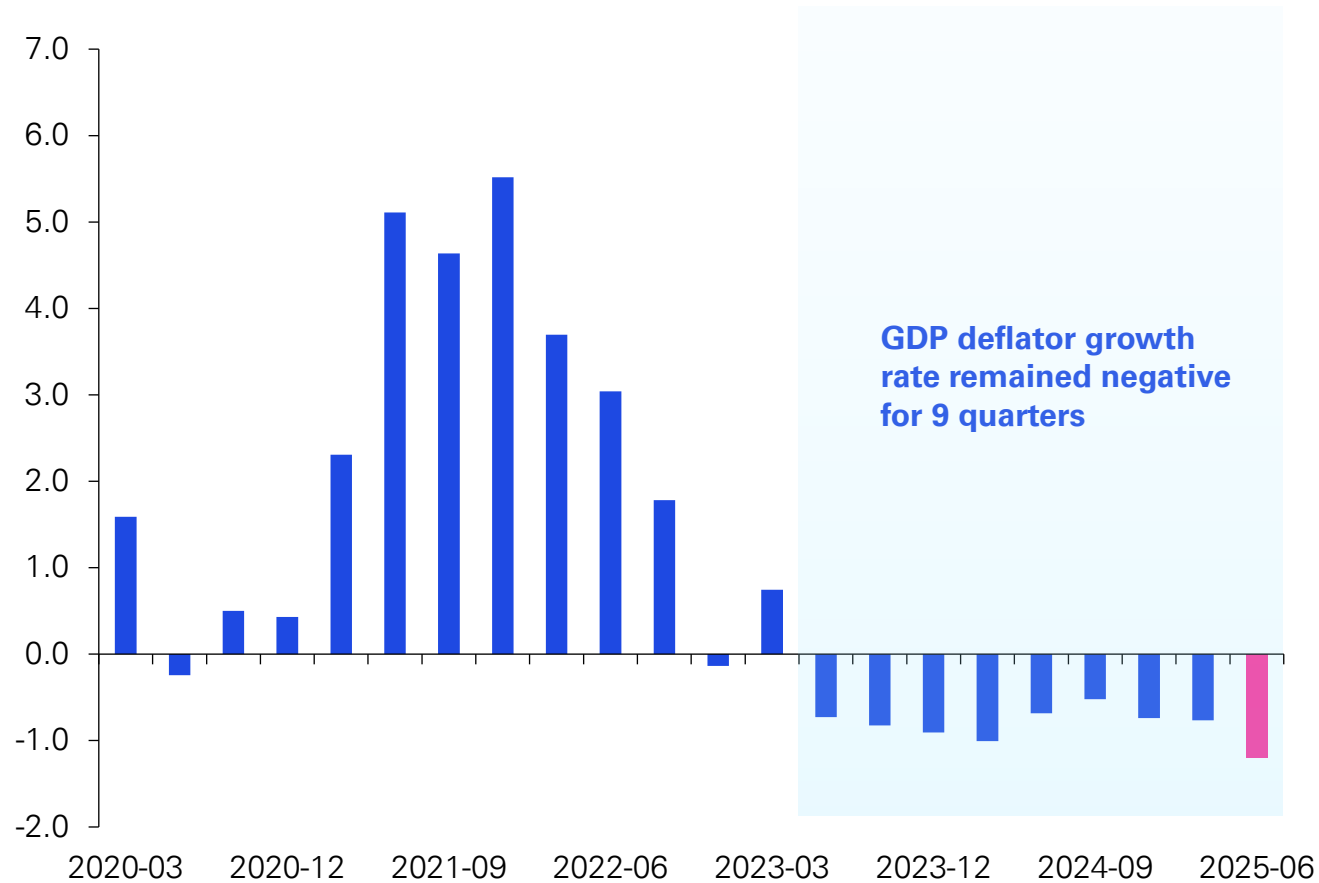
Source: Wind, KPMG analysis

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 5.2% in Q2 2025, within market expectations. Despite the impact of elevated U.S. tariffs, economic growth maintained notable resilience, though underlying challenges remain.
- In Q2, economic performance was supported primarily by export front-loading, which helped sustain domestic production, while strong domestic demand offset the contraction in external demand. Meanwhile, under the equipment upgrades and consumer goods trade-in programmes, household consumption and manufacturing investment continued to underpin domestic demand.
- In the near term, policy efforts are focused on boosting prices, while in the longer term the government aims to guide a sustained recovery in household consumption demand. Combined with the recent easing of China-U.S. trade tensions, both corporate business expectations and consumer confidence are expected to improve further.

Economic performance in the next stage still faces challenges

GDP Deflator, YoY, %

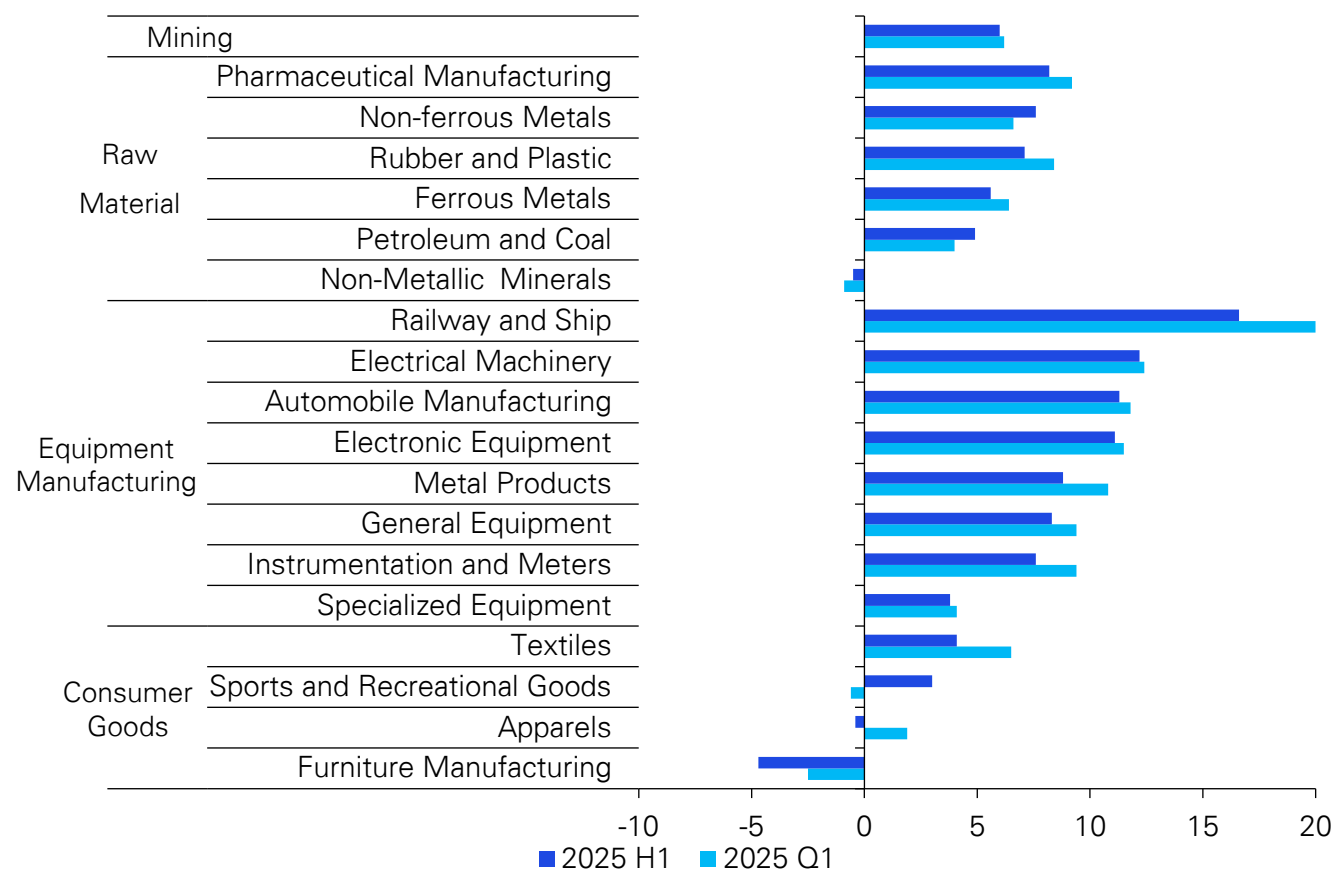


Source: Wind, KPMG analysis

- It is important to note that China's economy faces three key challenges going forward.
- First, current domestic production remains stronger than demand, with prices still fluctuating at low levels. The GDP deflator for Q2 2025 was -1.3%, marking the ninth consecutive quarter of negative readings, which will weigh on the recovery of domestic demand. Second, the outlook for stabilization in the real estate market remains unclear. The property sector remains a drag on domestic demand recovery. Third, exports in H2 may slow down. Global economic growth is moderating, and the U.S. is negotiating a new round of trade agreements, which could create headwinds for China's market diversification efforts.

