NAB Group Economics

national australia bank

China's economy at a glance

May 2025

Author: Gerard Burg, Senior Economist - International

Key points

Tariff pause gives China's economy some breathing space, but longer-term uncertainty persists

- Following the trade talks in May, the US and China agreed to a 90 day pause to the extreme bilateral tariffs each country imposed in April. While there remains uncertainty around the longer-term trade relationship, this agreement is sufficient to wind back some of last month's downward revision to China's economic outlook. We now see China growing by 4.3% in 2025 and 4.0% in 2026 (from our previous forecast of 4.1% and 3.9% respectively). That said, even following the pause, trade barriers remain substantially above the norm for the past century, and this means this revised forecast remains weaker than where we saw China's growth potential in March.

- China's industrial production growth remained relatively strong in April – increasing by 6.1% yoy – however this was down from the 7.7% yoy increase in March. Industrial production growth continued to outpace real retail sales – indicative of the persistent imbalances in China's domestic economy since the start of the pandemic.

- Real fixed asset investment increased by 6.3% yoy in April – down from 6.8% yoy in March – albeit this growth rate was still towards the top end of the range exhibited in the post-pandemic period.

- China's trade surplus remained elevated in April – at US$96.2 billion (down from US$102.6 billion in March). This was the sixth highest surplus on record. Exports to the United States plunged – down by 21.0% yoy. In contrast, exports to emerging Asian markets rose by 22.0% yoy. The scale of these changes raises questions around trans-shipments (where goods ultimately delivered to the United States are initially exported to a third country to disguise its origin).

- In real terms, China's retail sales rose by 5.2% yoy in April (down from 6.0% yoy in March). Looking though the volatility, real retail sales growth has trended higher from very weak rates in mid-2024, but remains below the rates seen prior to the 2018-19.

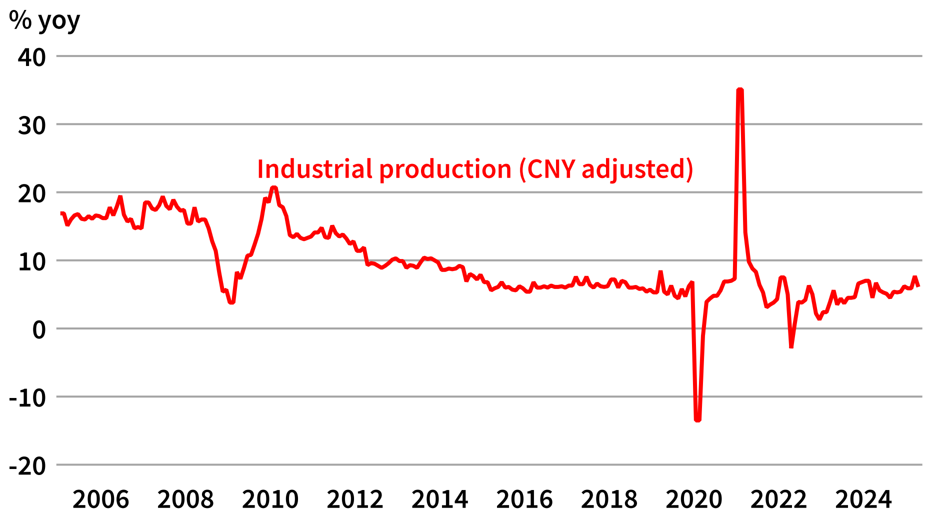
- China's new credit issuance increased rapidly in the first four months of 2025 – up by 28.3% yoy to total RMB 16.3 trillion. Government bond issuance overwhelmingly accounted for this increase – with issuance increasing by 283% yoy in the first four months. Excluding government bonds, new credit issuance increased by just 0.2% yoy.

- In early May, the People's Bank of China (PBoC) announced additional easing in monetary policy. The 7 day reverse repo rate (the main policy rate) was trimmed by 10 basis points, along with a 50 basis point cut to the Reserve Requirement Ratio (RRR). The former is unlikely to boost loan demand (given its modest size) – the key constraint on lending at present – while the latter will only boost supply. Cuts to the RRR in 2024 helped to fuel a rally in government bonds as banks searched for viable returns in the absence of borrowers and the yield curve has not yet returned to a normal shape.

