

China Quarterly - Q4/2024

Trump Shakes Up China's Trade.

Economics
January 2025
Dr. Tariq Chaudhry

Executive Summary (1/2)

- China's 5% growth target was probably not achieved in 2024. The real estate market downturn, limited room for maneuver for local governments and high youth unemployment are weighing on growth. Despite the announcement of USD 411 billion worth of government bonds, the economic stimulus remains limited as only local debt is being swapped for central government debt. The PBoC has hardly eased the economy and a share buyback program has only had a short-term effect. The government is holding back on measures. Forecast for 2024 lowered from 4.9% to 4.7 Q4 growth is expected to be 1.0% (Q3: +0.9%). Even almost two years after the end of the zero-covid policy, the recovery in domestic consumption remains weak. High savings rates and low confidence are dampening consumption, with the result that retail sales rose by only 3.0% YoY in November after 2.9% in October. The risk of deflation is increasingly being discussed. China is also facing structural challenges, such as unfavorable demographics, problems in the construction sector and geopolitical tensions ("de-risking" of target countries for Chinese exports). We expect the downward trend to continue in 2025 and GDP to grow by only 3.7% without major fiscal measures.
- The manufacturing sector in China is only showing marginal growth, as the PMI purchasing managers' indices (Caixin & NBS) for December 2024 show. The weak growth in industrial production at the start of 2024 could pick up somewhat towards the end of the year, as the threat of tariffs on Chinese products in 2025 will lead to an increase in inventories worldwide. This effect is likely to fizzle out over the course of 2025, at the latest if the US increases its tariffs in the near future (up to 60% are being discussed). Beijing's efforts to increase the proportion of higher-value industrial production are showing initial success, but the rest of the industry is suffering from weak domestic and foreign demand. In the service sector, business activity is growing again according to the Caixin and NBS PMIs. The service sector appears to have benefited more from the announcement of government stimulus measures compared to the service sector. The real estate market remains characterized by weak sales and sluggish investments, while residential property prices continue to fall significantly, especially in structurally weaker cities.

Executive Summary (2/2)

- While China is facing a potentially serious trade conflict with the USA, an agreement at least seems to be emerging with the EU in the area of electric vehicles. Although the EU's special tariffs came into force on October 30, both sides have been negotiating with each other to find a solution. One option is for Chinese car manufacturers to agree to a minimum price at which they will sell their electric cars in Europe. In the meantime, China has taken temporary anti-dumping measures against imports of spirits from the EU, affecting French brands in particular. France has come out strongly in favor of the punitive measures against Chinese electric vehicles. China has to walk a tightrope, as the EU is an important market for Chinese exports alongside the USA. In view of strict trade restrictions on electric cars in the USA, the EU has become even more important as an export destination.
- In view of the depreciation of the yuan and the sharp decline in long-term government bond yields, the PBoC must continue to act cautiously: While the economy needs further monetary stimulus, A widening interest rate differential with US Treasuries could trigger capital flight and further weaken the yuan. Trump has also threatened to introduce tariffs of up to 60% on all Chinese goods, putting increasing pressure on the yuan to depreciate and severely limiting the PBoC's scope for further growth-promoting interest rate cuts.
- China's exports gained momentum in December and imports also showed some recovery. The strength at the end of the year was partly due to factories moving their inventories abroad to prepare for increased trade risks under the renewed Trump presidency. Exports were a key driver of growth for the world's second-largest economy, which is still weighed down by a lingering housing crisis and low consumer confidence. The near double-digit increase in exports in December (led by the US and ASEAN destinations) and the rise in PMI new orders confirm that the threat of tariffs could influence export behavior in the near future: There is likely to be an increase in shipments before the introduction of new tariffs, followed by a sharp decline.

Contents (1/2)

