Hamburg Commercial Bank

China Quarterly – Q2/2025
Exports Defy Tariffs – For Now

Economics
July 2025
Dr. Cyrus de la Rubia

Executive Summary (1/3)

Growth in the second quarter significantly higher than we expected

- In the second quarter, China's economic output increased by 5.2% compared to the same quarter a year earlier and by 1.1% compared to the previous quarter. Exports were expanded despite the US tariffs and the trade balance, which is crucial for GDP growth, also improved. Fixed urban investment, on the other hand, declined again in the second quarter (-1.5% QoQ). Surprisingly, however, there was a positive development in construction investment for the second quarter. Construction starts (residential and commercial) increased by 0.8%. An important demand effect also came from private consumption. The retail sector expanded by 1.0% QoQ.
- This picture roughly matches economic activity in industry and services. Industrial production, which depends to a large extent on exports, increased by 0.5% in the months of April to June compared with the first three months of the year. Services, which depend on private consumer demand and industry, increased their business activity by a moderate 0.8%.
- Overall, the increase in the trade balance and the expansion of private consumption were sufficient to more than compensate for the negative effect of the demand for capital goods, according to official figures.

Exports to the USA are collapsing, but overall there is still growth in exports.

- The trade conflict with the USA has taken a heavy toll on exporters who are concentrating on the US market. In the second quarter, exports to the USA fell by almost 24% in the seasonally adjusted calculation compared to the previous quarter. Export levels during this period were at their lowest level since Q1 2020 (start of Covid-19).

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Executive Summary (2/3)

However, this decline was more than offset by increased exports to ASEAN (+17.5% QoQ), the EU (+9.3%) and Hong Kong (+12.3%), among others. Exports to Russia, on the other hand, continued their downward trend (-10.3%). Overall, exports therefore increased by 0.8% QoQ in the second quarter.

Deal with the USA

- On June 26, the U.S. and China signed a framework agreement to regulate trade between the two countries. Details of the agreement are not available. The key points are that (as previously agreed) the US demands tariffs of an additional 30% on imports from China, while China can impose 10% on imports from the USA. One of the key points, however, is that the US regain access to rare earths, where China is by far the market leader. In return, export bans on high-quality semiconductors will be lifted. At least that's how the latest announcement by the semiconductor company Nvidia can be interpreted, according to which the H20 chip, which has so far been excluded from export, may be sold to China again. Imports from China are subject to a customs duty of 40 to 50% on average.

Price war in industry

- The industry has a hard time selling its products at home and abroad. The US, as the most important market, has massively increased its import restrictions (see above). Concurrently, a domestic price war has emerged, for example in the automotive sector, which is reflected, among other things, in the fact that many new cars are offered as used cars with a corresponding price discount. Some observers see an increased risk of a severe crisis here. There is also intense competition for batteries, inverters and batteries for electric cars, among other things. This price war is also reflected in the development of wholesale prices, which have been falling since the spring. Consumer prices rose by only 0.1% YoY in June.

Executive Summary (3/3)

Will China get deflation under control?

- The government has not yet succeeded in shaking off deflation. China has been dealing with this issue since the end of 2020. From February to May 2025, inflation was negative and rose by 0.1% in June. Intense competition and structurally weak consumption are likely to be the reasons for this development. Recently, private consumption has picked up somewhat, but this is mainly due to measures to support consumption, such as the "old for new" purchase program, which has been applied since 2024 to cars, household appliances and e-bikes, among other things. Structural problems, such as high youth unemployment (16-24 years: 14.9% in May) and the lack of pension provision (which is considered one of the reasons for the high savings rate among Chinese households), as well as the continuing decline in residential property prices, mean that the recovery in consumption is unlikely to be sustainable.

US tariffs hardly affect the CNY/USD exchange rate, depreciation against the euro intensifies competition with Europe.

- Contrary to expectations that the Yuan would depreciate against the US dollar due to US tariffs, the currency has even appreciated slightly since the beginning of the year by 0.5%. On the other hand, there was a marked depreciation against the euro (-8.6%). This is mainly due to the strength of the euro, which has benefited from the economic stimulus package in Germany and the erratic US trade policy and the associated discussion about the credibility of the US dollar as the world's reserve currency. This improves the competitiveness of Chinese exporters vis-à-vis the eurozone and increases the competitive pressure with China in the Eurozone.

Slight easing of monetary policy

- The People's Bank of China has eased monetary policy on the interest rate front only very moderately and, among other things, cut the one-year interest rate from 3.1% to 3.0%. In addition, the central bank has reduced the minimum reserve for large financial institutions from 9.5% to 9.0%, which, together with repo measures, is intended to improve the liquidity situation in the banking sector. However, the economic stimulus is likely to be only moderate.

Content

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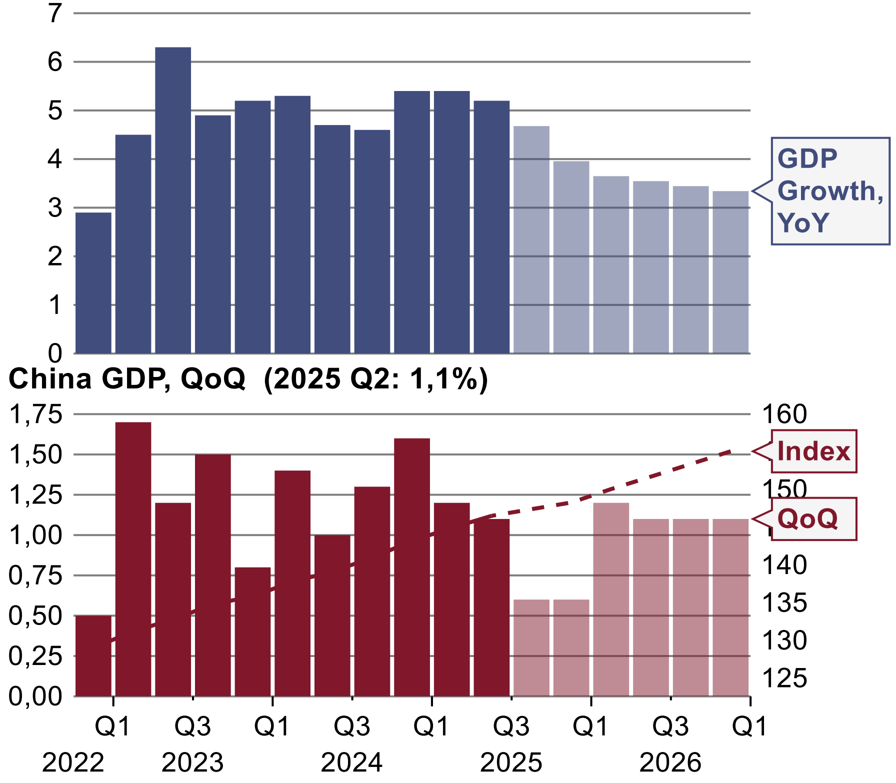
GDP – Growth in Q2 weakens. However, a lower rate of expansion was expected.

