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Economic Research Department

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Economic QuickView

Chinese Mainland: Household spending accelerated markedly in May

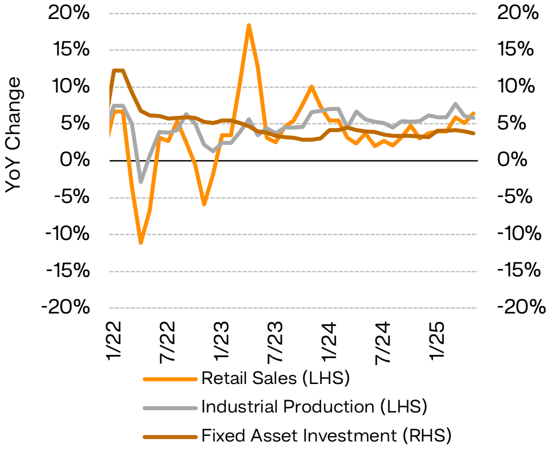
- Chinese Mainland's May economic data underscored a robust momentum, driven by an upside surprise in retail sales.
- The latest China-US trade negotiations in mid-June agreed a framework for implementing the Geneva consensus reached in May and helped ease tensions.
- Given a solid growth momentum and supportive policy backdrop, Chinese Mainland's GDP growth for Q2 is likely to show sustained resilience.

Chinese Mainland's growth momentum persisted in May, driven by stronger household spending. Despite a challenging external environment, Chinese Mainland's economic momentum held up in May, with domestic demand showing enduring strength. This reflected the Mainland's economic resilience as well as the boost from targeted policy support. Notably, retail sales surged at a stronger pace, while industrial production and investment grew steadily. Meanwhile, the labour market improved further, with the urban surveyed unemployment rate ticking down to 5.0% in May from 5.1% in April. Besides, a 90-day trade truce between China and the US, alongside the progress of subsequent negotiations, has helped restore market confidence and fuel a further rally in stock markets. Overall, domestic demand is emerging as a significant growth driver.

Household spending accelerated, spurred by a variety of catalysts. Retail sales surged notably by 6.4% year-on-year (YoY) in May, far exceeding the market expectations of 4.9%. This marked as the fastest growth since December 2023. Positive drivers included buoyant Labour Day holiday spending, the government's trade-in programmes, an earlier "618 shopping festival" this year. Particularly, the consumer goods trade-in programme continued to show strong effects in May, with rapid sales growth in household appliances and AV equipment (53.0% YoY) and telecommunication equipment (33.0% YoY). Services consumption also held up, with retail sales of services ticking up from 5.1% YoY in January-April to 5.2% in January-May. Moving forward, the authorities are poised to step up policy efforts to reinvigorate the consumer market further.

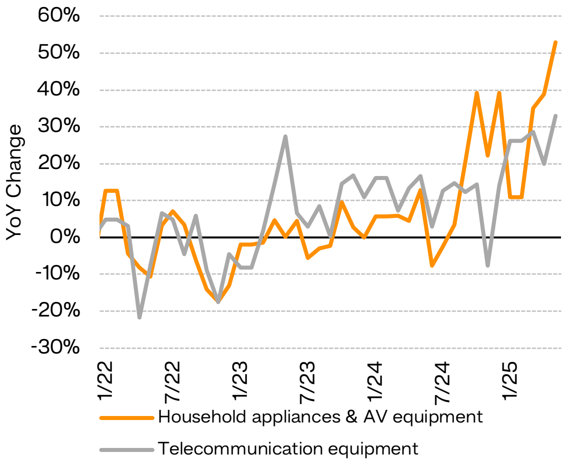
The industrial sector maintained a solid growth trajectory. While external demand has gradually softened in recent months with merchandise exports growth slowing from 8.1% YoY in April to 4.8% in May, industrial production showed consistent growth, expanding by 5.8% YoY in May (compared to 6.1% in April). Equipment and high-tech manufacturing continued to outperform in May, rising by 9.0% YoY and 8.6%, respectively, underscoring the ongoing shifts towards high-end and capital-intensive manufacturing. In addition, the rise of digital economy has fuelled a rapid expansion in various smart products such as drones, 3D printers and industrial robots, which surged by 85.9% YoY, 40.0% and 35.5% in May, respectively.

Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

Retail Sales of Selected Sectors



Source: CEIC

Investment growth moderated amid subdued construction activity. Fixed asset investment (FAI) growth moderated from 4.0% YoY January-April 2025 to 3.7% YoY in January-May, largely due to a wider decline in property investment (from -10.3% YoY to -10.7%). Excluding property investment, the rest of FAI grew by 7.7% YoY in January-May, driven by the investment in infrastructure (+5.6% YoY) and manufacturing (+8.5%).

The authorities signalled stronger policy efforts to stabilise the property market. Latest indicators revealed a continued property market consolidation. In January-May 2025, sales of residential buildings declined by 2.8% YoY, compared to a 1.9% decline in January-April. Moreover, new home prices in tier-1 & 2 cities declined slightly by 0.2% month-on-month in May after staying flat in April. In mid-June, Premier Li Qiang called for optimising the existing housing policies in a bid to stabilise expectations, stimulate demand, improve supply and mitigate risks. It appears that further policy support will be rolled out to support a gradual bottoming-out in the property market.

The China-US trade negotiations yielded positive outcomes and remain as a major uncertainty. On 9th – 10th June, China and US conducted trade negotiations in London. Both sides reached a framework for implementing consensus reached in May. The negotiation outcomes helped ease tensions. China reportedly resumed the approval of export licences for rare earths to the US automakers and manufacturers for six months, while the US pledged to reduce its restrictions on sales of jet engines, related parts and ethane to China as well as on Chinese student visas. These developments have fuelled market sentiment and sent a further rally in stock markets. That said, US trade policies remain highly unpredictable that the risks of potential re-escalation should not be ignored.

Further policy measures are poised to support growth if necessary. With solid economic readings in April and May, the economy is projected to achieve stable YoY growth of around 5.0-5.5% in Q2 following the 5.4% growth recorded in Q1. As the current China-US trade truce is set to expire in mid-August, foreign trade could increase thanks to front-loadings in the coming months, providing a boost for economic growth. This would create room for the authorities to adopt a prudent and measured approach in formulating its next economic stimulus. In our view, Chinese Mainland retains ample policy scope to reinforce its economic stimulus, such as additional monetary easing and increased funding for consumer trade-in programmes. Should economic challenges intensify unexpectedly, it is likely that further policy support will be implemented to sustain a steady growth momentum ahead.

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