Industrial production growth slows in Q2 2025

Growth rates of industrial production, by sector, percentage points

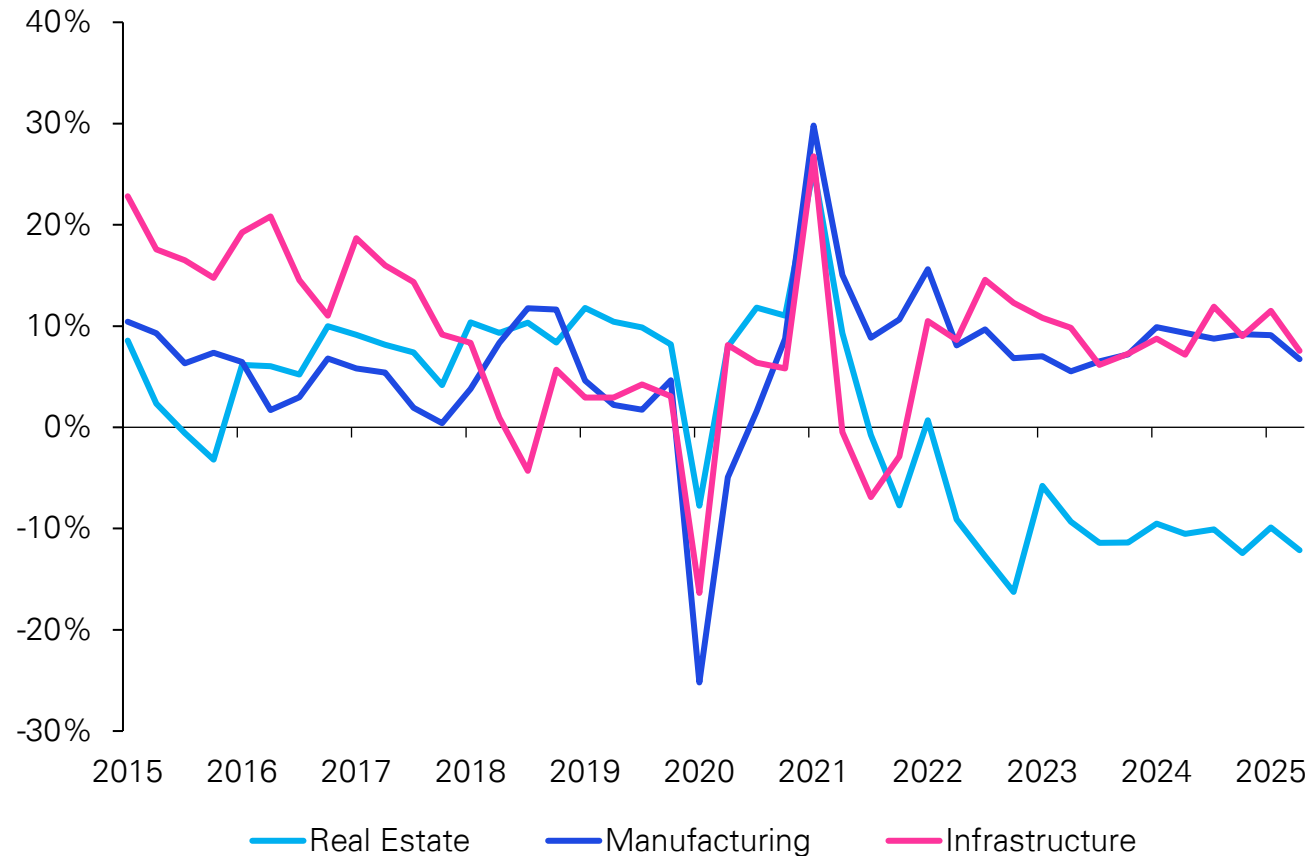


Source: Wind, KPMG analysis

- In Q2 2025, industrial production increased by 6.4% year-on-year (YoY), decreasing from 6.5% for the last quarter.
- Weaker exports were the primary reason for the slowdown in the growth of industrial production in Q2. Under the impact of high U.S. tariffs, production activity slowed in consumer electronics sectors such as electronic equipment and electrical machinery, as well as in labour-intensive sectors such as plastics, textiles, and furniture manufacturing.
- Looking ahead, domestic production growth may continue to slow down. First, as external demand normalises from a high base and the export front-loading effect fades in H2, output of export-oriented goods will likely decline further. Second, given the current supply-demand divergence, policies focus on addressing involutionary competition, production in previously resilient industries such as ferrous and non-metallic minerals could face increased pressure.

Heightened external uncertainty weighs on investment growth in Q2

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

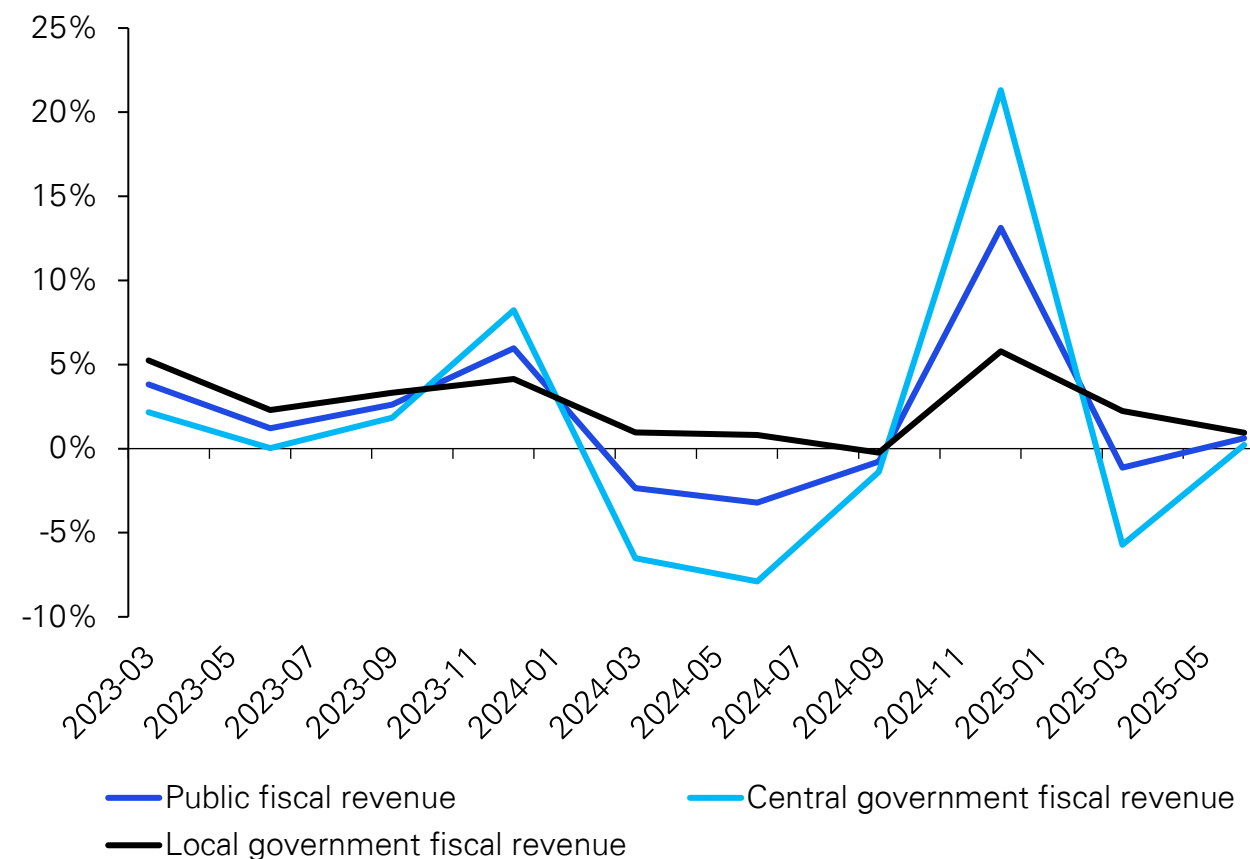


Source: Wind, KPMG analysis

- In H1 2025, fixed asset investment grew 2.8% YoY, down 0.4 percentage points from the 2024 full-year growth rate of 3.2%. In Q2, growth slowed to 2.1%, 2.1 percentage points lower than that in Q1.
- Manufacturing, infrastructure, and real estate investment all weakened in Q2. Manufacturing investment growth slowed to 6.7% in Q2, as heightened external trade uncertainty and persistently weak domestic demand led firms to remain cautious in capital expenditure.
- Infrastructure investment growth fell sharply to 7.6% in Q2 from 11.5% in Q1, reflecting weaker local government fiscal revenues and reduced willingness to expand amid overall economic stability.
- Real estate investment fell further. New home sales growth dropped further compared with Q1, while household income expectations weakened in Q2, further suppressing housing demand.