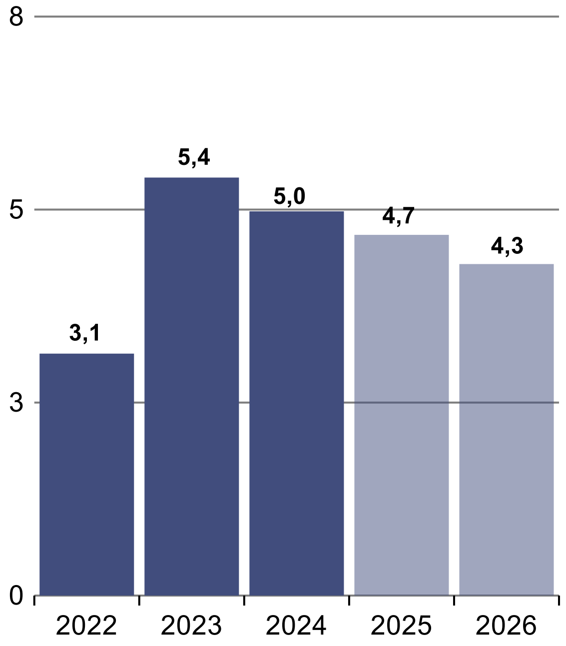
China GDP, YoY (2025 Q2: 5,2%)

China GDP, QoQ (2025 Q2: 1,1%)



Source: Macrobond, HCOB Economics

China GDP, Yearly Change



Source: Macrobond, HCOB Economics

- For the second quarter, the statistics authority also reports growth of over 1% compared to the previous quarter, which corresponds to an increase of 5.2% on an annual basis.
- We had expected a significant setback in exports, which did not happen.
- In the overall view of foreign trade, investment and private consumption, the official growth figure seems to be exaggerated to us.

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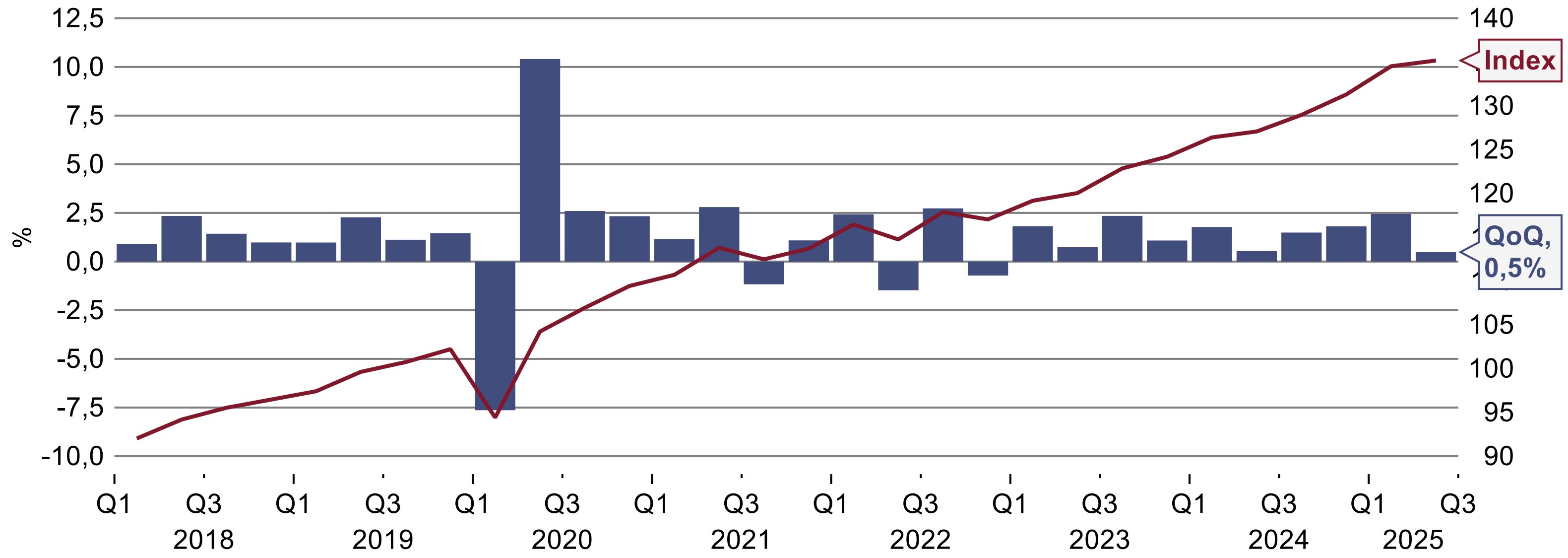
Industrial production – Significantly weaker growth.

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

- In industry, the high growth of the previous quarter could not be maintained in Q2. Rather, the expansion rate of 0.5% was the lowest since a year ago.
- The monthly trend shows that growth in industry has recently accelerated. However, the intense competition on the domestic market and the export restrictions that China is confronted with, especially in the USA, are an increasing burden.

