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Economic Research Department

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Economic QuickView

Chinese Mainland: Steady growth sustained in April amid shocks from US tariffs

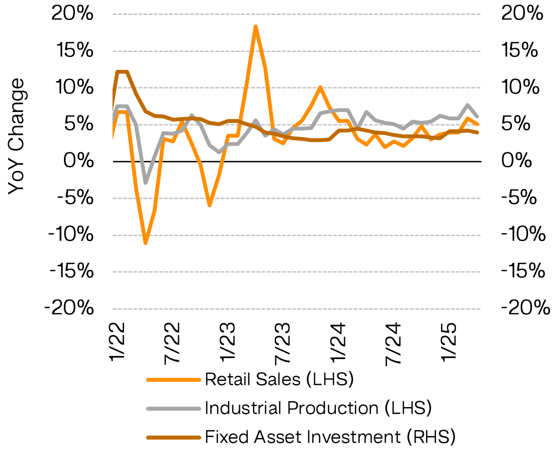
- Despite trade uncertainties, Chinese Mainland's economy demonstrated resilient growth in April, with industrial production outperforming retail sales and investment.
- The positive outcome of China-US trade negotiations in early May signals a potential easing for bilateral trade tensions, while corporates would expedite inventory restocking.
- A new round of monetary easing is set to boost domestic demand further.

Chinese Mainland's economy sustained steady growth despite turbulent tariffs in April. Monthly economic indicators pointed to a steady expansion momentum in April amid escalations and a sudden de-escalation of China-US tariff measures within a month. While it is uncertain how external demand would be affected under the US new reciprocal tariff policy, Chinese Mainland's domestic sector is expected to remain solid, supported by the authorities' commitment to ensuring economic stability. Meanwhile, labour market conditions were stronger than expected, with the urban surveyed unemployment rate declining by 0.1 percentage points (ppts) to 5.1% in April. This improvement is set to facilitate a further recovery in consumer spending.

Industrial production continued to be the leading growth driver. While slowing from a high level of 7.7% year-on-year (YoY) in March, growth in industrial production reached 6.1% in April, exceeding expectations. This strong growth was driven by equipment and high-tech manufacturing, which rose by 9.8% YoY and 10.0% in April, respectively, reflecting demand from industrial upgrading and transformation. Certain high-tech products saw a remarkable acceleration, such as industrial robots (from 16.7% YoY to 51.5%) and solar panels (from 23.6% to 33.4%). Regarding external demand, merchandise exports grew by 8.1% YoY in April, compared to 12.3% in March. While business sentiment was lowered amid tariff uncertainties, trade data is poised to see significant distortion due to trade diversions and front-loading as corporates react to an evolving trade policy backdrop.

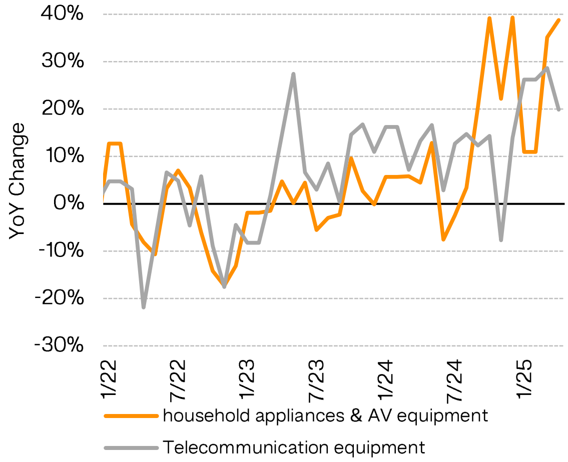
Consumer spending moderated as financial market volatility soared. The escalation of China-US tariffs once caused a spike in volatility across global financial markets in April, potentially weighing on consumer confidence. In Chinese Mainland, retail sales grew by 5.1% YoY in April, down from 5.9% in March. Notably, retail sales of automobiles slowed from a growth of 5.5% in March to 0.7% YoY in April. Nonetheless, enhanced trade-in subsidies continued to drive consumption of other durable goods in April, such as telecommunication equipment (up by 19.9% YoY) and household appliances and AV equipment (38.8%). In addition, retail sales of services growth edged up from 5.0% YoY in Q1 to 5.1% in January-April 2025, driven by tourism-related spending. Going forward, as the recent rebound in stock prices should be positive for sentiment, along with intensified policy stimulus for consumption (in early May 2025, a RMB 500 billion low-cost credit support for services consumption and eldercare was launched), household spending is anticipated to continue solid growth in the coming months.

Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

Retail Sales of Selected Sectors



Source: CEIC

Capital investment continued to focus on fostering new quality productive forces. Fixed asset investment (FAI) growth remained steady at 4.0% YoY in January-April 2025, slightly slower than 4.2% in Q1. Sustained policy support for equipment renewals remained a key driver, with purchases of equipment and instruments surging by 18.2% YoY in January-April 2025, contributing 64.5% of overall FAI growth. Accelerated issuance of government bonds has also supported infrastructure investment, which grew by 5.8% YoY in January-April 2025. In particular, FAI in water conservancy projects rose by 30.7% YoY. These trends underscored expanding investment aimed at industrial upgrading and quality improvement in utilities, offsetting the contraction in property investment, which declined by 10.3% YoY in January-April 2025.

Enhanced supportive measures have helped to stabilise the property market. Since Q4 2024, the implementation of a comprehensive support package has facilitated a stabilising property market. Sales of residential buildings declined by 1.9% YoY in January-April 2025 (a 0.4% drop in Q1), while new home prices in tier-1 & 2 cities were little changed in April. In early May, the People's Bank of China reduced the interest rate for the personal housing provident fund loan and lowered the pledged supplementary lending rate from 2.25% to 2.00%. The former is set to create greater incentives for homebuyers, while the latter aims to provide low-cost funds for policy banks to support renovation of urban village and affordable housing.

Initial outcome of China-US trade negotiations signals a potential easing for bilateral trade tensions. In early May, China-US trade talks in Switzerland yielded substantial progress and announced a joint statement with a 90-day trace (until 12th August). The US reduced additional tariffs on Chinese imports from 145% to 30%, while China's retaliation tariffs on US imports fell from 125% to 10%. Moreover, the US lowered the de minimis tariffs on China's low-value shipments from 120% to 54%, and cancelled a planned postal package fee hike to USD 200, maintaining the flat rate at USD 100. Both sides also agreed to establish a mechanism for ongoing dialogue. The outcome exceeded market expectations and helped restore market confidence. Following the trade talks, container bookings from China to US has witnessed a substantial rise, likely driven by the resumption of bilateral trade as well as potential front-loading, as corporates prepared to re-stock their inventories. While the progress of trade negotiations remains highly unpredictable, recent easing on tariff measures possibly reflect a common interest for both side to maintain economic cooperation.

A new round of monetary easing is set to boost domestic demand further. In early May, along with the abovementioned targeted rate cuts to support the housing market, the PBoC enacted a new round of monetary easing, including the reduction of required reserve ratio by 0.5 percentage points (ppts) and 7-day reverse repo rate by 0.1 ppts. These measures are set to unleash about RMB 1 trillion in long-term liquidity and guide borrowing costs lower, thereby boosting the overall domestic sector. At the State Council meeting in mid-May, Premier Li Qiang stressed on the need to stabilise domestic economy amid global uncertainties, calling for efficient allocation of resources, deeper integration of sci-tech and industrial innovation, greater self-sufficiency in industrial and supply chains, and a dynamic supply-demand balance. Further policy supports to drive effective investment and consumption are anticipated. These efforts are expected to reinforce the domestic resilience of Chinese Mainland's economy.

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