Local government revenue pressure drags on infrastructure investment

Growth rate of public finance revenue of the central and local governments, %

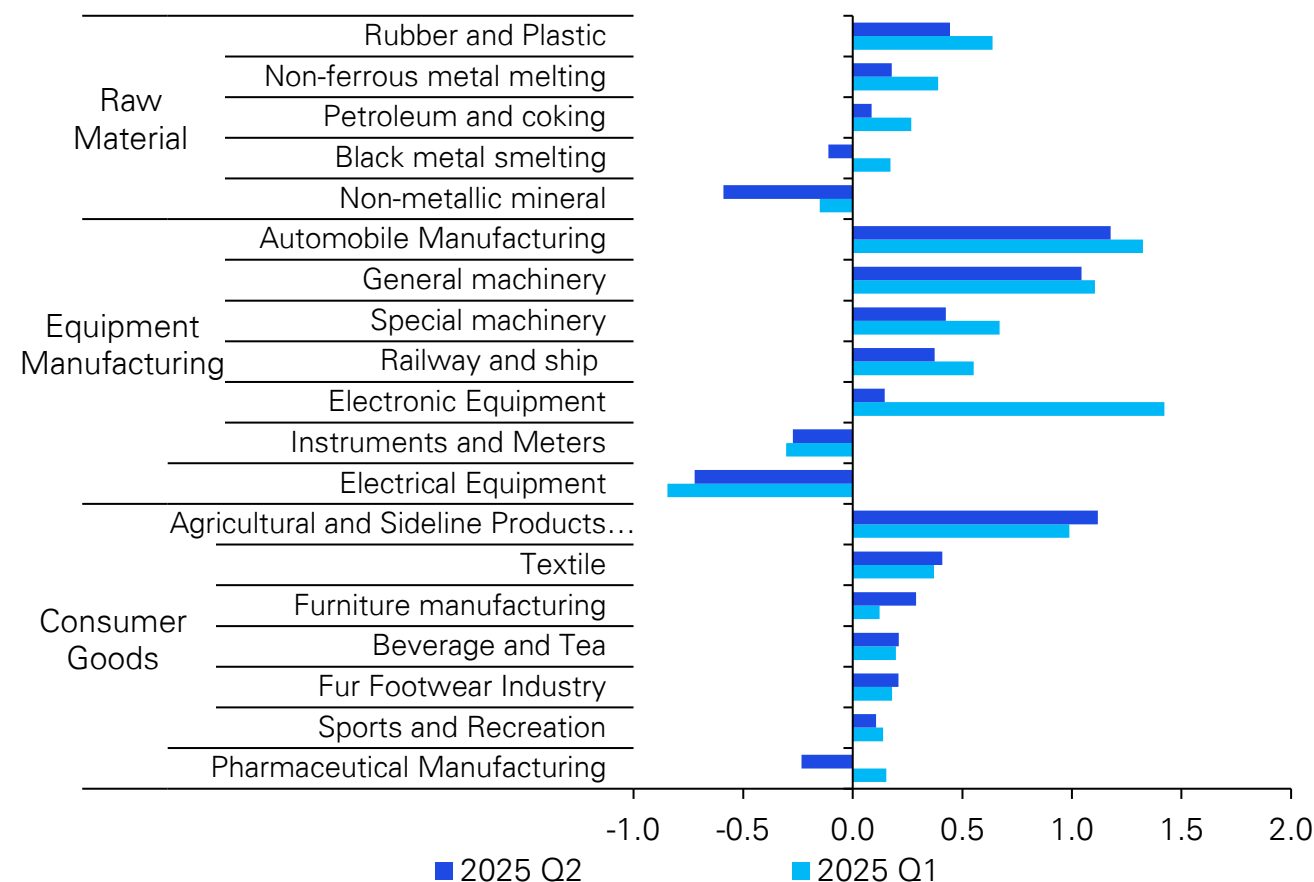


Source: Wind, KPMG analysis

- Public fiscal revenue growth rebounded from -1.1 % in Q1 to 0.6% in Q2, mainly due to faster growth in corporate income tax collections as the effect of year-end advance payments faded.
- However, declines in non-tax revenue and property-related revenue put pressure on local government revenue in Q2, with YoY revenue growth slowing to 0.9%. Expenditure growth also eased to 1.4%, resulting in tighter funding for local government-led infrastructure projects.
- Looking ahead, the necessity and importance of fiscal expansion will increase. Three main approaches are: (1) accelerating the issuance of special bonds and ultra-long-term treasury bonds. (2) introducing new policy-based financial instruments to supplement capital for major projects. (3) leveraging central government's ample capacity for borrowing and deficit expansion and issue additional ultra-long-term treasury bonds in Q4.

Manufacturing investment softens amid heightened external uncertainty

Contributions to manufacturing investment growth by sector, %

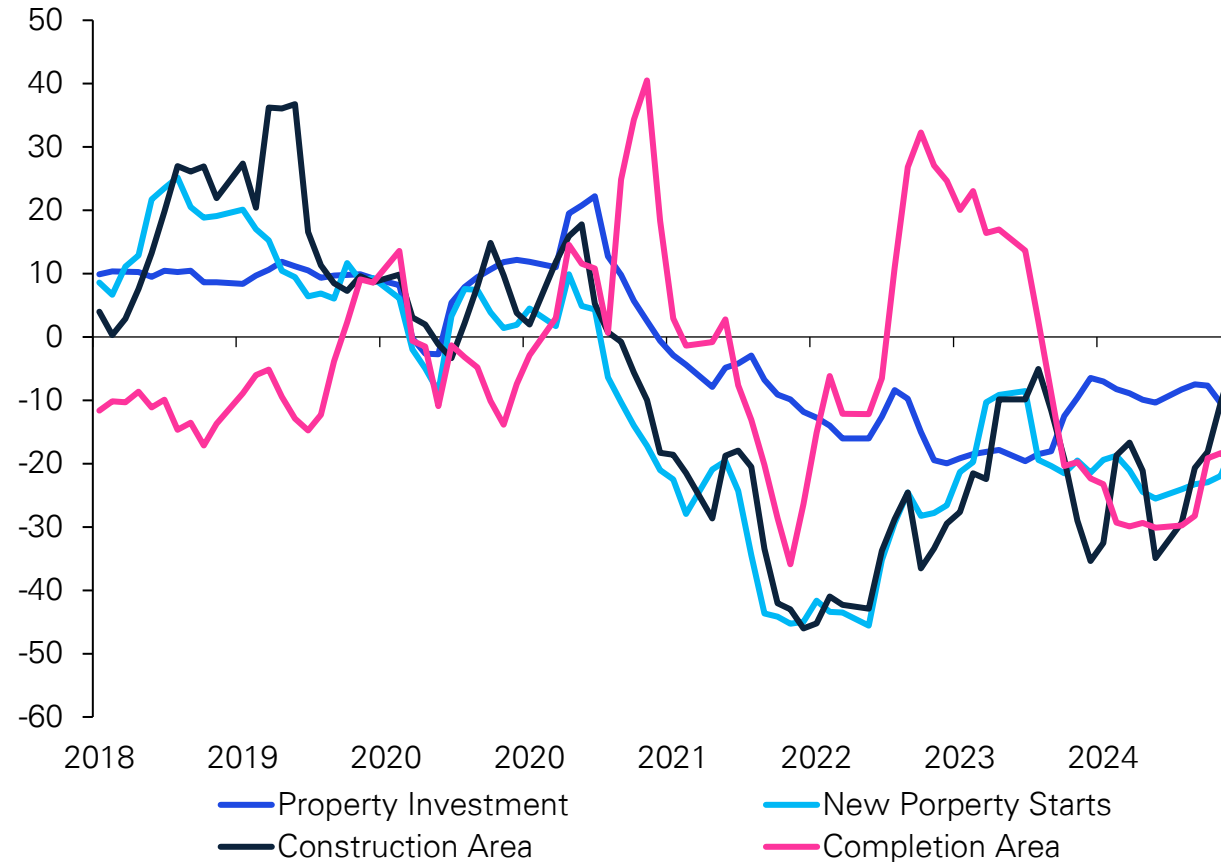


Source: Wind, KPMG analysis

- In H1 2025, manufacturing investment grew 7.5% YoY, down from 9.2% for full-year 2024. In Q2, growth slowed to 6.7%, 2.4 percentage points lower than in Q1, as the contribution of equipment manufacturing to overall investment diminished. Export-oriented subsectors of equipment manufacturing industry—including non-ferrous electronic equipment, special machinery, and general machinery—remained cautious in investment amid high U.S. tariffs on Chinese goods.
- The equipment upgrades and consumer goods trade-in programmes were the main support for manufacturing investment in Q2: Driven by robust upgrade demand in consumer goods manufacturing, equipment investment remained strong in H1. Sectors such as textiles, furniture manufacturing, and food processing showed faster investment growth than Q1. The ongoing trade-in policy boosted demand for household appliances and sporting goods, supporting steady investment in electrical equipment and sports and recreation.