Industrial production & investment

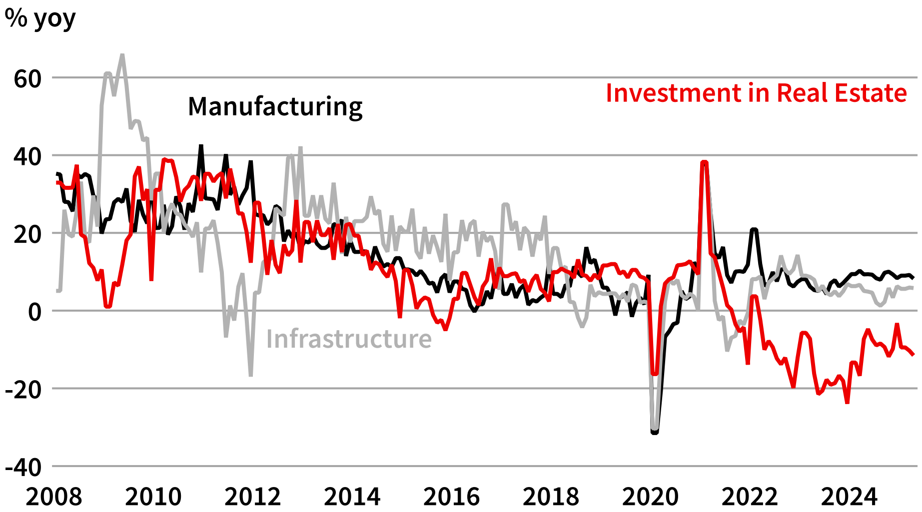
Industrial production growth

Output remains robust, with growth around pre-pandemic norms



Fixed asset investment growth

Real estate remains a drag, manufacturing investment still strong



Sources: Macrobond, NAB Economics

- China's industrial production growth remained relatively strong in April (by recent historical standards) – increasing by 6.1% yoy – even though it was down from the 7.7% yoy increase in March. Industrial production growth continued to outpace real retail sales – indicative of the persistent imbalances in China's domestic economy since the start of the pandemic.

- There remain diverging trends among China's major industrial subsectors. Sectors that are closely connected to construction – such as cement and crude steel – have remained weak, with the former contracting by 5.3% yoy and the latter unchanged in year-on-year terms in April. Output of the electronics sector rose by 10.8% yoy (down from 13.1% yoy previously), while motor vehicle production rose by 8.5% yoy in April (similar to March).

- China's nominal fixed asset investment increased by 3.6% yoy in April (down from 4.1% yoy in March). Deflating this measure using the producer price index (as a proxy for the cost of investment goods) shows that real investment rose by 6.3% yoy – down from 6.8% yoy previously – albeit still towards the top end of the range exhibited in the post-pandemic period.

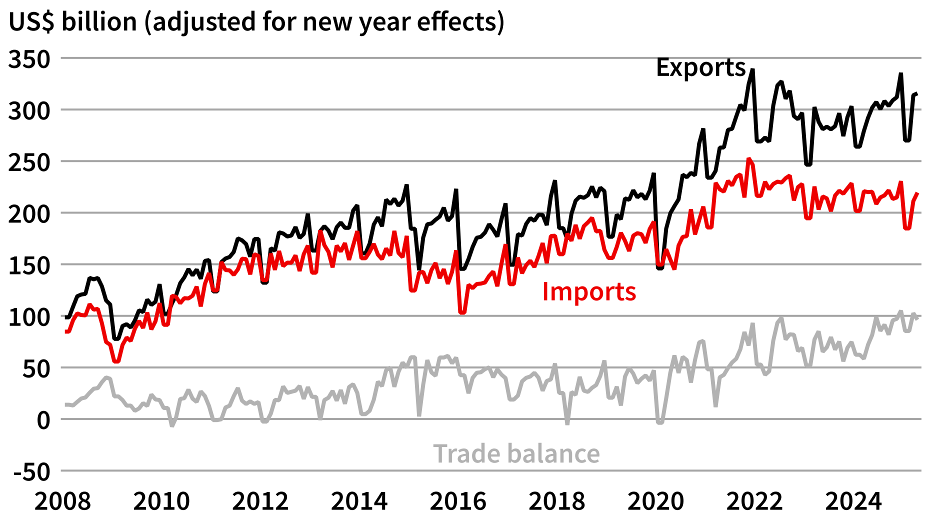
- Nominal investment by state-owned enterprises (SOEs) continues to outpace that of private sector firms. SOE investment rose by 5.6% yoy in April (compared with 2.2% yoy for private sector firms).

