NAB Group Economics

China's economy at a glance
April 2025

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Key points

Robust growth was maintained in Q1, but China faces the storm of US tariffs

- According to official data, China's headline year-on-year economic growth was stable in Q1 – increasing by 5.4%. On a quarterly basis, seasonally adjusted growth eased to 1.2% qoq (down from the relatively strong 1.6% qoq increase in Q4 2024).

- China's economic growth was overly reliant on trade in 2024, but the US tariffs and limits on the capacity to divert trade to other markets (with the added risk that other countries will seek to protect their domestic markets) will see trade significantly contracting from growth this year. We expect that Chinese authorities will provide additional fiscal support over and above the 30-point consumption plan unveiled in mid-March, but these are likely to be spread over time and lag the trade impact. As a result, we have revised our forecasts for China's growth lower – to 4.1% in 2025 and 3.9% in 2026 (from 4.6% and 4.2% respectively previously).

- China's industrial production accelerated in March – increasing by 7.7% yoy – up from an average of 5.9% yoy in January-February. This was the largest increase since June 2021 (when data was highly distorted by the impact of COVID-19 disruptions).

- Growth in China's real fixed asset investment was stronger in March – increasing by 6.8% yoy (from 6.3% yoy previously). State-owned enterprises (SOEs) have dominated investment in the post-pandemic period, however there has been a modest uptick in private sector investment in recent months.

- China's trade surplus increased in March 2025 – rising to US$102.6 billion (from an average of US$85.3 billion per month across January and February). This was the second highest monthly surplus on record, only marginally softer than the level recorded in December 2024 (US$104.6 billion). Despite this result coming ahead of the anticipated increase in US tariffs in April, there was no strong evidence for front running exports to the US – with stronger growth in exports to emerging Asia and the European Union.

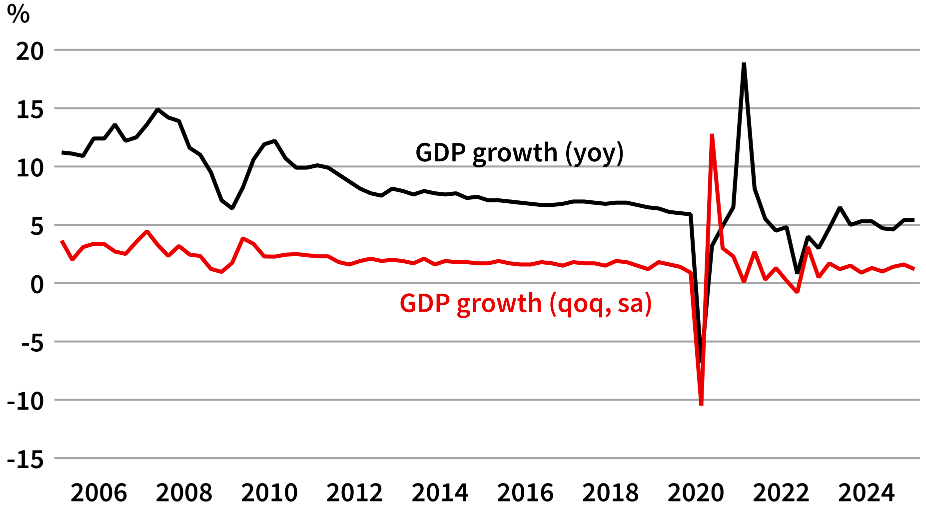
- Real retail sales rose by 6.0% yoy (up from 4.1% yoy previously). This was the fastest rate of increase since December 2023 but remains weaker than the pre-pandemic trend.

- China's new credit issuance increased strongly in the first quarter of 2025 – increasing by 18.5% yoy to total RMB 15.2 trillion. It is worth noting that this increase followed a sizable contraction (-9.4%) in 2024. This increase has overwhelmingly been driven by government bond issuance – which rose by 185% - while bank lending also rose (following a contraction last year).