Real estate demand weakens further and investment decline deepens

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

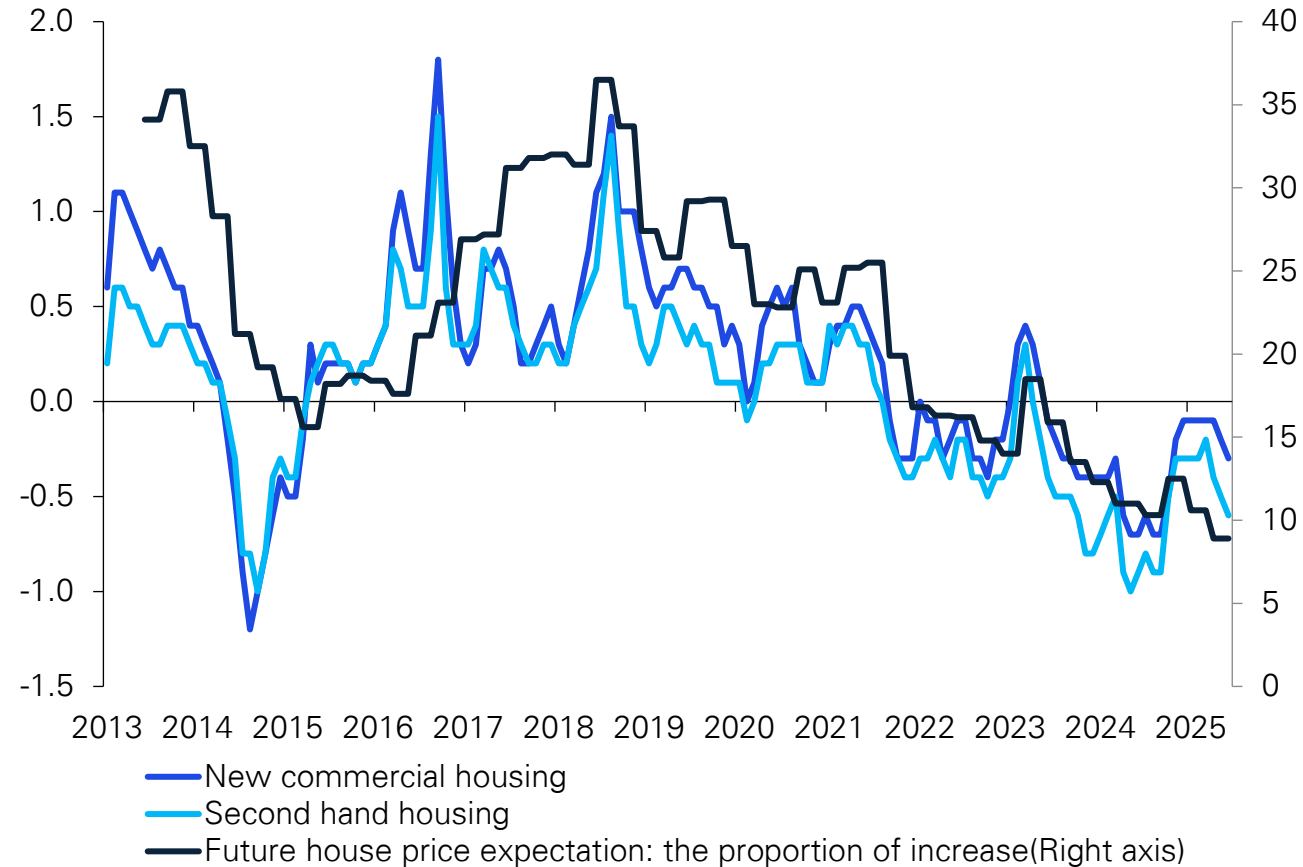


Source: Wind, KPMG analysis

- In the first half of 2025, real estate investment fell by 11.2% YoY, down from -10.6% in 2024 and lower than the -10.1% recorded in the same period last year. On a quarterly basis, investment contracted by 12.5% in Q2, widening from -9.9% in Q1 and dragging overall fixed asset investment growth down by 1.6 percentage points.
- Both new starts and completions remained in negative territory in Q2, with YoY declines of 16.3% and 15.6%, respectively. Since September 2024, improvements in property sales have not translated into a sustained recovery on the investment side, as developers continue actively depleting inventories. Market consensus has shifted toward expectations of weaker long-term demand, weighing further on investment activity.

Housing prices weaken again in Q2

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

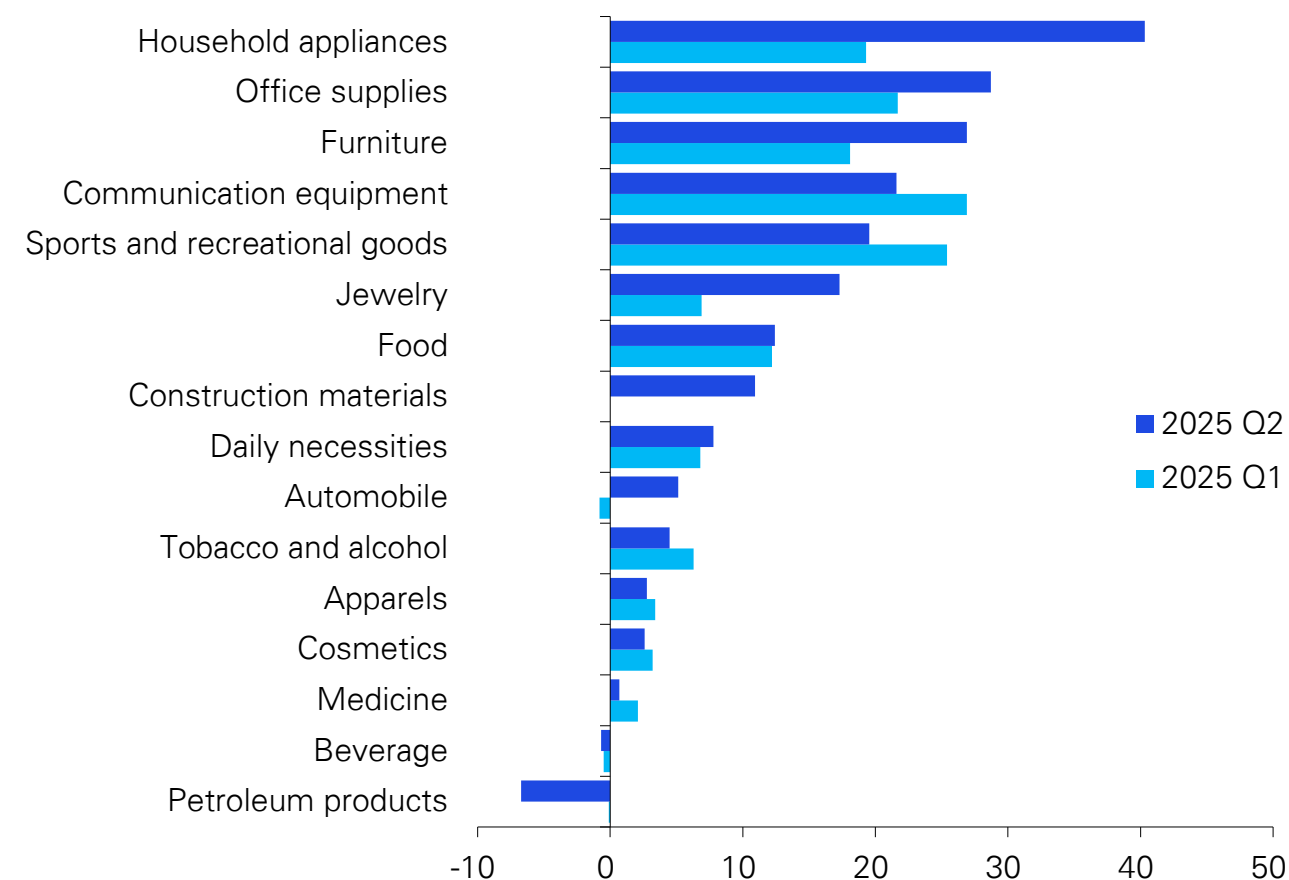


Source: Wind, KPMG analysis

- After the recovery in housing prices stalled in Q1, housing prices declined again in Q2 as household income expectations weakened further and home-buying interest remained subdued. Prices of new commercial housing and second-hand housing in 70 large and medium-sized cities posted month-on-month declines for consecutive months, with the pace of decline widening. Households' expectations for future price increases also remained muted — according to the PBoC's Urban Depositors Survey, the share of residents expecting higher home prices in the next quarter fell from 12.5% in Q4 last year to 8.9% in Q2.
- Stabilizing the property market remains a key priority for this year's economic agenda. To sustain housing price stability and improve sentiment, further policy support is still required.