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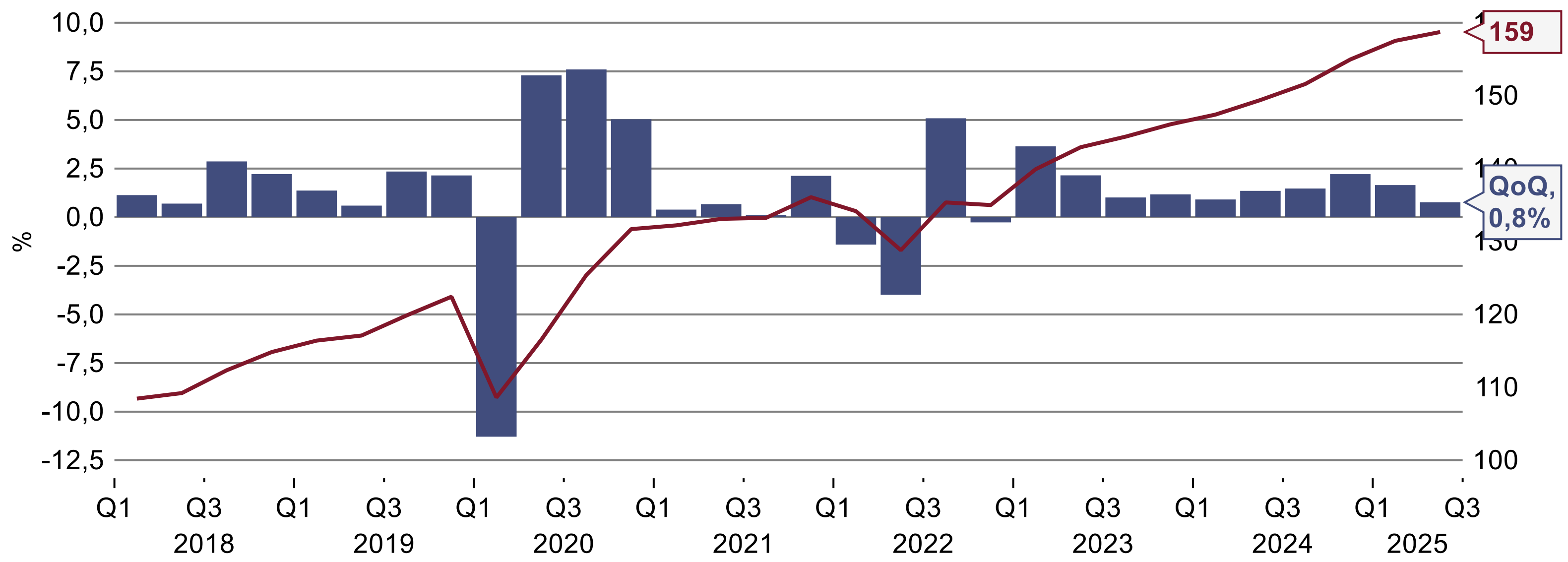
Services sector is growing at a below-average rate.

China, Services, QoQ and Index, Own Calculations



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

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

- The service sector, which accounts for just over 50% of the Chinese economy, has lost momentum in Q2, as has industry, and is now growing at a rate of only 0.8% QoQ.
- This is in line with the somewhat slower pace of growth in the retail sector.
- We expect growth in this sector to remain below 1% as private consumption and industry are under pressure.

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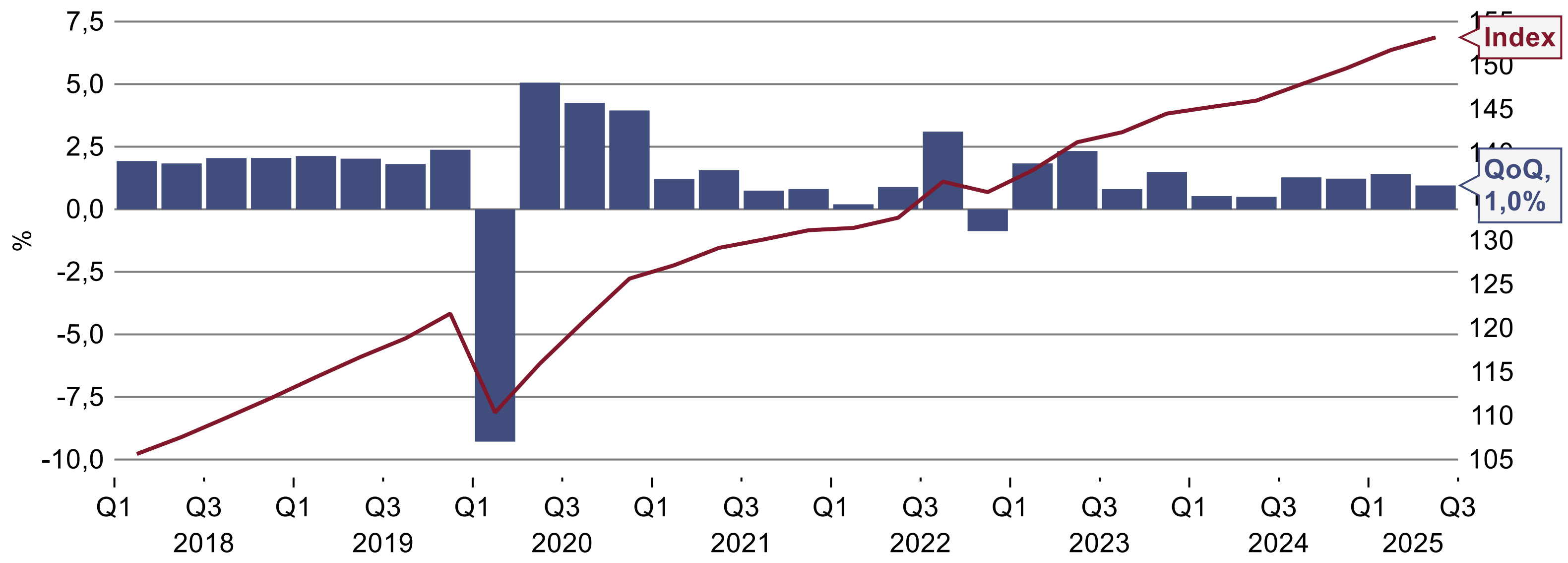
Private consumption – stimulus measures work, but are not sustainable.

