NAB Group Economics

China's economy at a glance
March 2025

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Key points

China keeps growth target unchanged and rolls out a consumption plan, but will it actually be delivered?

- As widely expected, Premier Li unveiled an unchanged growth target for 2025 at March's National People's Congress – at "around 5%" – despite the persistent domestic economic challenges and the growing headwinds to trade. Subsequently, the State Council announced a 30-point plan of "special initiatives to boost consumption". As announced, the plan is relatively light on detail – with statements around vigorously boosting consumption, promoting reasonable wage growth and generating effective demand through high-quality supply sounding similar to previous announcements over the years. One area which we see as potentially positive is increases to pensions and medical insurance for rural and retirees – as, if this is implemented at a sufficient level, it could reduce the need for households to save as a form of self-insurance. That said, until we see any of these policies actually implemented – particularly as much of the plan is allocated to financially constrained local governments to implement – our forecasts remain unchanged. We see China's economy growing by 4.6% in 2025 and 4.2% in 2026.

- China's industrial production increased by 5.9% yoy in January-February, with growth easing marginally from the 6.2% yoy increase in December. Since late 2024, industrial production growth has been trending around its pre-pandemic rates.

- Real fixed asset investment rose by 6.3% yoy in January-February (up from 4.5% yoy in December). In nominal terms, state-owned enterprises (SOEs) have continued to drive growth, while real estate remains a drag.

- China's trade surplus pulled back from its seasonal peak in December – averaging US$85.3 billion a month across January-February (down from a record high of US$104.8 billion in December). By historical standards, the surplus across this period remains comparatively large.

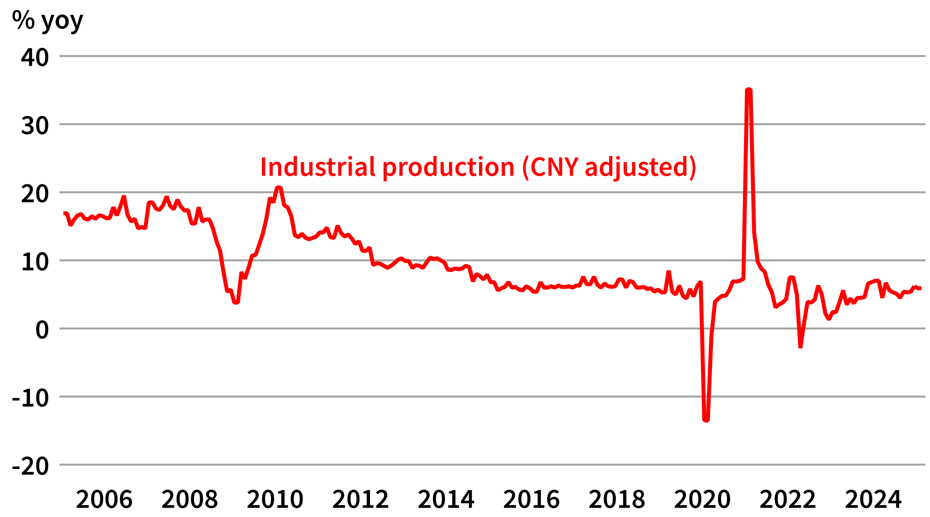
- Real retail sales rose by 4.1% yoy over the first two months, up from 3.6% yoy in December. This represents a considerable improvement from the lows recorded during mid-2024, but remains weak when compared with the rates seen pre-pandemic.

- Following a sizeable contraction in 2024 (down by 9.4%), China's new credit issuance saw a pickup in the first two months of 2025 – rising by 16.6% to total RMB 9.3 trillion. That said, bank lending remained weak, contracting by around 1.9%, while government bond issuance surged by 166% yoy.