- By sector, real estate remains a significant drag on overall investment – with nominal investment falling by 11.5% yoy in April. In contrast, manufacturing and infrastructure investment have remained robust (with the latter having recovered from lows in mid 2024). Manufacturing investment rose by 8.2% yoy, while infrastructure investment rose by 5.8% yoy.

International trade

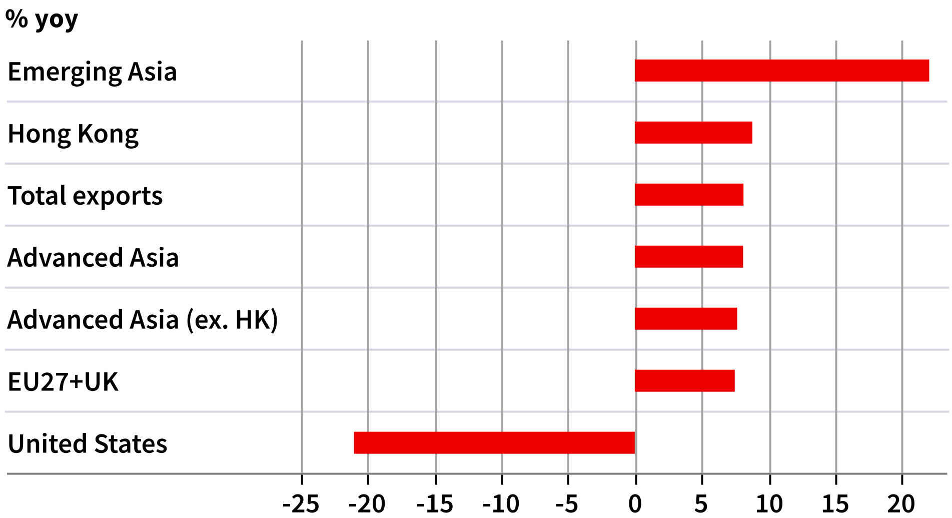
China's trade balance

Trade surplus remained elevated in April



Exports to major trading partners

Tariff impact seen in US; surge in exports to EM Asia



Sources: Macrobond, NAB Economics

- China's trade surplus remained elevated in April – at US$96.2 billion (down from US$102.6 billion in March). This was the sixth highest surplus on record.

- Exports rose by 8.1% yoy in April to US$315.7 billion (compared with US$313.9 billion in March). In contrast, imports fell marginally – down 0.2% yoy – to US$219.5 billion.

- The impact of US tariffs that escalated rapidly in early April appeared in trade data last month. Exports to the United States plunged – down by 21.0% yoy. In contrast, exports to emerging Asian markets rose by 22.0% yoy. The scale of these changes (compared with relatively modest rates for other markets) raises questions around trans-shipments (where goods ultimately delivered to the United States are initially exported to a third country to disguise its origin).

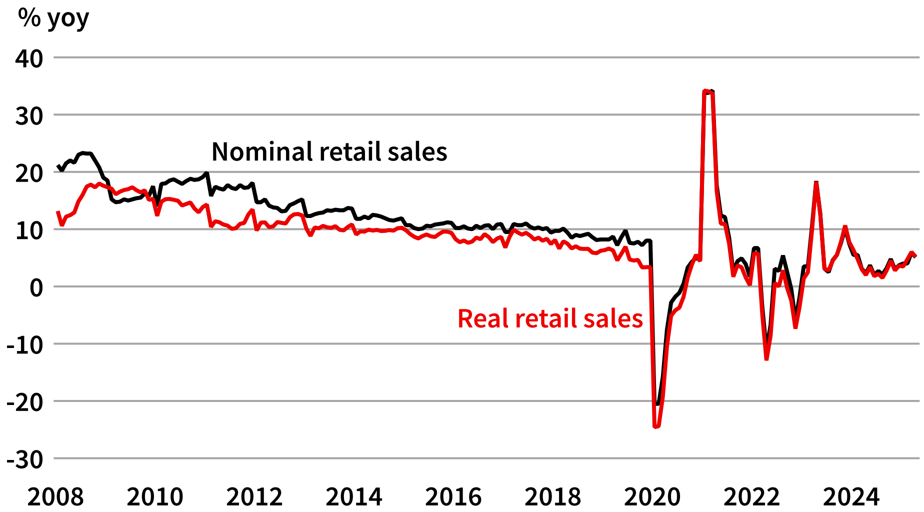
- Export volumes rose strongly ahead of the tariff implementation (from the comparatively weak rate across January and February) – up by 18.2% yoy in March. Disaggregated data by country is not available, but this may have reflected some front running deliveries to the United States. Export prices have continued to fall year-on-year – a trend that commenced in mid-2023.

