BEA 東亞銀行

**Economic Research Department** **17 March 2025**

# Economic QuickView

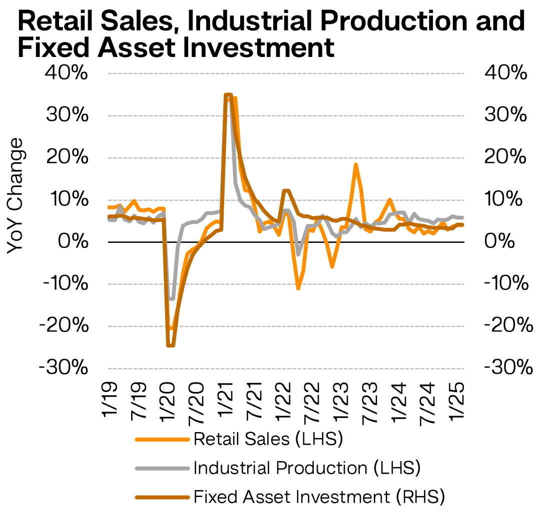
## Chinese Mainland Economy: Domestic economy staged a firm start in 2025

- Despite rising trade tensions, ongoing supportive policies sustained the growth momentum for the Mainland's domestic economy in January and February 2025.
- Industrial production slightly moderated, while demand side indicators such as fixed asset investment and retail sales improved.
- The authorities are expected to implement more forceful measures to raise domestic demand and to achieve the growth target.

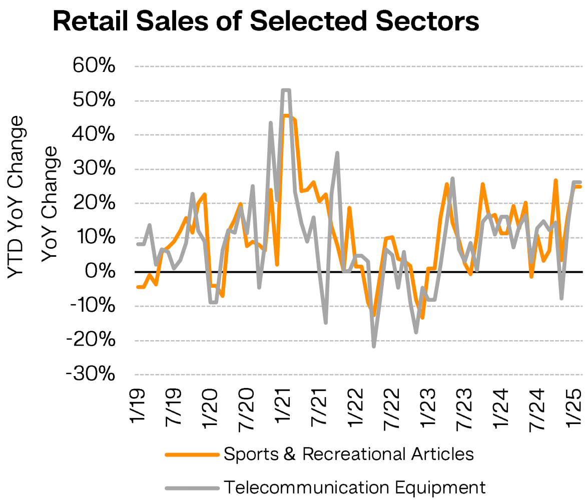
**The Chinese Mainland economy staged a firm start in 2025.** Despite external challenges, enhanced supportive policies have sustained domestic growth momentum. Economic indicators in the first two months of 2025 demonstrated the Mainland's economic resilience against external headwinds, with better-than-expected growth in retail sales, industrial production and fixed asset investment (FAI). The more rapid growth of exports relative to imports also led to stronger net exports in January-February 2025, which will contribute to the growth outlook.

**Resilient domestic demand supported industrial production.** Industrial production grew at a solid pace of 5.9% YoY in January-February 2025, albeit lower than the 6.2% growth in December 2024. The moderation could be partly due to slower external demand. Export growth fell from 10.7% YoY in December 2024 to 2.3% in the first two months of 2025, showing some signs of early tariff impacts. Auto production continued to see strong growth of 12.0% YoY in January-February 2025. High-tech manufacturing production remained robust, expanding by 9.1% in the first two months. Recent artificial intelligence (AI) breakthroughs are likely to encourage wider technology adoption and drive the production of advanced equipment, such as industrial robots, semiconductors, computers and electronic products.

**Consumption was driven by the expanded trade-in programme.** Total retail sales growth rose from 3.7% year-on-year (YoY) in December 2024 to 4.0% in January-February 2025. Sales of telecommunication equipment (26.2% YoY), household appliances and AV equipment (10.9% YoY), and cultural and office appliances (21.8%), which were the major beneficiaries of the trade-in programme, led the increase. Property-related purchases like furniture also picked up from 8.8% YoY to 11.7% in January-February, reflecting a recovery of housing and home improvement demand. However, automobile sales fell by 4.4% YoY in the first two months of 2025, compared with 0.5% in December. It is believed that the policy priority to boost domestic demand will likely benefit consumption and retail sales in the months ahead.



Source: CEIC



Source: CEIC

**The uptick in FAI is driven by stronger infrastructure and manufacturing investment.** FAI growth accelerated to 4.1% YoY in January-February 2025 from 3.2% in 2024. Manufacturing investment sustained strong growth of 9.0% YoY, driven by policy support for equipment upgrades. The growth of purchases of equipment and instruments picked up from 15.7% in 2024 to 18.0% YoY in the first two months in 2025, contributing to 62.3% of overall FAI growth. Meanwhile, infrastructure investment expanded by 5.6% YoY in the first two months, up from 4.4% in 2024. Property FAI remained a major drag but narrowed its YoY decline from 10.6% in 2024 to 9.8% in January-February 2025.

**Property markets continued to stabilise amid ongoing policy support.** Property markets gradually revived after the slew of policy measures implemented since September 2024, such as relaxing home purchase restrictions, lowering interest rates, down payment ratio and deed tax. The decline of sales of residential buildings notably narrowed to 0.4% YoY in January–February 2025 from 17.6% in 2024. Market confidence was improving, as the survey by the National Bureau of Statistics in February found that 71.8% of respondents in 70 major cities anticipated stable or rising home prices over the next six months (up by 2.8 percentage points from last month). Going forward, the Mainland authorities are set to intensify policy efforts to restore stability in the property market and absorb housing inventory, including the redevelopment of urban villages, old and dilapidated houses, granting greater power to the local governments for the purchase of housing stock, and expanding the scope of the relending facility for subsidised housing.

**The external environment remains highly uncertain.** Since early February 2025, the new US administration has imposed a total of 20% additional tariffs on all Chinese imports and universal 25% tariffs on steel and aluminium. US President Trump is reportedly considering steep levies on Chinese-made ships arriving at US ports as a way to weaken China's global position in the shipbuilding sector. China responded with 10-15% tariffs on US energy and agricultural products, export controls and blacklists for US companies. The US will conclude the comprehensive review of its trade relations in early April, which could recommend additional trade actions, such as further tariff hikes on Chinese imports, tariffs on Chinese goods via third-party economies and the repeal of China's Permanent Normal Trade Relations status, etc. The rising trade tensions will lead to greater uncertainties for the Mainland's export-oriented manufacturing sectors. Reportedly, the US and China are in early discussion to hold a summit between President Xi and US President Trump, which is expected to be an opportunity to kick start a new round of trade negotiations.

**The authorities will implement more forceful measures to bolster domestic demand.** According to the Government Work Report, the authorities will raise the deficit-to-GDP ratio from 3% in 2024 to around 4% in 2025, raise the quota for special local government bonds by RMB 500 billion, and increase the issuance of ultra-long special treasury bonds by 300 billion. Expanded fiscal resources will provide an effective boost to household consumption and corporate investment. Monetary policy will be appropriately accommodative, with further room to reduce the required reserve ratio and interest rates. The People's Bank of China is considering expanding the relending programme for technology innovation and transformation from RMB 500 billion to 800 billion, or even 1 trillion. Recently, the State Council announced a 30-point plan to boost domestic consumption, spanning from increasing residents' income, enhancing consumers' capability (e.g. child care subsidy and credit support) and promoting services consumption to renewals and upgrades for big-ticket items. All in all, the Government Work Report maintained the GDP growth target for 2025 at around 5.0%, reflecting the Government's determination to stabilise the economy.

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