



China Economic Monitor

Issue: 2025 Q4

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Key takeaways

- In the first three quarters of 2025, China's real GDP grew by 5.2% year-on-year (YoY), 0.4 percentage points higher than for the same period last year, indicating solid progress toward the full-year growth target of 'around 5%.' However, on a quarterly basis, economic momentum softened in Q3. As policy priorities shifted towards addressing involutionary competition, earlier demand-boosting measures moderated. Real GDP growth slowed to 4.8% in Q3, down 0.4 percentage points from Q2, and the seasonally adjusted quarter-on-quarter pace dropped to one of the lowest levels on record.
- In terms of consumption, total retail sales of consumer goods rose by 4.5% YoY in the first three quarters, 0.5 percentage points slower than in H1. Retail sales growth eased significantly to 3.5% in Q3, a 1.9-percentage-point slowdown from Q2, primarily due to diminished effects from the trade-in programme, combined with slowing household income growth and insufficient consumer confidence.
- Housing sales remained weak in Q3, continuing to constrain developers' willingness to invest. Real estate investment contracted further from -12.1% in Q2 to -19.2% in Q3, remaining the largest drag on fixed asset investment growth. Local governments, constrained by the need to ensure basic public services and manage risks, slowed the pace of infrastructure investment. Infrastructure investment growth fell sharply from 7.6% in Q2 to -5.8% in Q3. Manufacturing investment also contracted significantly as firms faced heightened external uncertainty, diminishing support from Clunkers Upgrade programme, and tighter measures to address involutionary competition. Manufacturing investment growth fell from 6.7% in Q2 to -1.2% in Q3.
- Industrial production grew 6.2% YoY in the first three quarters, slightly lower than the 6.4% in H1. With the fading of the export front-loading effect and rising external uncertainty, industrial production weakened further in Q3. Production diverged from headline export performance, largely because firms accelerated production earlier in the year to meet anticipated export demand, leading to excess inventory. As a result, the resilience in Q2-Q3 exports was largely inventory-driven, providing limited support to production.
- China's exports increased by 6.1% YoY in the first three quarters, 0.2 percentage points higher than in H1. Q3 export growth accelerated by 0.3 percentage points from Q2 to 6.5%. Despite uncertainty in China-U.S. tariff negotiations in Q3, China achieved notable success in expanding non-U.S. markets: exports to non-U.S. markets rose by 12.6% YoY, contributing 10.7 percentage points to overall export growth and effectively offsetting the drag from the decline in exports to the U.S.
- Looking ahead, two factors are expected to support economic activity: (1) a recent easing in China-U.S. trade tensions, and (2) a renewed policy focus on boosting domestic demand. With the coordinated strengthening of fiscal and monetary policy, investment-led domestic demand is poised for improvement in Q4, supporting the full-year growth target of 'around 5%'.

China's economy showed a divergence between domestic and external demand in Q3 2025

Growth rate of major economic indicators, YoY, %

	2020-23 Average	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3
GDP	4.8%	4.7%	4.6%	5.4%	5.4%	5.2%	4.8%
Industrial production	5.1%	5.9%	5.1%	5.7%	6.5%	6.4%	6.2%
Retail sales	3.7%	2.7%	2.5%	4.0%	4.6%	5.4%	3.5%
Fixed asset investment	4.0%	3.5%	2.5%	2.6%	4.2%	2.1%	-6.2%
Exports	7.8%	5.7%	5.9%	9.9%	5.7%	6.2%	6.5%
Imports	5.3%	2.5%	2.2%	-1.8%	-7.0%	-0.8%	4.2%
Income per capita	4.8%	5.4%	5.2%	5.3%	5.6%	5.3%	5.1%
Fiscal revenue	4.6%	-3.2%	-0.8%	13.1%	-1.1%	0.6%	2.5%
Fiscal expenditures	3.7%	1.1%	1.9%	8.0%	4.2%	2.6%	2.4%

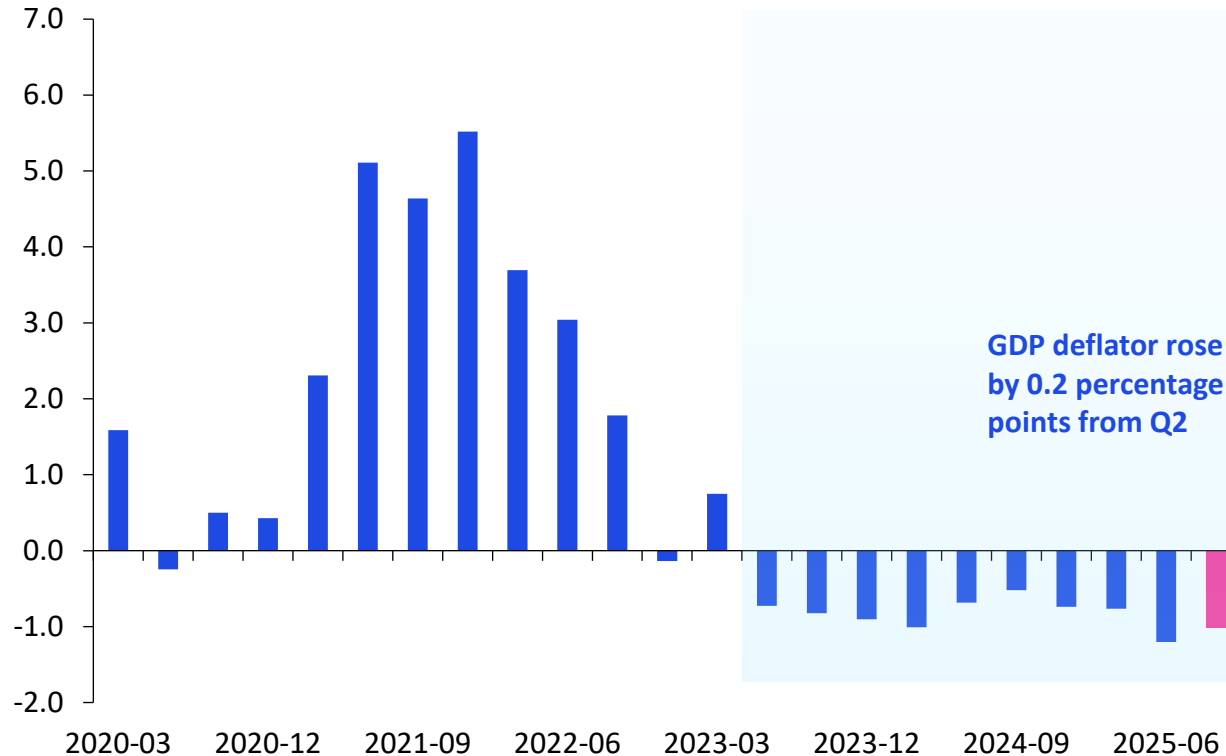
Source: Wind, KPMG analysis

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

- On a quarterly basis, China's economic performance this year has shown a clear pattern of "early strength followed by moderation". Since Q3, policy priorities shifted toward "anti-involution," and earlier demand-expansion measures were scaled back. As a result, real GDP growth slowed to 4.8% in Q3.
- On one hand, during the implementation of the "anti-involution" policy, investment momentum weakened across sectors. While supply-side adjustments helped stabilise production, they also compressed investment demand. On the other hand, the strength of the earlier equipment upgrades and consumer goods trade-in programmes faded in Q3, and the continued weakness in housing demand further dampened consumption and real estate sales.
- Overall, while the government maintained supply stability in Q3, the recovery momentum of domestic demand weakened. Although the supply-demand imbalance showed some improvement, the slowdown in production was more pronounced than market expectations.

