

# China Quarterly - Q1/2025

## A last gasp before the trade war?

Economics

April 2025

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# Executive Summary (1/3)

## **Growth forecast lowered to 3.4 % (from 3.7 %)**

- China has once again set a growth target of 5% for this year, but is likely to have great difficulty in achieving this target due to the tariff war with the US. The deflationary trend - inflation was -0.1% yoy in March - is likely to worsen due to the tariffs. We now expect China's GDP to expand by only 3.4% this year. This is based on the assumption that exports to the US, which account for around 14% of China's total exports, will slump by 30-40%. This slump in demand will probably only be partially offset by increased sales in the domestic market and on third markets.

## **Foreign trade made a significant contribution to growth in 2024 - and is now under fire**

- The traditional instrument of boosting growth through more construction investment is not available to the government, as the residential real estate market is still in adjustment mode after the bubble burst. The government is now in the process of counteracting this with an economic stimulus program aimed at consumption. As the data for the first quarter shows, this does not appear to be entirely unsuccessful. However, it is unclear how sustainably consumption will be stimulated, as the fundamental problem that many private households have invested their savings in the residential real estate sector, where prices are continuing to fall, remains. The green technology sector (e.g. EVs, solar panels, batteries) has established itself as a further growth driver, with production exceeding domestic consumption and increasingly being sold abroad.
- In fact, a significant proportion of last year's official economic growth of 5% came from foreign trade, namely 1.5 percentage points. However, it is now precisely exports that are under (US tariff) fire. It should be noted that China, which is practically excluded from the American market in many areas, must expect resistance in the form of further tariffs or import bans in its search for new markets.

# Executive Summary (2/3)

## Mixed growth picture for the first quarter

- China reported economic growth of 5.4% YoY and 1.2% QoQ for the first quarter, a surprisingly solid result, but one that should not be overestimated. It is true that the first US tariff increases against China came into force at the beginning of February. However, the quasi-prohibitive tariffs on the majority of export products only came into effect at the beginning of April. In this respect, the first quarter is primarily characterized by anticipatory effects in order to circumvent the higher tariffs. This effect was reflected in significant (seasonally adjusted) growth in industrial production (2.5% QoQ) and exports (2.1% QoQ). There is likely to be a setback here as early as the current second quarter.
- Overall, the figures for the first quarter paint a mixed picture. The trade balance, which increased by 6.2% in this period, had a positive impact on growth. However, this is not so much due to export growth. Rather, the contribution to growth is mainly due to the massive fall in imports (-4.6 %). The slump in imports is basically a sign of weak domestic demand. This can be seen in investment activity, which fell by over 6 % QoQ in the first quarter (fixed urban investment). The decline in construction activity played a significant role in this. Construction starts fell by a full 8% QoQ in the first quarter.

## Is the stimulus program for consumption working?

- Consumer spending, on the other hand, is developing relatively well. Retail sales rose by 1.7% QoQ in the first quarter, which roughly corresponds to the rate of expansion in the previous quarter. The growth rate for services, which can also be used as an indicator of consumer development, is similarly high (1.6% QoQ). However, this is significantly less than in the fourth quarter, meaning that momentum has slowed.
- In view of the impending loss of growth due to foreign trade, the government is trying to counteract this with an obvious increase in lending, with moderate success so far. Although the 2.2% QoQ growth in the credit volume in Q1 is stronger than in the second half of 2024, it is significantly lower than in previous years, when the increase sometimes exceeded 3%.

# Executive Summary (3/3)

## Overproduction reinforces deflationary tendencies

- Given this weak growth environment and overproduction in the industrial sector, it is not so surprising that China is struggling with deflation rather than inflation. In March, the inflation rate was -0.1% YoY and has thus been at or below 0.5% since Q2 2023.

## No indication of Chinese intervention in the market for T-notes

- The development of currency reserves is interesting in these times, as there is speculation that China is reducing its reserves, some of which are invested in US government bonds, and has therefore contributed to the turbulence on the US government bond markets. The currency reserves currently stand at 3.23 trillion US dollars and have actually fallen slightly in the past two quarters. However, the trend has been upwards again in recent months, so we cannot see any evidence of targeted market intervention here.
- In this respect, we see no evidence here that China is trying to weaken the yuan, as this would require currency reserves to rise, not fall. The sharp fall in the value of the yuan against the euro is striking. One euro currently costs CNY 8.27, compared with almost 10% less at the end of February. However, this currency movement is driven by the euro, which has also appreciated significantly against the US dollar.

## People's Bank of China cuts interest rates only cautiously

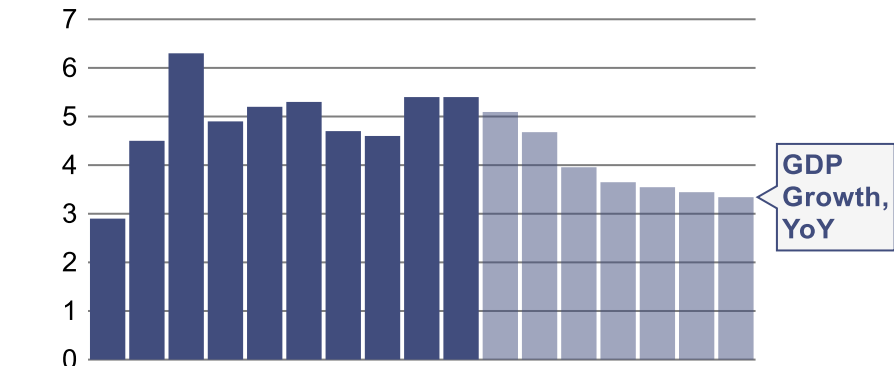
- The People's Bank of China has not yet cut interest rates this year, having basically been on a rate-cutting course since the beginning of 2020. Further interest rate cuts may follow. However, the central bank must be careful not to let the CNY's relatively moderate depreciation against the US dollar get out of hand. However, this does not look likely at present, as the dollar is also weakening.

