



China Economic Monitor

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Key takeaways

- In 2025, China's economy recorded total output of RMB 140 trillion, with real GDP growth of 5.0%, meeting the official growth target for the year. However, growth momentum moderated in Q4, as real GDP grew by 4.5% year-on-year (YoY), down 0.3 percentage points from the previous quarter. External demand became the primary driver of growth in Q4, while consumption and investment remained subdued, continuing the weakness seen in Q3.
- On the consumption side, total retail sales of consumer goods increased 3.7% YoY in 2025, a modest 0.2 percentage-point improvement from 2024. Yet, this resilience faded in the final quarter, with retail sales declining by 1.8 percentage points YoY – the first quarterly contraction since 2023. This mainly reflected the diminishing impact of the trade-in program combined with a high base effect from the same period in 2024.
- China's exports remained resilient. In 2025, exports grew by 5.5% YoY, while China's trade surplus approached USD 1.2 trillion, a record high that provided important support for overall growth. Despite continued drag from the U.S. market, China expanded trade with ASEAN, Africa, Latin America, India, GCC countries, and the five Central Asian economies, which together contributed around 5 percentage points to export growth. Meanwhile, surging global demand for artificial intelligence (AI) computing power and the accelerating transition toward green and intelligent technologies boosted exports of high-tech manufactured products, which became key growth engines.
- Industrial production remained on a steady upward trajectory. Strong export demand and domestic equipment renewal policies helped manufacturing value-added grow 6.1% YoY, 0.3 percentage points faster than in 2024. Rapid advances in AI technologies and improving capital market performance also supported robust growth in services, allowing the tertiary sector to once again outpace the secondary sector as the main growth driver in 2025.
- Investment remained a key drag. Fixed asset investment declined 3.8% YoY in 2025, with a sharper fall of 12.8% YoY in Q4 compared to a –6.2% decline in Q3. Investment in real estate, infrastructure, and manufacturing all contracted significantly. Private fixed asset investment declined 3.1% in 2025, marking the third consecutive annual contraction since 2023. The decline deepened to –15.5% in Q4, compared with –7.3% in Q3, reflecting persistent weakness in the property sector as well as the impact of “anti-involution” policies and delayed government payments to businesses.
- Looking ahead to 2026, policy priorities will focus on strengthening domestic demand while optimizing supply. The government will also continue advancing anti-involution policies and the development of a unified national market to reduce inefficient capacity. With these measures in place, China's economic growth is expected to remain stable in 2026, while the divergence between supply and demand may gradually narrow. GDP growth is projected to reach around 4.8%.

Structural divergences persist amid transition to new growth drivers

Growth rate of major economic indicators, YoY, %

	2020-23 Average	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
GDP	4.8%	4.6%	5.4%	5.4%	5.2%	4.8%	4.5%
Industrial production	5.1%	5.1%	5.7%	6.5%	6.4%	6.2%	5.9%
Retail sales	3.7%	2.5%	4.0%	4.6%	5.4%	3.5%	-1.8%
Fixed asset investment	4.0%	2.5%	2.6%	4.2%	2.1%	-6.2%	-12.8%
Exports	7.8%	5.9%	9.9%	5.7%	6.2%	6.5%	3.8%
Imports	5.3%	2.2%	-1.8%	-7.0%	-0.8%	4.2%	2.9%
Income per capita	4.8%	5.2%	5.3%	5.6%	5.3%	5.1%	5.0%
Fiscal revenue	4.6%	-0.8%	13.1%	-1.1%	0.6%	2.5%	-7.9%
Fiscal expenditures	3.7%	1.9%	8.0%	4.2%	2.6%	2.4%	-4.2%

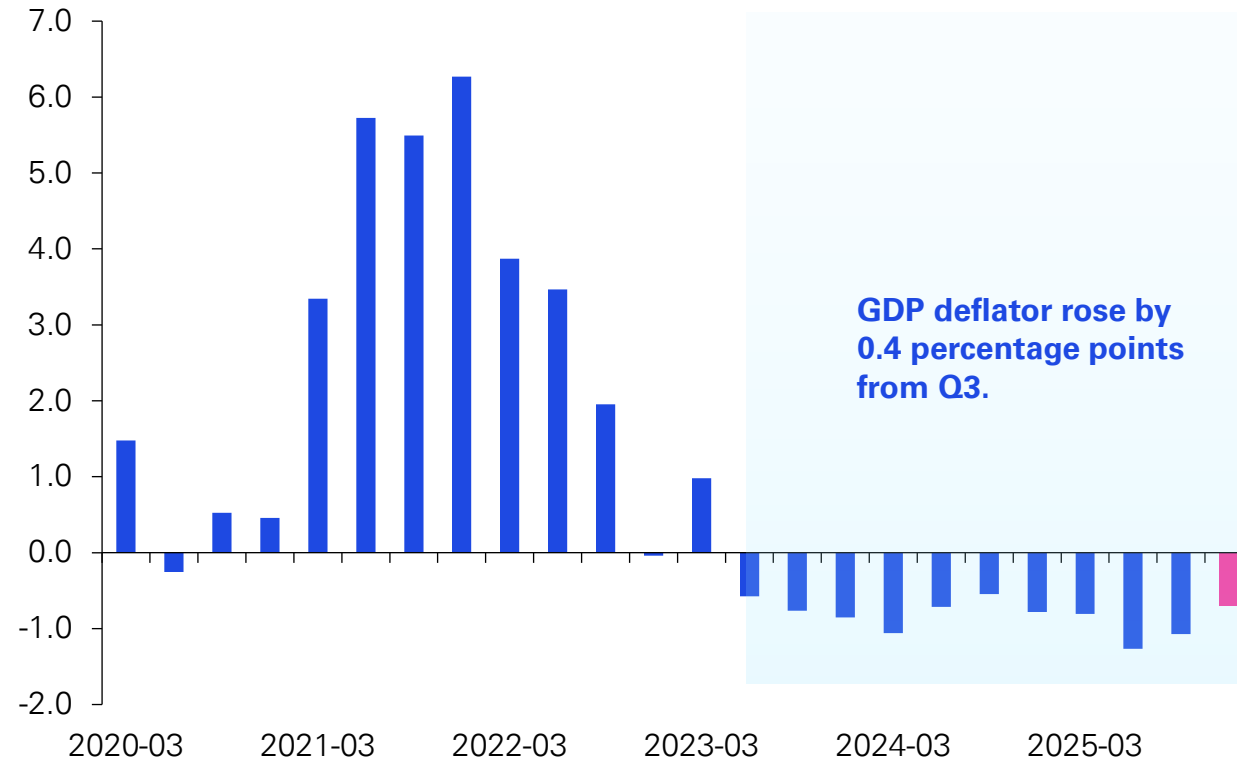
Source: Wind, KPMG analysis

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

- Despite stable headline growth in 2025, four key structural divergences became increasingly visible.
- First, supply outpaced demand. Second, external demand significantly outperformed domestic demand, despite rising global tariffs and protectionist pressures. Third, new growth drivers diverged from traditional sectors. Fourth, macro indicators diverged from micro-level sentiment.
- These divergences largely reflect China's ongoing transition from traditional to new growth drivers. At present, demand generated by emerging industries has not yet fully offset the contraction in traditional sectors. Meanwhile, some traditional industries remain trapped in intense price competition. This has resulted in a coexistence of weak demand and continued supply expansion, keeping price pressures subdued. The resulting squeeze on corporate profits and household incomes has further constrained the recovery of domestic demand.