Eased U.S. tariffs and demand-stabilisation policies are supporting growth in Q4

GDP Deflator, YoY, %

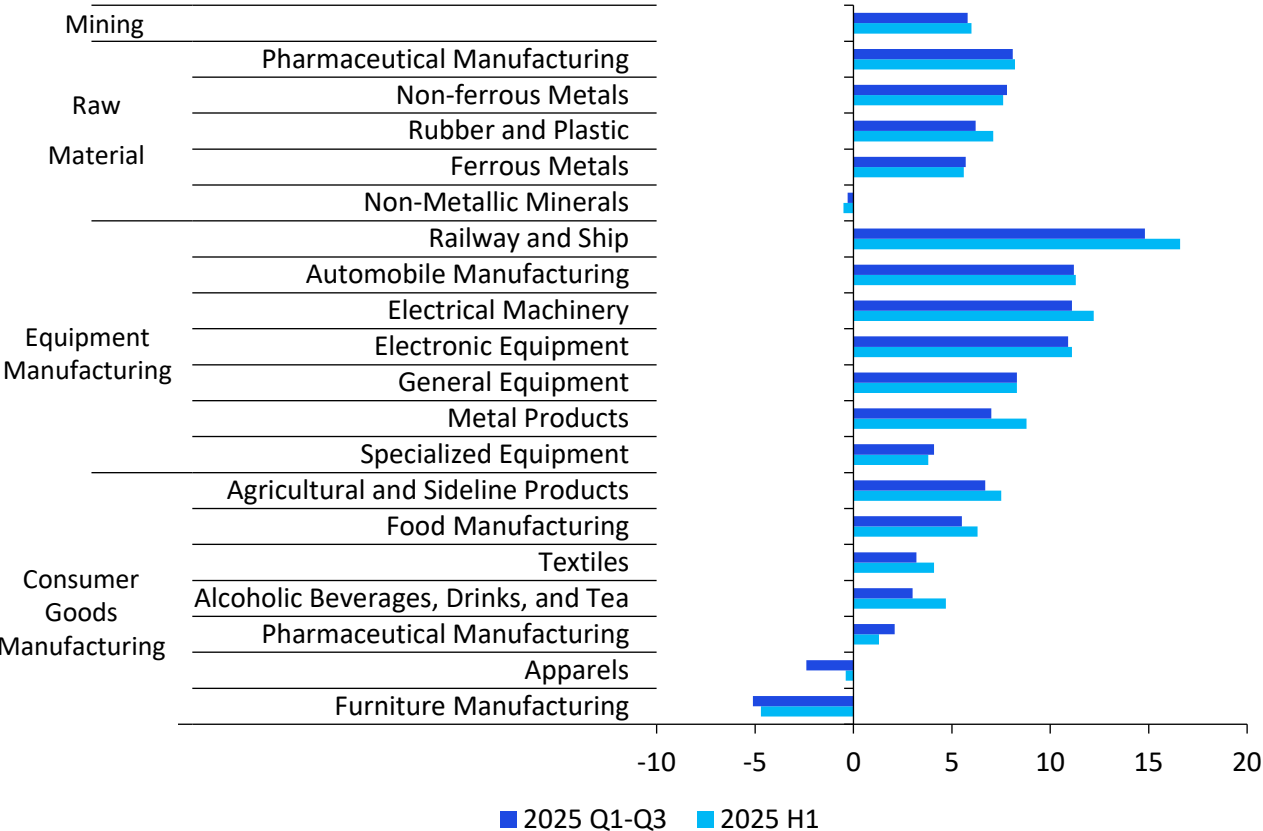


Source: Wind, KPMG analysis

- The GDP deflator was -1.0% in Q3 2025, an improvement of 0.2 percentage points from Q2. Looking ahead to Q4, two major factors are expected to support economic performance:
- First, China–U.S. trade tensions have eased. The average U.S. tariff rate on Chinese goods has been lowered by 10 percentage points to 31%, providing positive support for Q4 export performance and corporate expectations.
- Second, policy efforts in Q4 are shifting toward stabilising demand. Fiscal measures include the full deployment of RMB 500 billion in policy-based financial instruments, as well as an additional RMB 500 billion in local government debt quotas to support project construction and debt resolution. On the monetary side, bond-purchasing operations have recently resumed to inject liquidity into the market.
- With coordinated fiscal and monetary support, domestic demand, particularly investment, should recover in Q4, making it feasible to achieve the full-year growth target of ‘around 5%.’

Domestic demand to drive a gradual rebound in industrial production in Q4

Growth rates of industrial production, by sector, percentage points

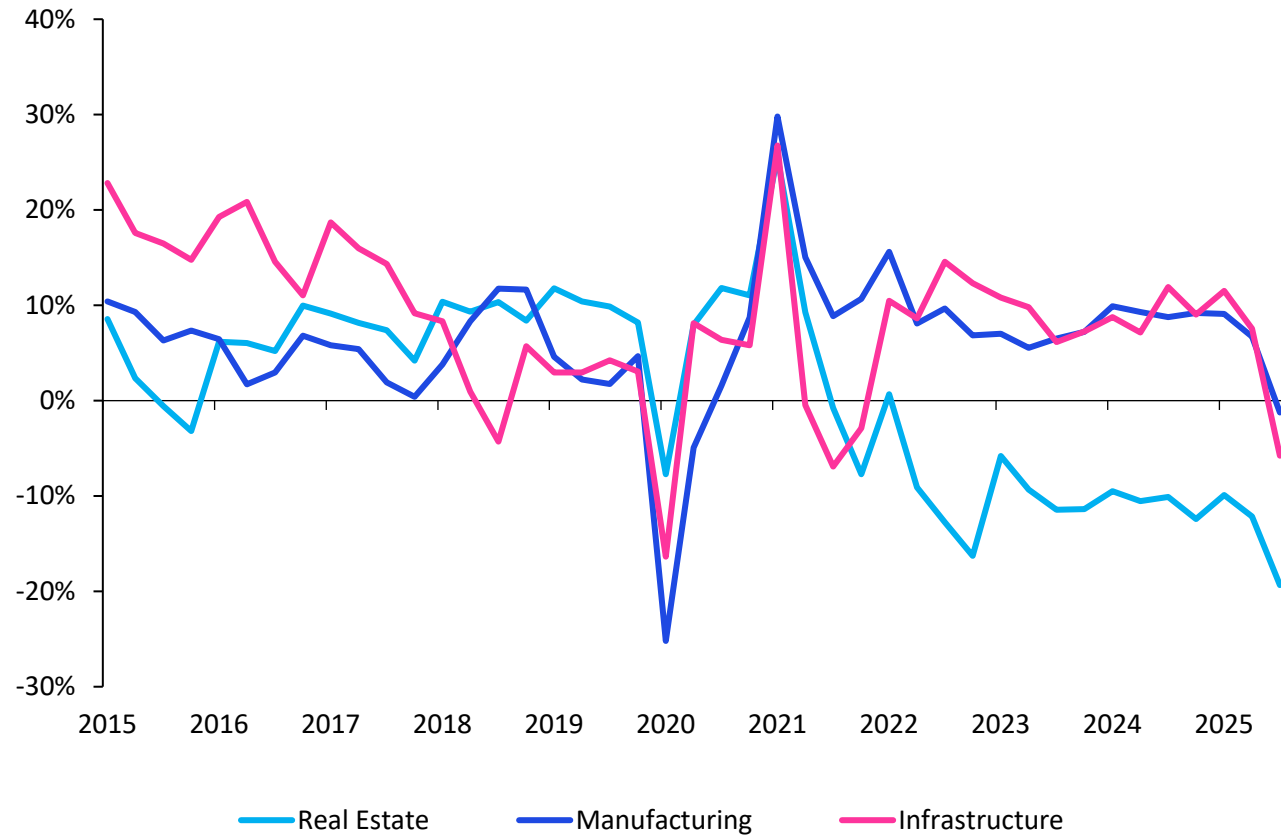


Source: Wind, KPMG analysis

- Industrial production increased by 6.2% YoY in the first three quarters, down 0.2 percentage points from 6.4% in H1.
- With the fading of the export front-loading effect and rising uncertainty in the external environment, industrial production softened further in Q3.
- Looking ahead, recovering domestic demand will support a rebound in industrial production. The deployment of policy-based financial instruments is expected to boost manufacturing and infrastructure investment, driving demand for equipment, machinery, and upstream construction materials. The easing of China–U.S. trade tensions should further strengthen business confidence. However, downside risks remain due to the fading export front-loading effect and last year’s high base, which may weigh on Q4 production growth.