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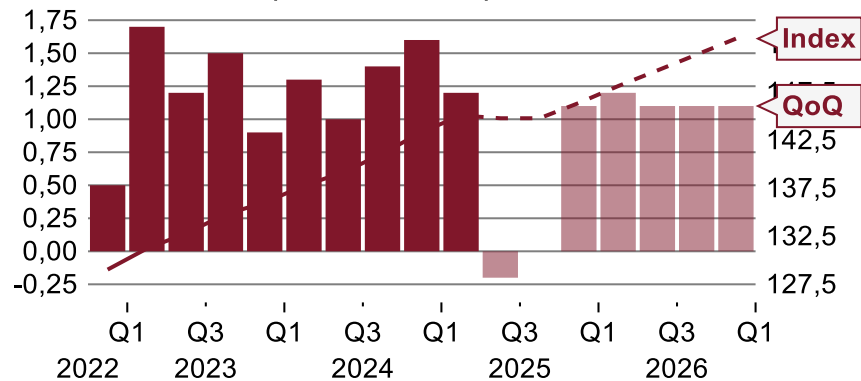
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# GDP - Relatively strong GDP growth in Q1 should not be overestimated.

China GDP, YoY (2025 Q1: 5,4%)

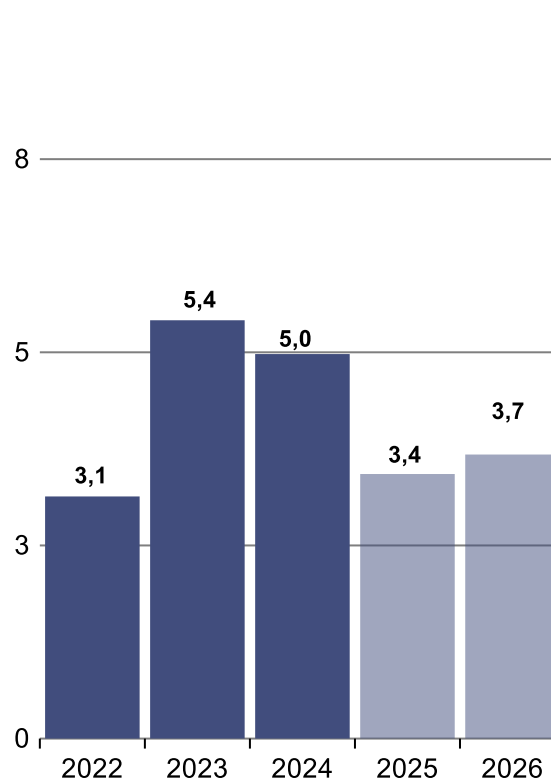


China GDP, QoQ (2025 Q1: 1,2%)



Source: Macrobond, HCOB Economics

China GDP, Yearly Change

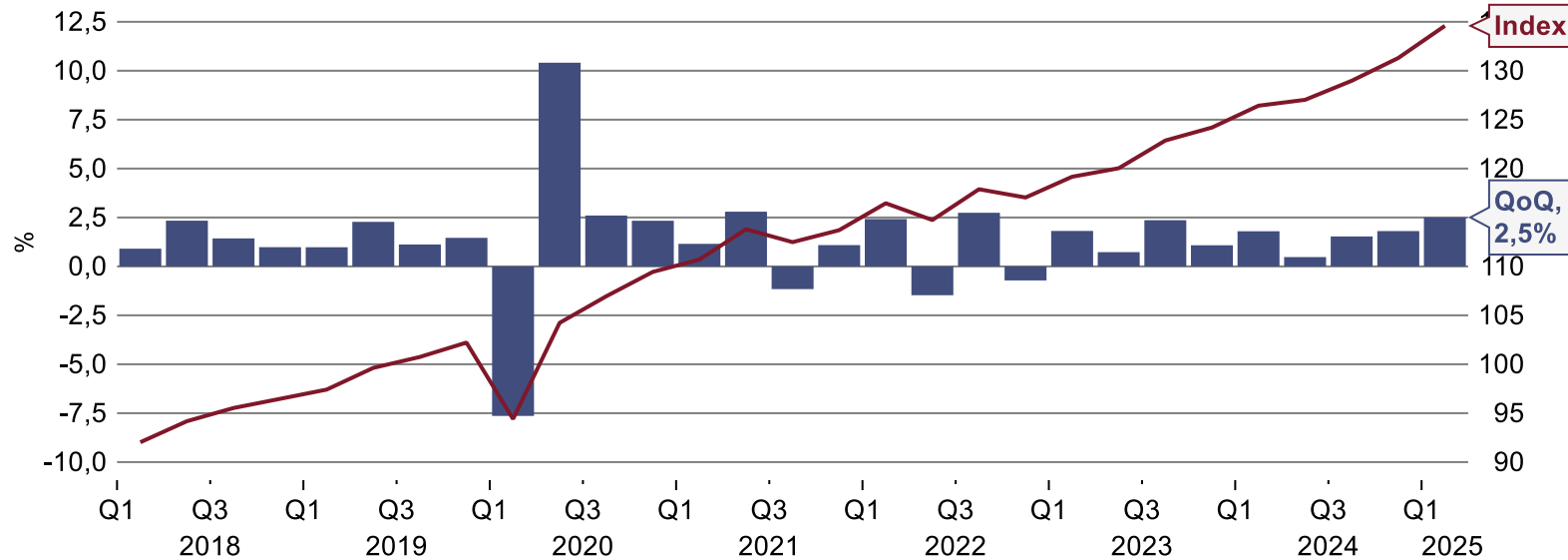


Source: Macrobond, HCOB Economics

- China did relatively well at the start of the year. However, antipacitory effects play an important role here.
- We expect a massive slump in growth in the coming quarters due to the US tariffs.
- Overall, China's growth is likely to fall back to 3.4%.