Gross domestic product

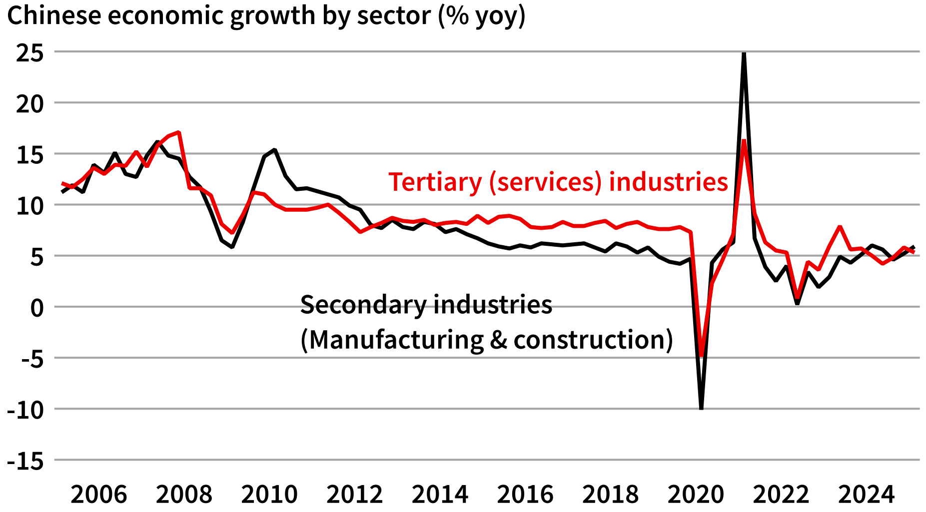
China's economic growth

Stable growth ahead of the tariff storm



Economic growth by industry

Manufacturing & construction outpaced other sectors in Q1



Sources: Macrobond, NAB Economics

- According to official data, China's headline year-on-year economic growth was stable in Q1 – increasing by 5.4%. On a quarterly basis, seasonally adjusted growth eased to 1.2% qoq (down from the relatively strong 1.6% qoq increase in Q4 2024). From a trade perspective, Q1 saw the imposition of the initial US tariffs, representing a total increase of 20%, but came ahead of the escalation of an additional 125% tariffs imposed following the 2 April announcement.

- By broad industrial categories, growth was led by China's secondary sector (manufacturing and construction) in Q1 – increasing by 5.9% yoy (up from 5.2% yoy in Q4 2024). In contrast, there was a slowing growth trend for the services sector – with growth at 5.3% yoy in Q1 (from 5.8% yoy previously).

- China's economic growth was overly reliant on trade in 2024, but the US tariffs and limits on the capacity to divert trade to other markets (with the added risk that other countries will seek to protect their domestic markets) will see trade significantly contracting from growth this year. We expect that Chinese authorities will provide additional fiscal support over and above the 30-point consumption plan unveiled in mid-March, but these are likely to be spread over time and lag the trade impact. As a result, we have revised our forecasts for China's growth lower – to 4.1% in 2025 and 3.9% in 2026 (from 4.6% and 4.2% respectively previously).

NAB China GDP forecasts

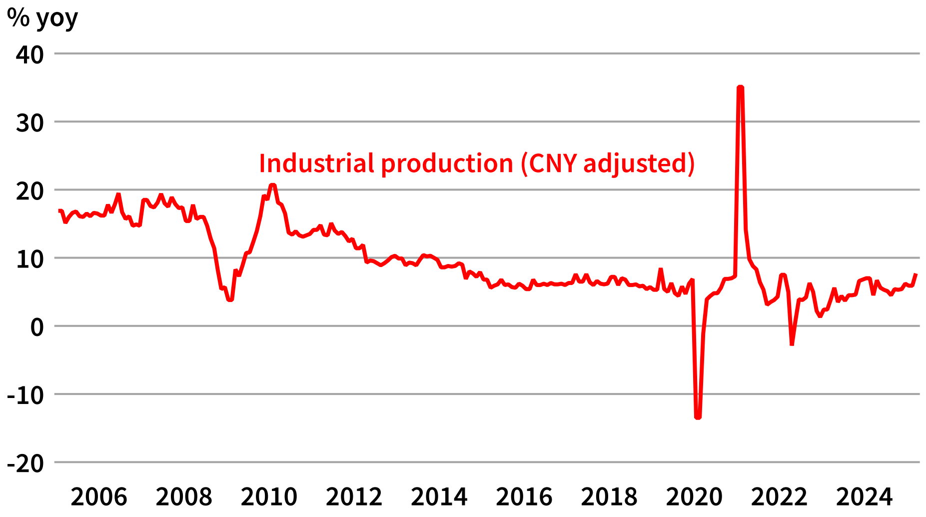
%	2023	2024	2025	2026
GDP	5.2	5.0	4.1	3.9