Policy reorientation leads to a sharp investment slowdown in Q3

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

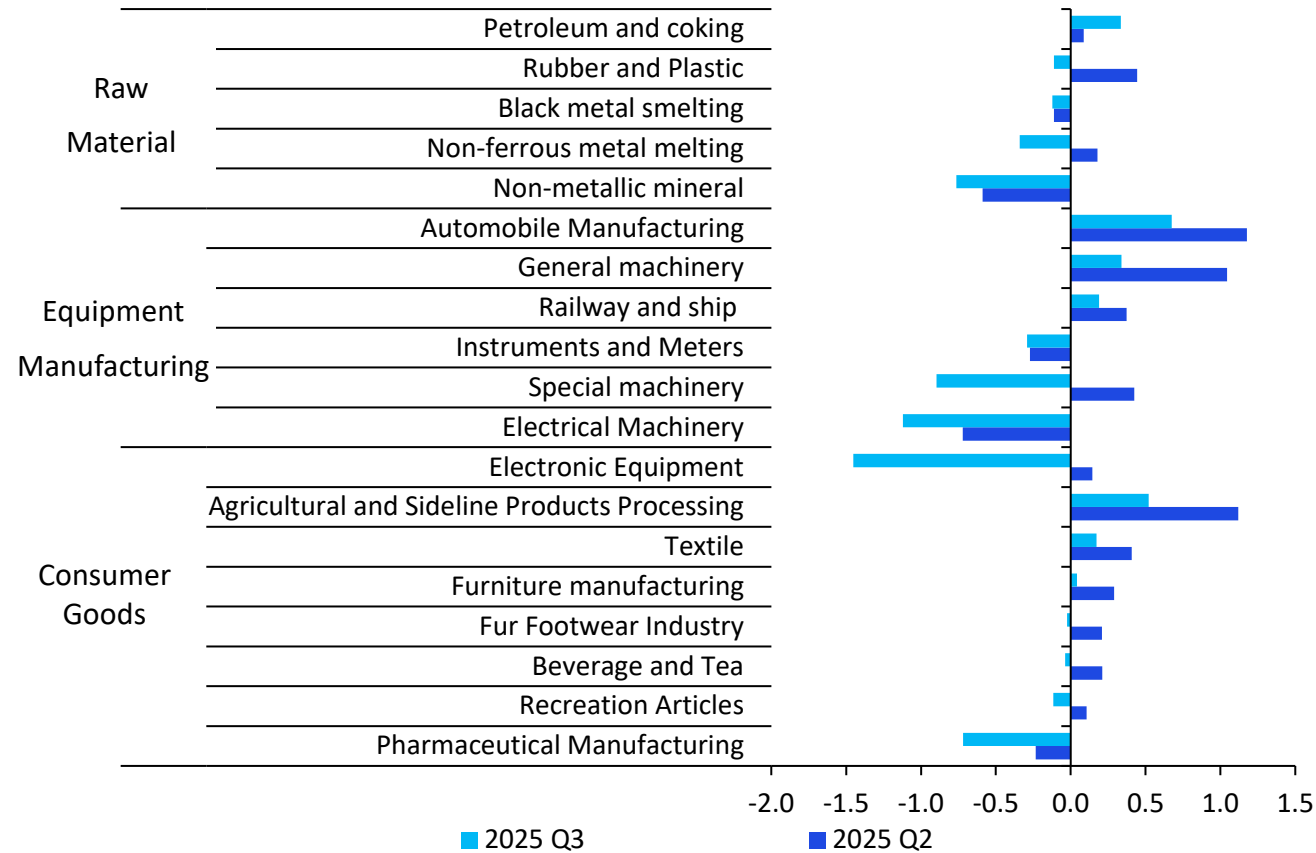


Source: Wind, KPMG analysis

- Fixed asset investment declined by 0.5% YoY in the first three quarters, significantly lower than the 2.8% growth recorded in H1. In Q3, growth weakened markedly to -6.2%, down 8.3 percentage points from 2.1% in Q2.
- Real estate sales remained weak in Q3, continuing to constrain developer investment. Real estate investment fell further from -12.1% in Q2 to -19.2% in Q3, remaining the largest drag on fixed asset investment.
- Under pressure to safeguard livelihoods and contain risks, local governments slowed infrastructure investment. Infrastructure investment growth dropped sharply from 7.6% in Q2 to -5.8% in Q3.
- Manufacturing investment contracted significantly as firms faced heightened external uncertainty, diminishing policy support for equipment upgrades, and tighter “anti-involution” measures. Manufacturing investment fell from 6.7% in Q2 to -1.2% in Q3.

“Anti-involution” policies suppress manufacturing investment

Contributions to manufacturing investment growth by sector, percentage points

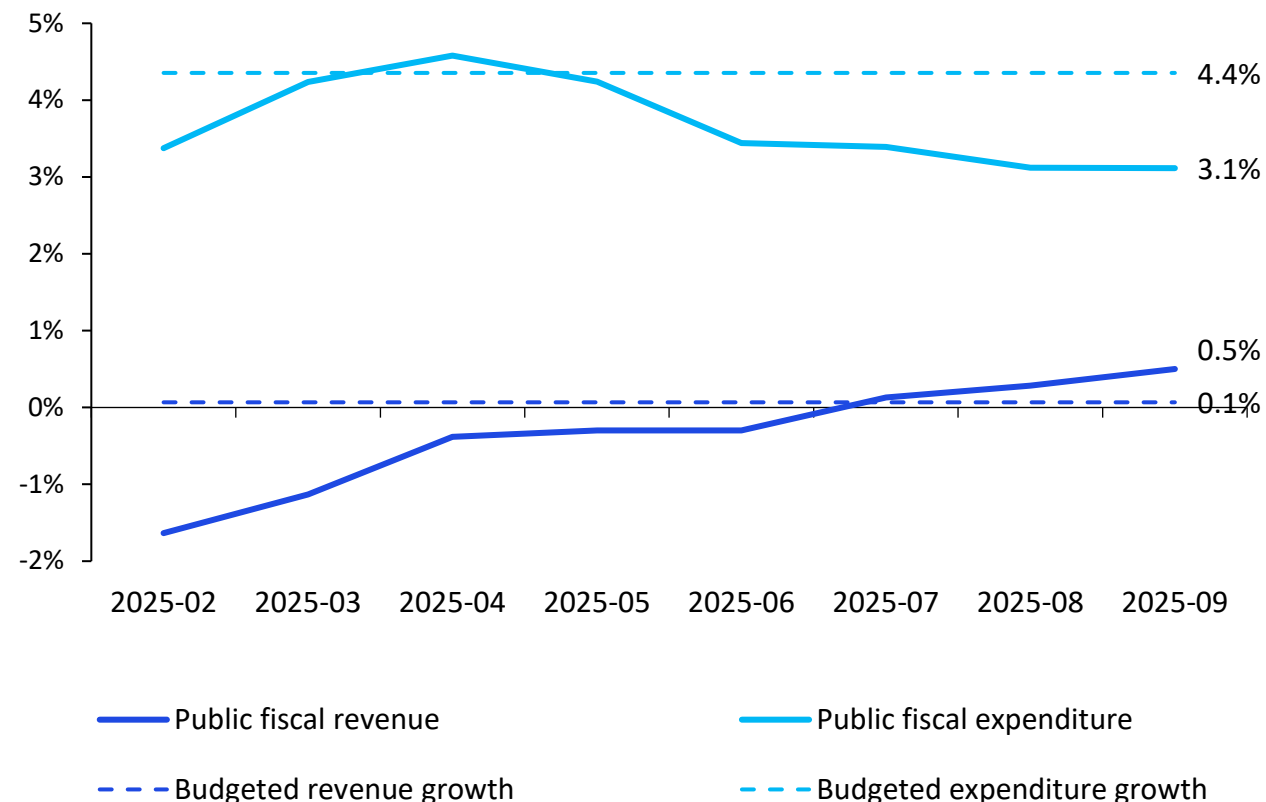


Source: Wind, KPMG analysis

- In the first three quarters of 2025, China’s manufacturing investment grew by 4.0% YoY, down 3.5 percentage points from H1. In Q3, manufacturing investment fell to –1.2% YoY from 6.7% in Q2.
- The rapid rollout of “anti-involution” policies was one of the main factors. Investment growth in electrical machinery, chemical raw materials, and non-metallic mineral products was notably subdued in Q3. The second factor was the diminishing effect of equipment-upgrade programmes.
- A third factor was the weakening of export demand for certain products. Export growth of ships and automatic data processing equipment slowed in Q3, leading to a marked deceleration in transportation and electronic equipment manufacturing investment. Meanwhile, the small-parcel tariffs hit labour-intensive industries, causing sharper investment declines in textiles, apparel, and sports goods than in machinery and electrical products.

Infrastructure investment to rebound on policy support and funding expansion in Q4

Growth of Public Fiscal Revenue and Expenditure, Cumulative YoY, %



Source: Wind, KPMG analysis

- Infrastructure investment grew by 3.3% YoY in the first three quarters, down sharply from 8.9% in H1. In Q3, it dropped to -5.8% YoY from 7.6% in Q2—the weakest quarterly reading since Q3 2021.
- On the funding side, public fiscal revenue continued to recover, with cumulative revenue rising by 0.5% YoY—exceeding the pace projected at the beginning of the year. However, the pace of fiscal spending has slowed significantly since Q2. Only 70.1% of the annual budget had been executed—the lowest since 2015.
- Actual execution showed that infrastructure spending still fell short. By Q3, only 63% of budgeted infrastructure expenditure had been executed, below last year's 67% and the historical average, reflecting continued policy caution.
- Looking ahead, infrastructure investment should rebound in Q4, supported by a more accommodative policy stance and the issuance of policy-based financial instruments.