# Industrial production - Acceleration in growth will not last.

China, Industrial Production, QoQ and Index, Own Calculations



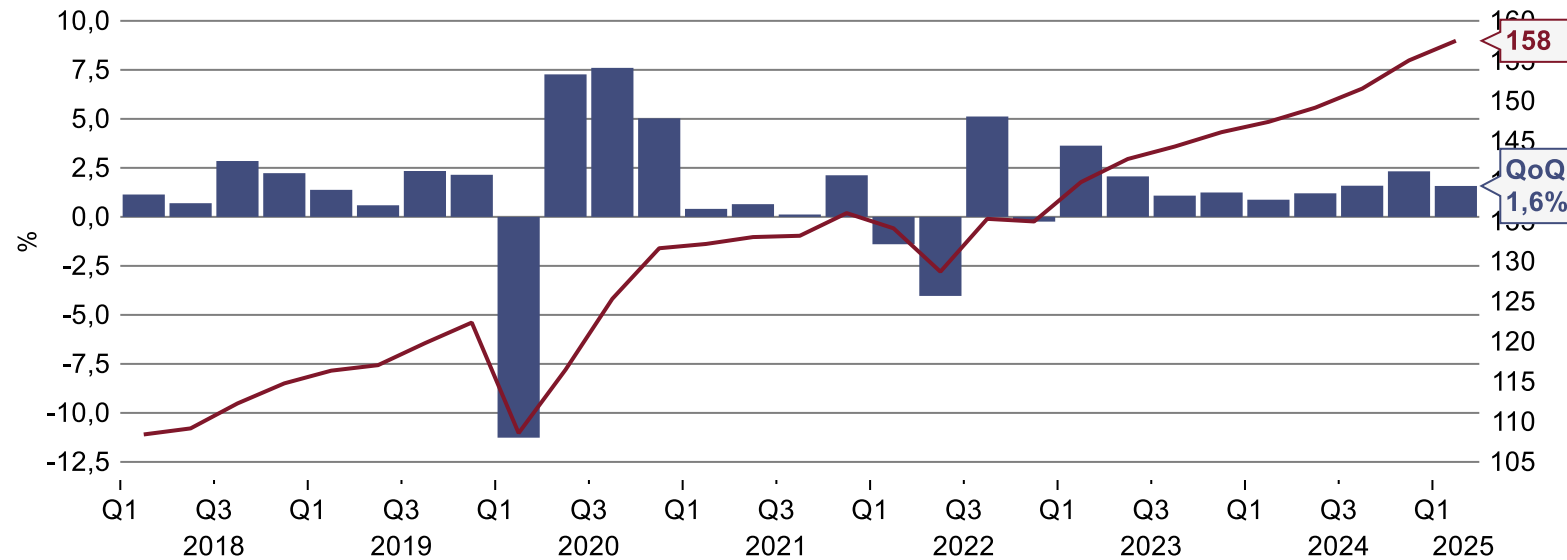
- Growth in the industry has accelerated.
- Anticipatory effects due to the foreseeable increase in customs duties are likely to have contributed significantly to this result.
- Rebound effect expected from Q2.

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

China monthly data	3-2025	2-2025	1-2025	12-2024	11-2024	10-2024	9-2024
Industrial Production, YoY	7,7	5,9	6,2	6,2	5,4	5,3	5,4
Industrial Production, MoM	-1,4	2,5	0,6	0,8	0,5	0,5	0,8
Industrial Production, YtD YoY	6,5	5,9	5,8	5,8	5,8	5,8	5,8

# Services - Momentum declining, but still solid.

China, Services, QoQ and Index, Own Calculations



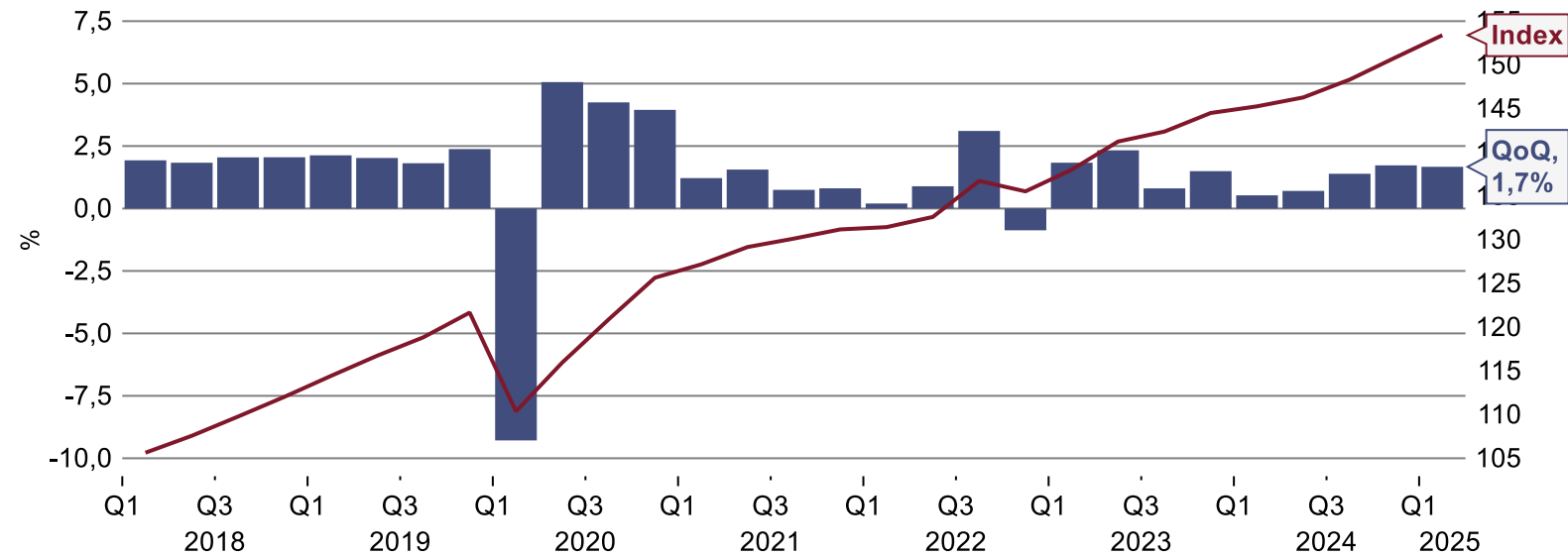
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

- Solid growth in services is an indication of robust consumer demand.
- Momentum is slowing, it is unclear how sustainable the growth path is.
- As industrial production could come under pressure, the service sector is particularly challenged as a stabilizer of growth.

