BEA東亞銀行

Economic Research Department **15 July 2025**

Economic QuickView

Chinese Mainland: Robust expansion in Q2 puts the economy on track to meet the full-year growth target of around 5%

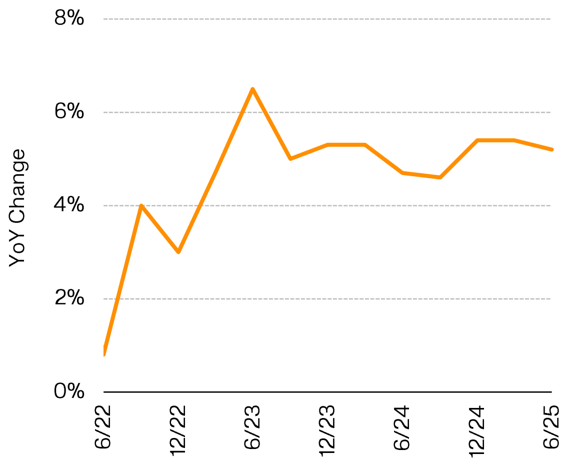
- The Chinese Mainland's economy expanded by 5.3% YoY in 1H 2025, with quarterly growth at 5.4% YoY in Q1 and 5.2% in Q2.
- Industrial production rose strongly in 1H 2025, while retail sales sustained stable growth and fixed asset investment moderated.
- The Chinese Mainland is on track to meet the government's 2025 GDP growth target of around 5%, underpinned by solid economic momentum and supportive policies.

The Chinese Mainland achieved solid economic growth in 1H 2025, driven by policy stimulus and export strengths. The Chinese Mainland's real gross domestic product (GDP) increased by 5.3% year-on-year (YoY) in 1H 2025, on track to meet the government's 2025 growth target of around 5%. On a quarterly basis, GDP growth held up at 5.2% YoY in Q2, a mild slowdown from 5.4% in Q1. On a sequential basis, quarter-on-quarter GDP growth reached 1.1% in Q2, compared with 1.2% in Q1. The labour market remained stable, with the surveyed unemployment rate unchanged from May at 5.0% in June. In addition to a supportive policy backdrop aimed at stimulating domestic demand, foreign trade provided tailwinds for headline GDP growth in 1H 2025. Among the major expenditure components, final consumption remained the largest contributor to GDP growth in 1H 2025 (52% of GDP growth), followed by net exports (31.2%), and gross capital formation (16.8%).

Retail sales sustained stable growth on the back of trade-in policy incentives. In 1H 2025, total retail sales increased by 5.0% YoY. Driven by consumer trade-in subsidies, retail sales of commodities rose 5.1% YoY in 1H 2025, up from 4.6% in Q1. Meanwhile, retail sales of services accelerated to 5.3% growth YoY in 1H 2025, up from 5.0% in Q1. In June, retail sales growth eased to 4.8% YoY from 6.4% in May. The slowdown was likely caused by frontloaded sales in May given an earlier launch of the "618" shopping festival promotions. Trade-in policies continued to boost spending on durable goods in June, such as telecommunication equipment (+13.9% YoY), household appliances and AV equipment (+32.4%), and cultural & office appliances (+24.4%). Automobile sales, another beneficiary of the trade-in program, also improved from 1.1% YoY growth in May to 4.6% in June. The National Development and Reform Commission announced in late June that a third batch of consumer trade-in subsidies would be rolled out in July, following a combined allocation of RMB 162 billion in January and April. The disbursements of additional subsidies are expected to sustain durable goods consumption in the coming months. Looking ahead, an ongoing consumption recovery will hinge on faster and sustainable income growth. In 1H 2025, real per capita household disposable income growth slowed slightly from 5.6% YoY in Q1 to 5.4%, while real per capita consumption expenditure growth was steady at 5.3% (5.3% in Q1). Policymakers are likely to introduce more policy measures to promote income growth and strengthen the social safety net, such as offering childcare subsidies to households and increasing basic pension payments, thereby raising consumer willingness to spend.