Industrial production & investment

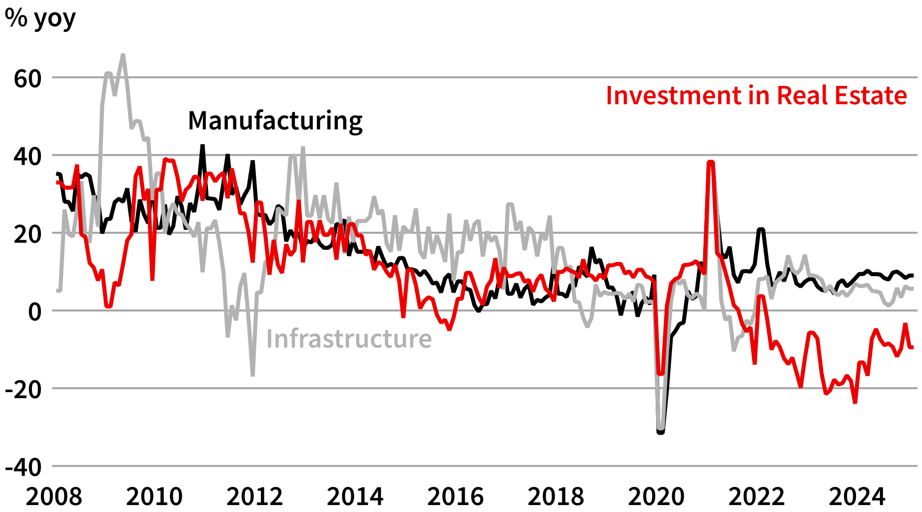
Industrial production growth

Output expanding around pre-pandemic rates



Fixed asset investment growth

Real estate remains a drag on overall growth



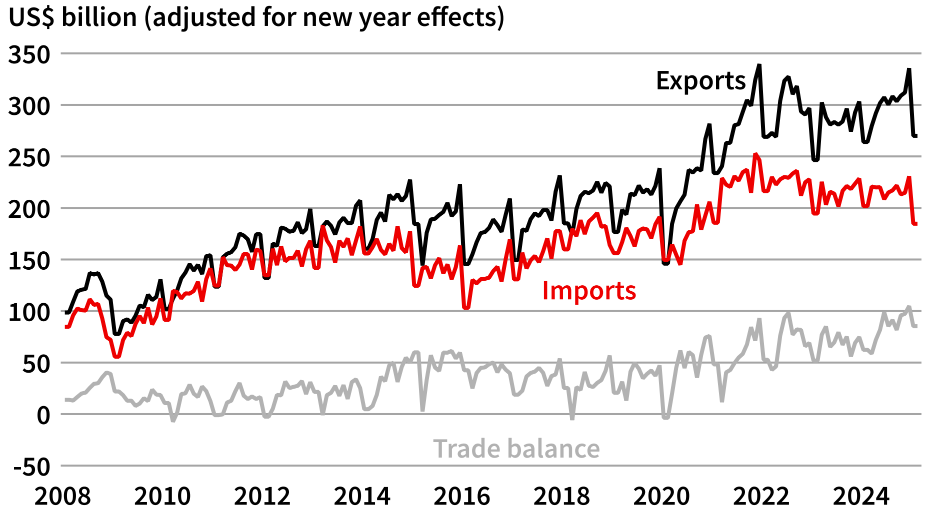
- China's industrial production increased by 5.9% yoy in January-February, with growth easing marginally from the 6.2% yoy increase in December. Since late 2024, industrial production growth has been trending around its pre-pandemic rates.
- There remain diverging trends between major industrial sub-sectors. Construction-related heavy industries remain comparatively weak – with cement manufacturing down by 5.7% yoy and crude steel output falling by 1.5% yoy. In contrast, motor vehicles and electronics manufacturing continue to expand relatively strongly – up by 13.9% yoy and 10.6% yoy respectively.
- China's nominal fixed asset investment rose by 4.1% yoy in January-February (up from the subdued 2.2% yoy increase in December). When deflated using the producer price index, real investment increased by 6.3% yoy (up from 4.5% yoy in December).
- Growth in nominal investment was driven by state-owned enterprises (SOEs) in January-February (following a sharp slowdown in December). SOE investment rose by 7.0% yoy in the first two months, compared with a 2.2% yoy increase among private sector firms.
- The real estate sector remains a drag on overall investment – declining by 9.5% yoy in January-February. In contrast, manufacturing investment rose by 9.0% yoy and infrastructure investment increased by 5.6% yoy – with the latter tracking higher from lower rates mid-year as fiscal support stepped up.