China monthly data	3-2025	2-2025	1-2025	12-2024	11-2024	10-2024	9-2024
Services Production, YoY	6,3	5,6	6,5	6,5	6,1	6,3	5,1
Services Production, MoM	0,2	0,5	0,6	0,7	0,4	1,1	0,8
Services Production, YtD YoY	5,8	5,6	5,2	5,2	5,1	5,0	4,9

# Private consumption - Retail sales grow relatively robustly.

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



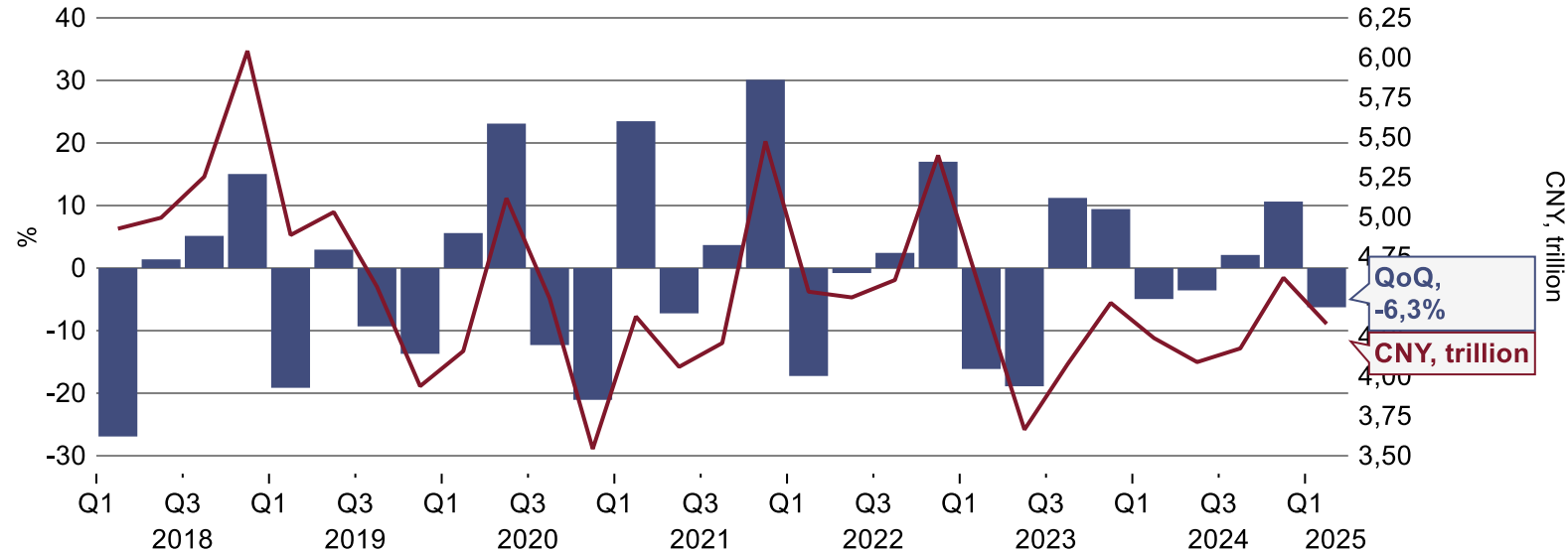
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

- Private consumption expands at a similar rate to the previous quarter.
- The government's consumption stimulus program appears to be having some effect.
- However, it is questionable how sustainably consumption will expand through pure stimulus measures if the structural problems (e.g. lack of pension provision) are not tackled at the same time.

China monthly data	3-2025	2-2025	1-2025	12-2024	11-2024	10-2024	9-2024
Retail Sales, YoY	5.8	5.7	5.2	4.6	4.5	4.1	4.2
Retail Sales, MoM	0.6	0.6	0.6	0.5	0.5	0.6	0.7
Retail Sales, YtD YoY	4.6	4.0	3.5	3.5	3.5	3.5	3.3

# Investments - They are currently weighing on growth.

China, Fixed Urban Investment, in % and in CNY (own calculation)



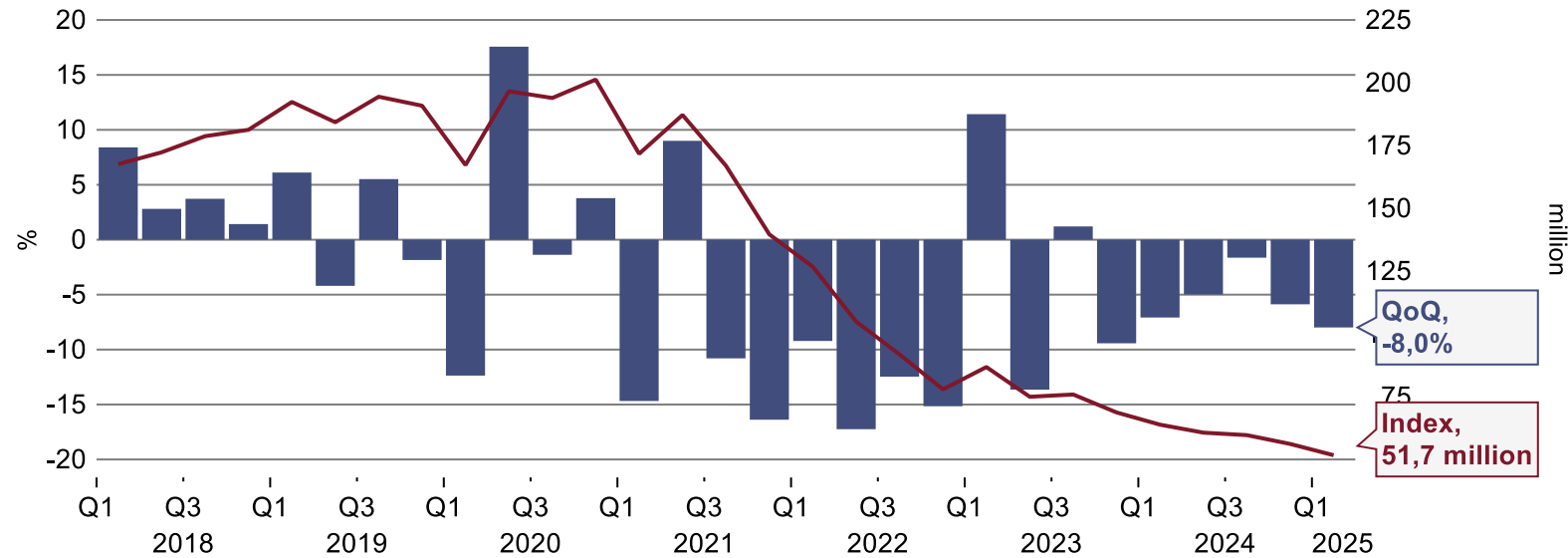
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

- Domestic demand is depressed in Q1 by falling demand for capital goods.
- High growth in the previous quarter was probably just an outlier.
- Construction investment in particular has fallen sharply.