Consumption continues to strengthen as the primary growth engine

Growth rate of goods sales by category, Quarterly YoY, %



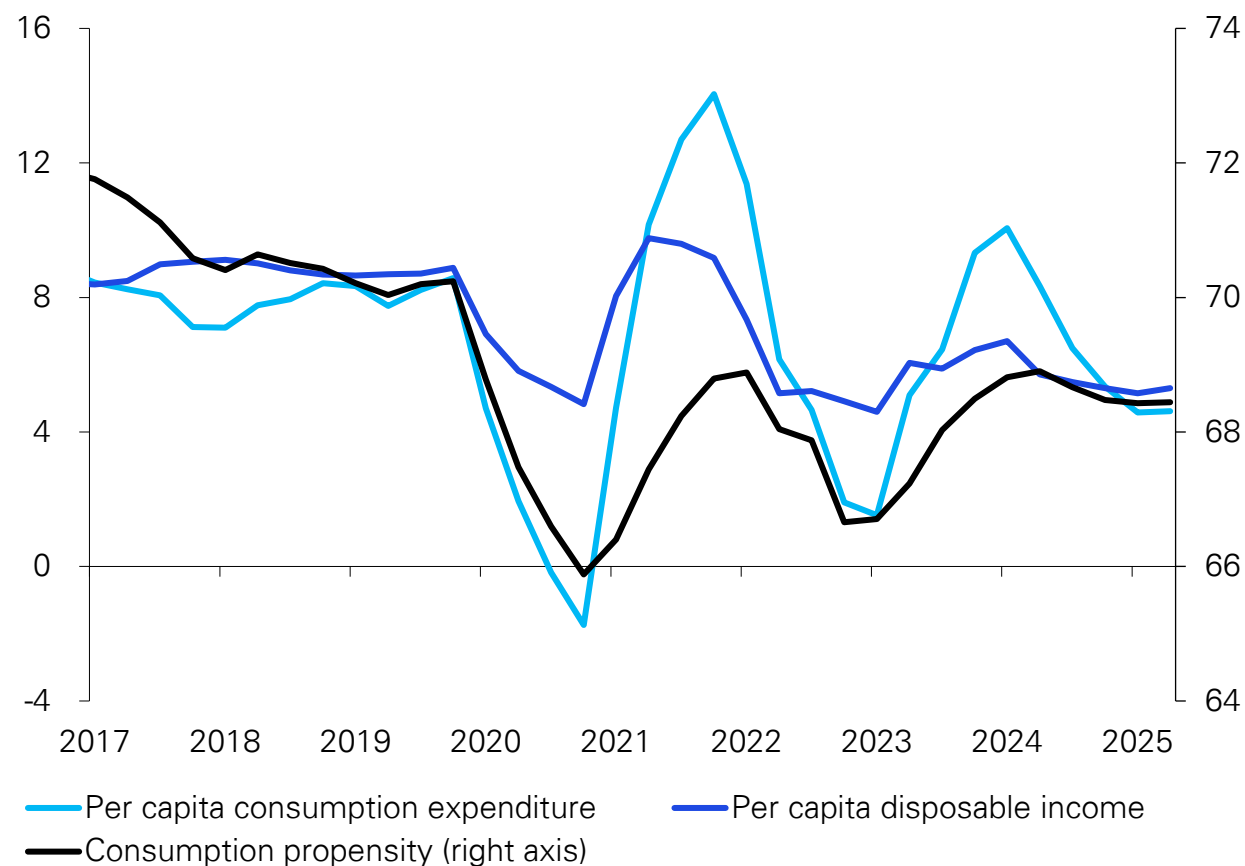
Source: Wind, KPMG analysis.

Note: Goods sales data are for above-size retail enterprises

- In H1 2025, total retail sales of consumer goods accelerated to 5.4% in Q2, 0.8 percentage points faster than in Q1, driven by the combined boost from the trade-in program and mid-year e-commerce promotions.
- Five key trade-in categories — automobiles, household appliances, communication equipment, office supplies, and furniture — lifted retail sales growth by 5.7 percentage points, accounting for 84.4% of the total increase. In addition, the rise of the “emotional economy” has spurred emerging consumption segments such as affordable luxury, collectible toys, and fitness, with jewellery as well as sports and entertainment goods recording rapid expansion.
- In H2 2025, the trade-in program’s impact on retail sales is expected to moderate, and the front-loading of durable goods replacement may also weigh on future demand.

Household income growth and consumption momentum remains weak

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



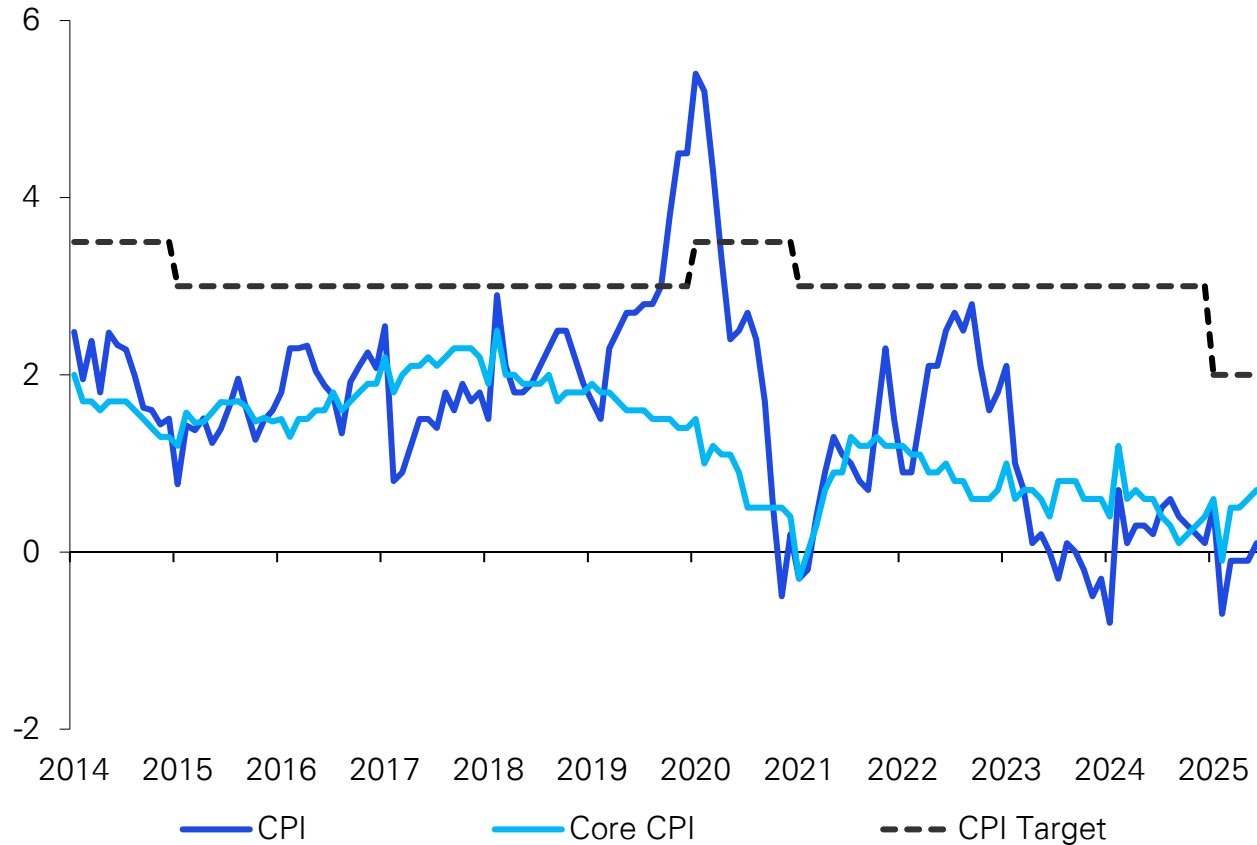
Source: Wind, KPMG analysis

Note: Consumption propensity = per capita disposable income / per capita consumption expenditure

- Regarding the virtuous cycle of employment, income, and consumption, the household income growth and consumption propensity have stabilized after previous declines, but momentum for further recovery remains limited and requires additional support.
- With expectations for future employment and income still weak, nominal per capita consumption expenditure rose 4.6% YoY in H1 2025, lagging behind income growth of 5.3%. Recruitment remains cautious amid heightened domestic/external uncertainties and increasing demand-side pressures.
- Future measures may focus on four key areas to further stimulate consumption: optimizing the trade-in subsidy program, relaxing consumption restrictions, expanding high-quality consumption supply, and establishing long-term mechanisms that promote consumption in close connection with household welfare.