Real estate demand weakens further and investment continues to decline

Area of new construction starts, construction, and completion, Quarterly YoY, %

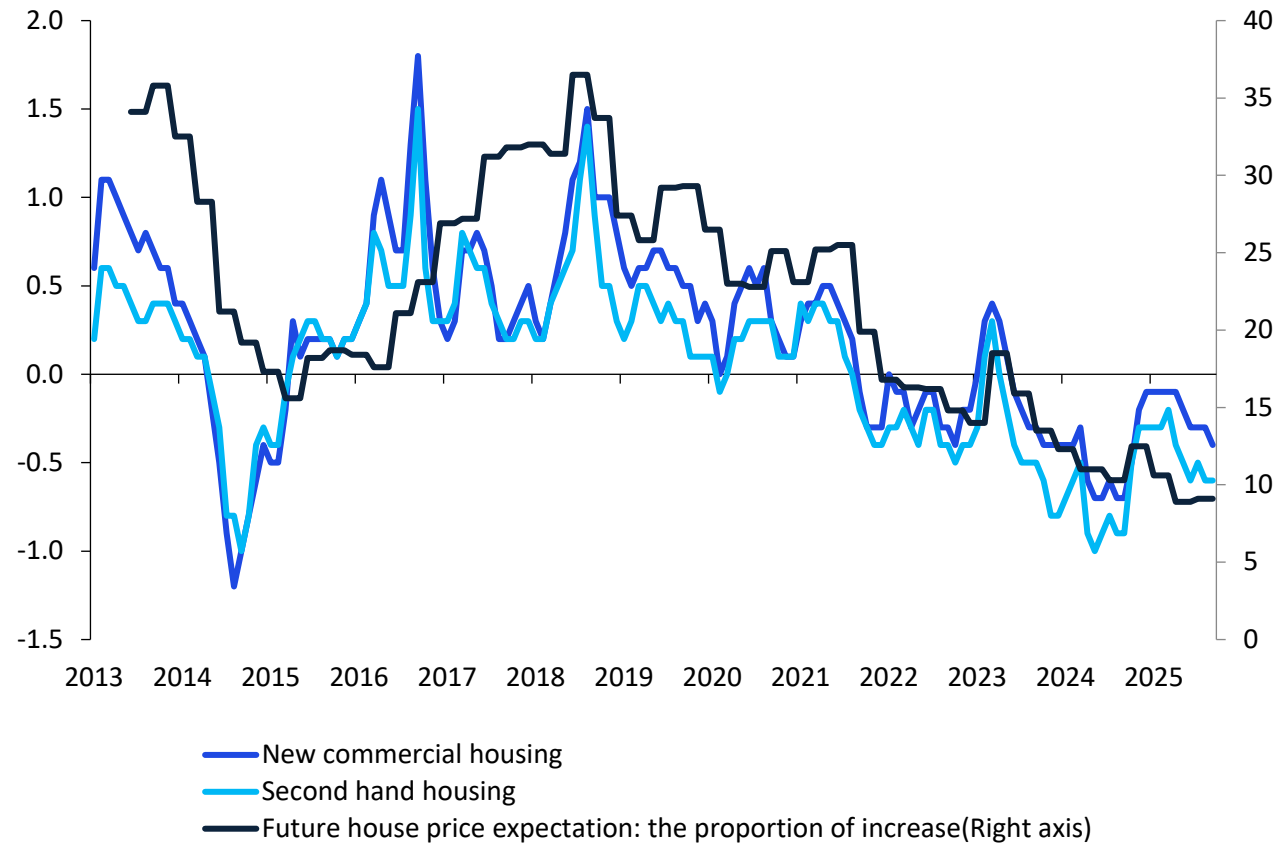


Source: Wind, KPMG analysis

- Real estate investment fell by 13.9% YoY in the first three quarters. With property sales declining throughout the period, the contraction in investment deepened from -9.9% in Q1 to -19.3% in Q3—remaining the largest drag on fixed asset investment.
- Property sales weakened further in Q3, with commercial housing sales area declining by 9.8% YoY, a deterioration of 5.8 percentage points from -4.0% in Q2. As sales cooled, new starts, construction, and completions also slowed, with YoY growth rates declining to -16.6% , -20.3% , and -16.8% , respectively.

Housing prices likely to stabilise as policy support and demand strengthen

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

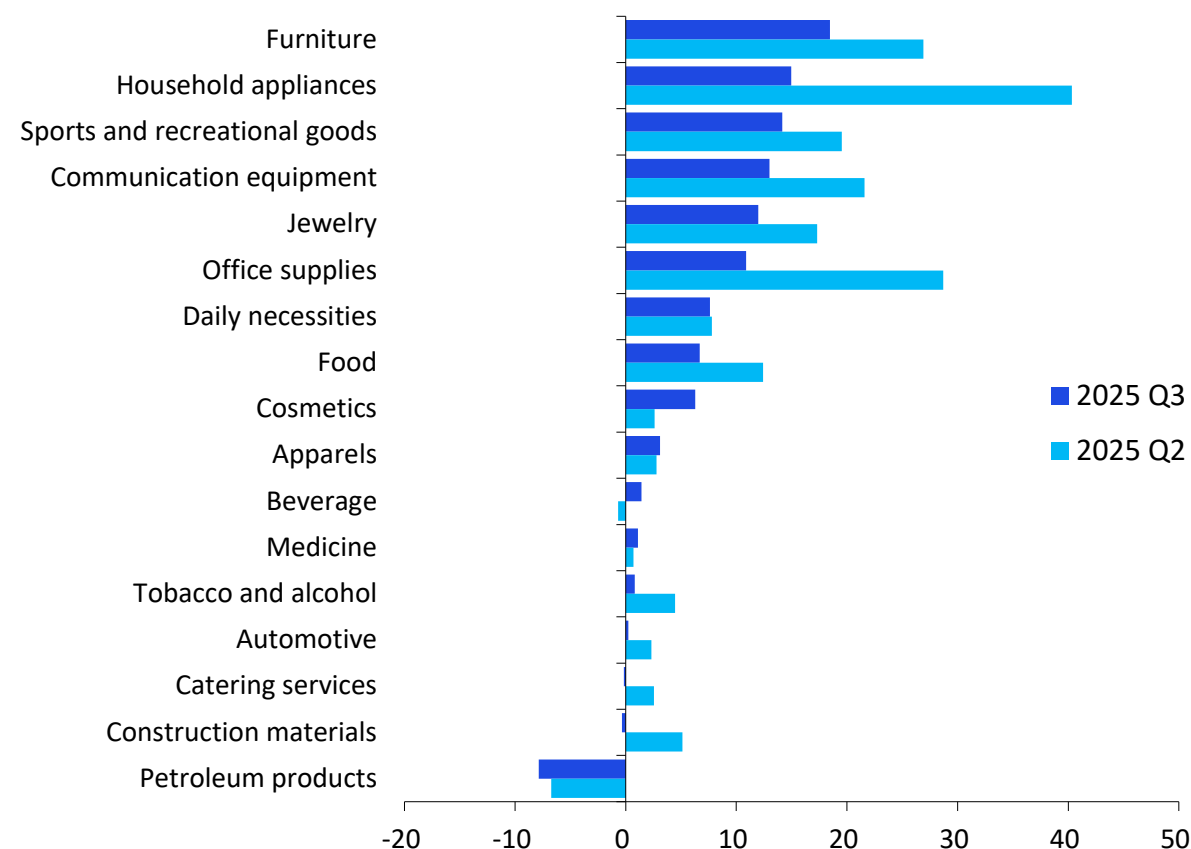


Source: Wind, KPMG analysis

- With real estate demand persistently weak, prices of both new commercial housing and second hand housing declined progressively over the first three quarters of the year. In Q1, the average monthly month-on-month (MoM) price changes were -0.1% for new homes and -0.3% for existing homes; by Q3, the declines had widened to -0.3% and -0.6% , respectively.
- However, the PBoC's Urban Depositors Survey in Q3 shows that 9.1% of residents expect home prices to rise in the coming quarter—an increase from Q2. The divergence between weakening prices and improving price expectations suggests that home prices may have overshot on the downside. Weaker Q3 property sales may have been influenced by the strong performance of the capital market.
- Stabilising housing prices remains the core policy concern. Looking ahead, with continued optimisation of local housing policies, pent-up home purchase demand from Q3 is expected to be released in Q4, providing support for housing prices.