Policy support aims to stabilize growth and rebalance supply and demand

GDP deflator, YoY, %

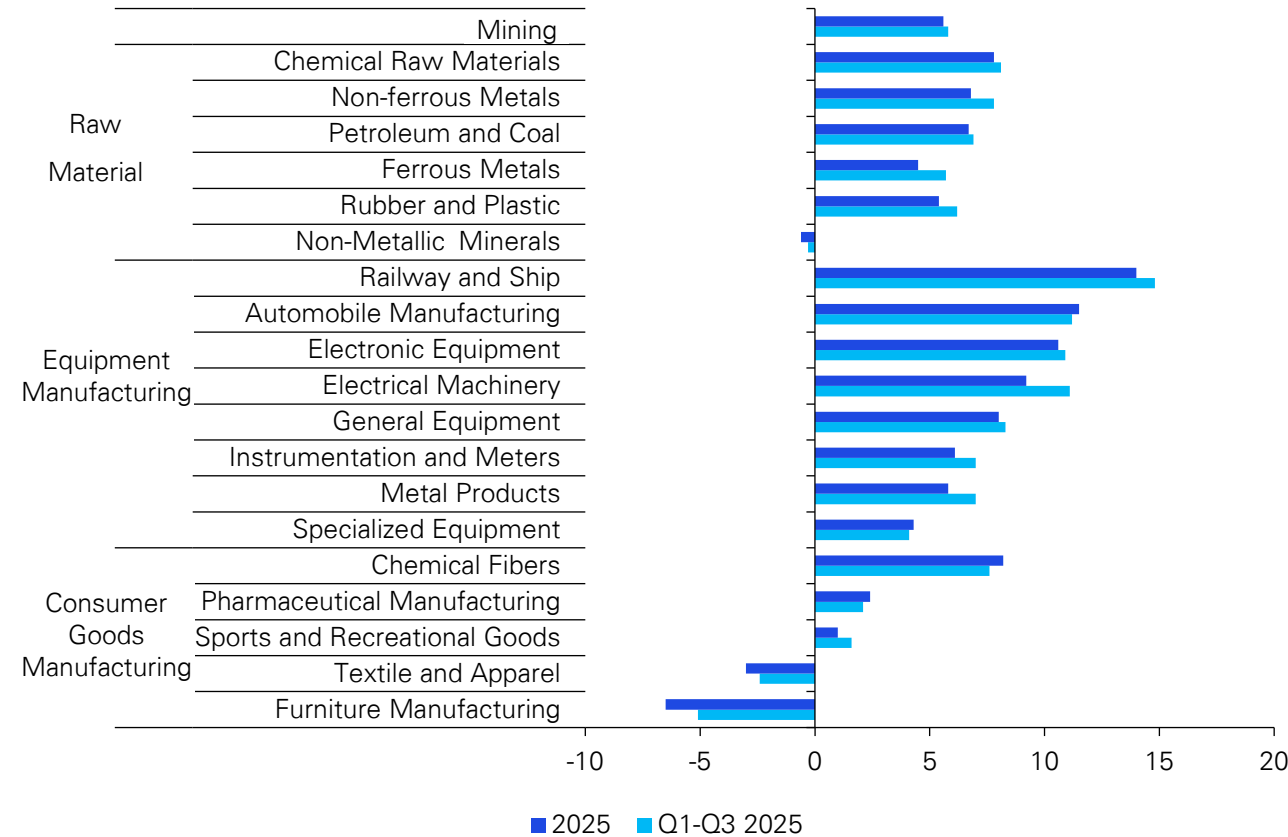


Source: Wind, KPMG analysis

- The GDP deflator declined 0.7% YoY in Q4 2025, improving 0.4 percentage points from Q3. The Central Economic Work Conference placed stronger emphasis on improving the quality of economic growth. Macro policy is expected to remain moderately expansionary, with the fiscal deficit ratio likely to remain around 4%, while monetary policy retains room for further RRR and interest rate cuts.
- Structurally, policy priorities will focus on boosting domestic demand while improving supply efficiency. On the demand side, funding support will continue for “Two New” and “Two Major” initiatives. On the supply side, policy will promote the scaling-up of emerging industries while accelerating the digital and intelligent transformation of traditional sectors. Moreover, anti-involution policies and the unified national market initiative will continue to reduce inefficient capacity. Looking ahead, China’s growth is expected to remain stable in 2026, with the GDP deflator improving to around – 0.2%.

Export-oriented manufacturing remains resilient while domestic-demand sectors soften

Growth rates of industrial production, by sector, percentage points

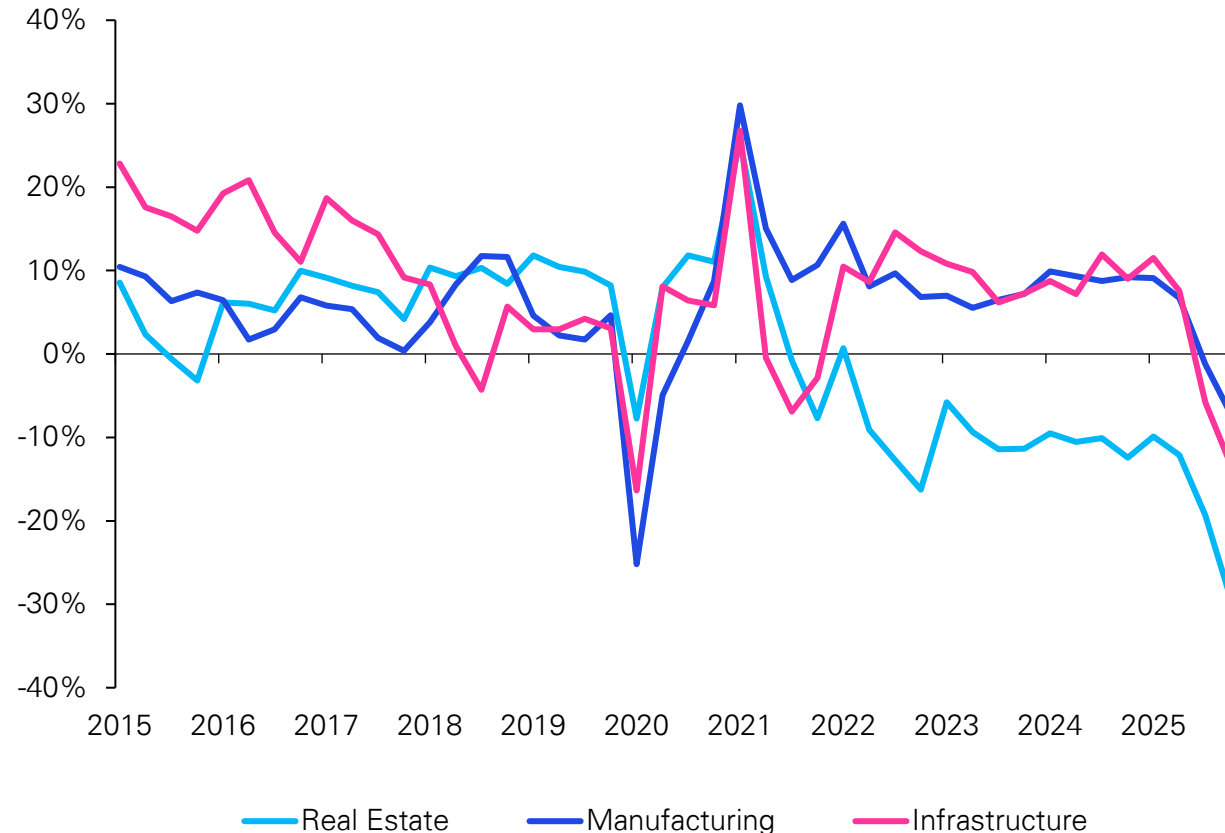


Source: Wind, KPMG analysis

- Industrial production maintained steady growth in 2025, although growth moderated to 5.9% for the full year due to high base effects. Industries benefiting from strong export demand continued to perform well in Q4. Automobile and specialized equipment recorded accelerating growth, while output of new-energy vehicles and service robots increased 17.6% and 89.2% respectively.
- In contrast, sectors tied more closely to domestic demand experienced broad slowdowns. Growth weakened in industries related to real estate and infrastructure investment, including ferrous metals and non-metallic minerals. Consumer-related manufacturing sectors such as sports and recreational goods, furniture, and textile and apparel also saw slower growth in Q4.
- Looking ahead to 2026, front-loaded “Two Major” and “Two New” could support a rebound in upstream raw materials production and downstream consumer goods manufacturing.