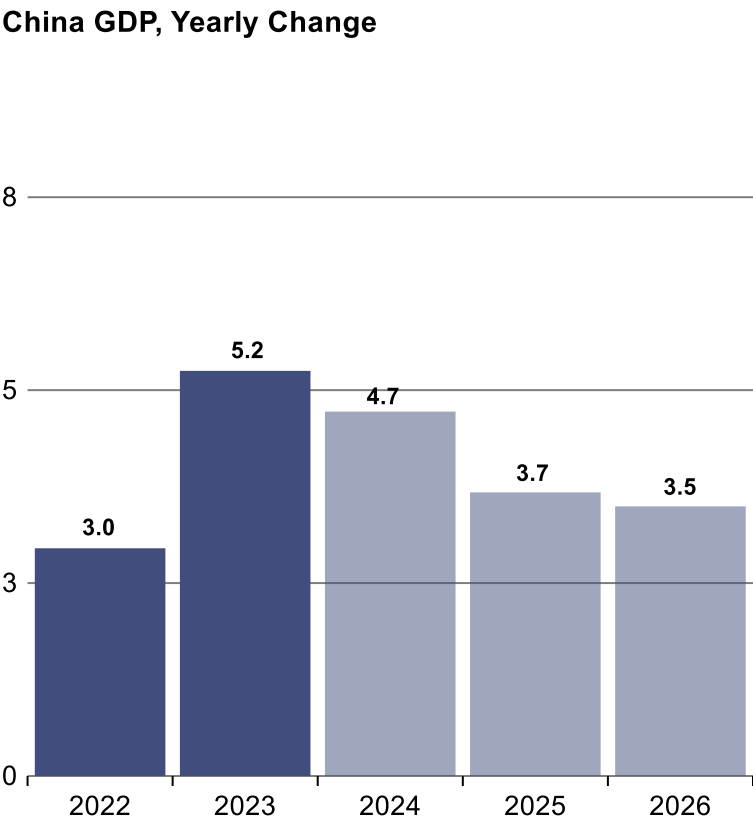
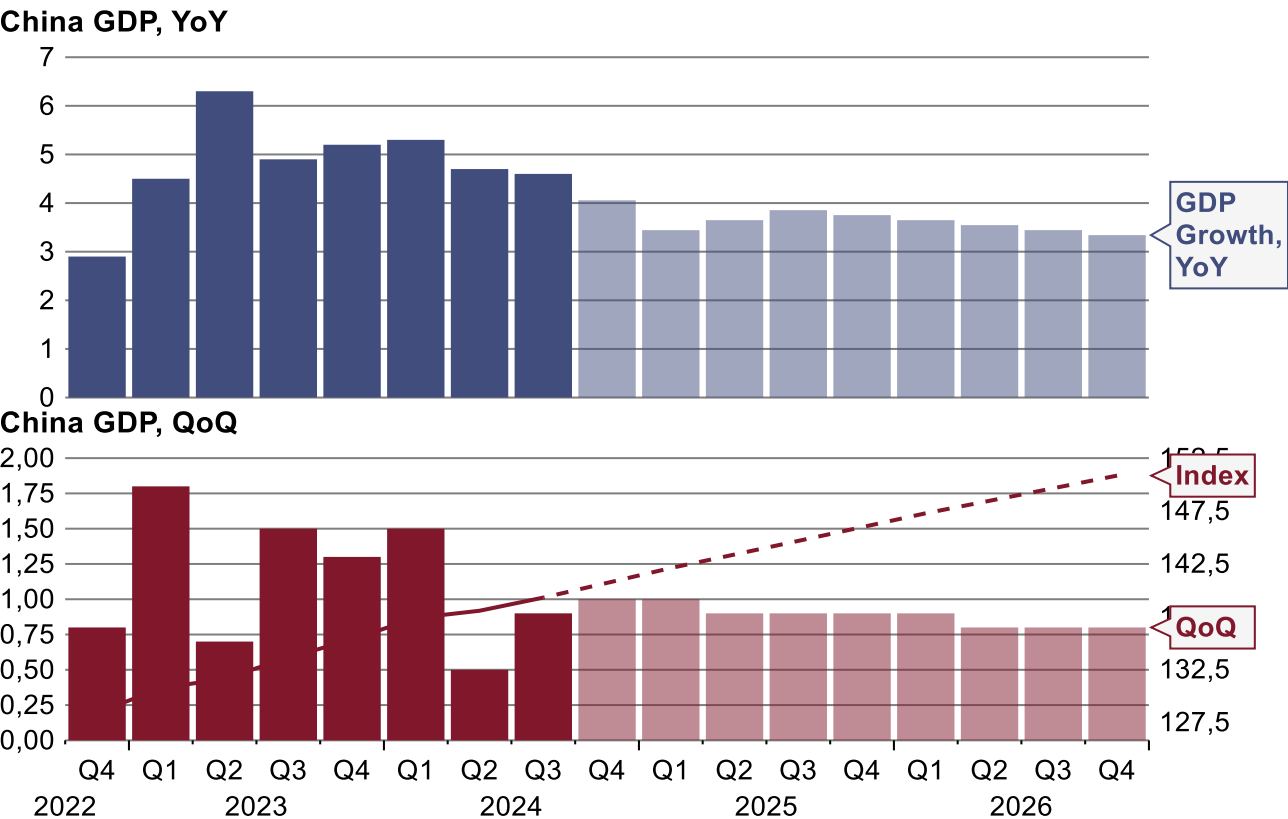
- **GDP:** China is likely to close the fourth quarter at 1.0% QoQ, with consumption acting as a drag. The forecast for 2024 has been lowered from 4.9% to 4.7%, and for 2025 we expect growth of just 3.7% due to structural challenges.
- **Industrial production:** Industrial production grew by 1.2% QoQ in the third quarter of 2024 and is likely to increase to 1.6% in the fourth quarter. Trade tensions and weak global demand are likely to dampen optimism in the course of 2025.
- **Services:** In Q3 2024, services production rose by +1.3% QoQ. Stronger growth is now emerging in Q4 at +2.0% QoQ. However, according to purchasing managers' indices, service providers remain pessimistic about a rapid recovery in the sector.
- **Consumption:** Retail sales rose by 0.8% QoQ in Q3 2024. A similar increase is expected in Q4. This shows that despite positive consumer development, the extent of the recovery remains disappointing.
- **Investments:** Growth in Q3 2024 amounted to 1.7% QoQ, in Q4 it was only 0.9% QoQ decline. The ongoing weakness in the real estate market and the concentration of investments in a few industrial sectors continue to weigh on investment activity.
- **Foreign trade:** The trade balance is expected to stagnate in Q4 2024. However, this could rise significantly in Q1 2025 as factories shift their inventories abroad to prepare for increased trade risks under a Trump presidency.

Contents (2/2)

- **Lending:** Despite monetary and fiscal policy stimuli, lending in China remains weak, as companies and households are suffering from the ongoing real estate crisis and have consequently reduced their propensity to invest and consume.
- **Housing starts:** Following the smaller decline in the third quarter of 2024 (-1.1% QoQ), there was hope of a recovery. However, this was dashed in the fourth quarter by an expected 6.0% contraction in construction starts.
- **Building prices:** The real estate market continues to suffer from over-indebted developers, unfinished apartments and dwindling buyer confidence. After an expected price increase in Q4 2024 (1.9% QoQ), we forecast little improvement for 2025.
- **Currency reserves:** A robust US dollar, falling yields on Chinese bonds and the threat of higher trade barriers in the wake of the Trump presidency have pushed the yuan to a 16-month low, prompting the central bank to sell off reserves.
- **Inflation:** A combination of job insecurity and a prolonged downturn in the real estate market has impacted consumer demand. The inflation outlook depends heavily on the effectiveness of fiscal policy in 2025.
- **Exchange rate:** Trump's 2024 victory has devalued the yuan as his promises could fuel US inflation. Higher prices in the US would make it more difficult to cut interest rates in 2025 and increase pressure on the yuan.
- **Monetary policy:** In Q4 2024, the PBoC was reluctant to cut interest rates: this caution is due to the Fed's decreasing willingness to cut rates quickly in the face of rising inflation. A larger interest rate differential could increase pressure on the yuan.