China monthly data	3-2025	2-2025	1-2025	12-2024	11-2024	10-2024	9-2024
Fixed Asset Investment, YoY	n/a	1.2	1.0	11.4	-1.5	1.1	4.0
Fixed Asset Investment, MoM	n/a	-0.3	-18.6	16.8	8.2	-0.4	2.0
Fixed Asset Investment, YtD YoY	0.1	2.1	2.1	-0.1	-0.1	0.0	0.0

# Construction investment - Recession in the construction sector continues unabated.

China, Construction Starts, QoQ and units



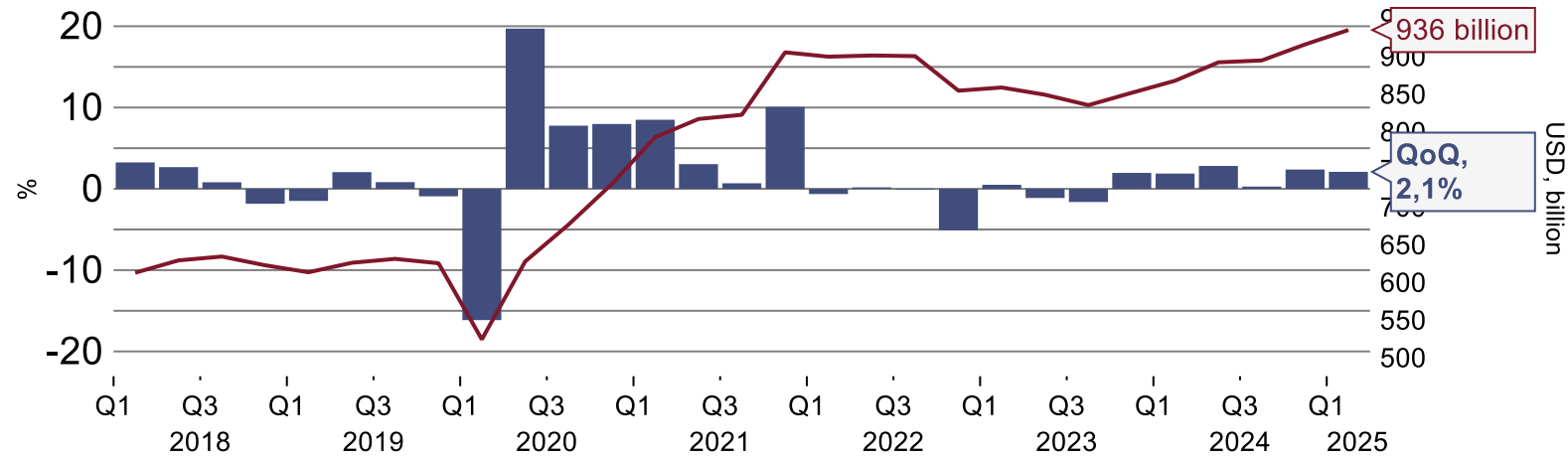
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	3-2025	2-2025	1-2025	12-2024	11-2024	10-2024	9-2024
Construction Starts, YoY	-19.0	-30.3	-30.7	-18.3	-26.6	-26.3	-21.3
Construction Starts, MoM	2.6	-2.5	-8.1	1.5	-1.1	-6.3	-1.9
Construction Starts, YtD YoY	-24.7	-24.6	-25.2	-24.9	-24.5	-23.4	-22.6

- The former growth engine has become a brake on growth over the past four years.
- With real estate prices continuing to fall and the population shrinking, there is no prospect of this changing in the near future.
- Last year's interest rate cuts have not changed the situation on the real estate market.

# Exports - No noticeable momentum despite anticipatory effects.

China, Foreign Trade, Change of Exports, QoQ, in %



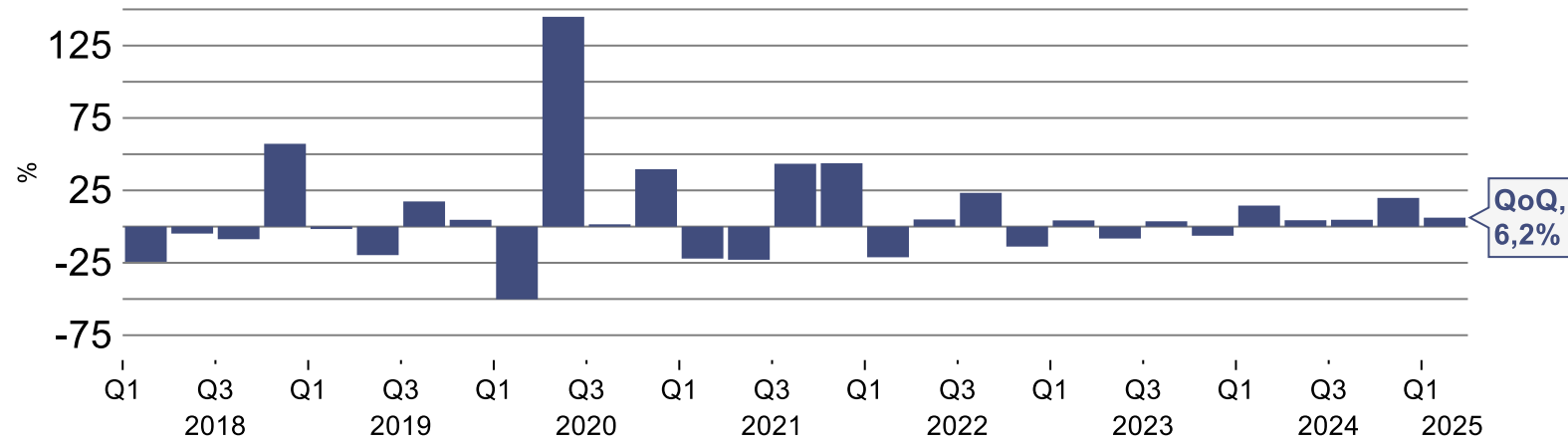
Source: Macrobond, HCOB Economics, China Customs Statistics Information Center (CCS)

- In the future, China's exports to the USA could fall by 30 to 40%.
- Exports expanded in Q1. However, given the anticipatory effects in connection with the US tariffs, greater momentum could have been expected.
- A rebound effect is expected for Q2.