Consumption to rely more on services as the policy effects of trade-in programmes fade

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



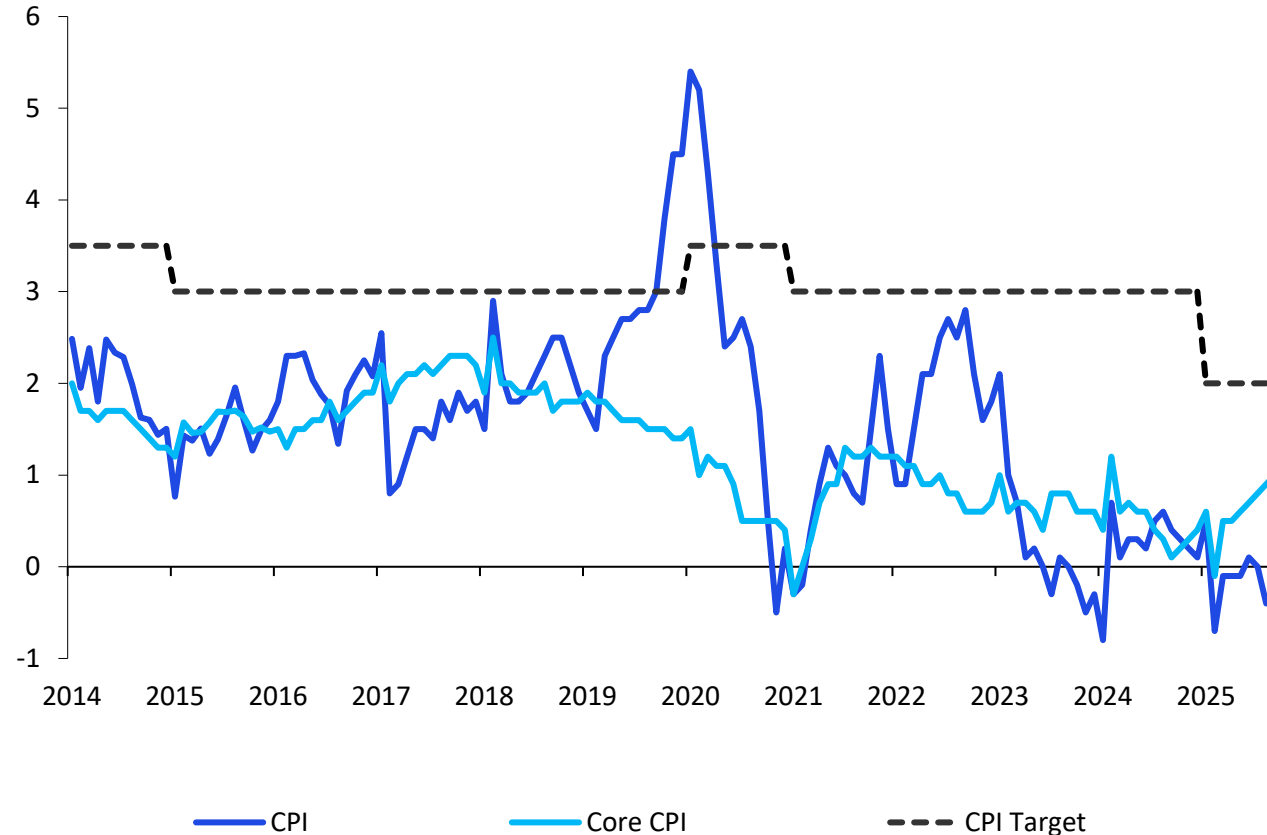
Source: Wind, KPMG analysis.

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

- Retail sales grew by 3.5% YoY in Q3, down 1.9 percentage points from Q2, mainly due to the fading effects of trade-in programmes, slower income growth, and weak consumption momentum.
- Service consumption remained resilient. Supported by this strength, final consumption expenditure contributed 2.7 percentage points to GDP growth in Q3, with its contribution rising by 4.3 percentage points from Q2 to 56.6%, remaining the primary driver of economic growth.
- Retail sales of trade-in goods — automobiles, home appliances, communications equipment, office supplies, and furniture — all recorded notable decelerations relative to Q2, largely due to tighter fiscal funding and adjustments in local implementation schedules.
- In Q4, retail sales growth will likely face the dual pressures of the fading policy effects from the trade-in programmes and a high base. Service consumption is expected to remain the main engine of consumption growth.

CPI to rise moderately in Q4 on a low base, but limited by weak consumption

China Consumer Price Index (CPI), YoY, %

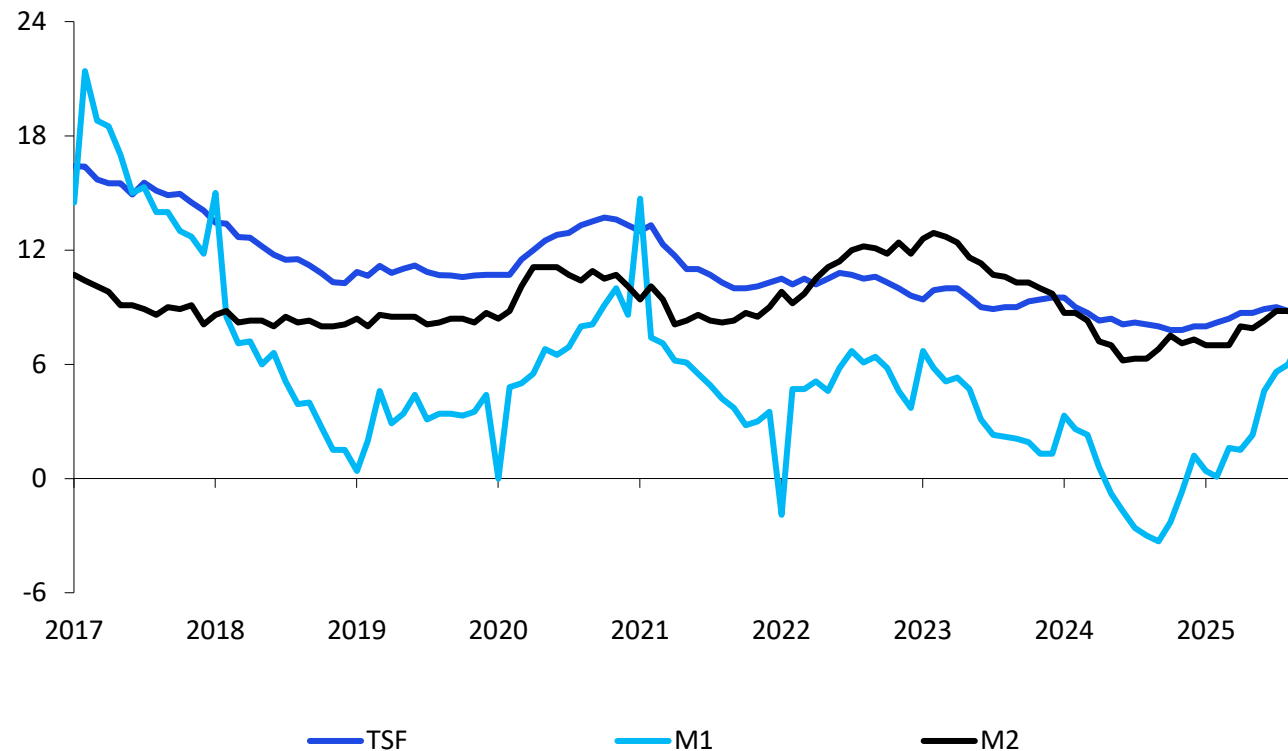


Source: Wind, KPMG analysis

- CPI declined by 0.1% YoY in the first three quarters, remained unchanged from H1, driven mainly by weakness in food and energy. Core CPI continued to firm, rising by 0.6% YoY—0.2 percentage points higher than in H1—indicating a steady, moderate recovery in underlying prices.
- In September, CPI narrowed slightly to -0.3% YoY due to holiday-related base effects in food and softer global energy markets amid weaker demand and excess supply. Core CPI climbed to 1.0%, a 19-month high. This increase was mainly supported by higher prices in gold jewellery, boosted by risk-off sentiment under geopolitical and global trade policy uncertainty, and improved pricing in durable goods, reflecting consumption-boosting policies and gradually tightening supply-demand conditions.
- CPI is expected to edge up modestly in Q4 on a low base. However, with fading durable goods stimulus and still-weak consumption fundamentals, the pace of further core CPI improvement remains slow.