Investment contraction deepens across major capital-intensive sectors

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

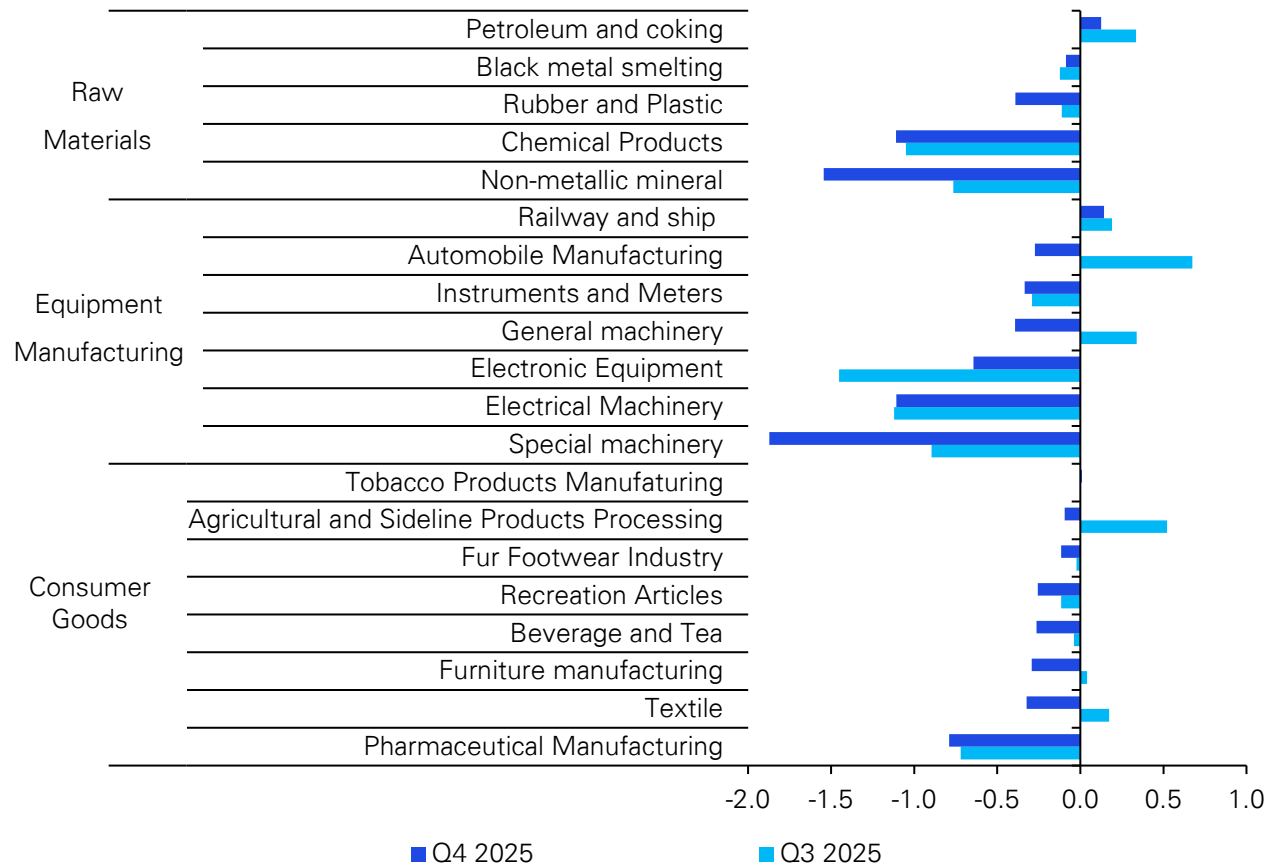


Source: Wind, KPMG analysis

- Fixed asset investment declined 3.8% YoY in 2025. The downturn intensified in Q4, with investment falling 12.8% YoY, from -6.2% in Q3.
- The property sector remained the largest drag. Weak housing sales continued to weigh on developers' investment appetite, pushing real estate investment to fall -29.5% in Q4, from -19.3% in Q3.
- As export growth exceeded expectations in Q4, policy support for domestic demand eased. Meanwhile, local governments slowed the pace of infrastructure investment to prioritize social spending and manage fiscal risks. As a result, infrastructure investment fell to -13.4% in Q4, from -5.8% in Q3.
- Manufacturing investment declined amid three factors: diminishing support from the "Two New" initiatives, the continued impact of anti-involution policies, and weakening exports of labour-intensive goods. Thus, manufacturing investment declined to -7.3% in Q4, from -1.2% in Q3.

Manufacturing investment loses momentum amid policy adjustment

Contributions to manufacturing investment growth by sector, percentage points

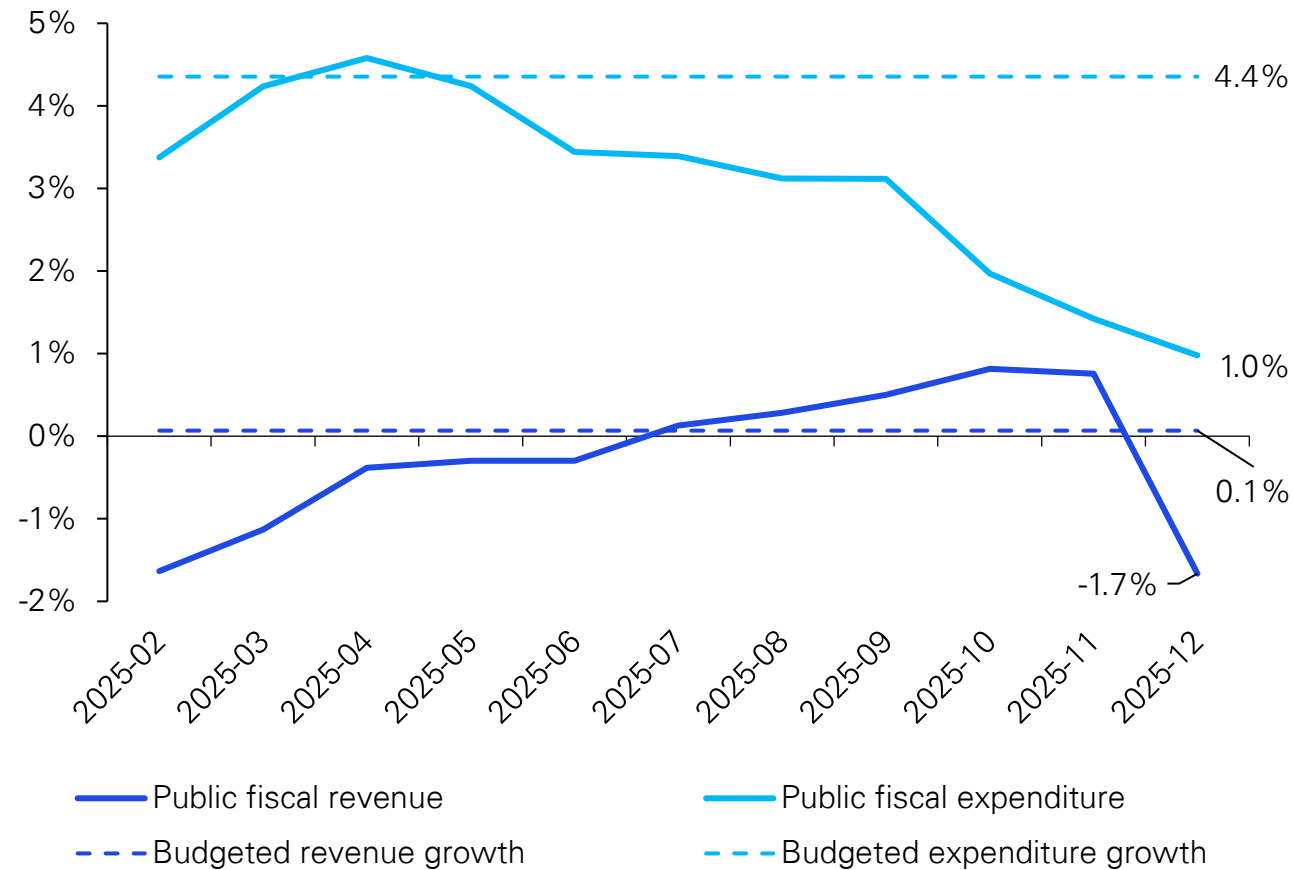


Source: Wind, KPMG analysis

- Manufacturing investment grew 0.6% YoY in 2025, slowing 1.3 percentage points from 2024 and reaching its lowest growth rate in nearly five years. The decline accelerated in Q4, with manufacturing investment contracting 7.3% YoY, compared with -1.2% in Q3. Across the value chain, investment slowed broadly.
- Upstream raw materials sectors were affected by anti-involution policies and weakening property investment, dragging down manufacturing investment growth by 3.4 percentage points in Q4.
- Midstream equipment manufacturing slowed as the marginal impact of equipment renewal policies faded and firms adopted more cautious investment strategies.
- Downstream consumer goods manufacturing faced weaker domestic demand and declining exports of labour-intensive products, dragging down manufacturing investment growth by 3.4 percentage points, a significantly larger decline than in Q3.

Infrastructure investment slows under fiscal constraints and shifting spending priorities

Growth of public fiscal revenue and expenditure, cumulative YoY, %



Source: Wind, KPMG analysis

- Infrastructure investment declined 1.5% in 2025, the lowest growth rate on record. The slowdown intensified in Q4, with investment falling 13.4% YoY, compared with -5.8% in Q3.
- Fiscal conditions remained constrained. Government revenue fell 1.7% in 2025, while expenditure grew only 1.0%, both below budget targets. Total spending reached 96.8% of the annual budget, the lowest completion rate on record. Fiscal resources continued to prioritize social welfare spending, including social security, employment, education, and healthcare. As a result, budgetary support for infrastructure investment remained limited.
- Looking ahead, infrastructure investment is expected to stabilize in early 2026. Additional fiscal capacity—estimated at over RMB 1.3 trillion—could support budgeted infrastructure projects. At the same time, greater private-sector participation in major projects may increase investment in new infrastructure and strategic emerging sectors.

Real estate investment continues to decline but the pace of contraction may narrow

Area of new construction starts, construction, completion, and real estate investment (completed), cumulative YoY, %