China monthly data	3-2025	2-2025	1-2025	12-2024	11-2024	10-2024	9-2024
Exports, MoM	9,4	-3,6	-0,2	2,0	-0,1	4,9	-3,2
Imports, MoM	-5,3	15,3	-11,1	2,1	-0,9	-0,6	-0,2
Exports, YoY	11,0	0,9	5,8	9,8	8,5	11,8	2,5
Imports, YoY	-4,4	4,9	-15,8	-1,1	-2,2	-4,3	0,5
Trade Balance, in billion USD	106,2	62,6	120,9	92,7	92,4	92,5	79,5

# Trade balance - Increase in Q1 mainly due to lower imports.

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



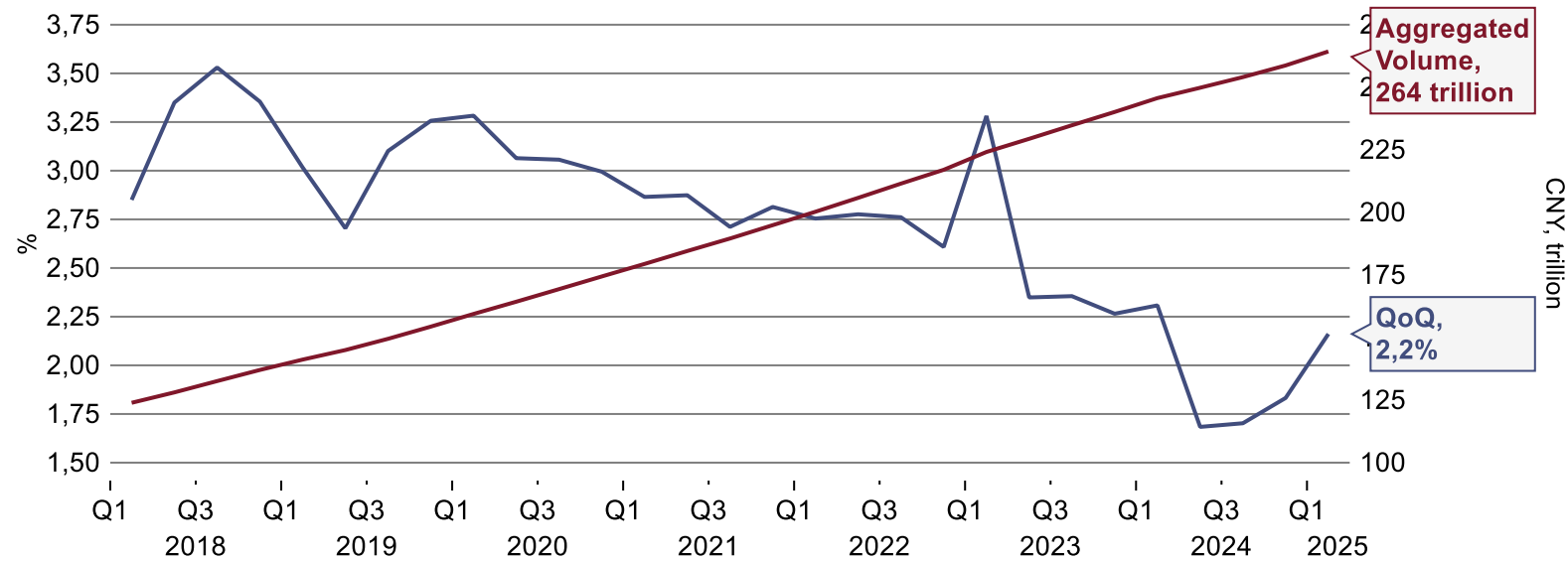
Source: Macrobond, HCOB Economics, China Customs Statistics Information Center (CCS)

- Economic growth in Q1 is primarily based on the increase in net exports (dominated by the trade balance).
- However, the sharp fall in imports is the main factor here, rather than the rise in exports.
- However, the fall in imports is an indication of weak domestic demand, particularly for investments.

China monthly data	3-2025	2-2025	1-2025	12-2024	11-2024	10-2024	9-2024
Exports, MoM	9,4	-3,6	-0,2	2,0	-0,1	4,9	-3,2
Imports, MoM	-5,3	15,3	-11,1	2,1	-0,9	-0,6	-0,2
Exports, YoY	11,0	0,9	5,8	9,8	8,5	11,8	2,5
Imports, YoY	-4,4	4,9	-15,8	-1,1	-2,2	-4,3	0,5
Trade Balance, in billion USD	106,2	62,6	120,9	92,7	92,4	92,5	79,5