GDP growth target of 5% in 2024 probably not achievable.

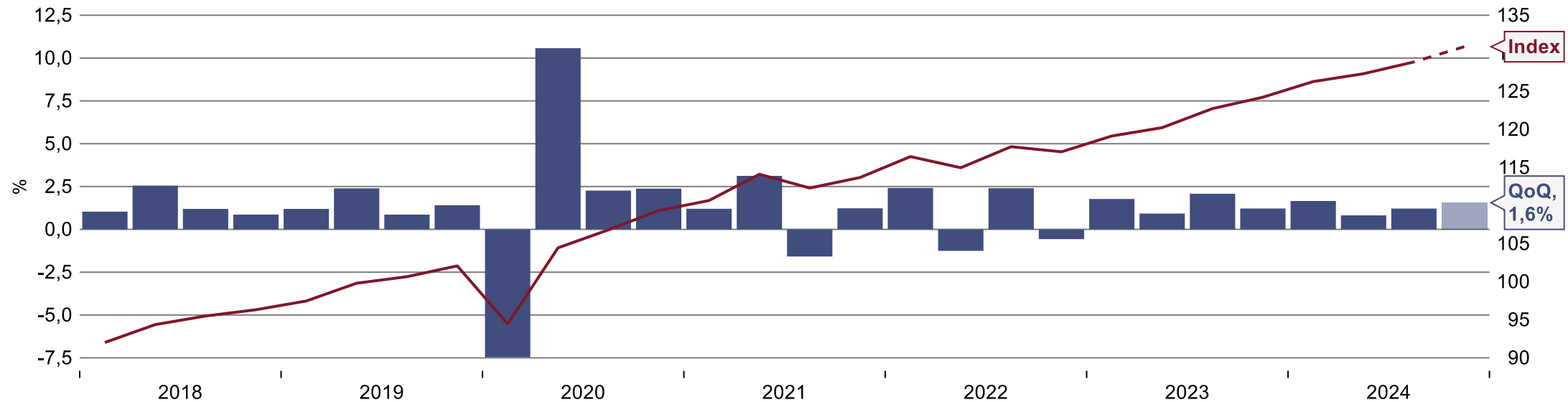
China is likely to close the fourth quarter with 1.0% QoQ, with consumption acting as a drag. The forecast for 2024 has been lowered from 4.9% to 4.7%, and for 2025 we expect growth of just 3.7% due to structural challenges.



Industrial production - Production stronger again for the time being.

Industrial production grew by 1.2% QoQ in the third quarter of 2024 and is likely to increase to 1.6% in the fourth quarter. Trade tensions and weak global demand are likely to dampen optimism in the course of 2025

China, Industrial Production, QoQ and Index, Own Calculations



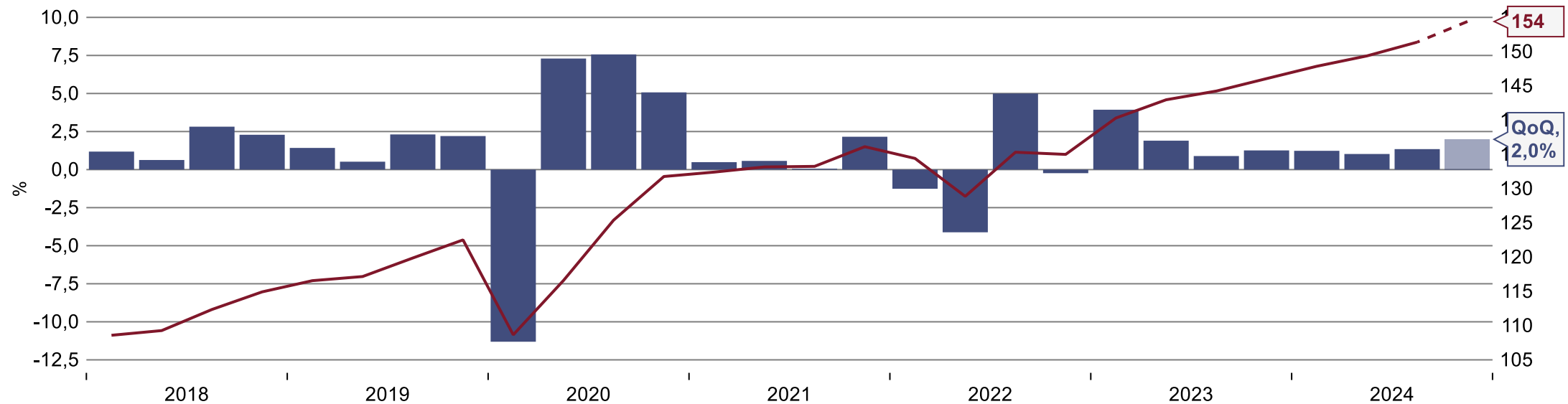
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS), Note: Index 2019 = 100

China monthly data	11-2024	10-2024	9-2024	8-2024	7-2024	6-2024	5-2024
Industrial Production, YoY	5.4	5.3	5.4	4.5	5.1	5.3	5.6
Industrial Production, MoM (own calculation)	0.5	0.5	0.9	0.4	0.3	0.3	0.4

Services sector picks up speed somewhat.

In Q3 2024, services production rose by +1.3% QoQ. Stronger growth is now emerging in Q4 with +2.0 % QoQ. However, according to purchasing managers' indices, service providers remain pessimistic about a rapid recovery in the sector.