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



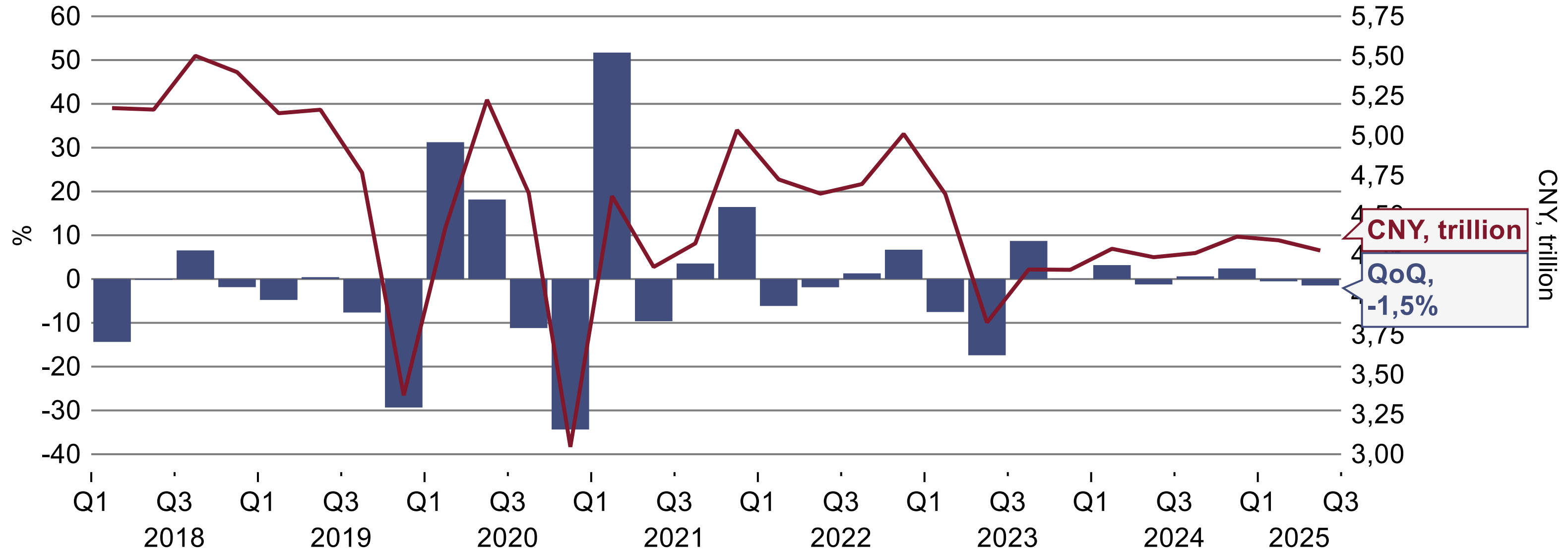
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	6-2025	5-2025	4-2025	3-2025	2-2025	1-2025	12-2024
Retail Sales, YoY	4,8	5,3	4,7	4,5	4,7	4,2	3,6
Retail Sales, MoM	-0,2	0,7	0,2	0,3	0,5	0,5	0,4
Retail Sales, YtD YoY	5,0	5,0	4,7	4,6	4,0	3,5	3,5

- Without the government stimulus measures, the increases in retail sales would probably have been even lower (1% QoQ)
- The government has created purchase incentives with the help of purchase bonuses and "old for new" programs.
- In addition, there were measures to increase the disposable income of private households.
- These steps probably miss the goal of stimulating private consumption in the long term.

Investments – Declining development is currently weighing on growth.

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



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

China monthly data	6-2025	5-2025	4-2025	3-2025	2-2025	1-2025	12-2024
Fixed Asset Investment, YoY	-0,2	1,9	1,3	4,0	0,4	-0,5	12,7
Fixed Asset Investment, MoM	-1,1	-1,0	0,5	-1,2	-0,6	-2,1	3,1
Fixed Asset Investment, YtD YoY	-0,9	-0,3	-0,2	0,1	2,1	2,1	-0,1

- Capital expenditure declined for the second quarter in a row (Q2: -1.5% QoQ).
- Given the unusually high and unhealthy weight of investment in GDP – in 2024 the share was 41.1% – a decline is welcome.
- However, it is also clear that under these circumstances the pace of growth can only be maintained if private consumption (39.6%) gains in importance in the long term.

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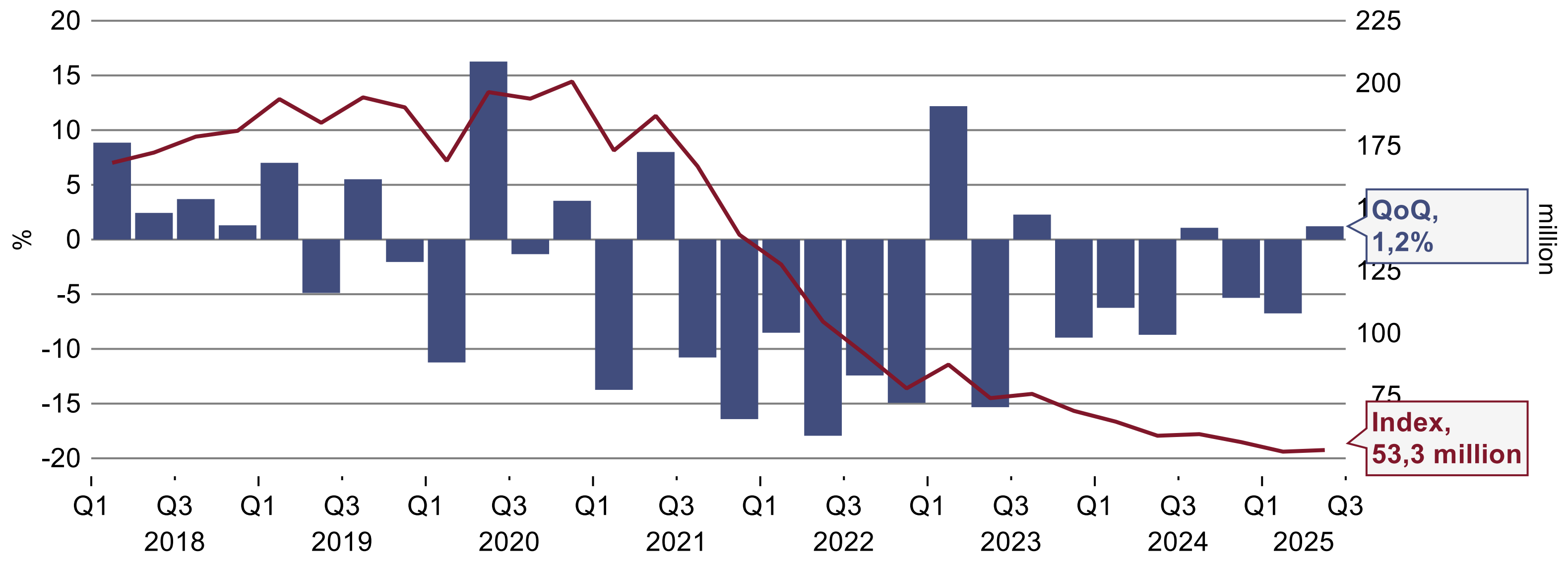
Construction investment – Surprising increase in construction starts does not end the recession.

China, Construction Starts, QoQ and units



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

China monthly data	6-2025	5-2025	4-2025	3-2025	2-2025	1-2025	12-2024
Construction Starts, YoY	-9,7	-17,5	-22,3	-18,5	-30,0	-30,5	-18,1
Construction Starts, MoM	3,6	-0,2	-2,1	3,2	-2,1	-7,7	1,8
Construction Starts, YtD YoY	-19,6	-21,7	-22,8	-24,0	-24,1	-25,1	-25,0

- The surprising increase in construction starts (residential & commercial) is probably not a turning point for the construction sector, which has been in recession almost continuously since mid-2021.
- The fact is that residential property prices have fallen consistently so far in 2025, and there is still a large oversupply of housing, while unemployment among young people is high (16-24: 14.9%). We expect the downturn in the construction sector to continue for the foreseeable future.

