China Economic Update – March 2025

China identifies its domestic problems, but can it effectively address them?

NAB Economics

Summary

China's economic plans for 2025 were unveiled at the National People's Congress in early March – with its growth target unchanged. The economic backdrop this year is a challenging one – China's economy continues to face substantial headwinds from the property sector downturn, subdued domestic demand, demographic decline and growing trade barriers. The Trump Administration has moved quickly to implement tariffs, with an increase of over 20% (on imports from China) at the time of writing, with the potential for further measures to come in April (and possibly beyond).

In response, China's State Council unveiled a 30-point plan to boost consumption in mid-March. While there are some positive sentiments in this proposal, how this plan will actually be implemented is somewhat unclear, with a risk that it could further expand the existing imbalances in China's economy.

Trade was critical to China's growth in 2024, but this appears less likely in 2025

Exports were a significant driver of China's growth last year – the CPB World Trade Monitor showed an 11.3% increase in goods export volumes (compared with just 0.6% for the rest of the world), with import volumes rising by just 0.9%. According to the National Bureau of Statistics, net exports accounted for over 30% of China's real GDP growth – its highest contribution since 1997.

Net exports accounted for 30% of growth in 2025

Source: Macrobond, NAB Economics

This increase was indicative of the growing imbalances within China's economy in recent years. Since the start of the COVID-19 pandemic, policy measures (both monetary and fiscal) have been directed towards the supply side of the economy, while little has been done to actively support household demand. Faced with excess supply in the domestic market, China's goods manufacturers ramped up exports from mid-2023 rather than address their excess capacity.

The rapid expansion of export volumes drove the escalation of trade tensions with a broad range of countries – beyond just the United States. This included the European Union and Canada – who applied tariffs on various categories from electric vehicles and green technologies, through to steel and aluminium. The targeted nature of these measures contrasts with the broad based tariffs imposed by the Trump Administration – applying a 20% tariff to all Chinese imports (on top of those implemented by the earlier Trump and Biden Administrations) as well as additional auto, steel and aluminium tariffs – with the risk of further measures to come next month.

If Chinese exporters divert trade away from the United States to other markets, this could accelerate trade tensions further – increasing the likelihood of additional barriers being imposed by other countries. The growing backlash to China's growing exports and the risk of additional trade barriers suggests that trade is unlikely to be a substantial source of growth this year.

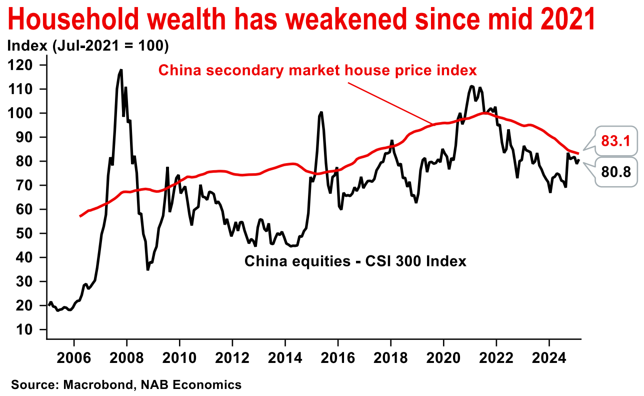
Can China effectively address its growth headwinds?

Heading into 2025, the substantial domestic headwinds that slowed China's economic growth in 2024 appeared set to continue. This reflects the negative impacts on both incomes and wealth in recent years, as well as confidence effects, that have constrained household consumption.

The income side of the equation is hard to verify due to a lack of quality labour market data, meaning assessment of these issues largely requires anecdotal evidence. Reports suggest that unemployment – particularly youth unemployment – has remained relatively high, while many public sector and white-collar private sector roles have seen wages frozen or cut in recent years.