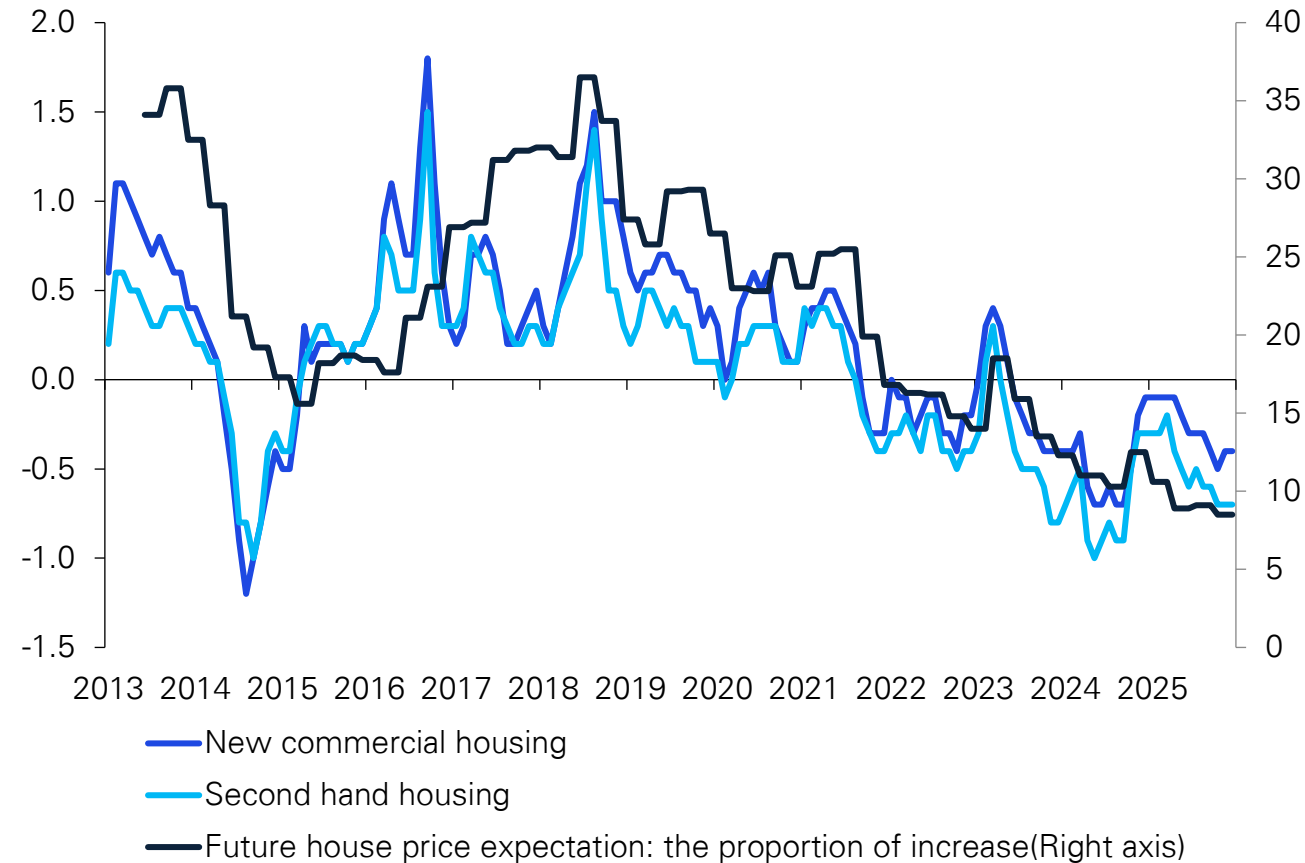


Source: Wind, KPMG analysis

- Real estate investment fell 17.4% in 2025, a decline 6.6 percentage points deeper than in 2024, marking the weakest performance since the sector’s downturn began in 2022. The slowdown intensified through the year as housing sales remained weak, with investment declining 29.5% in Q4, compared with -19.3% in Q3.
- Two divergences characterized property investment in 2025. First, investment weakened significantly in H2 2025, partly due to reduced land supply and rising bond repayment pressure on developers. Second, nominal investment diverged from construction activity, as developers controlled costs by reducing construction intensity despite ongoing projects.
- Looking ahead, the decline in property investment is likely to narrow. Temporary factors such as the lagged impact of land acquisition costs are expected to fade, while developers’ bond repayment pressure may ease after Q2 2026. Combined with stabilizing property sales, further sharp declines in investment are expected to be limited.

Housing prices continue to decline as market expectations remain weak

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

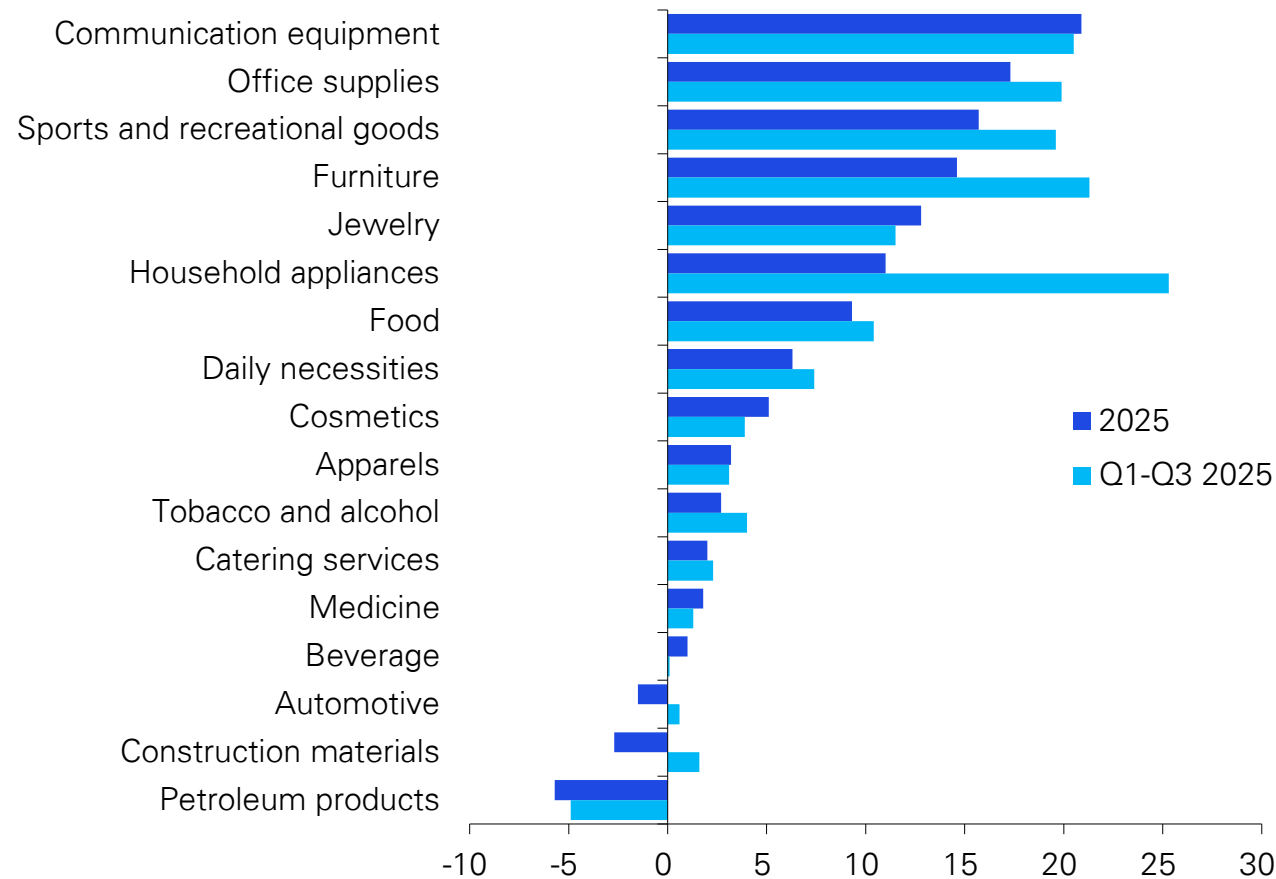


Source: Wind, KPMG analysis

- After narrowing briefly in late 2024, the decline in property prices widened again from Q2 2025. The month-on-month decline in new home prices across 70 major cities deepened from -0.3% in Q1 to -1.3% in Q4. Meanwhile, second-hand home prices, which better reflect market fundamentals, fell from -0.8% to -2.1% over the same period.
- The PBoC's Urban Depositors Survey in Q4 shows that the share of households expecting housing prices to rise fell to 8.5%, the lowest level on record. Given the property sector's importance for household wealth, fiscal revenue and financial stability, continued price declines may weigh further on economic expectations.
- Against this backdrop, policymakers have emphasized the need to stabilize the property market and accelerate the transition toward a new development model for the sector, with policy measures likely targeting both demand and supply in 2026.

Consumption growth softens with services remaining the key stabilizer

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



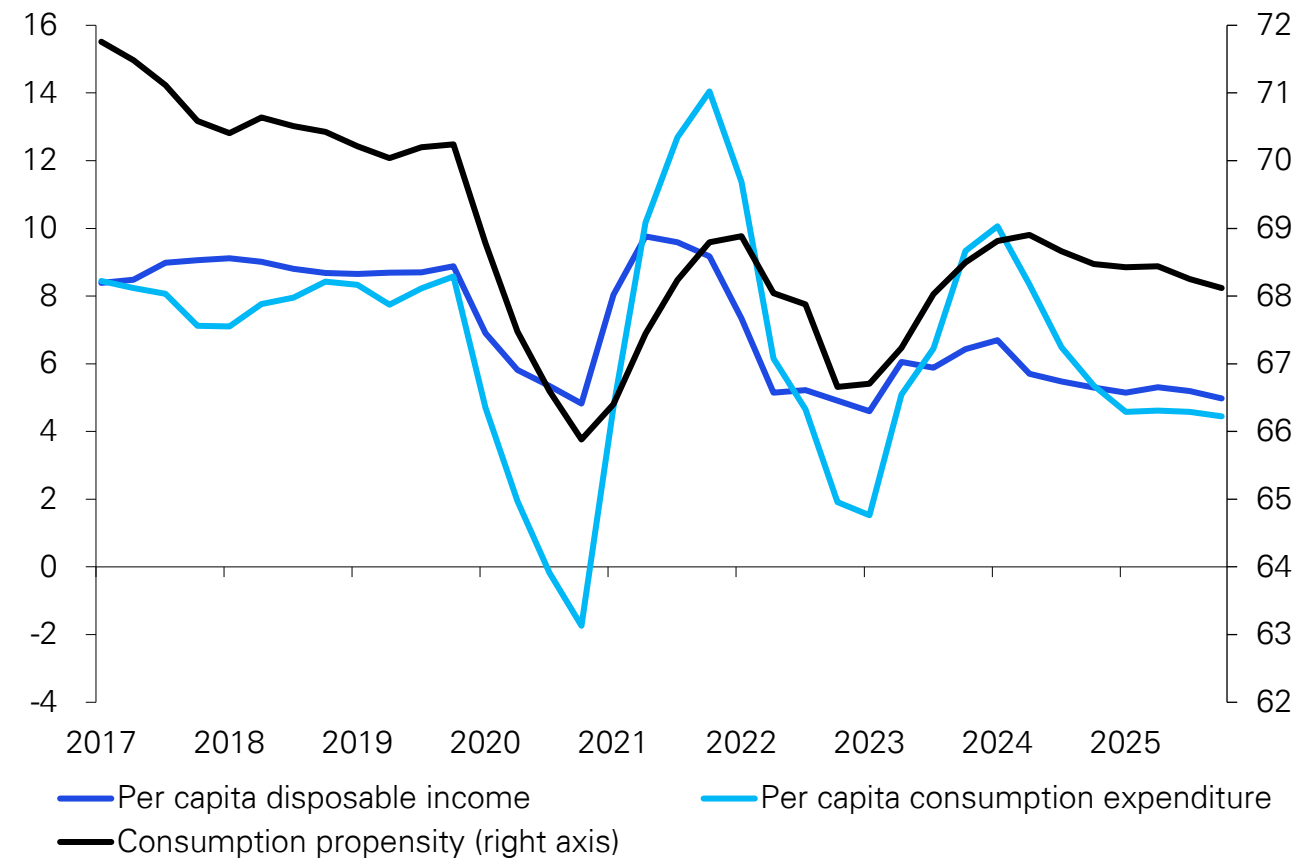
Source: Wind, KPMG analysis.