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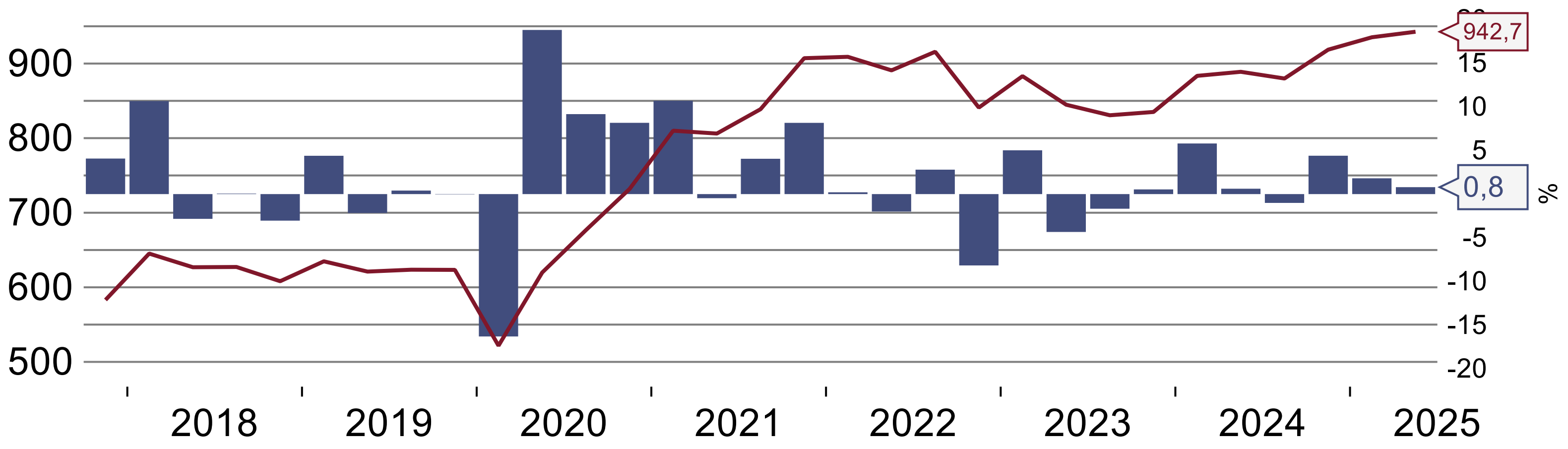
Exports – A contraction in exports seems to be programmed for Q3.

China, Foreign Trade, Export, USD billion and QoQ change



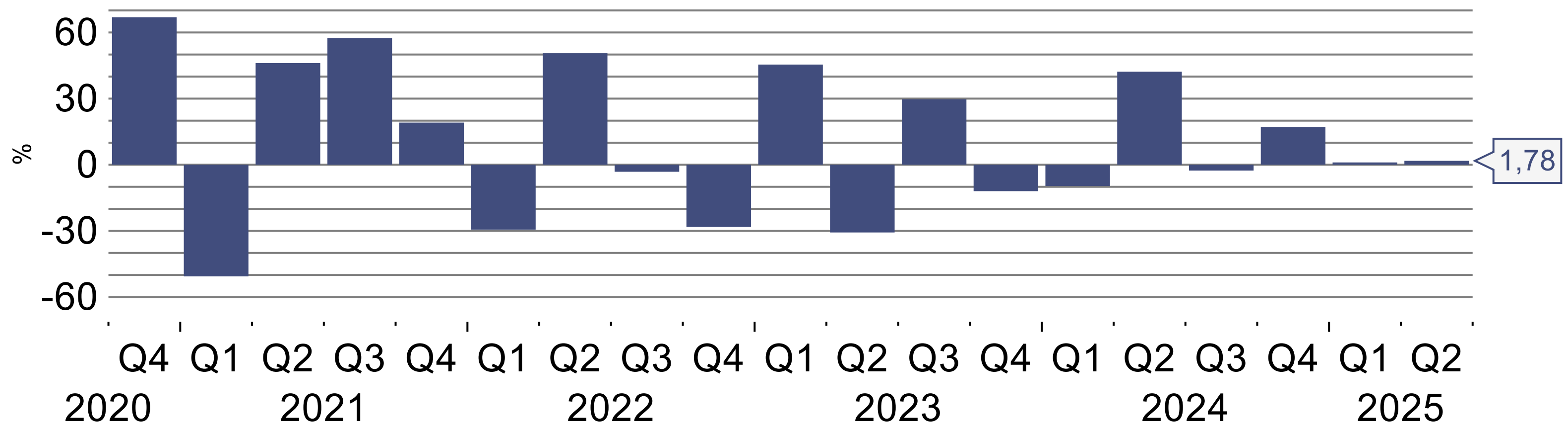
Source: Macrobond, HCOB Economics, China General Administration of Customs (GAC)

China monthly data	6-2025	5-2025	4-2025	3-2025	2-2025	1-2025	12-2024
Exports, MoM	0,1	0,0	-4,1	9,8	-3,6	-0,2	2,0
Imports, MoM	0,2	-1,8	3,3	-3,3	12,8	-10,7	2,1
Exports, YoY	4,6	5,6	8,0	11,0	0,8	5,7	9,8
Imports, YoY	-0,3	-1,9	-0,7	-4,4	4,8	-15,6	-1,1
Trade Balance, in billion USD	104,2	97,9	89,1	102,4	61,0	121,9	101,3

- Despite the US tariffs, China managed to increase its exports by 0.8% QoQ in Q2. Exports to the USA have fallen by double digits in recent months. At the same time, China has significantly expanded its exports, especially to the ASEAN countries.
- However, the course of the month indicates that exports are unlikely to expand in the third quarter, but are expected to turn into a decline.

Trade balance – change in the balance contributes positively to economic growth.

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



Source: Macrobond, HCOB Economics, China General Administration of Customs (GAC)

China monthly data	6-2025	5-2025	4-2025	3-2025	2-2025	1-2025	12-2024
Exports, MoM	0,1	0,0	-4,1	9,8	-3,6	-0,2	2,0
Imports, MoM	0,2	-1,8	3,3	-3,3	12,8	-10,7	2,1
Exports, YoY	4,6	5,6	8,0	11,0	0,8	5,7	9,8
Imports, YoY	-0,3	-1,9	-0,7	-4,4	4,8	-15,6	-1,1
Trade Balance, in billion USD	104,2	97,9	89,1	102,4	61,0	121,9	101,3

- The trade surplus increased in the second quarter.
- In foreign trade, the change in the trade balance is the decisive factor that is noticeable in GDP. In this respect, foreign trade had a positive effect on GDP in Q2, although this effect was comparatively small.
- With exports expected to weaken in Q3, foreign trade could slow down the growth.