On the wealth side, real estate prices have tracked substantially lower since the implementation of the Three Red Lines policy in 2020 (which burst the long running property bubble), while equity indices (such as the CSI 300) traded lower from peaks in early 2021 through to September 2024 – when stimulus late in the year provided some support. In the case of the real estate sector, property sales appear to be stabilising (albeit at a comparatively low level), but construction activity is likely to remain subdued, given the sizeable overhang of earlier developed but unsold properties. This overhang may also constrain price growth – and with it, household wealth.

31 March 2025 | Author: Gerard Burg, Senior Economist - International



This was the backdrop that China's authorities faced when keeping the growth target unchanged in 2025 at "around 5%". Having been over-reliant on international trade in 2024 – and facing an increasingly hostile trade environment this year – Premier Li's work report at the National People's Congress identified vigorously boosting consumption as the highest priority task for 2025. That said, various Chinese leaders have spoken about increasing consumption over multiple decades, with limited success.

In mid-March, the State Council and Communist Party Central Committee jointly released the 30-point plan on "on special initiatives to increase consumption". The plan is broad in scope – including parts that promote development of the technology and artificial intelligence sector that are at best tangentially connected to consumption – with measures on both the supply and demand sides of the economy.

The initiative that we see having the greatest potential is support for pensions, along with other social security measures around education, health and childcare. In reducing the need of households to self-insure – a key contributor to China's high household savings rate – this could increase the capacity to spend (if implemented to a sufficient degree). However, the plan does not outline the extent of increases in this area, and could be constrained by the ideological opposition to "welfarism" among China's senior leadership.

Other measures to increase income are more indirect – such as tax cuts and subsidies to firms, intended to boost employment and wages – rather than providing direct support to households. Similarly, speeding up the settlement of outstanding payments to SME firms from the government and state-owned enterprises (SOEs) is intended to boost business confidence, and with it, employment – but there is no guarantee the firms would expand hiring in this scenario.

Another key plank is the extension of the consumer goods and used car trade-in program – which was announced at the National People's Congress. We argue that this is unlikely to provide a substantial boost to consumption – as it is more likely to bring forward demand than sustainably generate new spending, while the subsides themselves represent a relatively small share of GDP.

Conclusions

While the fact that Chinese authorities have publicly identified the need to boost consumption to move its economy to a more sustainable path is somewhat positive, there are a number of factors that should temper optimism related to this plan.

One of the largest concerns is that local governments will be responsible for the implementation of these measures. China's central government is still yet to resolve the wide disparity between revenue and expenditure at the local authority level – with many of these governments highly indebted (including hidden debts of local government financing vehicles) and fiscally constrained by over-reliance on land sales that have shrunk due to the property downturn. This means that the implementation could be incomplete and inconsistent across the country.

Also critically important will be the degree to which individual measures are implemented, given that they are directed at both the supply and demand sides of the economy. The excessive focus on supply during the pandemic and its recovery phase – and a lack of demand side support – was a key driver of the current imbalances, which could worsen if this plan favours supply side measures.

The lack of clarity around the size of the proposed social security measures adds uncertainty as to the significance of this plan. The long-standing ideological opposition to these types of safety nets could reduce the effectiveness of these measures, meaning that they have little impact on the household savings rate.

Finally, there is a question around the central government's commitment to the plan in the first place. Chinese authorities have long discussed the need to increase consumption – then Premier Wen Jiaobao announced a plan to transition growth towards a consumption-based economy in December 2004. However, consumption's share of GDP has remained below its rate in 2004 for the subsequent two decades. It is possible that authorities view consumer confidence as the key constraint to consumption, and that the announcement of a plan itself may be sufficient to reduce this barrier. Such a view overlooks the income and wealth drag on household budgets in recent years.

Contact the author

Gerard Burg

Senior Economist – International

Gerard.Burg@nab.com.au

+61 477 723 768

Group Economics

Alan Oster
Group Chief Economist
+(61 0) 414 444 652

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

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

Australian Economics

Gareth Spence
Head of Australian Economics
+(61 0) 422 081 046

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
Corporate & Institutional Banking
+(61 2) 9295 1196