# Loans - Lending volume increases, but rise relatively weak.

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



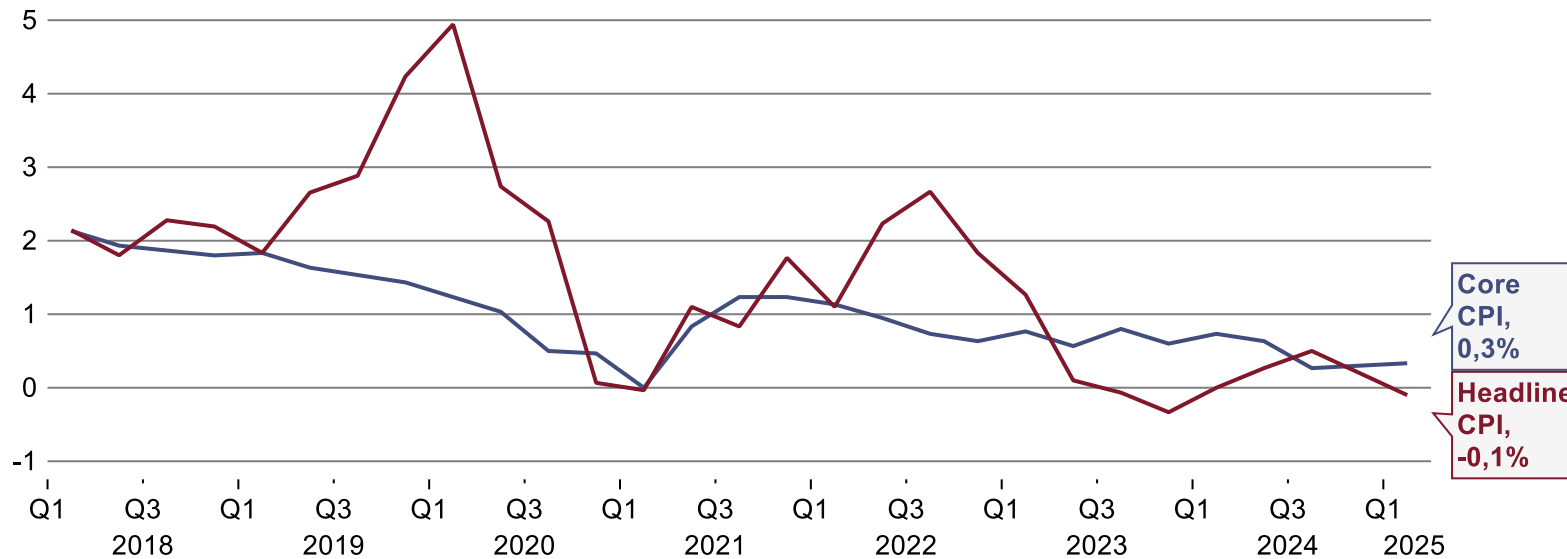
Source: Macrobond, HCOB Economics, People's Bank of China (PBoC)

- The government is also trying to stimulate the economy by more granting of credit.
- However, credit growth remains well below what has been achieved in recent years.
- Above all, the credit-intensive real estate sector is hardly an option as a borrower, as the sector remains in crisis.

China monthly data	3-2025	2-2025	1-2025	12-2024	11-2024	10-2024	9-2024
Credits, YoY	7,6	7,5	7,7	7,8	7,9	8,0	8,2
Credits, MoM	1,4	0,4	2,0	0,4	0,3	0,2	0,6

# Inflation - Deflationary tendencies persist.

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



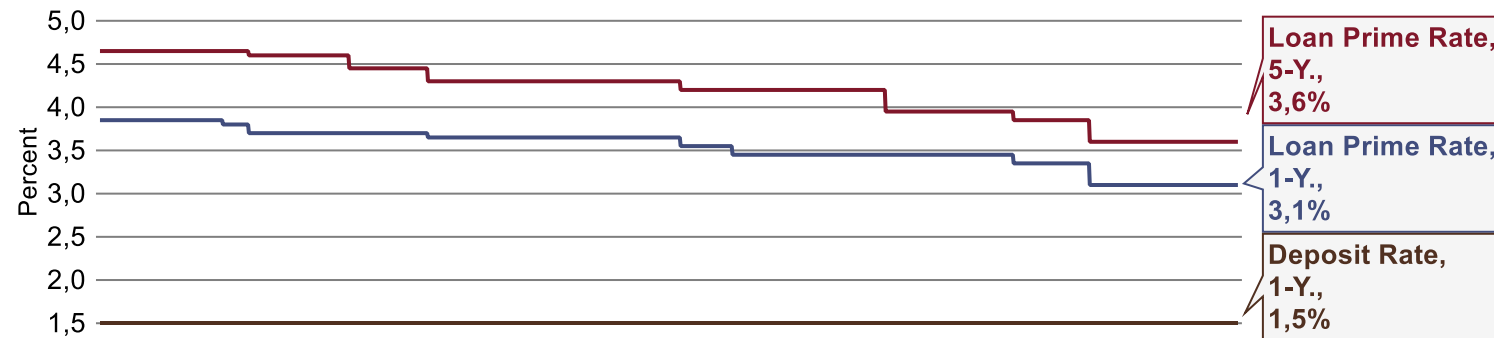
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

- Weak growth and overproduction are reflected in deflationary tendencies.
- The risk of deflation tends to increase as a result of US tariff policy since sales opportunities decline.
- The People's Bank of China will probably only take moderate countermeasures because it also has currency stability in mind.

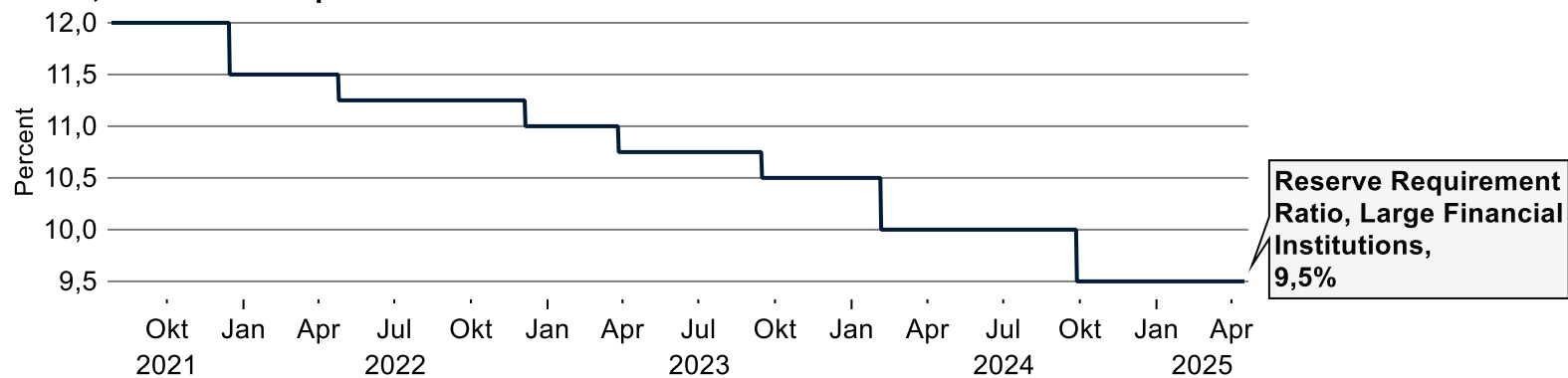
China monthly data	3-2025	2-2025	1-2025	12-2024	11-2024	10-2024	9-2024
Headline, YoY	-0,1	-0,7	0,5	0,1	0,2	0,3	0,4
Core, YoY	0,6	0,6	0,6	0,4	0,3	0,2	0,1
Headline, MoM	-0,4	-0,2	0,7	0,0	-0,6	-0,3	0,0
Core, MoM	0,0	0,0	0,5	0,2	-0,1	0,0	-0,1