Sources: Macrobond, NAB Economics

International trade

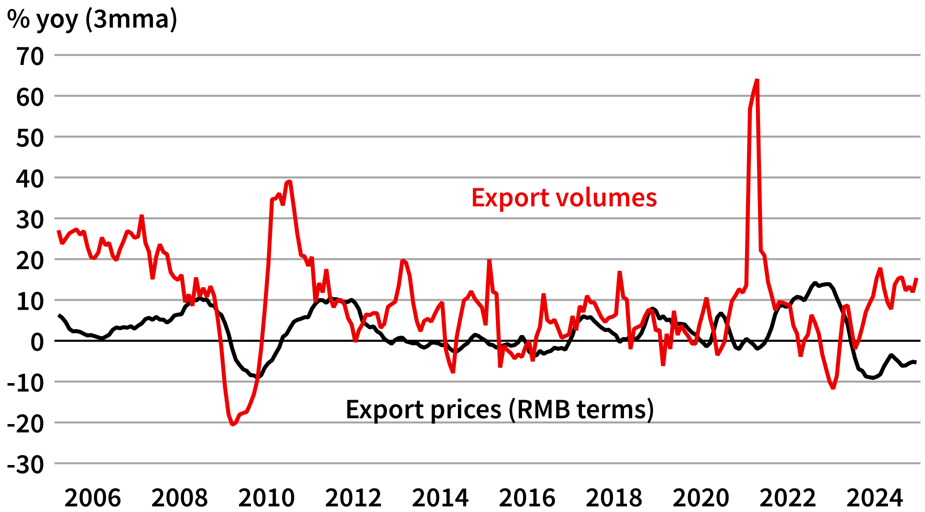
China's trade balance

China's trade surplus remains elevated



Export volumes and prices

Export surge since mid-2023 has seen prices fall



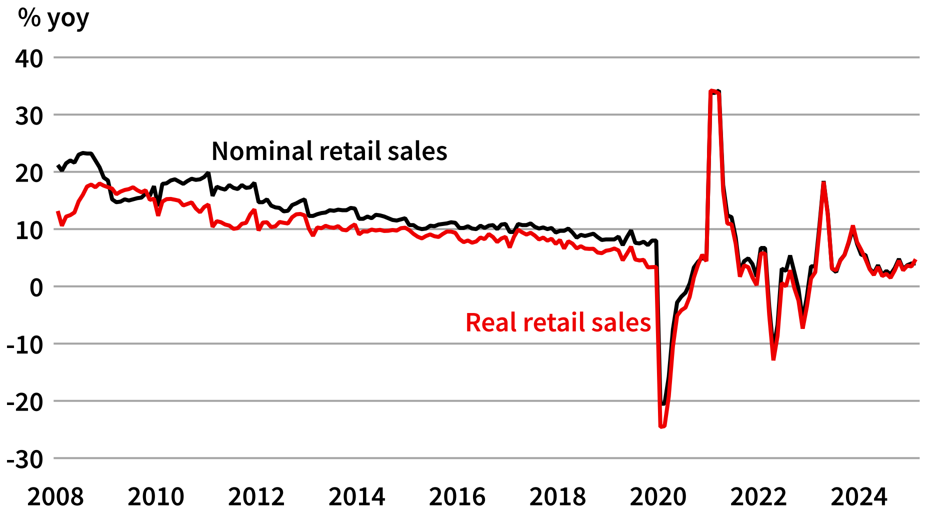
Sources: Macrobond, NAB Economics

- China's trade surplus pulled back from its seasonal peak in December – averaging US$85.3 billion a month across January-February (down from a record high of US$104.8 billion in December). By historical standards, the surplus across this period remains comparatively large.
- In US dollar terms, China's exports rose by 2.2% yoy in January-February, averaging US$270.0 billion a month. This was compared with US$335.6 billion in December (the second highest monthly total on record).
- Export volumes have increased strongly since the middle of 2023 – increasing by 17.3% yoy in December 2024 (the most recent data available). In year-on-year terms, export prices have fallen since May 2023, with the RMB denominated price index falling by 5.4% yoy in December.
- In contrast, the value of China's imports fell by 8.4% yoy in the first two months of the year, averaging US$184.7 billion. The previous time imports were this low was September 2020.
- There was considerable volatility in import volume trends in the latter months of 2024 – with a 4.0% yoy increase in December, in contrast with somewhat more modest declines in October and November.