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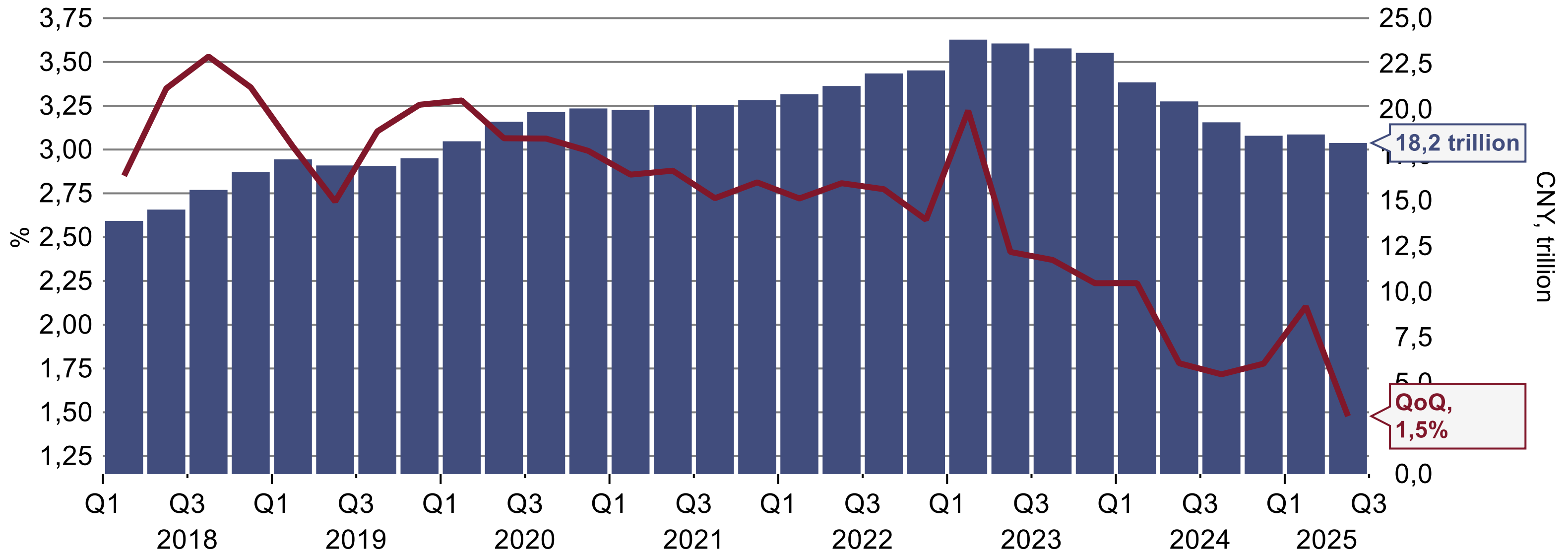
Loans – Hardly any growth impulses from lending.

China, Change in Outstanding Credit Volume, CNY and in %



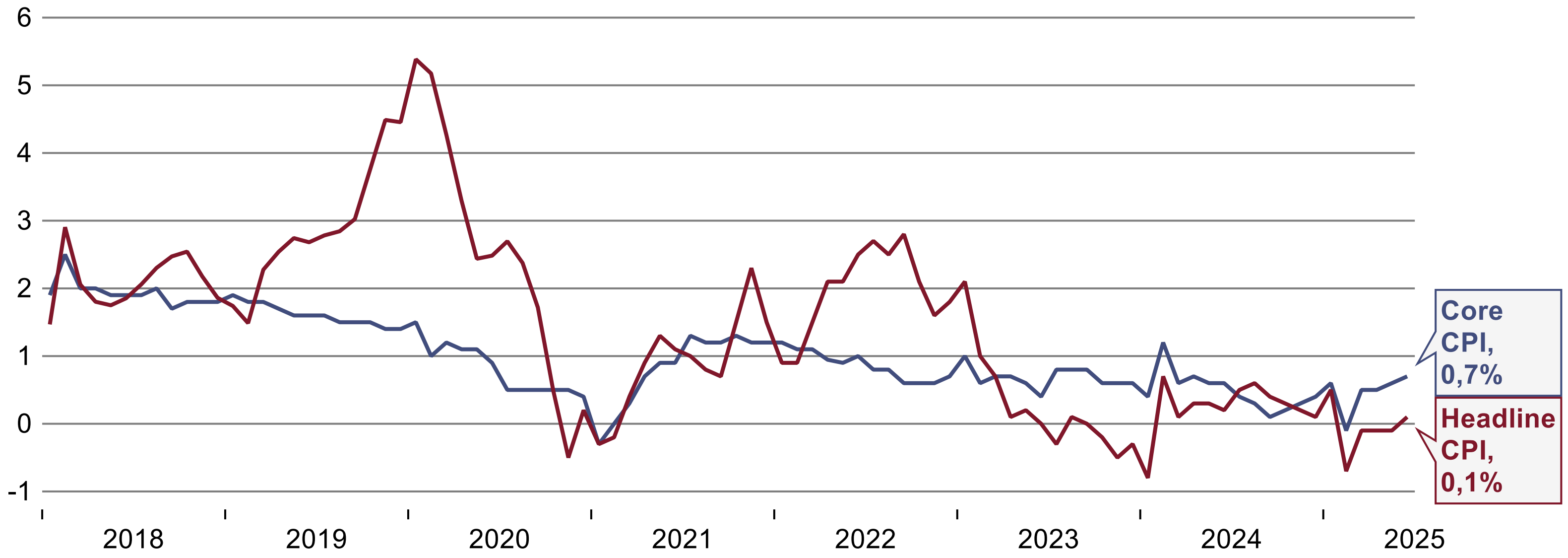
Source: Macrobond, HCOB Economics, People's Bank of China (PBoC)

China monthly data	6-2025	5-2025	4-2025	3-2025	2-2025	1-2025	12-2024
Credits, YoY	7.2	7.2	7.4	7.6	7.5	7.7	7.8
Credits, MoM	0.9	0.2	0.2	1.4	0.4	2.0	0.4

- Growth in outstanding loans has weakened significantly.
- The marginal interest rate cut by the Chinese central bank has not been able to provide any impetus here.
- Since the real estate sector, which has historically dominated credit demand, is still in crisis, credit growth is likely to remain low or even weaken further.

Inflation – increase in the core rate is likely to be the result of government consumption stimulus measures.