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

China, Key interest rates, Daily



China, Reseserve Requirement Ratio



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

- In view of the deflationary trends and the difficult economic environment, one would expect the central bank to cut interest rates somewhat more aggressively. In fact, rates remain on hold since fall 2024.
- The reason is probably that it does not want to weaken the yuan further in order to avoid triggering uncontrolled capital flight. It is also possible that the PBoC does not have much confidence that interest rate cuts will significantly stimulate activity.

# Exchange rate - Yuan depreciation against the US dollar should remain moderate.

China, FX Spot Rates, Daily

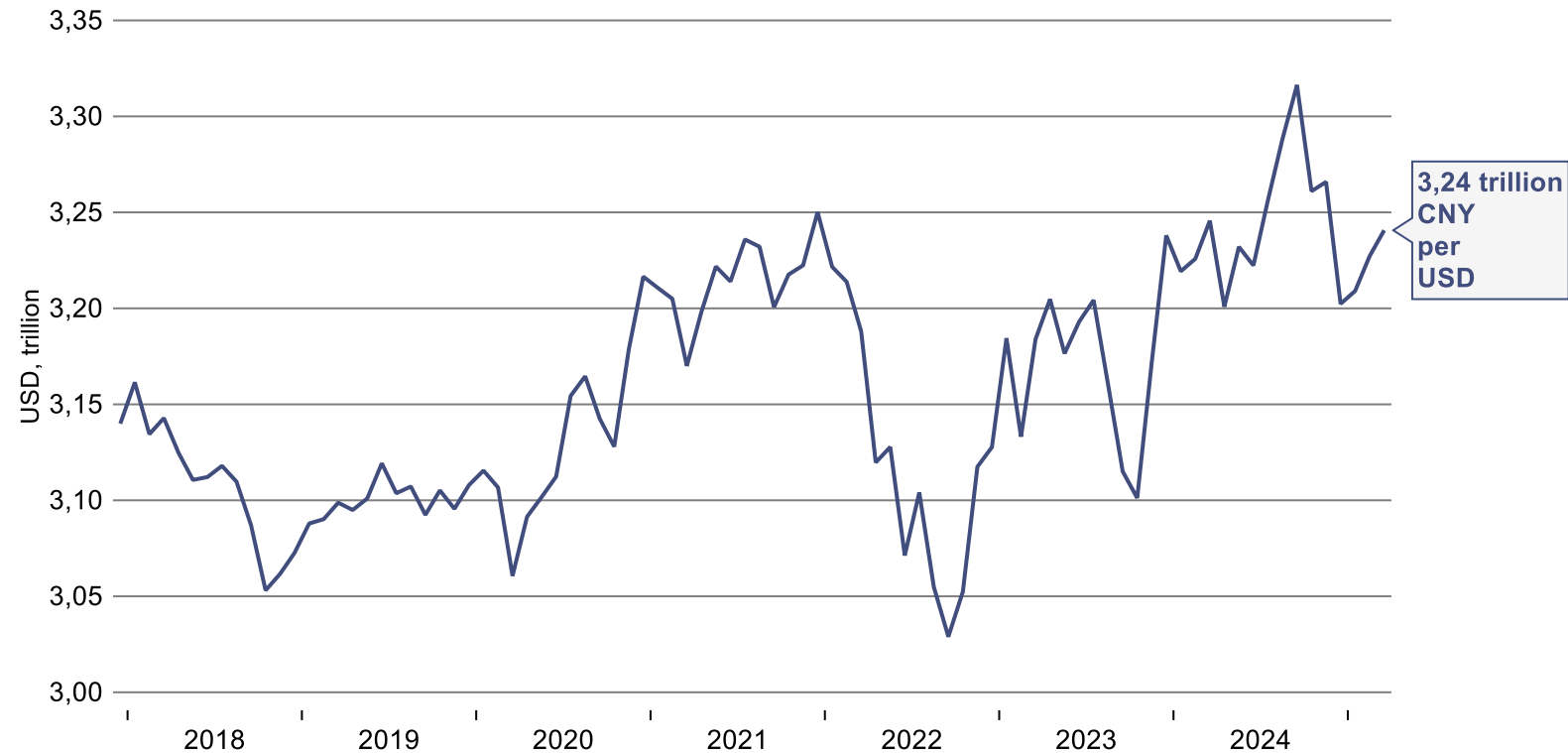


Source: Macrobond, HCOB Economics, People's Bank of China (PBoC), Macrobond Financial AB

- The depreciation against the US dollar is relatively moderate, as the US dollar itself was recently affected by a depreciation against third currencies.
- Massive devaluation of the yuan against the euro, which has appreciated sharply as a result of the customs policy and the possible expansionary fiscal policy in Germany.
- We do not expect China to pursue a targeted devaluation policy against the US dollar.

# Currency reserves - No systematic reduction in US dollar reserves.

China, International Reserves (ex IMF Reserve Position, Gold, SDRs and Other Reserve Assets), in US-Dollar



Source: Macrobond, HCOB Economics, State Administration of Foreign Exchange (SAFE) of China

- According to official figures, China holds almost 800 billion US dollars in US government bonds.
- The other currency reserves are invested in bonds from Fannie Mae and Freddie Mac (mortgage-backed quasi-government bonds) and, to a lesser extent, in government bonds from the eurozone.
- The suspicion that China had started to throw T-notes onto the market cannot be confirmed for the data up to March.

## China: Annual calendar 2025 - All important dates at a glance.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Data Release Dates</b>												
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
<b>Important Events</b>												
Public Holidays		10-17*		4-6*	1-5 <sup>‡</sup>	8-10 <sup>‡</sup>			15-17 <sup>‡</sup>	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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