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

- Retail sales rose 3.7% YoY in 2025, slightly up by 0.2 percentage points from 2024. However, Q4 retail sales declined by 1.8% YoY, marking the first quarterly contraction since 2023 and falling below seasonal trends, largely due to fading policy support and a high base effect.
- In contrast, services consumption remained resilient, growing 5.5% YoY, accelerating from the first three quarters. Supported by services, final consumption contributed 52% to GDP growth, up 5 percentage points from 2024. Policy support continued to foster services and new consumption formats, while rising demand for quality and experience-driven consumption further reshaped spending patterns. Categories such as jewellery, cosmetics, and apparel saw improved growth, reflecting upgrading consumption trends.
- Looking ahead to 2026, consumption is expected to gradually recover, supported by more targeted policy support and holiday-driven demand.

Income growth stabilizes as consumption momentum remains weak

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



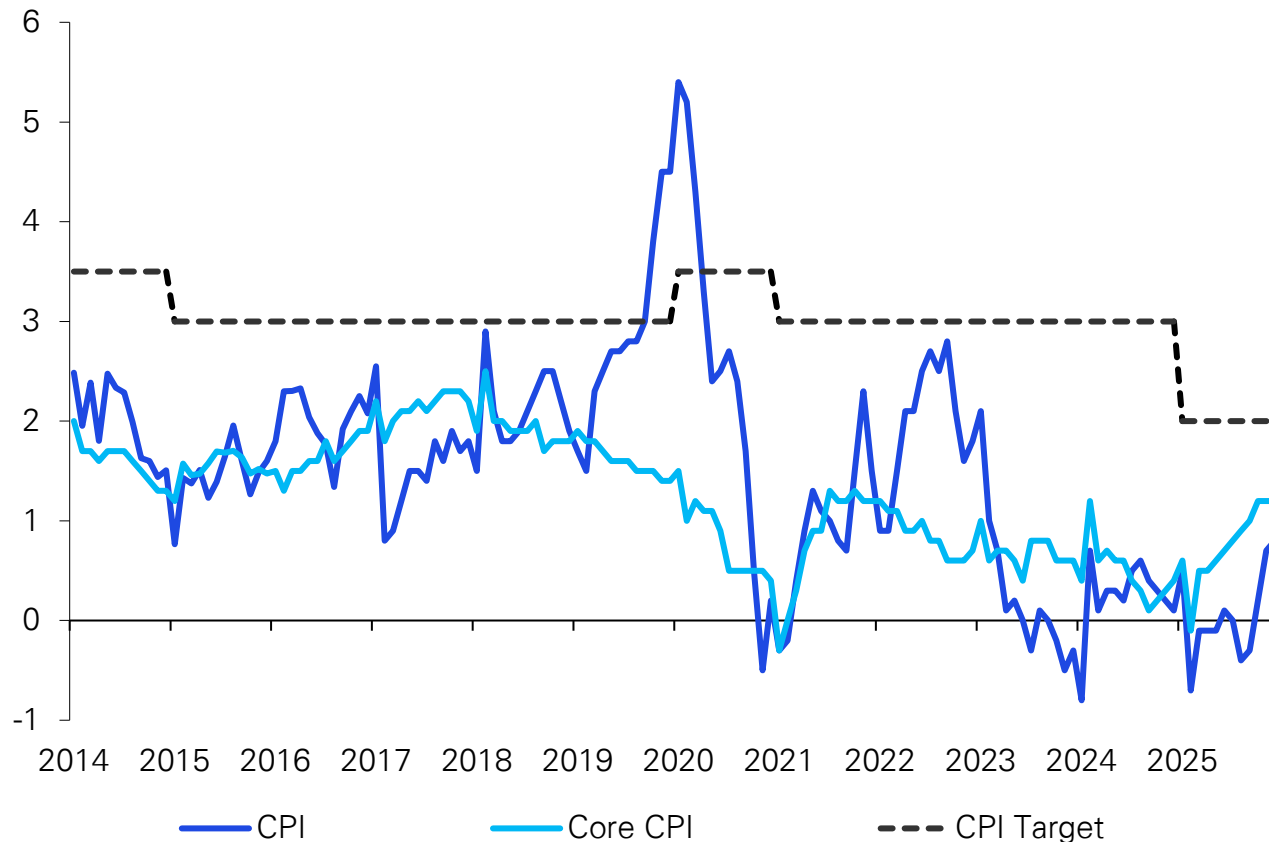
Source: Wind, KPMG analysis

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

- Household income and consumption continued to grow in 2025, but income recovery remains gradual, constraining consumption momentum. Household income rose 5.0% YoY, 0.1 percentage points slower than in 2024.
- Per capita consumption expenditure increased 4.4% YoY, extending its downward trend. Structural pressures persist on the income side: labour market mismatches remain pronounced, particularly for youth and migrant workers; the property downturn continues to weigh on household wealth, with property income growth slowing to 1.6%. As a result, consumption growth continues to lag income, reflecting cautious household sentiment. Survey data from the PBoC indicate that income and employment expectations have stabilized, but remain at relatively low levels historically.
- Looking ahead, policy will focus on employment stabilization, income growth, and improved social support, including a higher share of social spending to enhance consumption capacity.

Policy on rebalancing supply and demand supports price stabilization

China consumer price index (CPI), YoY, %

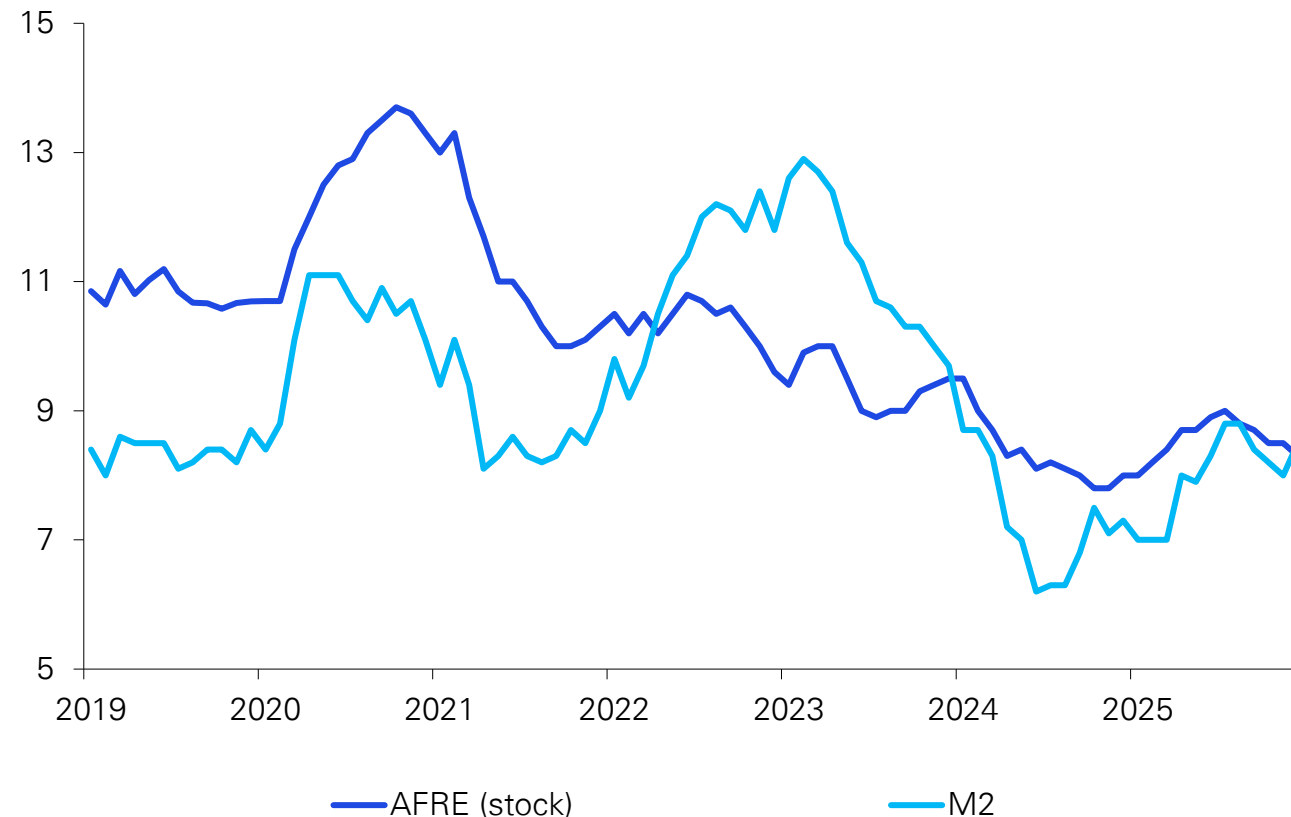


Source: Wind, KPMG analysis

- Prices remained broadly stable in 2025: CPI was unchanged from 2024. Core CPI rose 0.7%, 0.2 percentage points higher than in 2024. Momentum improved toward year-end. Since October, core CPI remained above 1% for four consecutive months, reaching 1.2% in December.
- The recovery in core inflation was driven by three key factors: 1) Gold price surge, driven by geopolitical risks and USD weakness, pushing jewellery prices sharply higher. 2) Trade-in policies, lifting prices of consumer durables and narrowing price declines in autos. 3) Resilient services prices, supported by strong travel demand and consumption upgrading. In addition, the adoption of AI and rising demand for higher-quality services have contributed to value-added price increases, reinforcing the recovery trend.
- Looking ahead to 2026, with policy support and improving domestic demand, inflation is expected to gradually return toward a more normal range, providing a more supportive backdrop for economic stability.

