BEA 東亞銀行

Economic Research **May 2025**

Market Monitor – Chinese Mainland

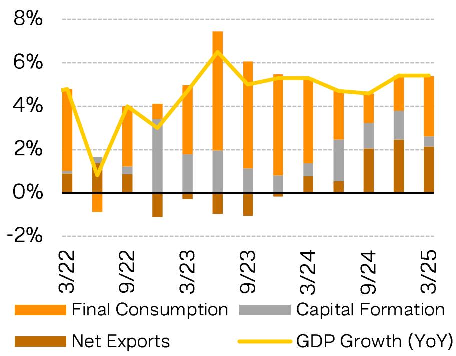
Solid Q1 growth with expectations of stronger policy support

- Domestic consumption drove a solid 5.4% YoY GDP growth in Q1 2025, exceeding expectations.
- Survey-based indicators highlighted the emerging impacts of trade policy uncertainties on the economy.
- The authorities intensified monetary easing and capital market reforms to sustain growth momentum.

The economy posted solid growth in Q1 2025

Chinese Mainland's economy grew by 5.4% year-on-year (YoY) in Q1 2025. The growth maintained the pace observed in Q4 2024, exceeding expectations. In the quarter, domestic consumption emerged as the primary growth driver, contributing 51.7% to GDP growth. Net exports also played a significant role, contributing 39.5%, while capital formation accounted for 8.7%. This performance was underpinned by enhanced policy support, particularly in consumption, as well as the rising competitiveness of Chinese manufacturers.

Chinese Mainland's GDP Growth



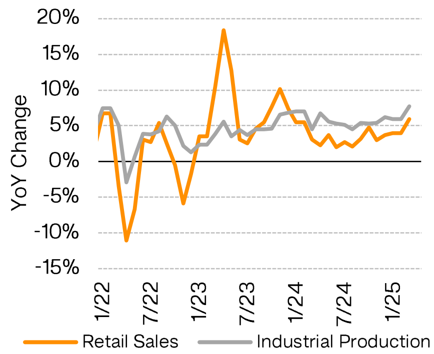
Source: CEIC

High-tech manufacturing took the lead in boosting production growth and improving business conditions. Growth of industrial production accelerated from 5.9% YoY in January-February to 7.7% in March. High-tech sectors experienced strong momentum, with notable growth in power generation equipment (107.2%), new energy vehicles (40.6%), solar panels (23.6%) and industrial robots (16.7%). Industrial profits also improved, rebounding from a 0.3% YoY drop in January-February to a 2.6% increase in March, driven by a 14.3% YoY growth in high-tech manufacturing sectors.

Enhanced policy support has bolstered consumer spending. Buoyed by expanded trade-in subsidies, retail sales rose by 5.9% YoY in March, up from 4.0%

in January-February. Sales of durable goods under the subsidy scheme performed particularly well, such as telecommunication equipment (up by 28.6% YoY) and household appliances & AV equipment (35.1%). Besides, automobile sales rebounded markedly, growing by 5.5% YoY in March, reversing a 4.4% decline in January-February. This growth trend is expected to continue, as preliminary data from the China Passenger Car Association indicated a 10.0% YoY increase in passenger car retail sales during the first 27 days of April.

Retail Sales & Industrial Production

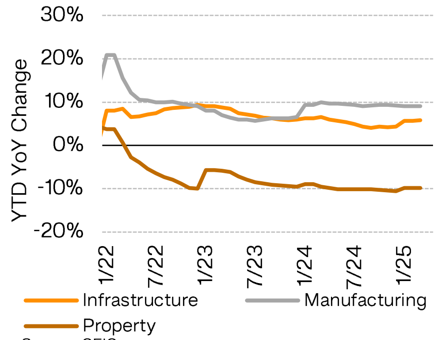


Source: CEIC

Fixed asset investment (FAI) showed signs of picking up. FAI growth edged up from 4.1% YoY in January-February to 4.2% in Q1, supported by equipment renewals and the front-loading of infrastructure projects. Notably, equipment and instrument purchases increased by 19.0% YoY in Q1, contributing 64.6% of the overall FAI growth. Infrastructure FAI also accelerated, rising by 5.8% YoY in Q1, up from 5.6% in January-February, which offset the continued consolidation in property investment (declined 9.9% YoY in Q1).

The Labour Day holiday further unleashed consumer demand. During the 5-day Labour Day holiday, tourist spending rose by 8.0% YoY to RMB 180 billion, while domestic trips grew by 6.4% YoY to 314 million. According to the Ministry of Commerce, sales at major retail and catering enterprises increased by 6.3% YoY, with double-digit gains in home appliances, automobiles and telecommunication equipment. These figures underscored the continued momentum in domestic consumption amid enhanced macro-policies.