- In contrast, import volumes fell by 1.8% yoy in March. There were strong increases in import volumes for rubber, fertiliser, copper ore and machine tools. In contrast, there were steep declines in volumes of aircraft, grains, refined petroleum products and soybeans.

Retail sales and inflation

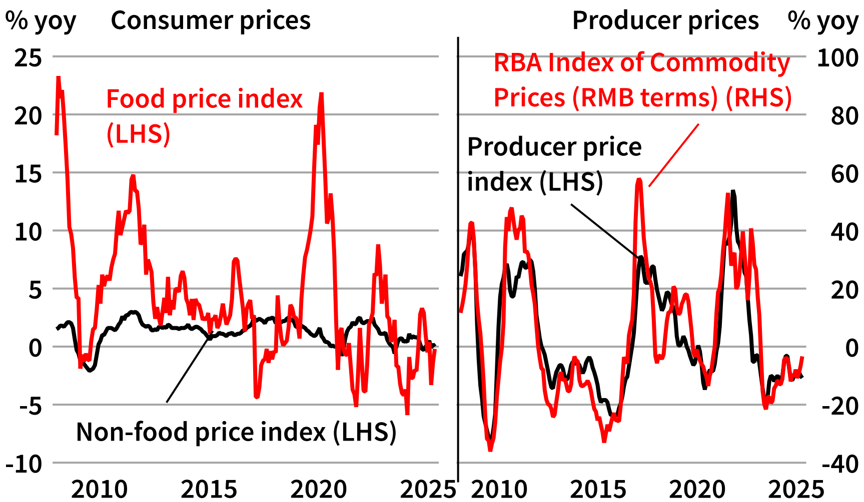
Retail sales growth

Real sales growth trending higher from mid-24 lows



Consumer and producer prices

China's deflationary pressure has continued



- In nominal terms, China's retail sales rose by 5.1% yoy in April (down from 5.9% yoy in March). We can deflate this measure with the consumer price index, which suggests that real retail sales rose by 5.2% yoy in April (compared with 6.0% yoy previously). Looking though the volatility, real retail sales growth has trended higher from very weak rates in mid-2024, but remains below the rates seen prior to the 2018-19, and below the pace of industrial production.

- China's consumer prices contracted by 0.1% yoy in April – the same rate of change recorded in March.

- Food price deflation was more modest in April (when compared with either February or March) – with the food price index down by 0.2% yoy (from -1.4% previously). The increase in pork prices – which has an outsized influence on consumer prices – was more modest in April, increasing by 5.0% yoy (compared with 6.7% yoy in March), however this offset by a 5.2% yoy increase in fresh fruits, and weaker deflation for fresh vegetables, eggs and dairy.

- Non-food prices were unchanged year-on-year in April, compared with a 0.2% yoy increase in March. Vehicle fuel prices have a sizeable influence on non-food prices, and these prices fell by 10.2% yoy in April.

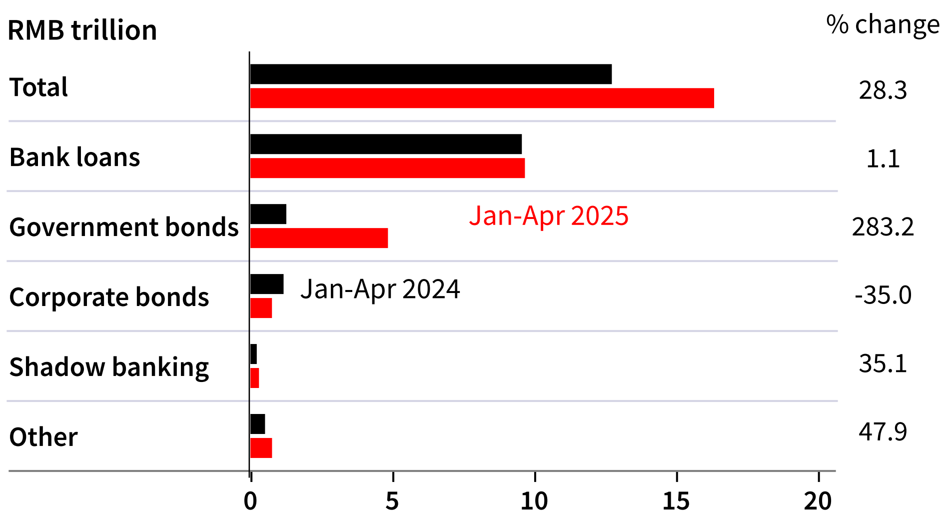
- Producer prices fell by 2.7% yoy in April, marking the thirty-first month in a row of year-on-year declines. Global commodity prices have had an influence – when converted into RMB terms, the RBA Index of Commodity Prices fell by 3.4% yoy (albeit this was the smallest decline in commodities since March 2023). This has been beneficial on the cost side, but weak producer prices are also likely reflective of the imbalance between domestic supply and demand.