Retail sales and inflation

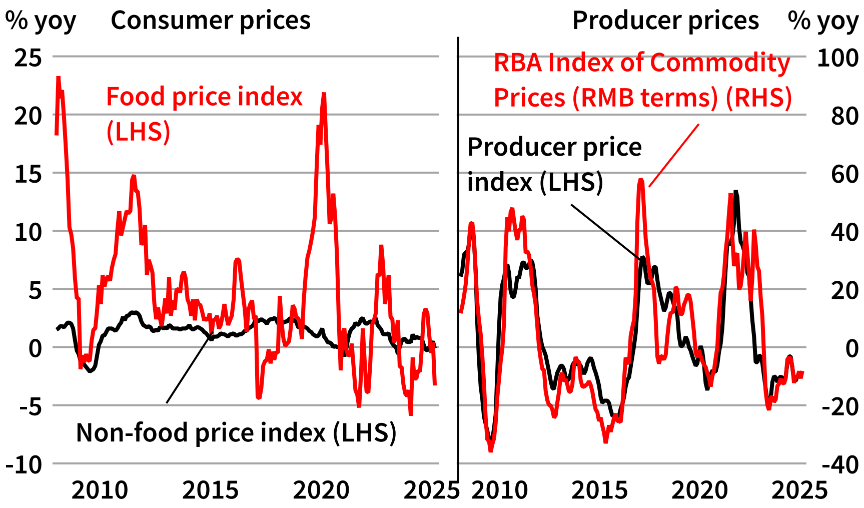
Retail sales growth

Real growth edges higher but weak by pre-pandemic standards



Consumer and producer prices

Deflation evident in early 2025



Sources: Macrobond, NAB Economics

- Nominal retail sales picked up further in January-February – increasing by 4.0% yoy (compared with 3.7% yoy in December) – albeit this was weaker than the increase in October. Using the consumer price index as the deflator, real retail sales rose by 4.1% yoy over the first two months, up from 3.6% yoy in December. This represents a considerable improvement from the lows recorded during mid-2024, but remains weak when compared with the rates seen pre-pandemic.

- In the first two months of 2025, China's consumer prices fell marginally – down by 0.1% yoy (compared with a 0.1% yoy increase in December).

- This softening was driven by food prices – with an average fall of 1.5% yoy across January and February (compared with a 0.5% fall in food prices in December). Growth in pork prices was more moderate – up by 8.8% yoy in January-February (from 12.5% yoy in December), while fresh vegetable prices fell by 5.5%. Prices for dairy products, seafood and eggs also fell.

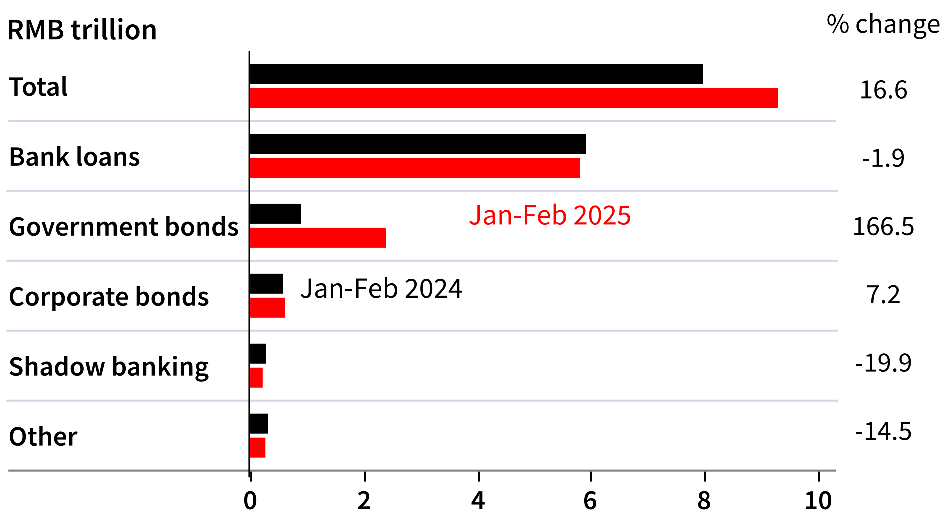
- In contrast, the average increase in non-food prices across January-February was 0.2% yoy – unchanged from December. Vehicle fuel prices fell more modestly – down by 0.9% (compared with a 4.0% yoy fall in December) – while healthcare & personal articles and education & culture articles saw a deceleration in inflation.