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

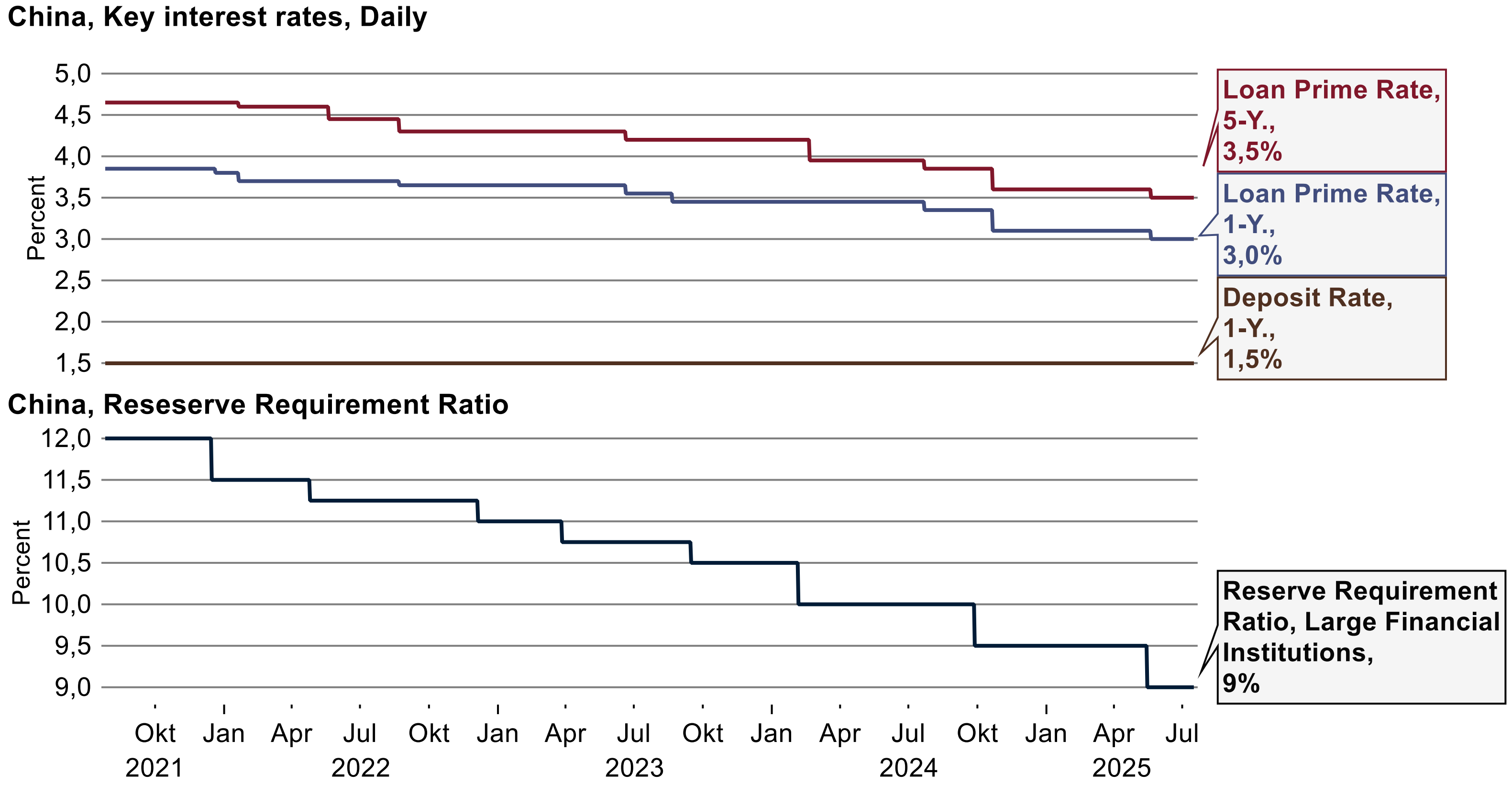


Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

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

- Inflation is just above zero after being in deflationary territory from February to May.
- The fact that the core rate of inflation has risen somewhat may be a result of the measures with which the government is trying to boost private consumption.
- However, the low inflation rates illustrate the intense competition that is taking place in China, combined with fragile consumer demand.

Monetary policy – central bank continues to hold back.