China, Services, QoQ and Index, Own Calculations



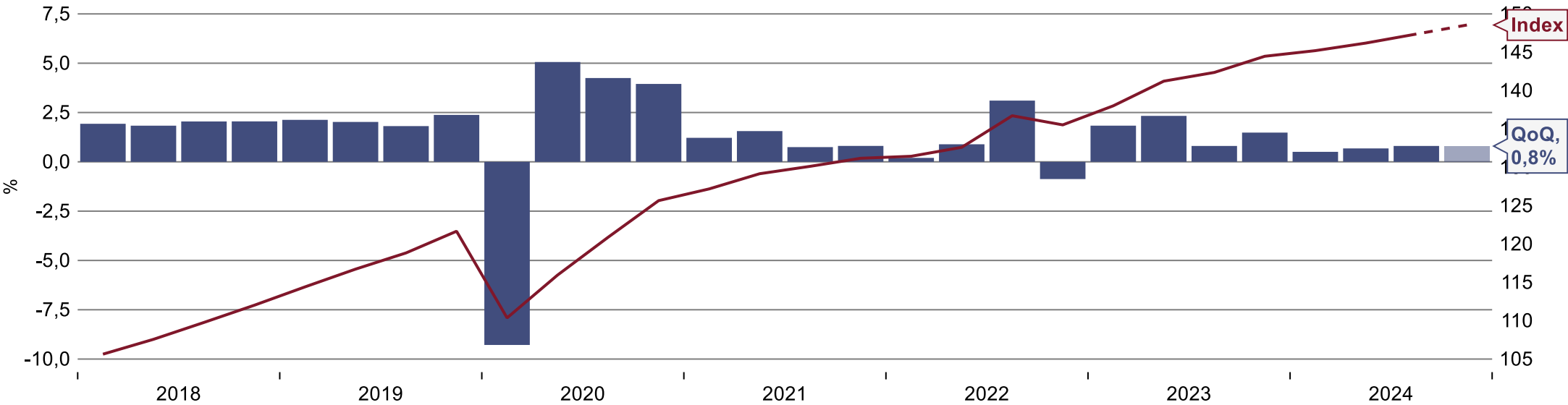
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	11-2024	10-2024	9-2024	8-2024	7-2024	6-2024	5-2024
Services Production, YoY	6.1	6.3	5.1	4.6	4.8	4.7	4.8
Services Production, MoM (own calculation)	0.3	1.0	0.8	0.6	0.1	0.4	0.9

Consumption - Retail sales grow only moderately.

Retail sales rose by 0.8% QoQ in Q3 2024. A similar increase is expected in Q4. This shows that despite positive consumer growth, the extent of the recovery remains disappointing.

China, Retail Sales, QoQ and Index Value, Own Calculations



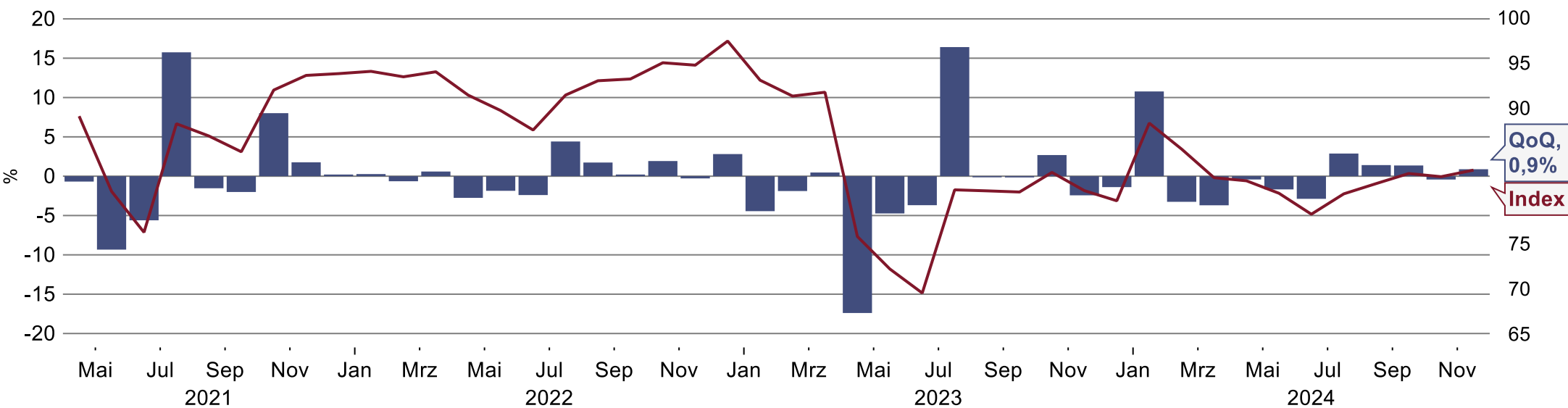
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	11-2024	10-2024	9-2024	8-2024	7-2024	6-2024	5-2024
Retail Sales, YoY	3.0	2.9	3.3	3.3	4.0	3.6	3.6
Retail Sales, MoM	0.2	0.3	0.5	0.2	0.3	0.0	0.5

Investments - Growth recovers slightly.

Growth in Q3 2024 amounted to 1.7% QoQ, in Q4 it was only 0.9% QoQ decline. The ongoing weakness in the real estate market and the concentration of investments in a few industrial sectors continue to weigh on investment activity.