Fixed Asset Investment of Selected Sectors

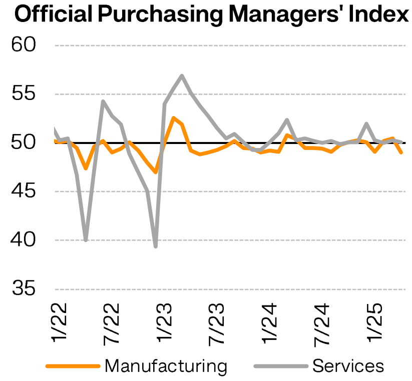


Source: CEIC

Emerging impacts of tariff hikes

The outlook for China-US trade relations remains highly uncertain. Since the US rolled out its reciprocal tariff policy, global trade has faced significant disruptions. In April, the US raised the additional tariffs on Chinese imports to at least 145%, prompting China to impose retaliatory tariffs of 125%. However, both nations have taken steps to ease tariff measures. The US exempted high-value electronics, such as smartphones and computers, from the reciprocal tariffs, while China is reportedly considering similar exemptions for certain US products. These suggest that both nations may work to minimise the tariff shocks on their economies. Moreover, there will be a meeting between China's Vice Premier He Lifeng and US Treasury Secretary Scott Bessent held on 10th May in Switzerland, which could be an opportunity to kick-start bilateral trade talks and ease the current deadlock.

Official Purchasing Managers' Index



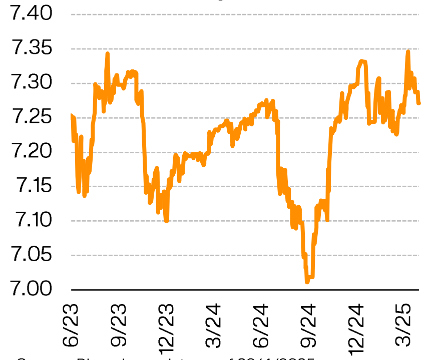
Source: CEIC

Survey data reflected the emerging impacts of US tariff hikes. The official manufacturing purchasing managers' index (PMI) fell into contractionary territory, declining from 50.5 in March to 49.0 in April. Similarly, the Caixin manufacturing PMI declined from 51.2 in March to 50.4 in April. The declines of both manufacturing PMIs were attributed to falling new export orders, likely linked to escalating US tariffs. Meanwhile, the services PMIs softened, with the official index decreasing from 50.3 in March to 50.1 in April and the Caixin index slipping from 51.9 to 50.7. Despite this slowdown, demand for domestic services like telecommunications, information technology, and insurance remained resilient.

Intensifying policy support to solidify growth momentum

The Mainland authorities demonstrated their commitment to stabilising growth with an intensified policy package. After the Politburo meeting in April called for more proactive and effective macro-policies, various authorities introduced a range of measures aimed at stabilising growth. In early May, the People's Bank of China (PBoC) and financial regulators announced a comprehensive policy package. Regarding monetary policy, the PBoC intensified the supply of liquidity and lowered the cost of financing, including a reduction of the required reserve ratio by 0.5 percentage points (ppts), 7-day reverse repo rate by 0.1 ppts and interest rates for other structural monetary policy tools by 0.25 ppts. Credit support for targeted sectors will be enhanced, with new or larger relending quotas supporting technology innovation, capital markets, service consumption and eldercare, etc. Regarding the capital market, the authorities will facilitate long-term capital inflow into the stock market, support Central Huijin's role as a market stabilisation fund and deepen reforms for the sci-tech innovation board and mergers & acquisitions. More measures are expected to be rolled out at a later stage if trade tensions persist.

USD/CNY Exchange Rate



Source: Bloomberg, data as of 30/4/2025

Financial markets recovered from the tariff shock

Financial markets managed to stabilise despite tariff uncertainties. In early April, Chinese stock markets were hit by the tariff shock. However, the Mainland's sovereign funds, Central Huijin, stepped in to purchase China-listed shares via exchange-traded funds, helping to stabilise the capital market. Better-than-expected Q1 growth further reinforced market confidence. By the end of April, the Shanghai Stock Exchange A-share index declined modestly by 1.7% in the month. The onshore CNY and offshore CNH depreciated slightly by 0.2% and 0.1% against the US dollar in April, closing at 7.2714 and 7.2698, respectively.

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).