The low inflationary environment is expected to gradually improve

China Consumer Price Index (CPI), YoY, %



Source: Wind, KPMG analysis

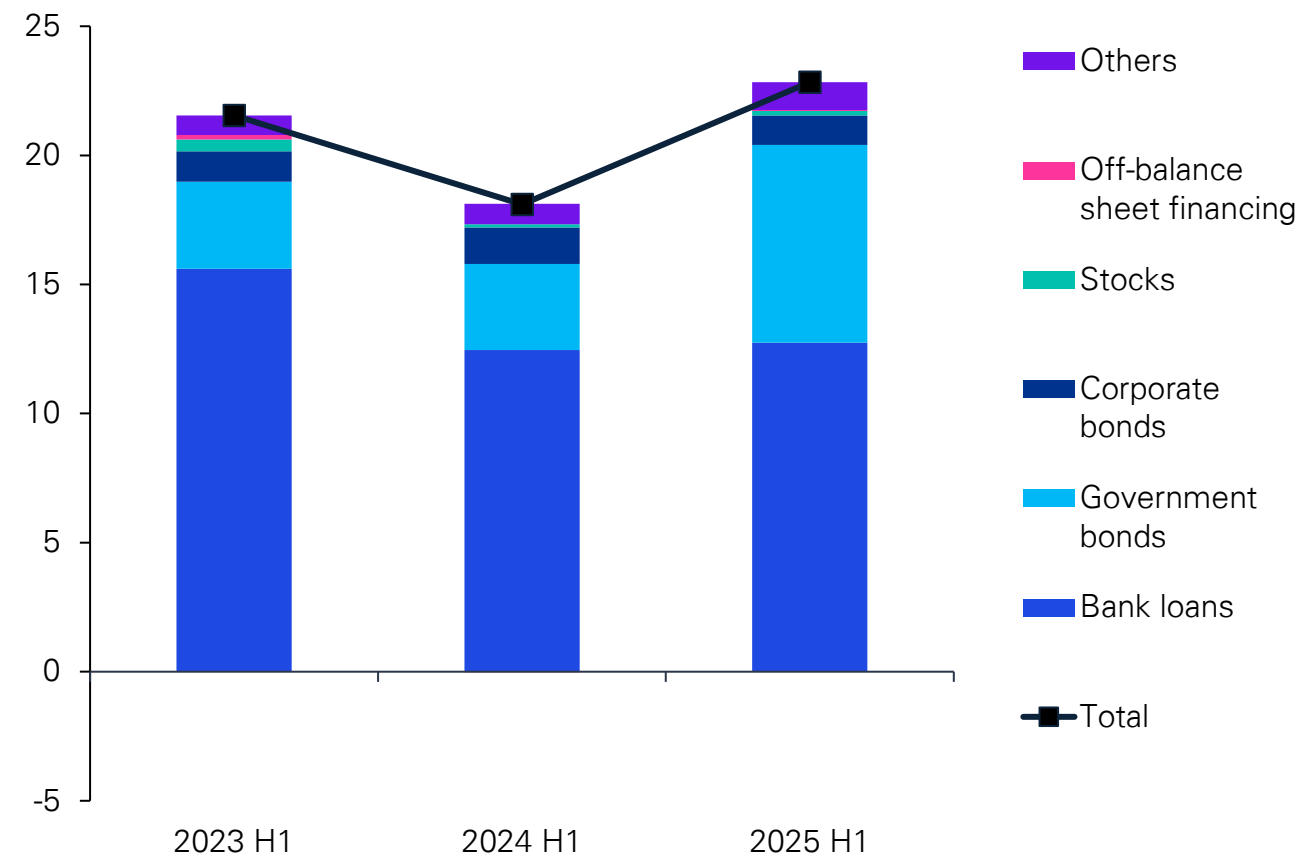
- In H1 2025, inflation remained at a low level. CPI fell 0.1% YoY, unchanged from the end of Q1, while the core CPI rose 0.4%, up slightly by 0.1 percentage points from the previous quarter.
- In June, CPI turned positive at 0.1% YoY, and Core CPI rebounded to 0.7%. The rise in June CPI was mainly driven by a correction in industrial consumer goods prices. First, geopolitical tensions in the Middle East, caused a rebound in international crude oil prices, pushing domestic energy prices higher. Second, sustained global risk-off sentiment increased international precious metals prices, and demand for gold and silver jewellery increased with China's rising "self-enjoyment economy," driving up the prices of gold and platinum items. Finally, in some regions, trade-in subsidy funds for consumer goods were temporarily exhausted, and the mid-year "618" e-commerce promotions ended, resulting in a rebound in prices for household appliances and communication devices.



- In H1 2025, China's central bank adopted a flexible approach, dynamically adjusting policy priorities. In Q2, as external shocks became more pronounced and financial market volatility increased, while inflation remained subdued and the real estate market weakened again, the focus of monetary policy shifted to supporting growth and promoting a reasonable rebound in prices. Specific measures included lowering the required reserve ratio (RRR) by 0.5 percentage points, the 7-day reverse repo rate by 0.1 percentage points, and rates on structural monetary policy tools by 0.25 percentage points.
- In the short term, monetary policy may not rush further easing, while attention to risk prevention and avoiding policy missteps may rise. Nevertheless, the possibility and necessity of additional RRR cuts or interest rate reductions remain, depending on domestic economic performance, US-China tariff negotiations, and global interest rate developments.

Government bond issuance continues to support social financing

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

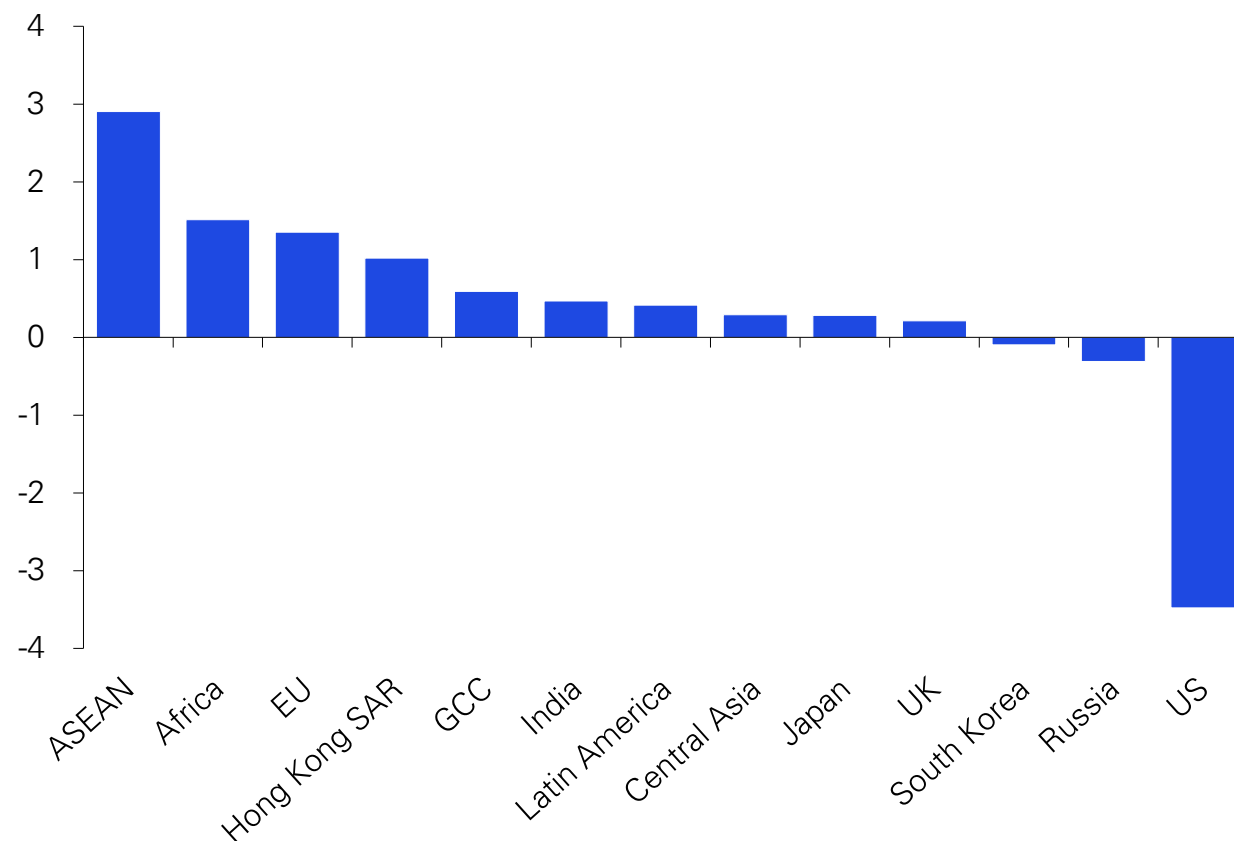


Source: Wind, KPMG analysis

- Net government bond financing remains the largest contributor to the YoY increase in social financing, with an additional RMB 7.7 trillion issued in H1 2025, accounting for 91.3% of new social financing.
- Bank lending also contributed to social financing growth, with bank loans rising by RMB 12.7 trillion, a YoY increase of RMB 0.3 trillion. This reflects three factors: (1) accelerated fiscal spending; (2) reductions and expansion in structural monetary policy tools; and (3) special sovereign bonds supplementing bank capital, with RRR cuts directly releasing liquidity and boosting banks' lending capacity.
- However, net financing of corporate bonds represented the main drag on new social financing in H1. This was largely due to rising bond yields increasing corporate issuance costs and the continued contraction of local government financing vehicle (LGFV) bonds.