China, fixed urban investment, MoM, based on monthly figures, SA, own calculation



Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

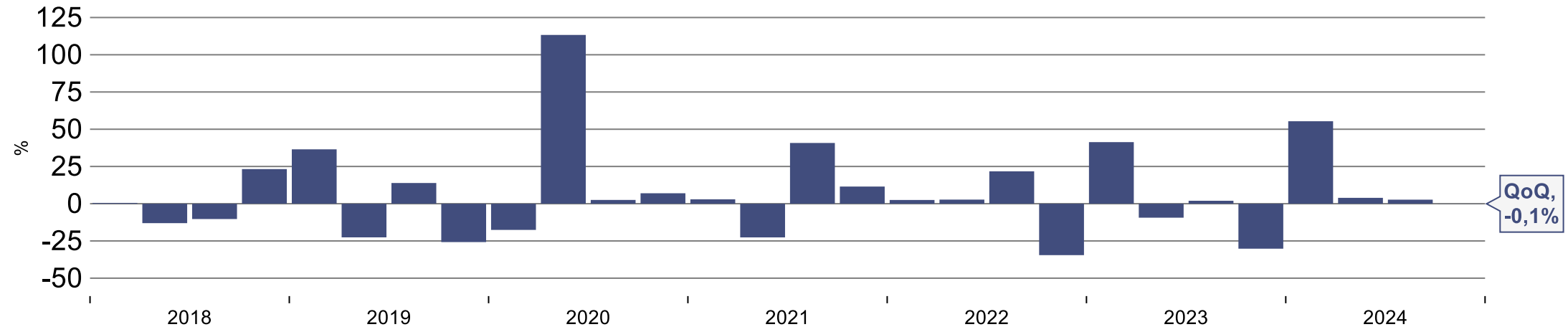
China monthly data	11-2024	10-2024	9-2024	8-2024	7-2024	6-2024	5-2024
Fixed Asset Investment, YoY	2,8	-0,6	2,5	1,0	-0,5	12,5	11,6
Fixed Asset Investment, MoM	0,9	-0,4	1,4	1,4	2,9	-2,9	-1,7

Note: China does not publish YoY and MoM data of fixed capital investment, but only ytd data. Therefore, outliers are possible due to inconsistencies of the original data taken as base for own calculations.

Foreign trade - Possible US tariffs boost foreign femand.

The trade balance is expected to stagnate in Q4 2024. However, this could rise significantly in Q1 2025 as factories shift their inventories abroad to prepare for increased trade risks under a Trump presidency.

China, Foreign Trade, Change of the trade balance, QoQ, in %



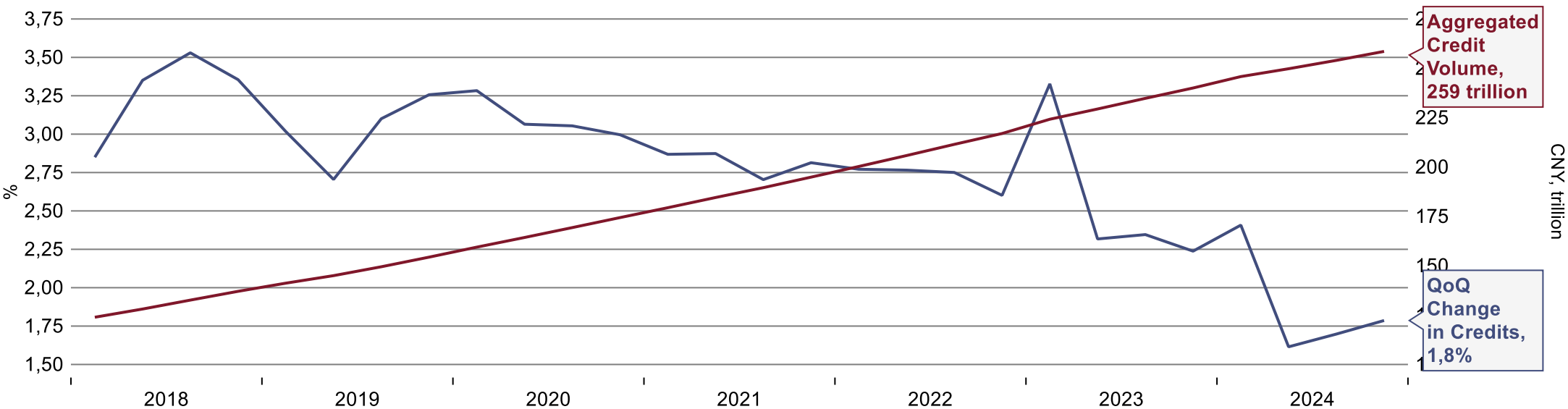
Source: Macrobond, HCOB Economics, China Customs Statistics Information Center (CCS)

China monthly data	12-2024	11-2024	10-2024	9-2024	8-2024	7-2024	6-2024
Exports, MoM	1.9	0.0	5.1	-3.5	4.2	-3.9	0.9
Imports, MoM	2.1	-1.2	-0.1	-0.2	0.1	0.3	-1.3
Exports, YoY	9.8	8.6	11.8	2.4	10.1	5.2	10.5
Imports, YoY	-1.0	-2.1	-4.2	0.5	2.1	4.2	0.7
Trade Balance, in billion USD	96.9	89.0	87.3	74.5	86.4	76.3	91.6

Loans - New lending remains weak.

Despite monetary and fiscal policy stimuli, lending in China remains weak, as companies and households are suffering from the ongoing real estate crisis and have reduced their propensity to invest and consume as a result.