- China's producer prices fell for the 29th month in a row in February. When averaged across January and February, the producer price index fell by 2.2% yoy (compared with a 2.3% yoy fall in December). Over this period, commodity prices (in RMB terms) – an input to the manufacturing sector – fell by 8.9% yoy (down from a 5.4% yoy fall in December), reducing business costs. However, producers have also been squeezed by the weakness in domestic demand and are facing increasing barriers to trade.

Credit conditions

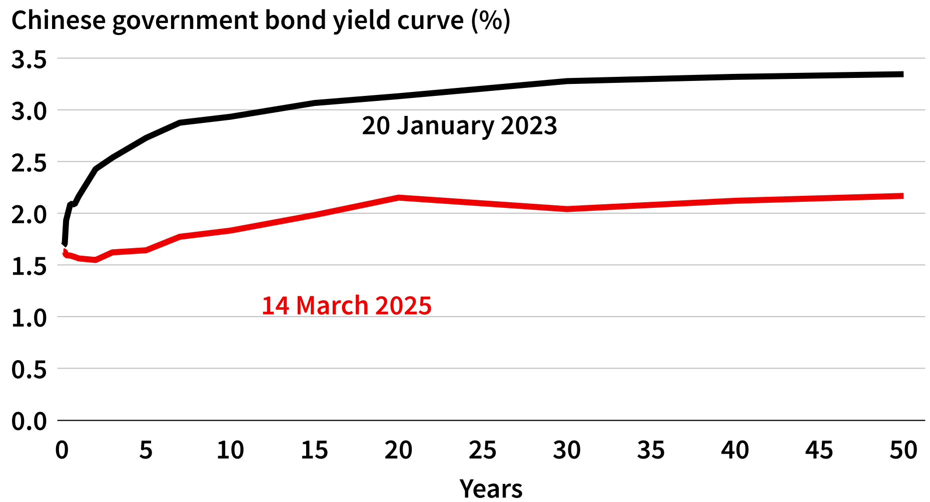
New credit issuance

Surge in government bonds drove Jan-Feb credit issuance



China government bond yield curve

Easing monetary policy fuelled bond rally that flattened the curve



- Following a sizeable contraction in 2024 (down by 9.4%), China's new credit issuance saw a pickup in the first two months of 2025 – rising by 16.6% to total RMB 9.3 trillion.
- This increase was driven by government bond issuance – which rose by 166% yoy to RMB 2.4 trillion. Excluding government bonds, overall credit declined.
- This trend reflected a contraction in new bank loans – down by around 1.9% yoy to RMB 5.8 trillion in January-February – while shadow banking and other credit were also weaker. A 7.2% yoy increase in corporate bond issuance was not enough to offset these declines.
- Weak demand for bank loans has constrained efforts by the People's Bank of China (PBoC) to provide monetary stimulus – with increased liquidity and lower interest rates helping to fuel a rally in government bonds from late 2024 through to early 2025 rather than materially supporting longer term growth.
- This has created a greater burden for financial regulators – putting additional pressure on the exchange rate in the near term (given the disparity between yields on China's bonds versus advanced economies) but also longer term risks to financial stability (similar to the factors that drove the collapse of SVB in the United States in 2023). These considerations may impact monetary policy decisions in 2025.

Sources: Macrobond, NAB Economics

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