Monetary policy to lean more heavily on structural adjustments

Growth rate of total social financing (TSF), M1, M2, YoY, %

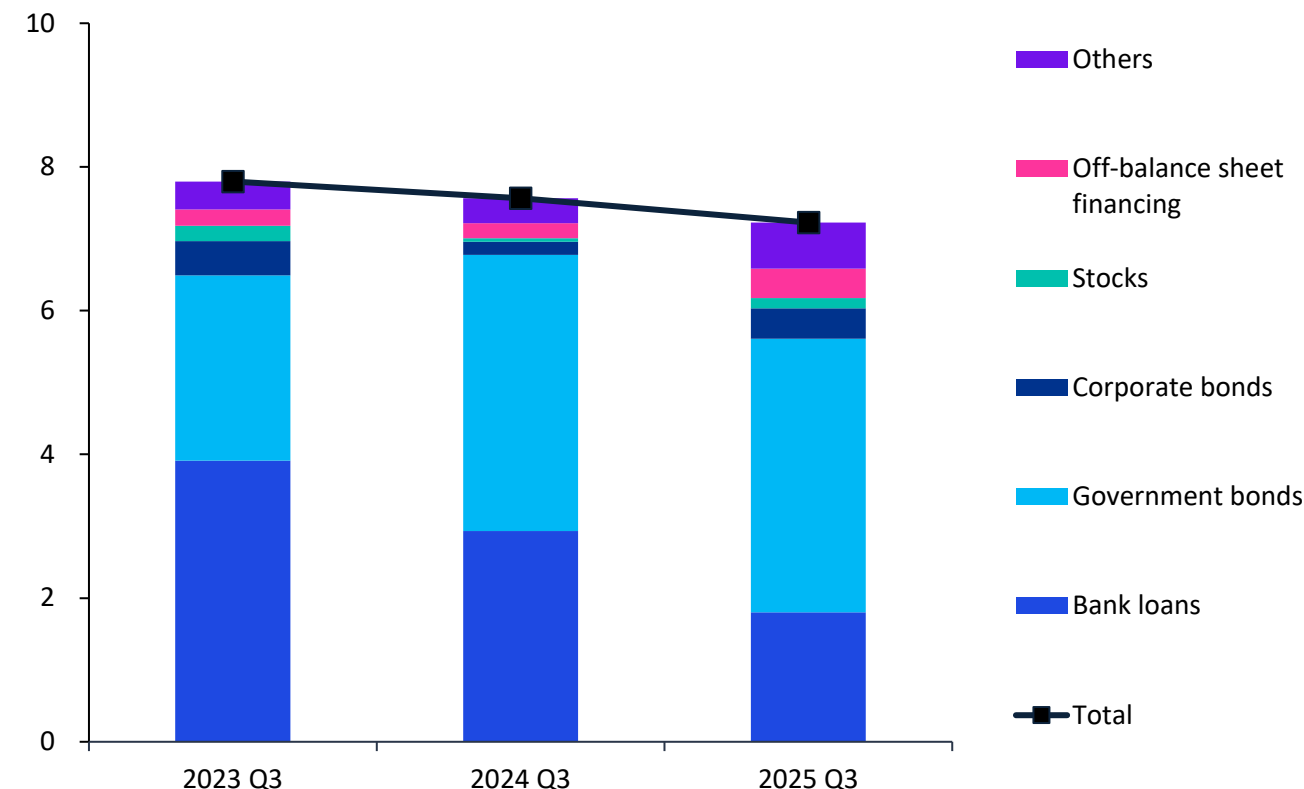


- Total social financing increased by RMB 30 trillion in the first three quarters—a record high and RMB 11.4 trillion above last year. However, Q3 growth softened to 8.7% as government bond issuance slowed and private sector credit demand remained weak.
- M2 grew 8.4% YoY, while M1 accelerated to 7.2%—the highest since March 2021—supported by stronger fiscal spending and more active corporate and household deposits, pointing to a mild improvement in transactional demand.
- In Q4, the PBoC is expected to maintain an “appropriately accommodative” stance. With limited room for broad-based required reserve ratio (RRR) or rate cuts, structural tools will remain the primary policy lever. Future efforts will likely focus on technological innovation, green development, SMEs, service consumption and elderly care, and stable trade, alongside stronger coordination with fiscal and industrial policies to enhance transmission effectiveness.

Source: Wind, KPMG analysis

Government bond issuance continues to support total social financing

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

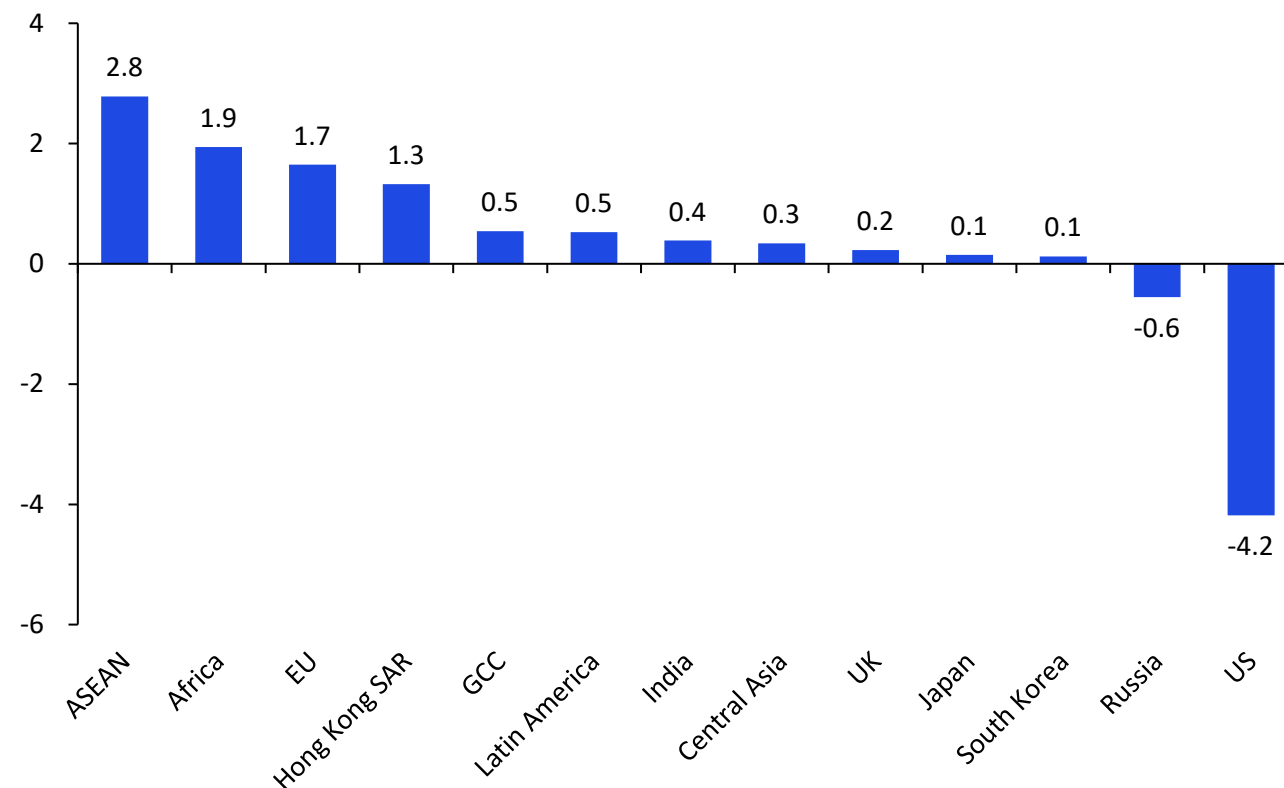


Source: Wind, KPMG analysis

- Net government bond financing remains the largest contributor to the YoY increase in social financing, with an additional RMB 3.8 trillion issued in Q3, accounting for 52.7% of new social financing.
- With bond issuance front-loaded this year, Q3 government bond financing fell YoY against last year's high base, shifting from strong increases in previous quarters to a RMB 36.8 billion YoY decline. Banking loan growth remained subdued: new loans rose by RMB 1.8 trillion in Q3 but posted a sixth consecutive month of YoY shortfalls, underscoring still-weak effective credit demand in the real economy.
- Corporate bond financing provided moderate support, driven by a sharp pickup in sci-tech innovation bond issuance and a low base from last year's contraction in local government financing vehicle (LGFV) bonds. Overall, government bonds remained the dominant contributor to incremental aggregate financing to the real economy (AFRE).