China, Credit Volume, QoQ: Aggregated and Relative, CNY



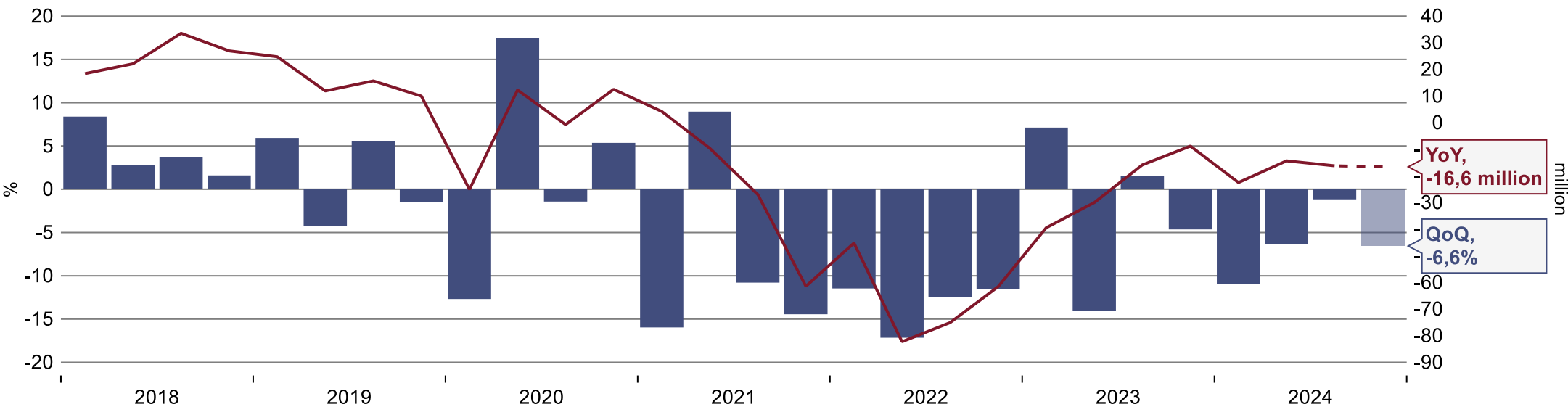
Source: Macrobond, HCOB Economics, People's Bank of China (PBoC)

China monthly data	12-2024	11-2024	10-2024	9-2024	8-2024	7-2024	6-2024
Credits, YoY	7,8	7,9	8,0	8,2	8,6	8,8	8,9
Credits, MoM	0,4	0,3	0,2	0,6	0,4	0,1	0,8

Housing starts - New construction figures desolate again.

After the smaller decline in the third quarter of 2024 (-1.1% QoQ), there was hope of a recovery. However, this was dashed in the fourth quarter by an expected 6.0% contraction in new construction starts.

China, Construction Starts, QoQ and YoY value



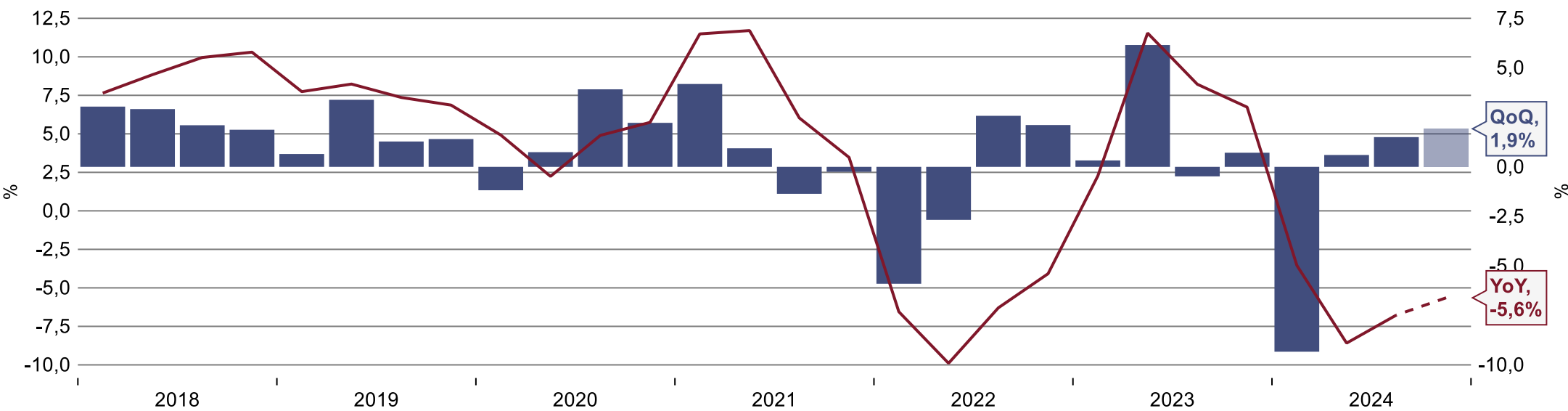
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	11-2024	10-2024	9-2024	8-2024	7-2024	6-2024	5-2024
Construction Starts, YoY	-26.6	-26.3	-21.4	-17.4	-18.4	-19.2	-21.2
Construction Starts, MoM	-0.7	-6.2	-1.8	0.3	0.4	-2.5	-6.4

Construction prices - Still no sign of recovery.

The real estate market continues to suffer from over-indebted developers, unfinished apartments and dwindling buyer confidence. After an expected price increase in Q4 2024 (1.9% QoQ), we forecast little improvement for 2025.