Sources: Macrobond, NAB Economics

Credit conditions

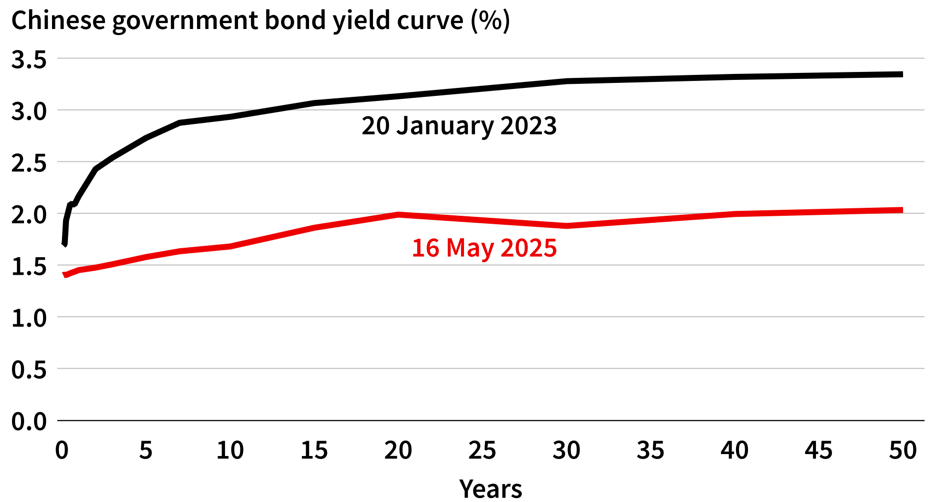
New credit issuance

Government bond issuance drove new credit in early 2025



China government bond yield curve

Yield curve remains flat as PBoC introduces fresh monetary easing



Sources: Macrobond, NAB Economics

- China's new credit issuance increased rapidly in the first four months of 2025 – up by 28.3% yoy to total RMB 16.3 trillion.
- Government bond issuance overwhelmingly accounted for this increase – with issuance increasing by 283% yoy in the first four months. Excluding government bonds, new credit issuance increased by just 0.2% yoy.
- Modest increases in bank lending (up 1.1% yoy) and shadow banking (up 35.1% yoy, but from a small base) were largely offset by a decline in corporate bond issuance (down 35% yoy).
- Some of the weakness in bank lending and strength in government bond issuance may reflect efforts to shore up local government financing – reducing the hidden debt of local government financing vehicles. While this is positive from a risk perspective, it means the strength of government bond issuance will not directly translate to economic growth.
- In early May, the People's Bank of China (PBoC) announced additional easing in monetary policy. The 7 day reverse repo rate (the main policy rate) was trimmed by 10 basis points, along with a 50 basis point cut to the Reserve Requirement Ratio (RRR). The former is unlikely to boost loan demand (given its modest size) – the key constraint on lending at present – while the latter will only boost supply. Cuts to the RRR in 2024 helped to fuel a rally in government bonds as banks searched for viable returns in the absence of borrowers and the yield curve has not yet returned to a normal shape.

Group Economics

Sally Auld
Group Chief Economist
+(61 0) 422 224 752

Jacqui Brand
Personal Assistant
+(61 0) 477 716 540

Dean Pearson
Head of Behavioural & Industry Economics
+(61 0) 457 517 342

Australian Economics and Commodities

Gareth Spence
Head of Australian Economics
+(61 0) 436 606 175

Michelle Shi
Senior Economist
+(61 0) 426 858 831

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 0) 477 723 769

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 0) 455 052 520

Thao Nguyen
Economist – Data & Analytics
+(61 0) 451 203 008

International Economics

Tony Kelly
Senior Economist
+61 (0) 477 746 237

Gerard Burg
Senior Economist – International
+(61 0) 477 723 768

Global Markets Research

Skye Masters
Head of Research
Markets, Corporate & Institutional Banking
+(61 2) 9295 1196