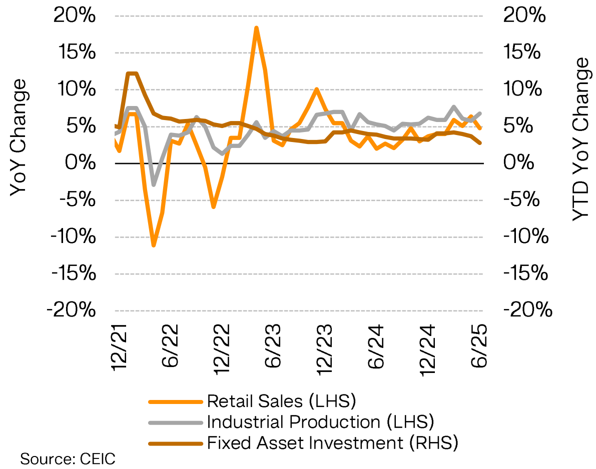
Industrial production continued to grow rapidly. In 1H 2025, industrial production expanded solidly by 6.4% YoY. In June, industrial production accelerated to 6.8% YoY growth, up from 5.8% in May and exceeded market expectations. With a policy focus on industrial upgrades and developing new productive forces, equipment and high-tech manufacturing industries have remained the major drivers, growing by 10.2% YoY and 9.5% in 1H 2025, respectively. Furthermore, foreign trade has held up well, serving as another driver for production activity. Resilient export growth was supported by an export diversification strategy, solid manufacturing prowess, and a temporary truce on tariff hikes. Merchandise exports in USD terms grew by 5.9% YoY in 1H 2025, with total trade surplus surging by 34.2% YoY to USD 587.3 billion. Notably, declining shipments to the US were offset by gains in exports to other major markets like ASEAN and Europe.

Chinese Mainland GDP Growth



Source: CEIC

Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

Fixed asset investment growth moderated due to lower prices. Fixed asset investment (FAI) growth decelerated from 3.7% YoY in January-May to 2.8% in 1H 2025. While subdued property FAI (-11.2% YoY in 1H 2025) continues to be a drag on headline FAI, manufacturing FAI remained resilient, rising by 7.5% YoY in 1H 2025, bolstered by policy incentives for equipment upgrades and renewal. Infrastructure FAI also contributed positively, expanding by 4.6% YoY in 1H 2025. The National

Bureau of Statistics revealed that lower prices have been the major factor for soft nominal FAI growth in 2025, particularly due to a sharp price reduction in building materials. Excluding price influences, real FAI growth grew at a stronger pace of 5.3% in 1H 2025.

The property market remained under pressure. Major property market indicators hovered steadily at low levels. In 1H 2025, the sales value of newly built residential buildings, the floor space of newly started residential buildings, and funds for investment by property developers recorded declines of 5.2% YoY, 19.6%, and 6.2%, respectively. Property prices edged down slightly in June, with new home prices in tier-1 & 2 cities falling by 0.3% MoM and 0.2%, respectively. In June, the State Council pledged to intensify efforts to halt the property market decline. Stronger policy support is likely to follow, echoing similar pledges made before. Overall, the authorities are set to continue policy support to stabilise the property market.

Trade tensions have eased but have not fully dissipated. After China and the US confirmed the details of a trade framework in late June, both sides have accelerated the implementation of the framework. China has begun to review and approve qualified applications for exports of controlled items to the US, while the US has lifted several restrictive measures against China. However, uncertainty remains elevated over the likelihood of reaching a trade deal before the 90-day trade truce expires in mid-August, given the wide range and complexity of trade issues between the two largest economies in the world as well as the unpredictability of US trade policies.

The Mainland authorities stand ready to roll out additional stimulus if necessary. Solid economic growth in 1H 2025 and the trade détente are likely to reduce the urgency for introducing new stimulus at the upcoming Politburo meeting scheduled for late July. However, the authorities retain ample policy room and are ready to step up pro-growth policies if downside risks escalate in 2H 2025. As boosting domestic consumption is a top policy priority, the authorities may allocate more funds to consumer goods trade-in programs and expand their coverage. Besides, the Ministry of Finance announced in late June that it would deploy timely fiscal measures to address evolving economic conditions. For instance, proceeds from government bonds would be used for consumer subsidies, infrastructure investment, and equipment upgrades and renewal. On the monetary front, the People's Bank of China (PBoC) has pledged to adjust the intensity of its policy responses to address economic challenges. We anticipate that the PBOC is likely to reduce policy rates by 10 bps and reduce the required reserve ratio by 50 bps in 2H 2025. Having achieved a solid 5.3% growth in 1H 2025, the Chinese Mainland economy is well-positioned to reach the full-year growth target of around 5% for 2025.

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