Diversified trade keeps export resilient

Contributions to China's exports growth, by major trading partners in 2025 Q2, percentage points



Source: Wind, KPMG analysis

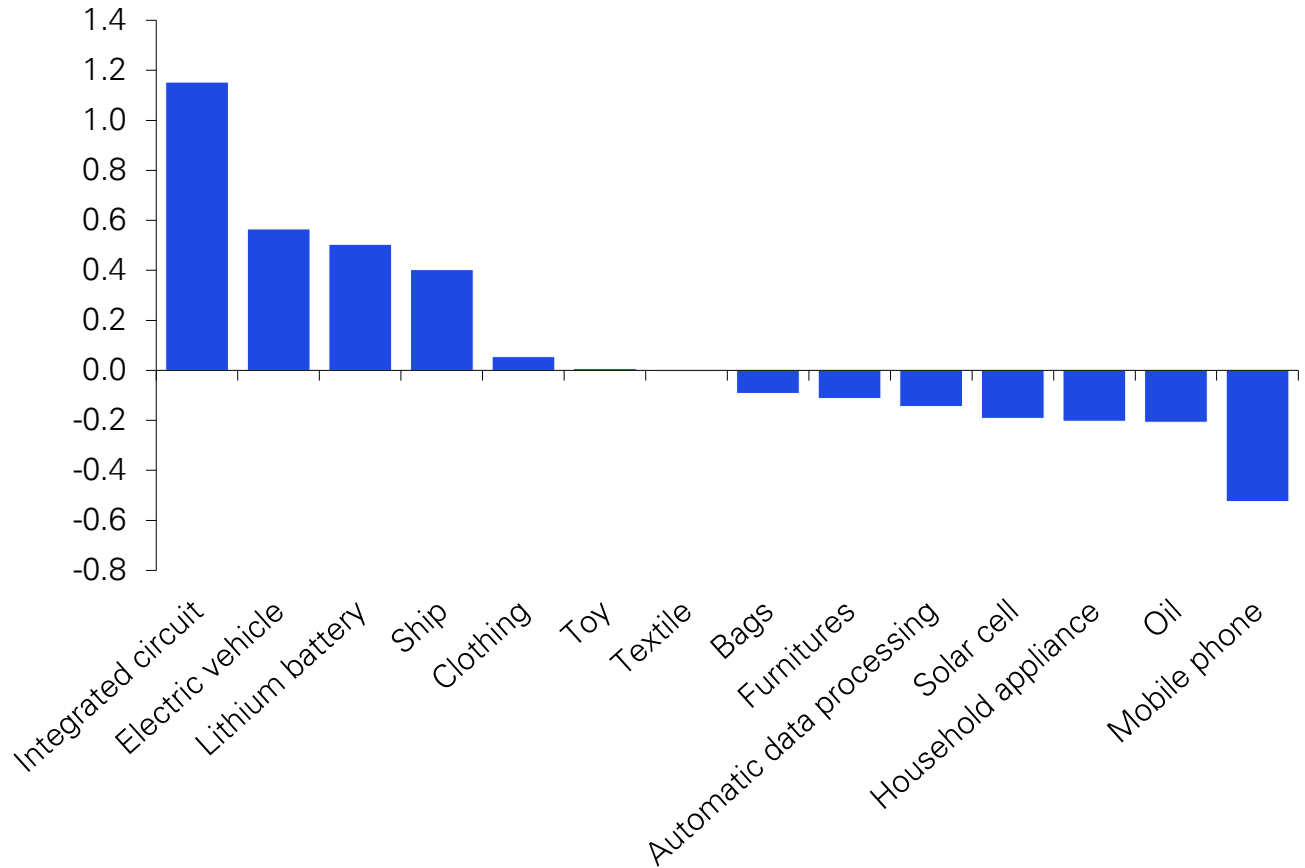
Note: The Gulf Cooperation Council (GCC) economies include the United Arab Emirates, Saudi Arabia, Oman, Kuwait, Qatar, and Bahrain; The Central Asia economies include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

© 2025 KPMG Huazhen LLP, a People's Republic of China partnership, KPMG Advisory (China) Limited, a limited liability company in Chinese Mainland, KPMG, a Macau (SAR) partnership, and KPMG, a Hong Kong (SAR) partnership, are member firms of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

- In H1 2025, China's exports (USD-denominated) rose 5.9% YoY, up 2.2 percentage points from the same period last year. Export growth strengthened in Q2, reaching 6.1% YoY. Amid the global tariff storm, China's foreign trade market has accelerated diversification, with growth from non-US markets effectively offsetting declines in exports to the US.
- Transshipment remained robust. In Q2, exports via key transshipment hubs, including ASEAN and Hong Kong, rose 17.4% and 13.1% YoY, respectively. China actively restored relations with traditional trade partners, while Europe's moderate economic recovery supported exports to the EU and Japan, which grew 9.2% and 6.8% YoY, respectively. China also further expanded into emerging markets to diversify trade risks, with exports to Belt and Road countries becoming a new growth driver; exports to Africa surged 31.4% YoY in Q2.

High-end manufacturing and new energy products continue to strengthen

Contributions to export growth by category in 2025 Q2, percentage points

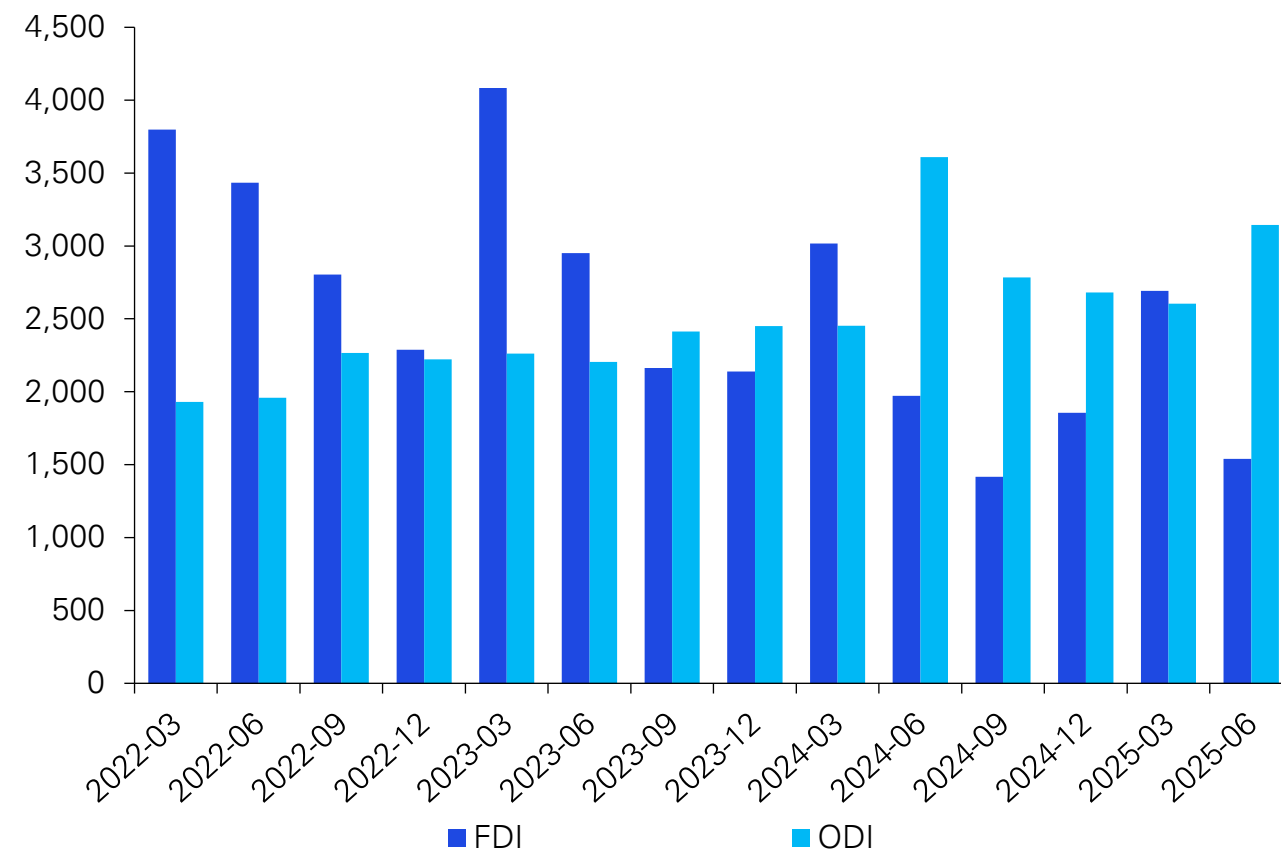


Source: The General Administration of Customs, KPMG analysis

- High-end manufacturing and new energy products continued to strengthen. Integrated circuits, electrical vehicle, and Lithium battery are major contributors in Q2. Shipbuilding, a key pillar of China's high-end equipment manufacturing, also maintained strong development momentum. However, exports of traditional labour-intensive products and downstream consumer electronics remained sluggish in Q2, dragged down by declining exports to the US.
- In H1 2025, China's exports moved toward high-end, self-reliant, intelligent, and green products. Leveraging diversified markets and structural upgrades in product composition, China maintained solid export growth. Looking ahead, attention will remain on global economic trends, geopolitical developments, and trade protectionism risks.