Significant progress in export market diversification

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;

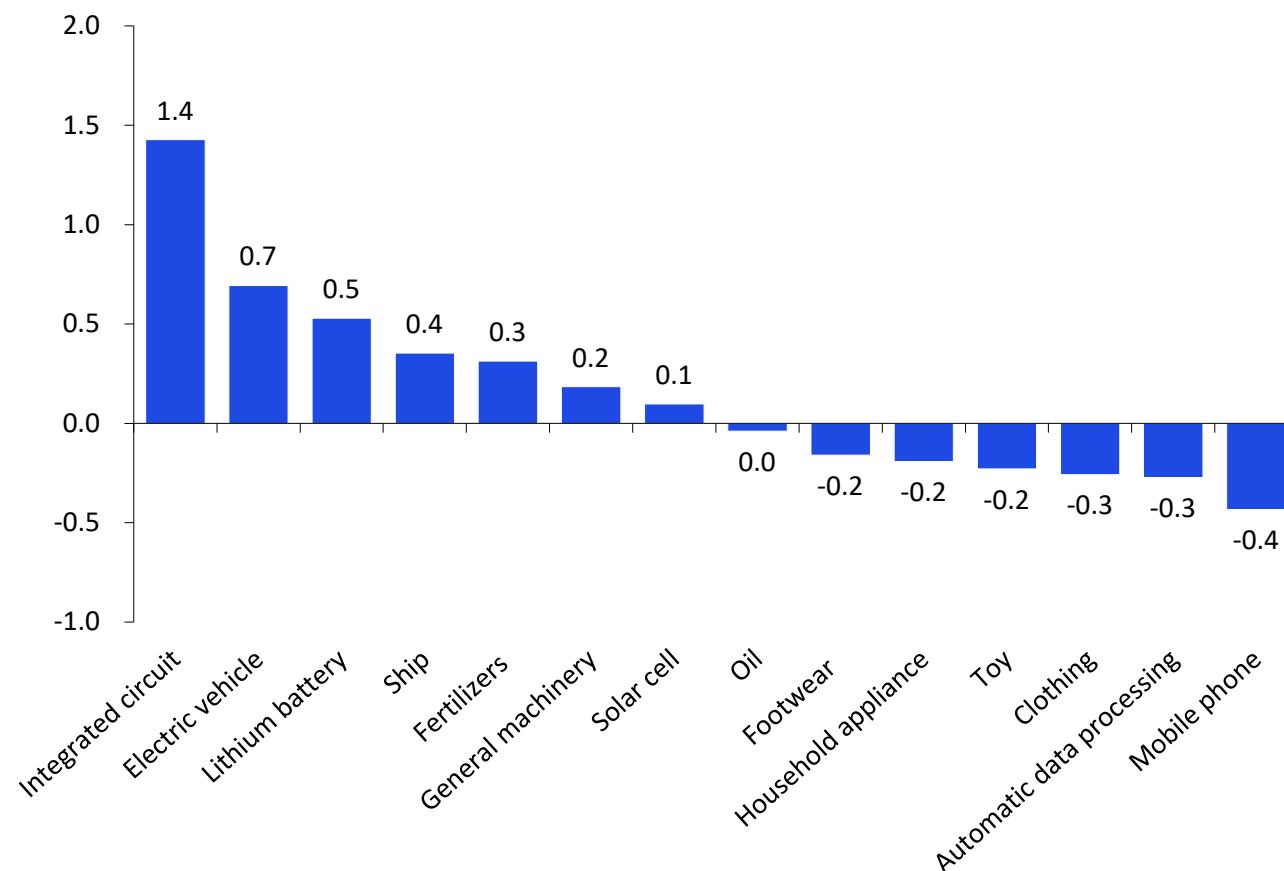
The Central Asia economies include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

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- Exports rose by 6.1% YoY in the first three quarters, 0.2 percentage points higher than in H1. Q3 growth improved to 6.5%, supported by the extended U.S.–China tariff reprieve, front-loaded shipments, and China's continued expansion into non-U.S. markets and upgrade of its supply chains.
- China has made notable progress in expanding its non-US markets. Exports to ASEAN and Hong Kong remained robust, up 18.2% and 16.0% YoY, reflecting deeper supply chain integration in electronics and machinery and stronger regional production networks. Belt and Road markets, including Africa, GCC countries, Central Asia, Latin America, and India, also sustained strong momentum.
- Meanwhile, exports to traditional trading partners, including the EU, UK, Japan, and Korea, continued to register steady growth as global demand recovered.

High-end manufacturing and new energy products continue to strengthen

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

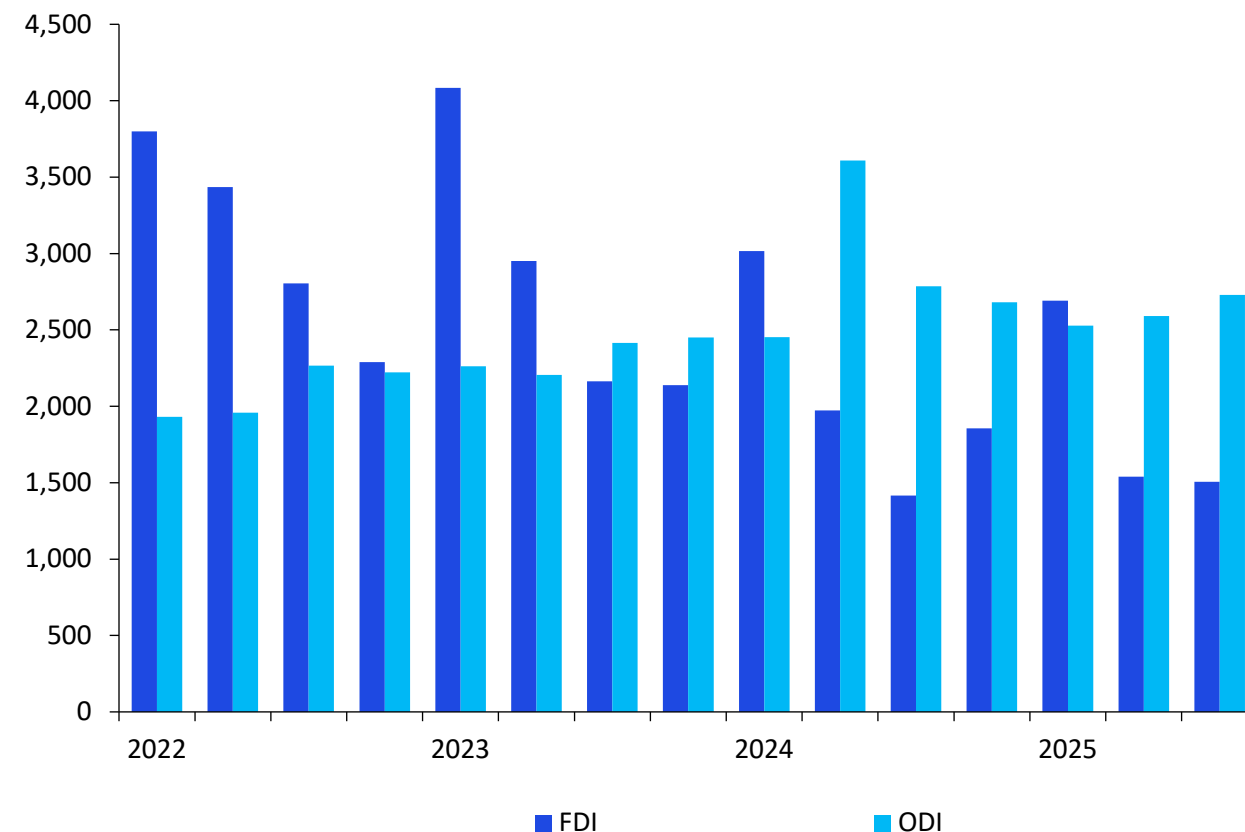


Source: The General Administration of Customs, KPMG analysis

- By product, exports of integrated circuits surged by 31.4% YoY in Q3, supported by strong global investment in artificial intelligence (AI). Electric vehicles also performed exceptionally well, with export growth accelerating to 51.2% as Chinese automakers expanded their global presence. Ship exports continued to rise, and China maintained its global lead in the three major shipbuilding metrics—output, new orders, and order backlog—over the first three quarters.
- In contrast, consumer goods exports softened. Household appliances, computers, and mobile phones were the key drags among durable consumer electronics, while labour-intensive goods such as apparel, footwear, luggage, furniture, and toys reduced total export growth by 0.8 percentage points amid tariff pressures.
- Looking ahead, the holiday season and China's competitive edge in high-tech and new energy products should support export resilience. However, base effects and front-loading earlier in the year may weigh on subsequent performance.