Monetary policy stays flexible and effective

Growth rate of AFRE (stock), M2, YoY, %

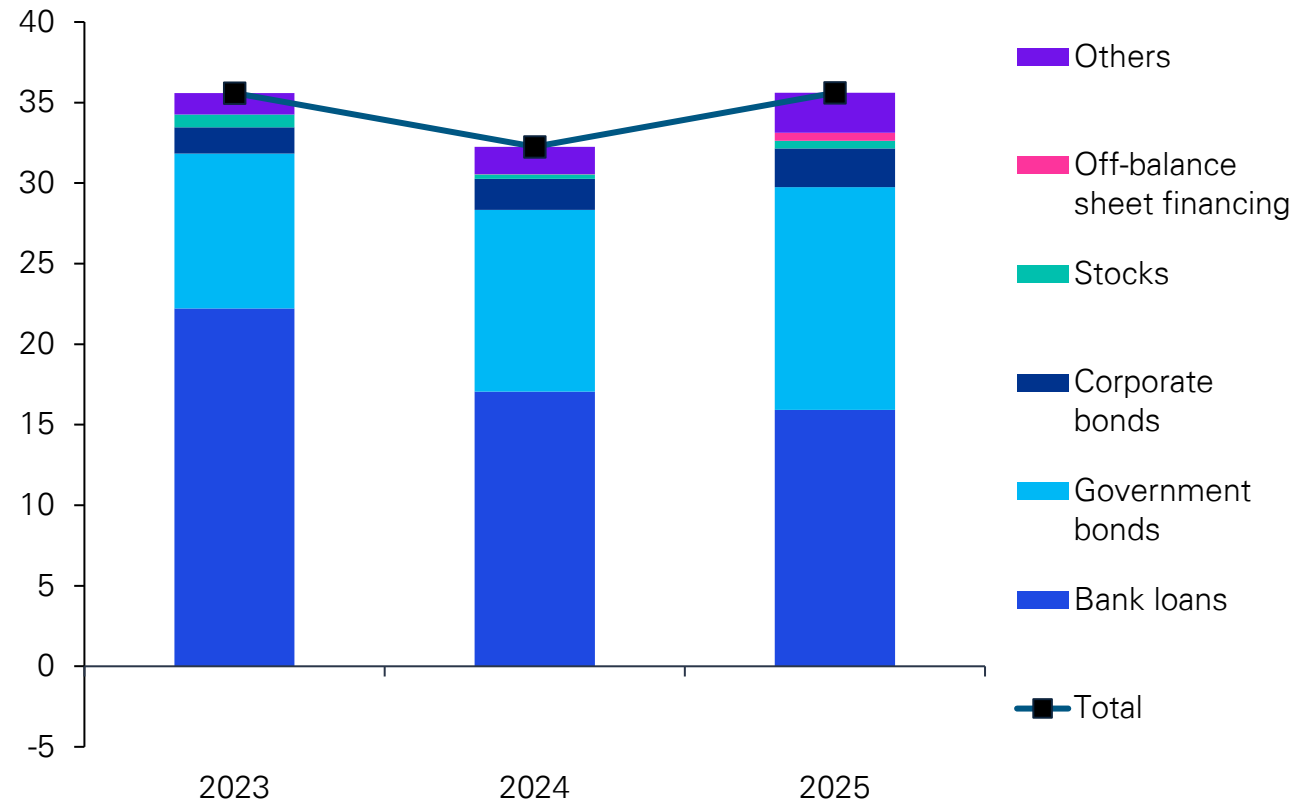


Source: Wind, KPMG analysis

- Aggregate financing increased by RMB 35.6 trillion in 2025, up RMB 3.3 trillion YoY, and grew 8.3% YoY, 0.3 percentage points higher than in 2024. M1 and M2 grew 3.8% and 8.5% YoY, respectively. Overall, financial aggregates expanded steadily, but growth became more reliant on fiscal support and showed a front-loaded pattern.
- Looking ahead to 2026, financial conditions are expected to remain supportive under coordinated fiscal and monetary policies. Fiscal expansion will continue to underpin financing through government bond issuance. Monetary policy will remain accommodative, ensuring ample liquidity and low financing costs. At the same time, policy is expected to strengthen structural guidance, shifting financial support from quantity expansion toward quality improvement, thereby gradually reducing reliance on fiscal-driven credit growth.

Government bonds drive social financing growth

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

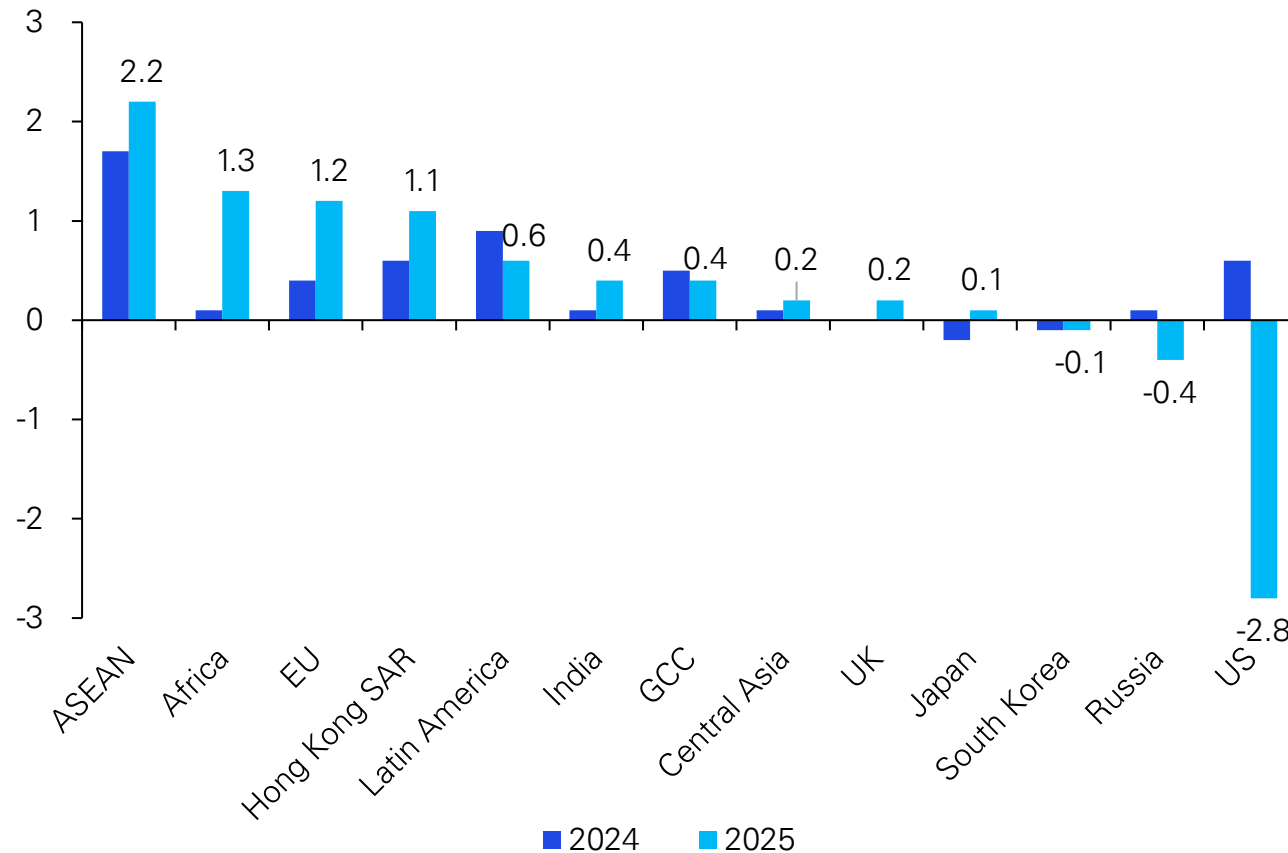


Source: Wind, KPMG analysis

- From a structural perspective, government bonds became the primary driver of total social financing (TSF) growth in 2025. Net government bond financing reached RMB 13.8 trillion, up RMB 2.5 trillion YoY, accounting for 75.9% of the incremental increase in TSF.
- Under a low interest rate environment, direct financing gained traction. Corporate bond issuance increased to RMB 2.4 trillion, up RMB 0.5 trillion YoY, supported by policies promoting sci-tech bond financing. Off-balance-sheet financing also rebounded modestly to RMB 499.6 billion, up RMB 10.4 billion YoY, likely reflecting the use of policy-based financial instruments channelled into projects.
- By contrast, the role of bank lending weakened further. New RMB loans totalled RMB 15.9 trillion, a decrease of RMB 1.1 trillion YoY, with their share in TSF falling from 52.9% to 44.7%. Although the contraction narrowed in Q4, effective credit demand remains subdued.

