BEA 東亞銀行

Economic Research Department

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Economic QuickView

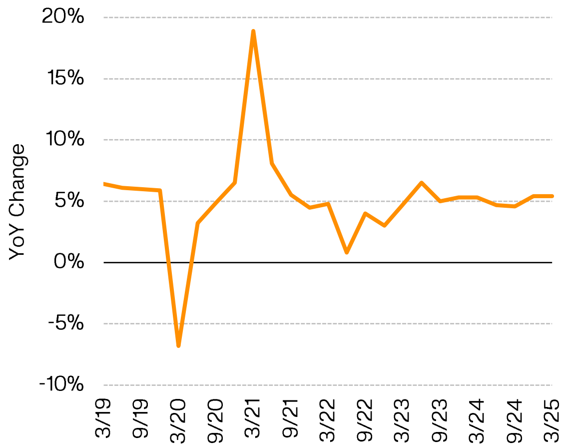
Chinese Mainland: Growth in Q1 beat expectations

- Chinese Mainland's economy grew by a stronger-than-expected 5.4% YoY in Q1 2025, the same as in Q4 2024.
- The Mainland is well-positioned to offset external uncertainties. Enhanced policy support successfully revived retail sales, industrial production and FAI performance.
- Trade tensions are likely to cloud Q2 growth performance, but the authorities are well-prepared to step up additional policy support if required.

Benefitting from enhanced policy support, the domestic economy recorded a solid revival and drove stronger growth in Q1 2025. Real gross domestic product (GDP) grew by a stronger-than-expected 5.4% year-on-year (YoY) in Q1 2025, the same as in Q4 2024. Since late September 2024, the Mainland has persistently called for enhanced and coordinated policy support efforts, with increasingly more measures ranging from fiscal and monetary policy to consumption and asset market stabilisation. These measures, together with technological breakthroughs, supported the domestic economy to record a notable recovery in Q1 2025, notwithstanding the US implemented an additional 20% tariff on Chinese imports. That was a clear shift in growth driver, from net exports in 2024 to domestic consumption and production activities. On a sequential basis, real GDP growth eased to 1.2% quarter-on-quarter (QoQ) in Q1 2025 from 1.6% in Q4 2024. Amid steady economic performance, the surveyed unemployment rate declined by 0.2 percentage points from January-February to 5.2% in March.

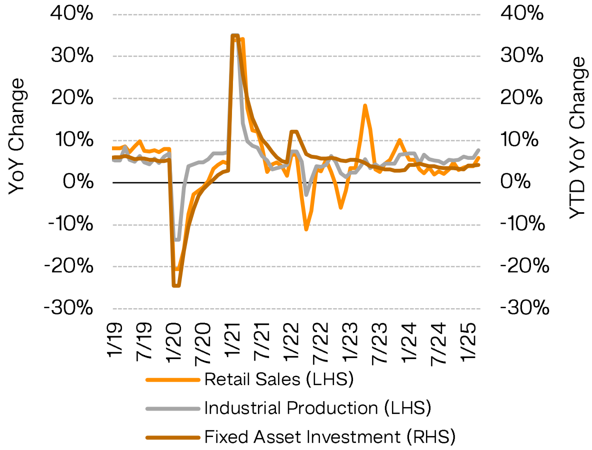
Retail sales growth far exceeded market expectations in March 2025. The Government Work Report (GWR) set the economic growth target at around 5% for 2025. Given the rising external uncertainties, it is expected that the around 5% target would imply a notably higher growth rate for consumption, industrial production and investment while export performance lags. The shift is underpinned by the authorities prioritising boosting domestic demand as the top policy objective for this year. The GWR outlines a comprehensive strategy to stimulate spending power, improve the supply of quality goods and services, and create a favourable consumption environment. With the widening of consumer goods trade-in policies and stronger confidence in growth and asset market performance, retail sales revived to a faster growth of 5.9% YoY in March, up from 4.0% in the first two months of 2025. Particularly, the sales of telecommunication equipment (28.6%) and household appliances and AV equipment (35.1%) recorded strong double-digit growth after the expansion of the trade-in policies.

Chinese Mainland GDP Growth



Source: CEIC

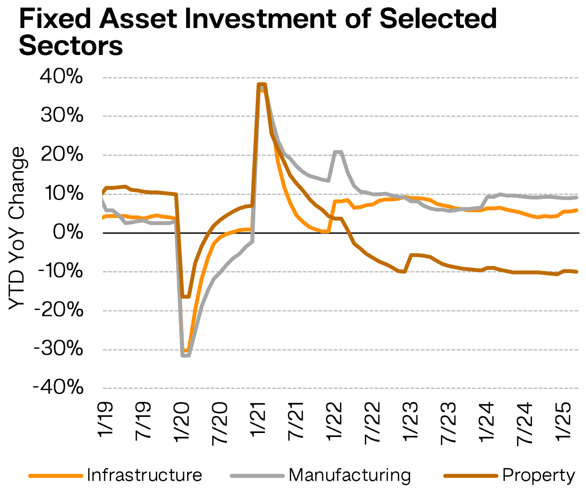
Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