China, Average Price of Commercialized Buildings, QoQ and YoY Value



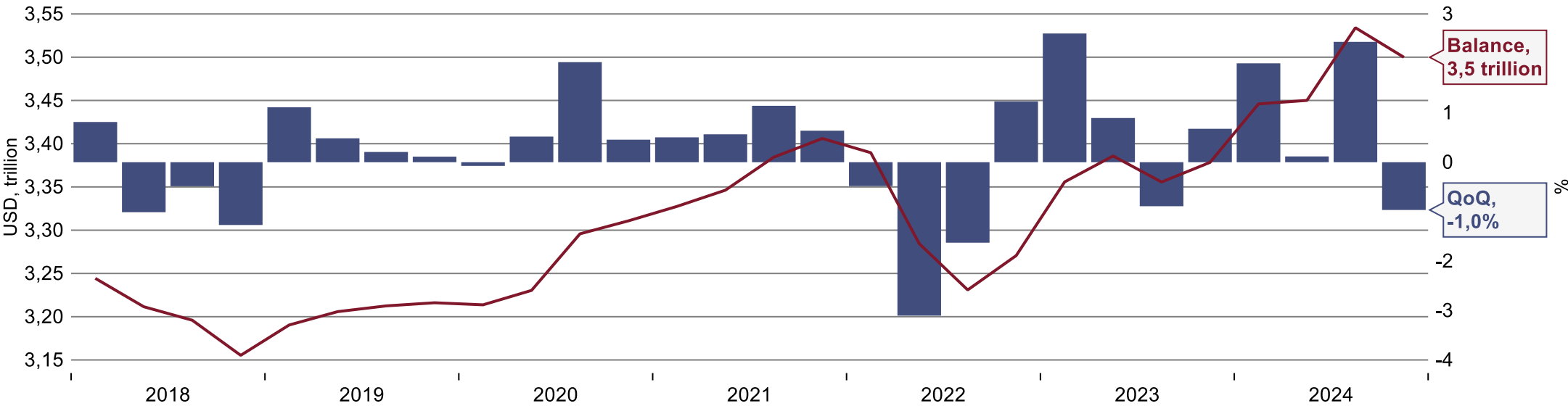
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	11-2024	10-2024	9-2024	8-2024	7-2024	6-2024	5-2024
Average Price, YoY	-5.7	-6.0	-6.7	-6.8	-6.9	-7.2	-9.2
Average Price, MoM	0.2	0.6	-0.6	0.1	0.1	1.1	1.4

Currency reserves - Foreign currency holdings are shrinking again.

A robust US dollar, falling yields on Chinese bonds and the threat of higher trade barriers in the wake of the Trump presidency have pushed the yuan to a 16-month low, prompting the central bank to sell off reserves.

China, International Reserves, QoQ change, Balance, USD



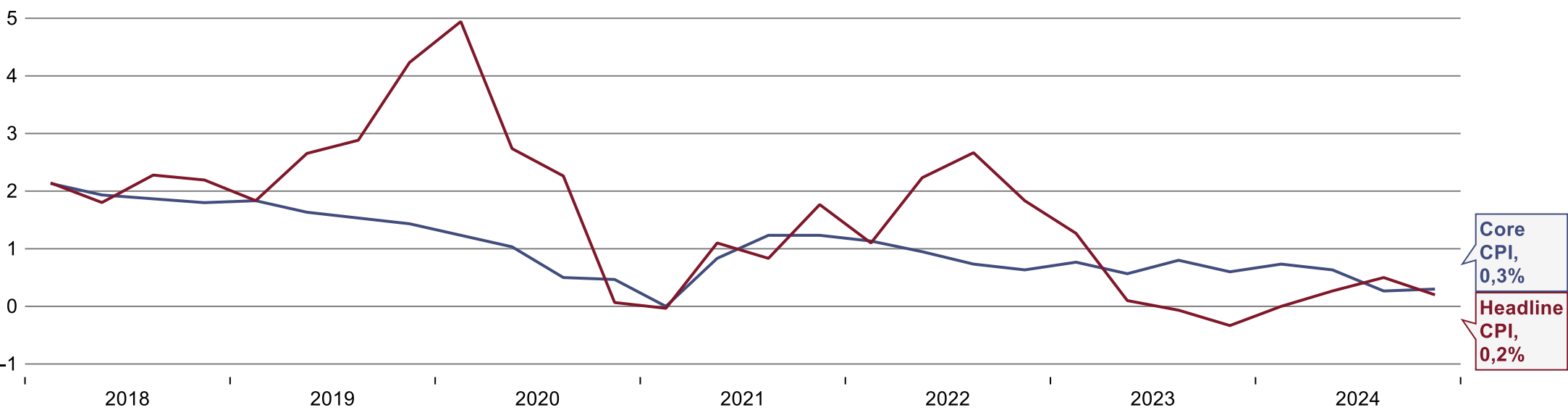
Source: Macrobond, HCOB Economics, People's Bank of China (PBoC)

China monthly data	12-2024	11-2024	10-2024	9-2024	8-2024	7-2024	6-2024
Foreign Reserves, YoY	0,2	4,2	6,6	8,0	5,3	2,8	2,0
Foreign Reserves, MoM	-1,9	0,0	-1,4	1,0	1,1	1,2	-0,3

Inflation - The price level can hardly rise.

A combination of job insecurity and a persistent downturn on the real estate market has impaired consumer demand. The inflation outlook depends heavily on the effectiveness of fiscal policy in 2025.

China, CPI: Headline and Core, Quarterly YoY, Own Calculation



Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	12-2024	11-2024	10-2024	9-2024	8-2024	7-2024	6-2024
Headline, YoY	0.1	0.2	0.3	0.4	0.6	0.5	0.2
Core, YoY	0.6	0.6	0.2	0.1	0.3	0.4	0.6
Headline, MoM	0.0	-0.6	-0.3	0.0	0.4	0.5	-0.2
Core, MoM	0.2	0.0	0.0	-0.1	-0.2	0.3	-0.1

Exchange rate - USD upward pressure weighs on RMB.

Trump's 2024 victory has devalued the yuan as his promises could fuel US inflation. Higher prices in the US would make rate cuts in 2025 more difficult and increase pressure on the yuan.