Exports remain resilient with deeper market diversification

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



- China's total trade reached USD 6.4 trillion in 2025, marking the ninth consecutive year of growth. The trade surplus approached USD 1.2 trillion, setting a record high. Exports (USD-denominated) grew 5.5% YoY, though Q4 growth slowed to 3.8%, down 2.7 percentage points from Q3, reflecting base effects and fading front-loading to the US.
- Market diversification continued to drive export growth: ASEAN continued as China's largest export market, contributing 2.2 percentage points to export growth. Emerging markets (Africa, Latin America, India, GCC, Central Asia) contributed 2.8 percentage points. Hong Kong SAR played a notable role as a re-export hub, contributing 1.1 percentage points. Exports to the EU improved alongside a modest economic recovery, contributing 1.2 percentage points.
- Overall, China's exports demonstrated resilience and upgrading. However, the trade surplus may heighten global trade frictions, increasing China's exposure to protectionist pressures.

Source: Wind, KPMG analysis

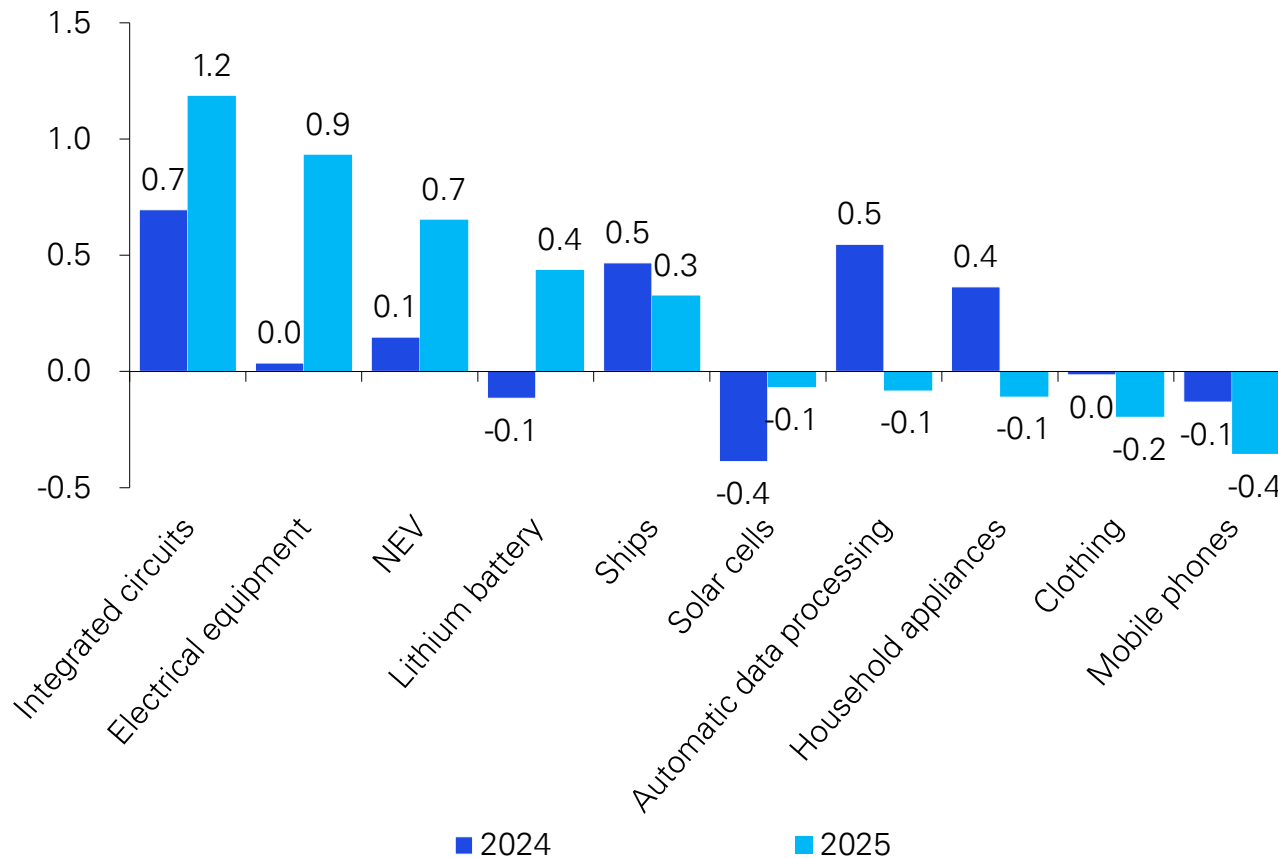
Note: The Gulf Cooperation Council (GCC) economies include the United Arab Emirates, Saudi Arabia, Oman, Kuwait, Qatar, and Bahrain;

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

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High-end manufacturing continues to drive trade growth

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

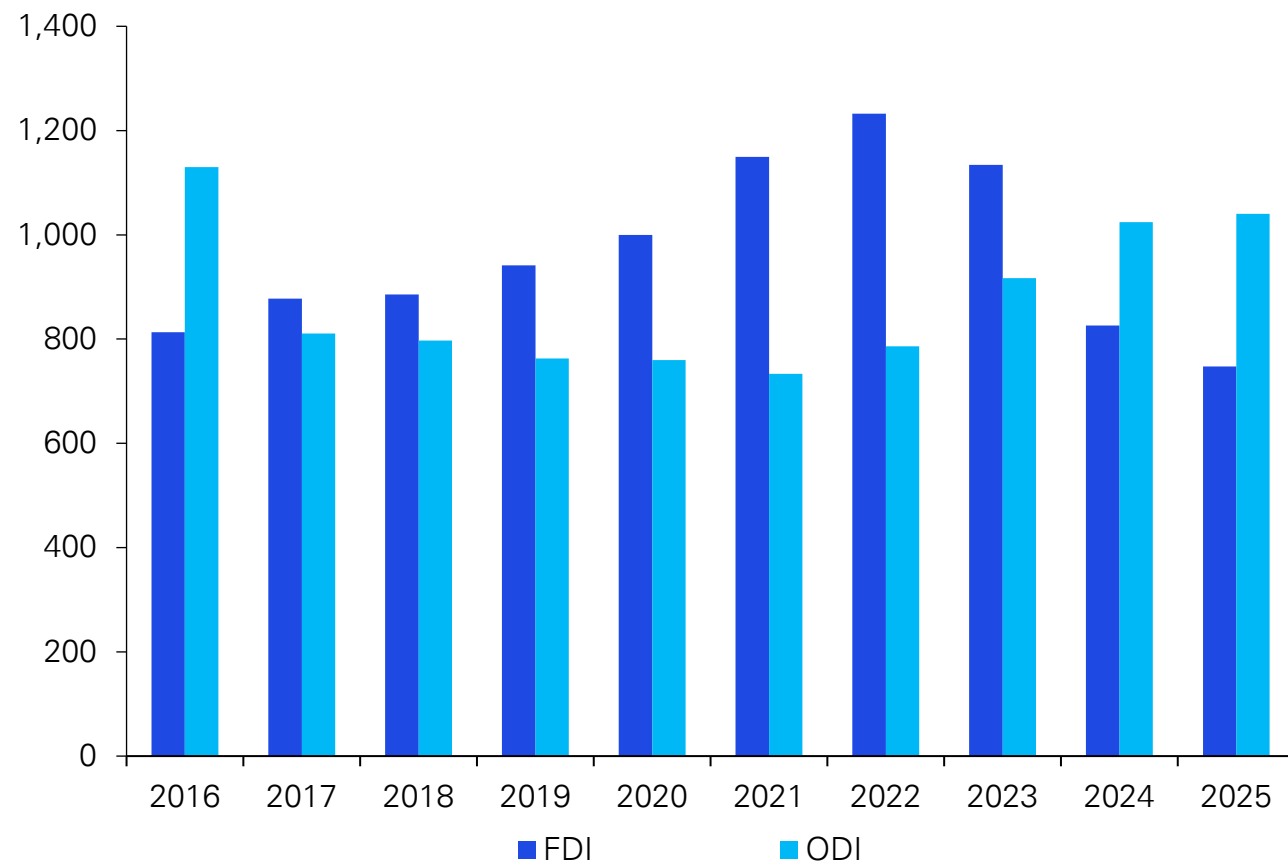


Source: The General Administration of Customs, KPMG analysis

- By product category, high-tech manufacturing products became the main growth engine for exports in 2025, supported by strong global demand for AI and green technologies.
- Integrated circuits exports surged 26.6% YoY, contributing significantly to overall growth. Driven by the global energy transition, electrical equipment exports rose 18.1% YoY, and “New three” products (NEVs, lithium batteries, solar cells) grew 26.4% YoY. Shipbuilding exports also remained strong, increasing by 23.9% YoY.
- In contrast, consumer electronics and traditional goods weakened: automatic data processing equipment, household appliances, and clothing saw softer demand. Mobile phone exports declined 9.5% YoY, exerting a drag on overall exports.
- Looking ahead, diversified trade partnerships and strengths in green and high-tech manufacturing are expected to support export growth in 2026.