Advanced manufacturing took the lead in lifting industrial production. The Mainland has long had a policy focus on developing high quality productive forces and building technological self-sufficiency, with notable successes being recorded in numerous areas over the years. This includes sectors such as new-energy vehicles, solar panels, batteries and, more recently, artificial intelligence. The strong government support and success in technological breakthroughs have further strengthened industrial production activities in the Mainland. Industrial production rose solidly by 7.7% YoY in March, up from 5.9% in the first two months of 2025. High-tech products such as power generation equipment (107.2%), new–energy vehicles (40.6%), solar panels (23.6%), industrial robots (16.7%), and semiconductors (9.2%) experienced robust growth.

Fixed asset investment (FAI) also showed signs of stabilisation and recovery. The investment in fixed assets (FAI) edged up from 4.1% in January-February to 4.2% in Q1. The improvement was supported by the wider policy intended to stimulate domestic demand, including but not limited to equipment renewals, local government debt swaps, frontloading of fiscal support measures, etc. Among different FAI components, manufacturing and infrastructure FAI increased to 9.1% and 5.8% YoY in Q1 2025, respectively, up from 9.0% and 5.6% in the first two months. The growth of purchases of equipment and instruments also accelerated further from 18.0% YoY in the first two months to 19.0% in Q1, with strong support from the equipment renewal policy. All these offset the continuous consolidation in property investment, which declined 9.9% YoY in Q1.



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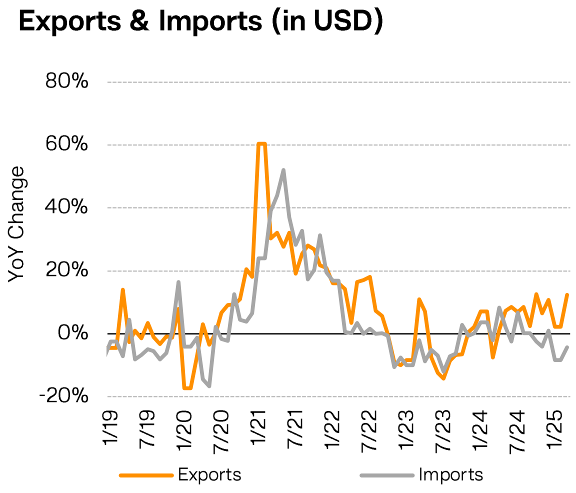

Note: Combined figures for January and February
Source: CEIC

The positive contribution from net exports is expected to turn going forward. In March 2025, the growth of Mainland exports continued to outpace that of imports, with the former rising 12.4% YoY and the latter contracting 4.3%, leading to a widening of the trade surplus to USD 102.6 billion. March's figures were the results of two rounds of an additional 10% US tariff levied on Chinese imports. However, the US levied an additional 125% reciprocal tariffs on Chinese imports, though there are some temporary exemptions for certain technology products. The impact is likely to be significant if the high level of tariffs persists, and the outcome will hinge on when the US and China start negotiations and if they reach any form of consensus. Despite the potential downside risks ahead, it is worth noting that the Mainland has adopted an export diversification strategy over the years and has already become the largest trading and investment partner for over 140 economies in the world. Maintaining a good relationship with China becomes increasingly important for ASEAN, the Middle East and Belt-and-Road economies, particularly since the US policy is changeable and uncertain. Recently, the Central Conference on Work Related to Neighbouring Countries was held, where President Xi emphasised high-level connectivity and industrial and supply chain cooperation with neighbouring nations. President Xi also hosted Spanish Prime Minister Pedro Sánchez in Beijing and made a state visit to Malaysia, Vietnam, and Cambodia in a bid to strengthen trade ties with the European Union and ASEAN economies.

The Chinese Mainland is well prepared to mitigate such an external shock. In addition to its persistent efforts to pursue structural upgrades, the Mainland authorities are likely to implement more forceful policy support to promote stronger consumer spending and investment amid rising external challenges. For example, the People's Bank of China is ready to ease monetary policies anytime, possibly cutting the required reserve ratio by 25-50 basis points (bps) and reducing interest rates by 10-20 bps. On the fiscal front, the authorities have the ability to front-load the issuance of special government bonds, providing resources to expand the trade-in subsidies for consumer goods and accelerate the construction of infrastructural projects. To safeguard financial markets, besides insurance firms and other long-term asset managers, there is potential for the establishment of a market stabilisation fund, which will be instructed to invest in stock markets, ensuring stable market performance. These concerted efforts are anticipated to enhance domestic resilience and help absorb any potential impact from reduced exports.

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