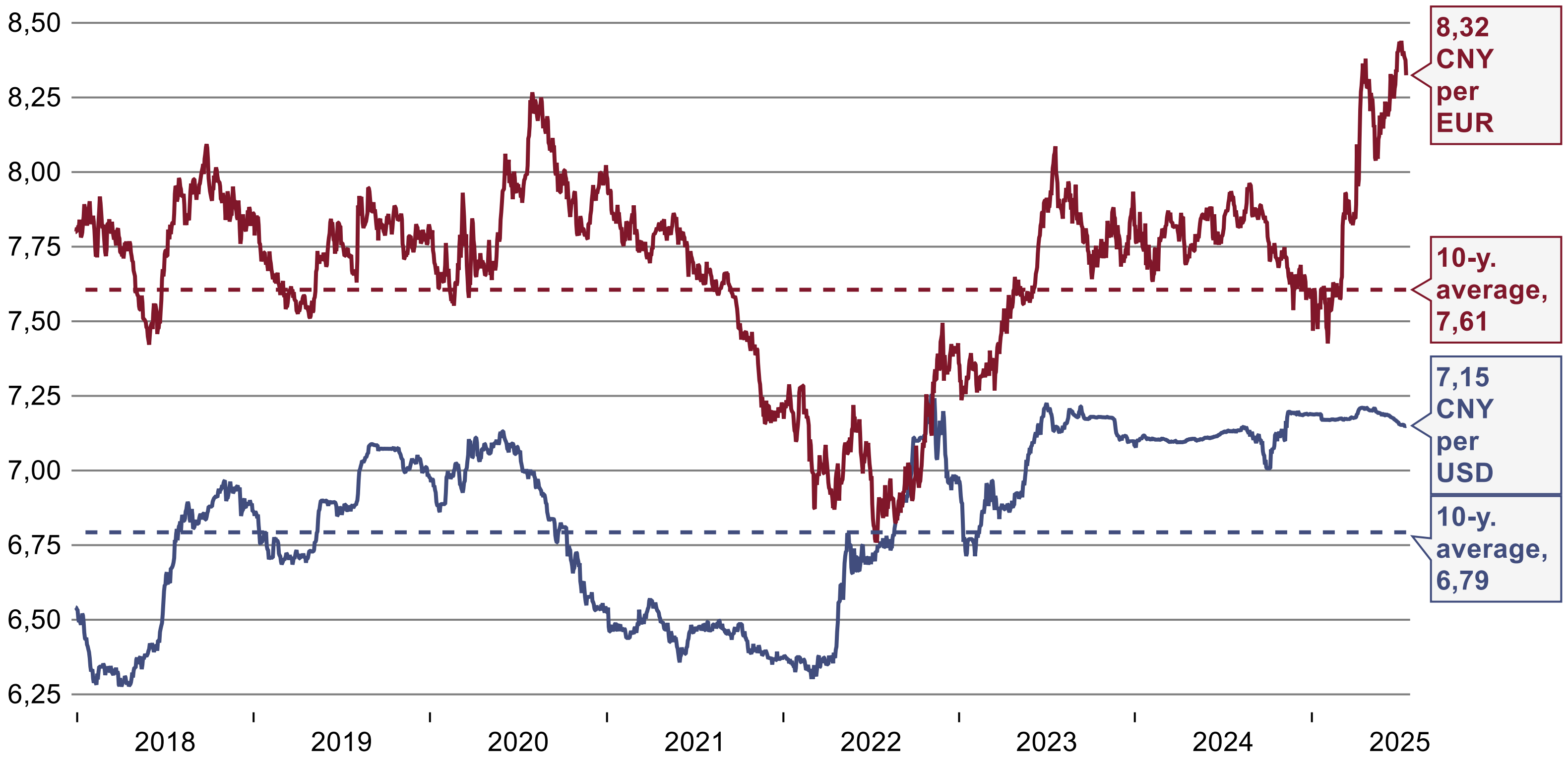


Source: Macrobond, HCOB Economics, People's Bank of China (PBoC)

- In May, the People's Bank of China delivered its first rate cut this year. The step was only marginal at -0.1 percentage points for one- and five-year loans.
- In addition, the minimum reserve was reduced from 9.5% to 9.0%. Together with new repo measures, the Chinese central bank wants to improve the liquidity situation of banks.
- We do not expect these timid measures to have a stimulating effect on the (domestic) economy.

Exchange rate – Yuan appreciates slightly against the US dollar and loses a lot of value against the euro.

China, FX Spot Rates, Daily



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

- The yuan has appreciated slightly against the US dollar this year (0.5%) and depreciated massively against the euro (-8.6%).
- China is thus able to improve its competitive situation vis-à-vis the eurozone.
- For industry in the eurozone, this means that competitive pressure from China is increasing, but at the same time intermediate goods from China can also be purchased more cheaply.

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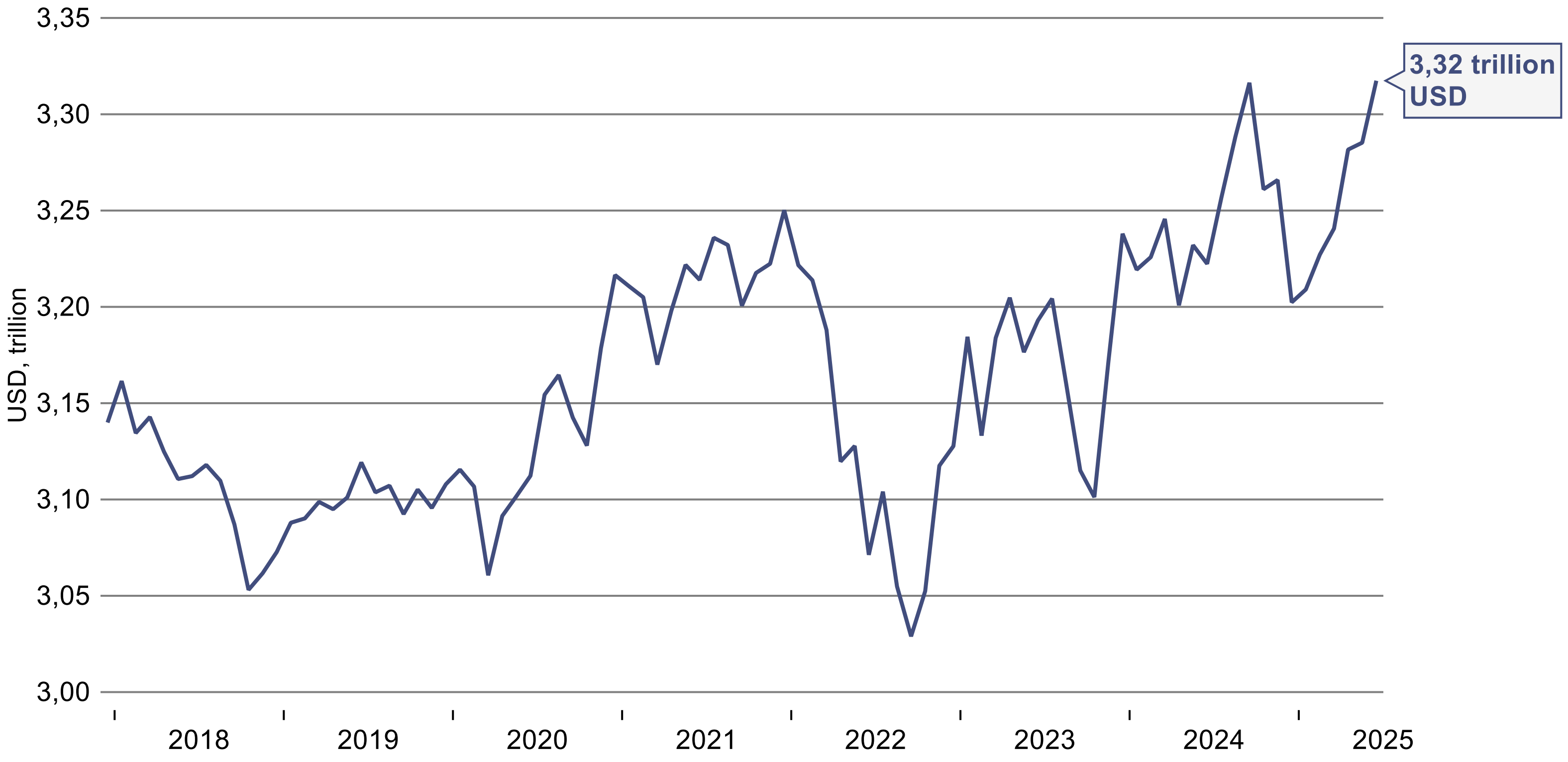
Foreign exchange reserves – Rumours of the sale of US government bonds by the Chinese central bank have not been confirmed.

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

- The increase in foreign exchange reserves to 3.32 trillion US dollars indicates that China is by no means in the process of reducing US bonds – rumours suggested this.
- If this were to happen on a larger scale, it could lead to a massive increase in long-term US yields and lead the world into recession.
- China obviously has no interest in this and in the presumably not strong reaction of the US government.

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							6-7					
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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