China's appeal to global capital continues to strengthen

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

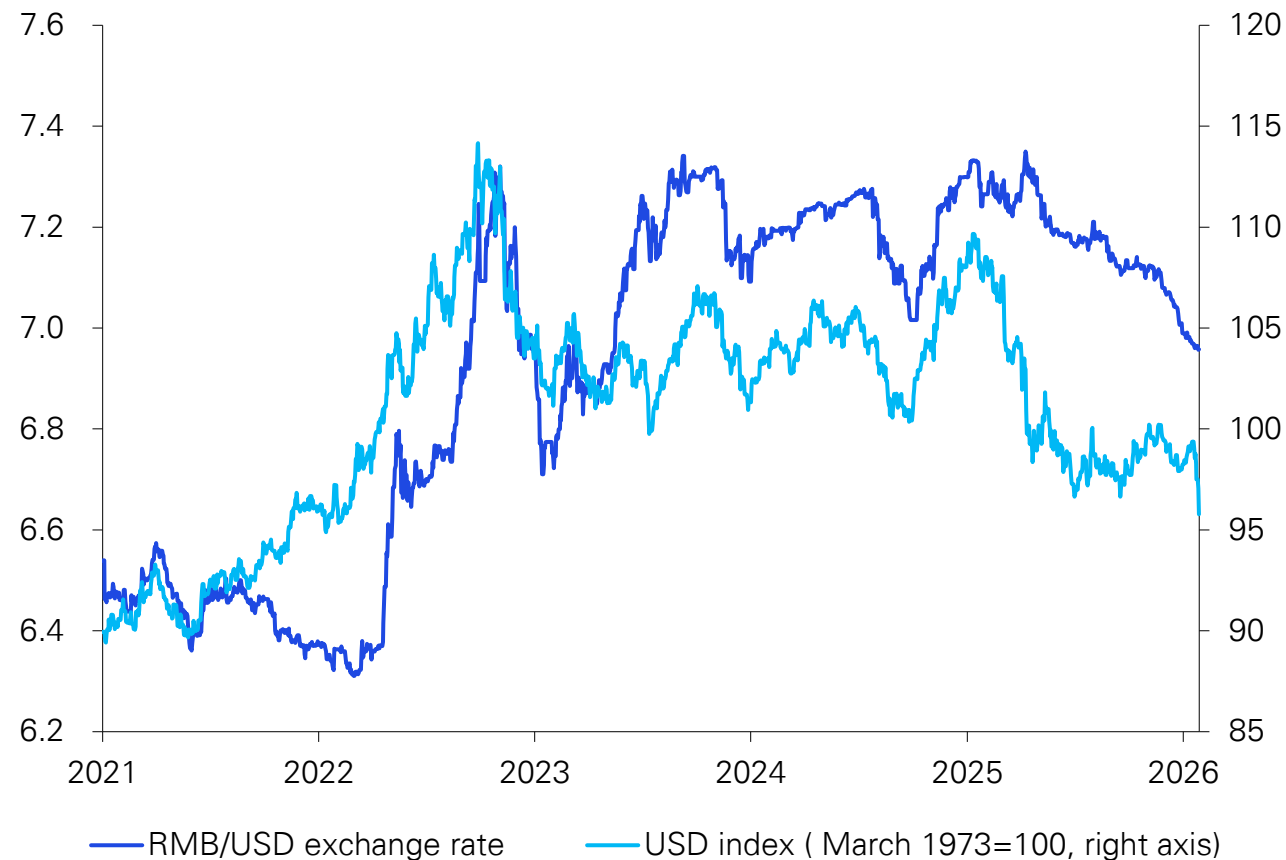


Source: Wind, KPMG analysis

- FDI into China reached RMB 747.7 billion in 2025, down 9.5% YoY, but the scale of decline narrowed significantly. Meanwhile, newly established foreign-invested enterprises rose 19.1% YoY, indicating that foreign investors' long-term confidence and commitment to the Chinese market remain strong.
- Despite global headwinds, China remains an important destination for international capital, supported by continued opening-up and economic resilience. The structure of FDI continues to improve: Services and high-tech industries accounted for 72.9% and 32.3% of total FDI. Sectors included e-commerce services, medical equipment, and aerospace showed high growth. Investment sources are becoming more diversified, with inflows from countries such as Switzerland, the UAE, and the UK growing rapidly. Multinational corporations are increasingly integrating China into their global innovation and supply chain networks, reinforcing China's role in global economic recovery.

The RMB is expected to appreciate moderately

USD index and RMB/USD exchange rate

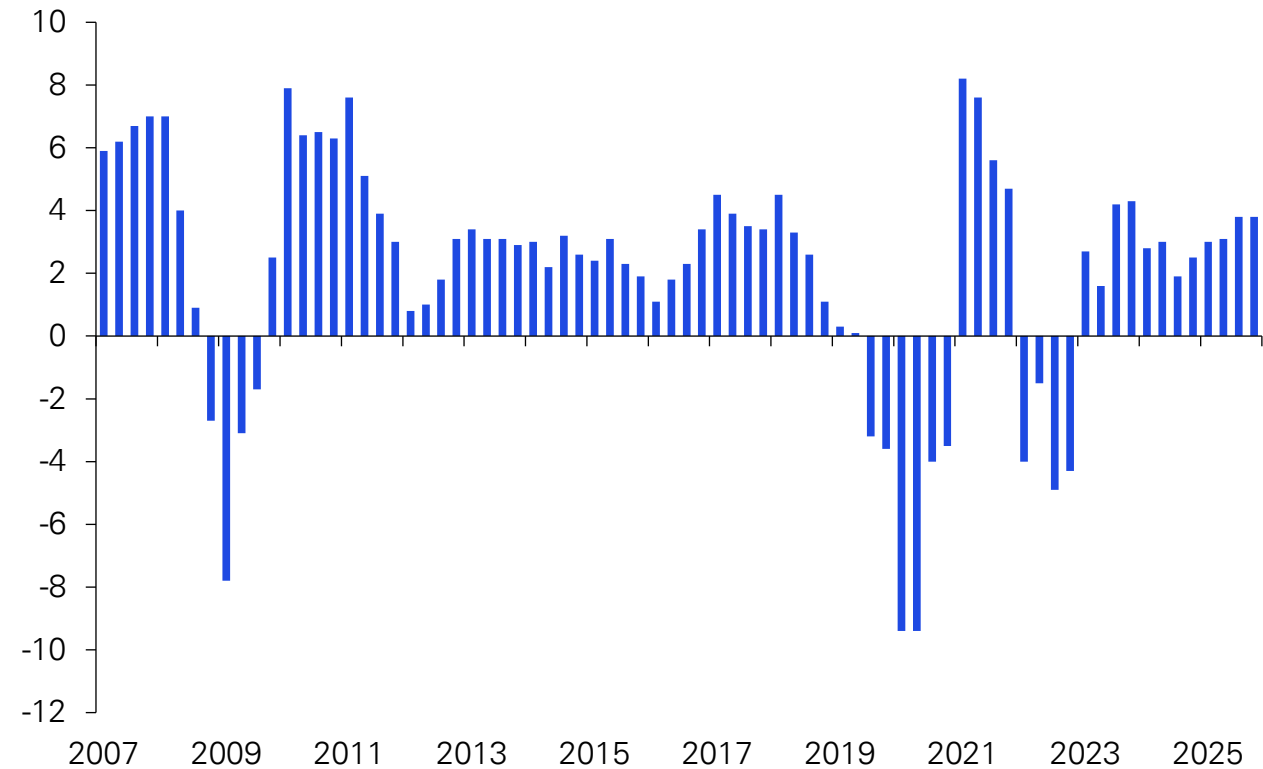


Source: Wind, KPMG analysis

- The RMB appreciated sharply against the USD in 2025, ending the year at 6.99 per USD, up 4.43% from end-2024, reversing three years of depreciation. Early-year pressure from a strong dollar and U.S.-China tariff tensions gave way to support from trade surpluses and capital inflows in H2. The CFETS RMB index closed at 97.99, reflecting two-way fluctuation with overall stability.
- Looking ahead to 2026, the RMB is expected to appreciate moderately: 1) Persistent USD weakness amid expected rate cuts and long-term de-dollarization trends. 2) Solid Chinese fundamentals, including GDP growth around 4.8% and export resilience. 3) Domestic recovery in consumption and investment, and continued foreign capital inflows.
- However, volatilities remain, with uncertainties in U.S. economic policy, geopolitical risks, and potential asynchronous domestic recovery. By end-2026, the RMB/USD exchange rate is projected to moderately appreciate to around 6.8.

Hong Kong SAR's growth momentum remains solid

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



Source: Wind, KPMG analysis

- Driven by consumption, investment, and external trade, Hong Kong SAR's GDP grew 3.5% YoY in 2025, marking the third consecutive year of expansion. Economic momentum strengthened gradually over the year, with GDP rising 3.8% YoY in Q4 2025, up from 3.7% in Q3 2025.
- External demand remained robust: Sustained global demand for electronics and active intra-Asia trade boosted goods exports, which rose 12.0% YoY, up 7.3 percentage points from 2024, representing the main growth driver. Tourism rebounded steadily, and cross-border financial services remained active, supporting strong performance in services exports.
- Domestic demand showed signs of recovery: Consumption and investment rebounded. Private consumption expenditure increased 1.6% YoY, up 2.2 percentage points from 2024, while gross domestic fixed capital formation rose 4.5% YoY. Rising economic growth, an active capital market, and a stabilizing property market helped restore consumer and business confidence.

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