China is expected to continue to be attractive to foreign investment

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

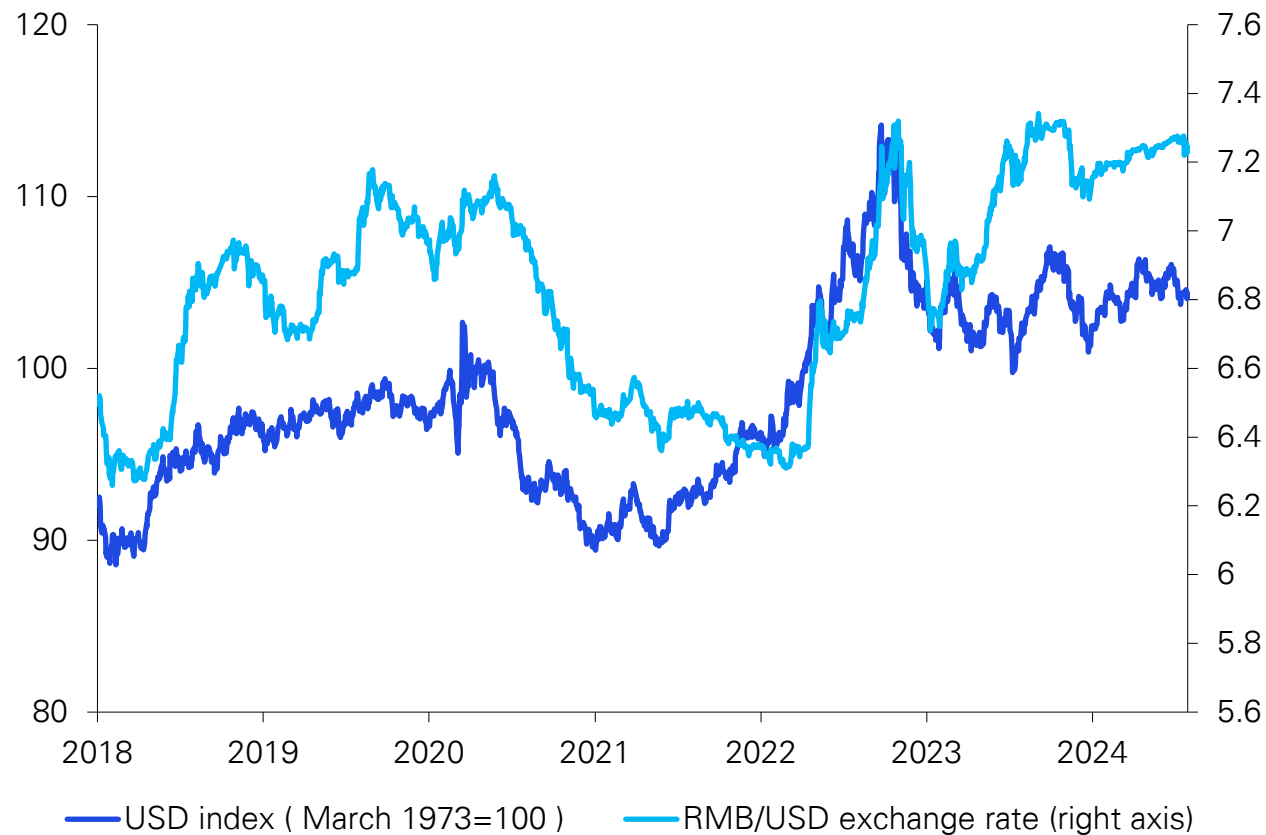


Source: Wind, KPMG analysis

- In H1 2025, FDI into China fell by 15.2% YoY, while the number of newly registered foreign-invested enterprises rose by 11.7% YoY. This indicates that despite multiple external challenges, foreign investors continue to show strong interest in the Chinese market. The decline in FDI value also reflects a global trend toward service-oriented and lighter-asset investment strategies.
- The structure of foreign capital utilisation continued to optimize, with FDI in high-tech industries accounting for 30.2% of the total in H1 2025, up 1.1 percentage points from Q1. China has become a key market for multinational companies' long-term strategic planning, with an increasing number establishing regional headquarters and global R&D centres in the country to capture the benefits of China's economic transformation and high-quality development, achieving a "Made in China, for the World" strategic upgrade.

The RMB exchange rate strengthens

USD index and RMB/USD exchange rate

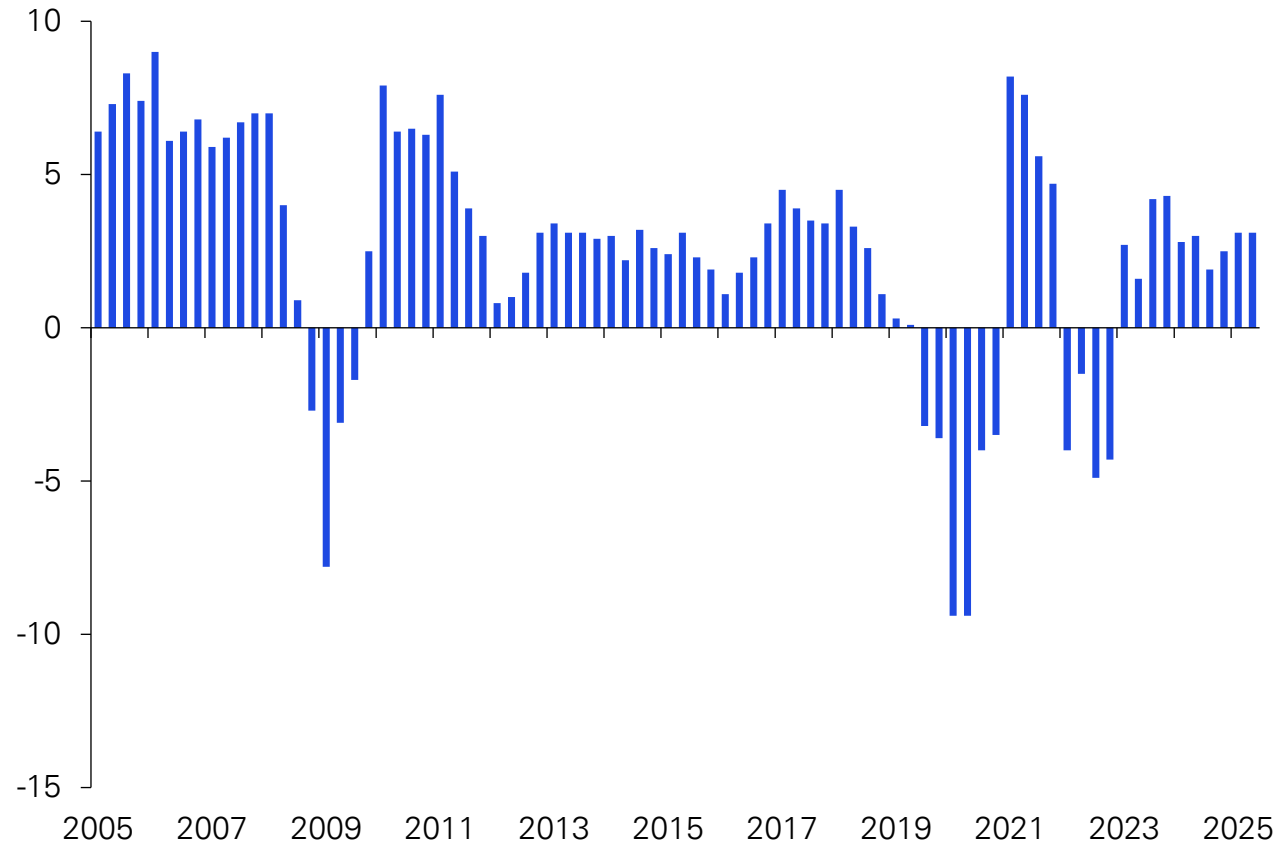


Source: Wind, KPMG analysis

- Amid ongoing US-China trade tensions, the RMB exchange rate in H1 2025 showed a pattern of initial pressure followed by stabilization. Influenced by a weaker US dollar, coupled with steady domestic economic performance and flexible central bank interventions, the RMB appreciated modestly by 1.82% against the USD over the first six months of the year.
- Despite this appreciation, the RMB depreciated against a basket of major currencies as most other currencies also strengthened. The CFETS RMB exchange rate index fell by 3.67% in H1 2025.
- Looking ahead, the US dollar faces continued downward pressure, and market expectations of a Fed rate cut later in the year provide external support for a moderate RMB appreciation. At the same time, domestic policies aimed at stabilizing economic growth will remain the primary internal factor supporting exchange rate stability.

Hong Kong's economy expands moderately

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



Source: Wind, KPMG analysis

- In Q2 2025, Hong Kong SAR's economy expanded moderately, with a YoY GDP growth of 3.1%, an increase of 0.1 percentage points from Q1.
- Strong external demand, coupled with a temporary pause in US tariff policies, boosted the front-loading activities, driving faster growth in goods exports. Meanwhile, the tourism sector continued to recover, supporting continued growth in services exports. Rising visitor arrivals also helped revive Hong Kong's domestic consumption market in Q2. As the economy expanded, overall investment spending increased further.
- Mainland steady economic growth and Hong Kong government measures will continue to support the city's economy. However, uncertainties around US tariff policies and the anticipated weakening of the front-loading activities may influence Hong Kong's economic performance in the second half of the year.

Contact us



Michael Jiang

Head of Clients and Markets
KPMG China
+86 (10) 8508 7077
michael.jiang@kpmg.com



Gary Cai

Head of Macroeconomic
Research Institute
+86 (21) 2212 3687
gary.cai@kpmg.com

KPMG China Research Center: Yuan Zeng, Yuka Ding, Carrie Zhou, Niu Long

kpmg.com/cn/socialmedia



For a list of KPMG China offices, please scan the QR code or visit our website: <https://kpmg.com/cn/en/home/about/office-locations.html>

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2025 KPMG Huazhen LLP, a People's Republic of China partnership, KPMG Advisory (China) Limited, a limited liability company in Chinese Mainland, KPMG, a Macau (SAR) partnership, and KPMG, a Hong Kong (SAR) partnership, are member firms of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in Chinese Mainland.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.