China's appeal to global capital continues to strengthen

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

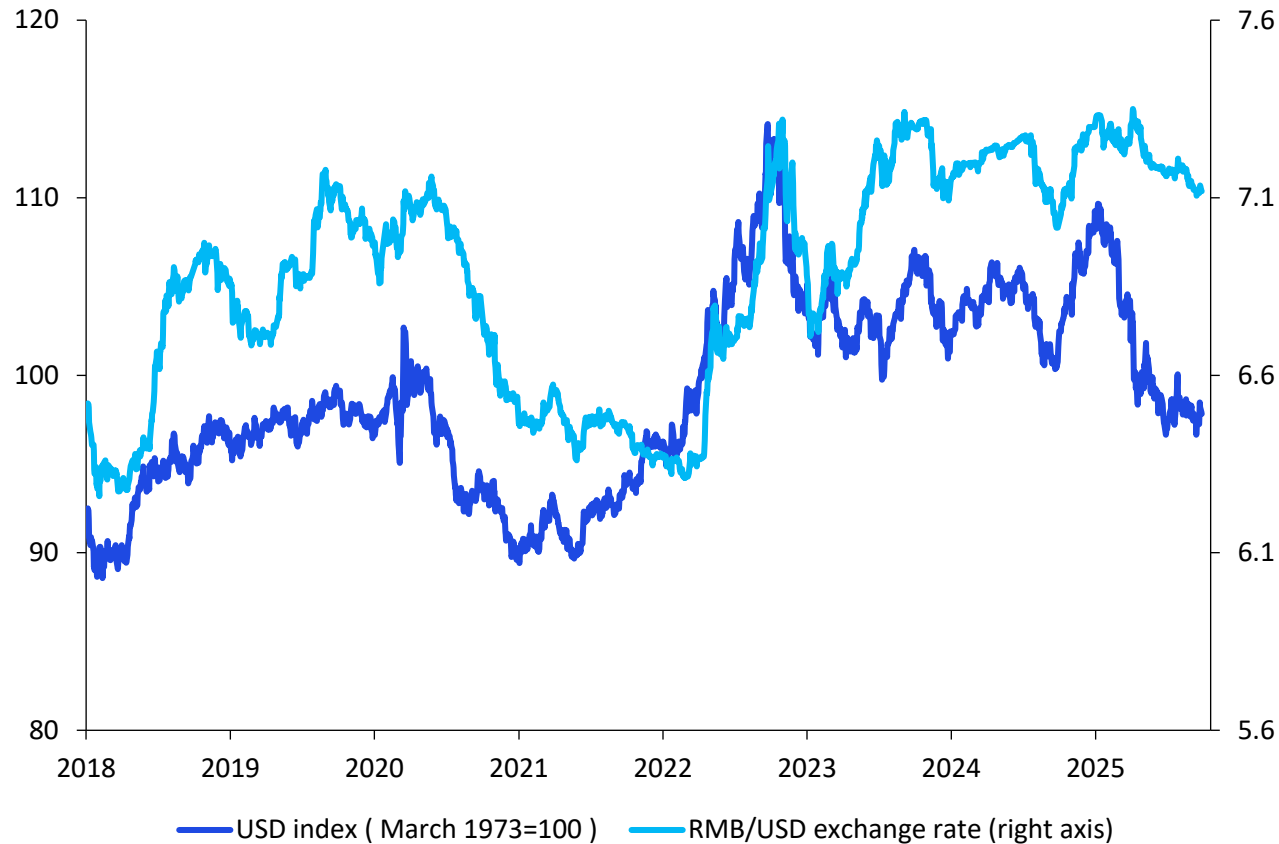


Source: Wind, KPMG analysis

- In the first three quarters of 2025, FDI into China reached RMB 573.75 billion, down 10.4% YoY, but the scale of reduction has narrowed. The number of newly established foreign-invested enterprises rose by 16.2% YoY, indicating that, despite global economic shifts, foreign investors' long-term confidence and commitment to the Chinese market remain strong.
- The structure of foreign capital utilisation continued to optimise, with the service sector and high-tech industries maintaining dominant shares at 71.6% and 29.8%, respectively. The scale of high-tech investment demonstrates the strong pull of China's industrial upgrading and innovation-driven growth. With deeper institutional opening and improvements in market-oriented, law-based, and internationalised business environments, multinational corporations are accelerating their China-based operations, integrating the Chinese market into their global innovation and supply networks.

The RMB exchange rate strengthens on solid fundamentals and policy guidance

USD index and RMB/USD exchange rate

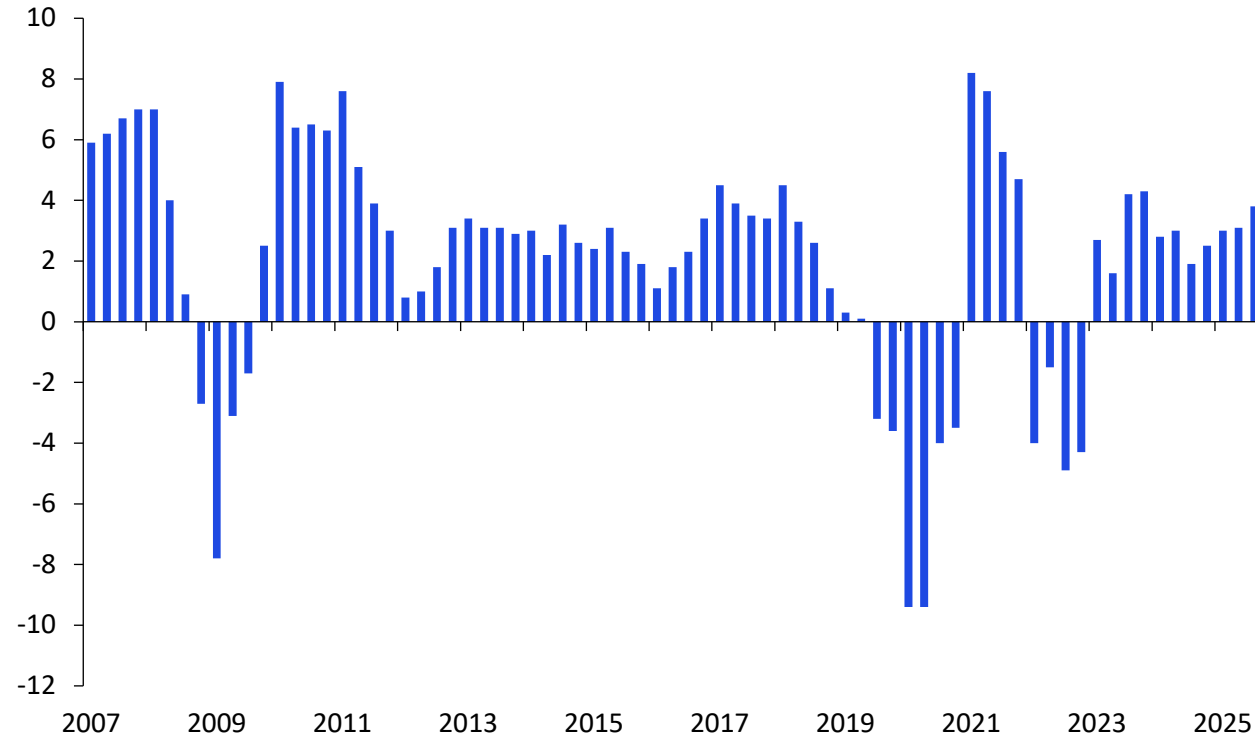


Source: Wind, KPMG analysis

- In Q3 2025, the RMB exhibited a pattern of initial suppression followed by appreciation against the USD. By the end of September, the RMB/USD exchange rate was 7.12, a 0.66% appreciation from June.
- The RMB also strengthened against a basket of major currencies. The CFETS RMB exchange rate index rose by 1.49%, reflecting both a weaker USD and solid domestic fundamentals and policy support, thereby enhancing overall exchange rate resilience.
- Looking ahead to Q4, the RMB is expected to continue moderate appreciation with two-way fluctuations. External factors include anticipated Fed rate cuts in December and narrowing US–China interest rate gaps, easing capital outflow pressure. Internally, structural transformation, consumption upgrade, technological innovation, and green development provide a strong foundation, while ample countercyclical policy tools help to mitigate potential export pressures.

Hong Kong's economy steadily recovers

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



Source: Wind, KPMG analysis

- Hong Kong SAR's economy continued its steady recovery in Q3 2025. Preliminary government estimates indicate GDP growth of 3.8% YoY, up 0.7 percentage points from Q2, driven primarily by private consumption, investment, and exports.
- Growth reflects coordinated improvements in both domestic and external demand. Exports benefited from robust demand for electronics and active regional trade, sustaining high growth momentum. Service exports expanded steadily, supported by the recovery in tourism and active cross-border financial activity. Meanwhile, private consumption accelerated, and fixed capital formation improved notably amid a stabilising economic and housing outlook.
- Looking forward, moderate global growth and continued demand for electronics will support Hong Kong's exports. US rate cuts are expected to further boost capital market activity and consumer confidence. Attention should also remain on the potential impacts of ongoing trade tensions on global trade and financial conditions.

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