China, FX Spot Rates, Daily

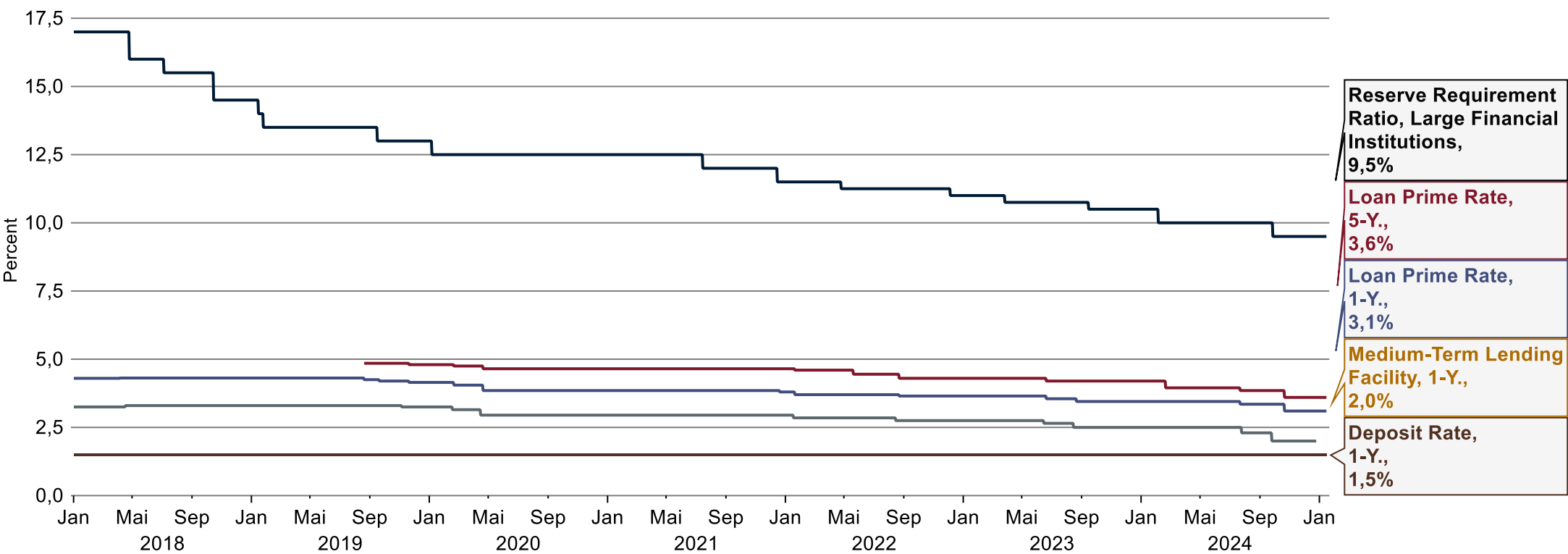


Source: Macrobond, HCOB Economics, People's Bank of China (PBoC), Macrobond Financial AB

Monetary policy - Further rate cuts in 2025 will be more difficult.

In Q4 2024, the PBoC was reluctant to cut interest rates: this caution is due to the Fed's decreasing willingness to cut rates quickly in the face of rising inflation. A larger interest rate differential could increase pressure on the yuan.

China, Monetary policy instruments, Key interest rates, Daily



Source: Macrobond, HCOB Economics, People's Bank of China (PBoC)

China: The key economic quarterly data at a glance

Overview - Quarterly Data for China	Q4-2024*	Q3-2024	Q2-2024	Q1-2024	Q4-2023	Q3-2023	Q2-2023	Q1-2023
GDP QoQ	0.9	1.0	1.0	0.9	0.5	1.5	1.3	1.5
GDP YoY	3.6	3.4	4.1	4.6	4.7	5.3	5.2	4.9
Industrial Production QoQ	1.5	1.2	0.6	1.9	1.2	2.0	1.0	1.8
Services QoQ	2.0	1.3	1.0	1.2	1.3	0.9	1.9	3.9
Retail Sales QoQ	0.8	0.8	0.7	0.5	1.5	0.8	2.3	1.8
Fixed Urban Investment QoQ	1.5	1.7	-6.0	5.2	0.4	11.5	-21.2	-3.8
Trade Balance QoQ	-0.1	2.7	3.9	55.4	-30.2	2.0	-9.4	41.3
Core CPI QoQ	0.3	0.3	0.6	0.7	0.6	0.8	0.6	0.8
Headline CPI QoQ	0.2	0.5	0.3	0.0	-0.3	-0.1	0.1	1.3
Credit Volume QoQ	1.3	1.7	1.7	2.3	2.2	2.4	2.4	3.3
Average Real Estate Prices QoQ	1.9	1.5	0.6	-9.3	0.7	-0.5	6.2	0.3
Construction Starts QoQ	-6.6	-1.2	-6.3	-10.9	-4.6	1.5	-14.1	7.1
Foreign Reserves (tril. USD)	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4
Change in Foreign Reserves QoQ	-1.0	2.4	0.1	2.0	0.7	-0.9	0.9	2.6
Loan Prime Rate, 1-Y., (in %)	3.10	3.35	3.45	3.45	3.45	3.45	3.55	3.65

*Forecast

China: Annual calendar 2025 - all important dates at a glance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Data Release Dates												
GDP QoQ	-	-	-	18	-	-	17	-	-	18	-	-
Industrial Production (monthly)	17	-	15	18	16	15	17	15	15	18	15	15
Retail Sales (monthly)	17	-	15	18	16	15	17	15	15	18	15	15
Trade Balance (monthly)	13	-	7	13	9	7	13	8	7	13	7	7
Foreign Reserves (monthly)	14	-	7	13	9	7	13	8	7	13	7	7
CPI (monthly)	12	10	9	11	11	9	10	9	9	13	9	9
Loan Prime Rate (monthly)	20	20	20	20	22	20	20	21	20	20	20	20
Important Events												
Public Holidays	10-17 [*]			4-6 [*]	1-5 [*]	8-10 [*]			15-17 [*]		1-7 [*]	
Politburo Meeting	TBA									TBA		
BRICS Summit										TBA		
Taiwan Elections	13											
	TBA = to be announced			*Chinese New Year			*Tomb-Sweeping Day			*Labour Day		
	*Dragon Boat Festival			*Mid-Autumn Festival			*Golden Week					

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