Industrial production

national australia bank

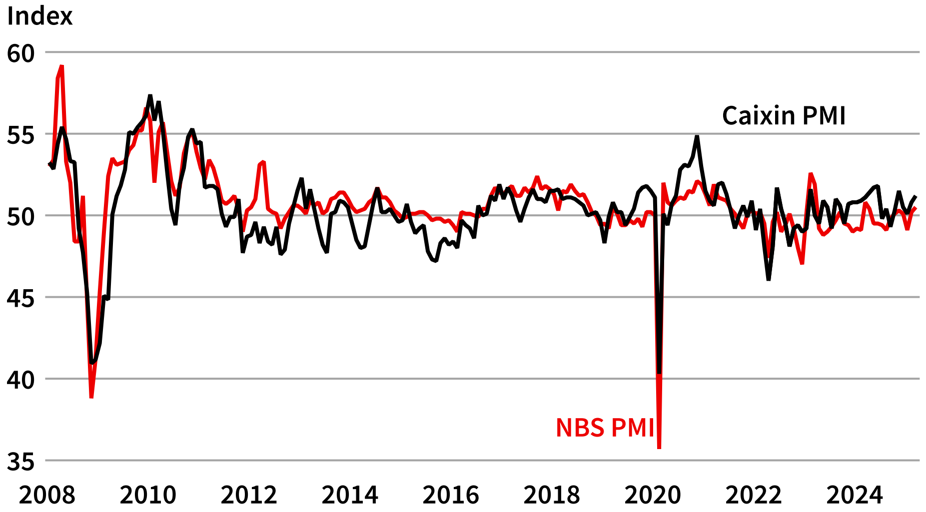
Industrial production growth

Output accelerated to its fastest pace in almost four years



Manufacturing PMI surveys

Stronger orders and production drove PMIs higher since early 2025



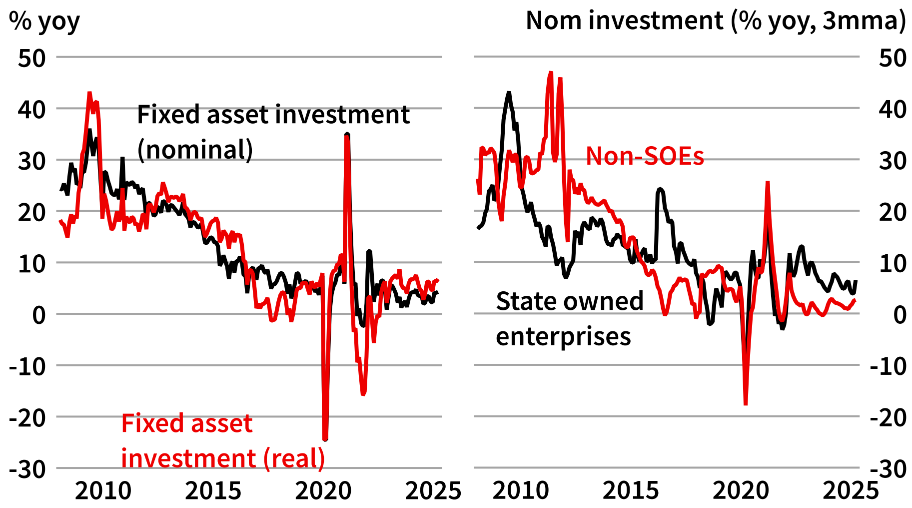
Sources: Macrobond, NAB Economics

- China's industrial production accelerated in March – increasing by 7.7% yoy – up from an average of 5.9% yoy in January-February. This was the largest increase since June 2021 (when data was highly distorted by the impact of COVID-19 disruptions).
- Trends among individual industrial sectors remain highly mixed. Growth in construction related heavy industry was relatively subdued – with cement manufacturing increasing by 2.5% yoy and crude steel by 4.6% yoy. In contrast, electronics manufacturing rose by 13.1% yoy and motor vehicles by 8.4% yoy.
- Both of China's major manufacturing surveys moved higher from the relative lows of January 2025 – with the private sector Caixin PMI moving up to 51.2 points in March (from 50.8 points in February and 50.1 points in January). Similarly, the official NBS PMI edged up to 50.5 points in March (from 50.2 points and 49.1 points in February and January respectively).
- In both surveys, stronger readings for new orders supported a pickup in the production. In the Caixin survey, new export orders were in positive territory – recording its strongest reading in almost a year, whereas this measure remained negative in the official survey (albeit this reading was the least negative one since April 2024).

Investment

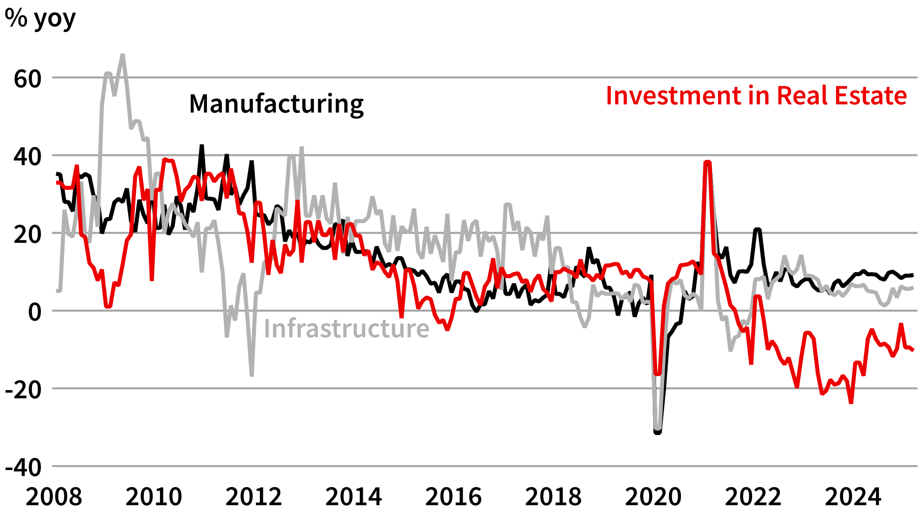
Fixed asset investment growth

Real investment picked up in March



Fixed asset investment by industry

Divide between major investment sectors continues



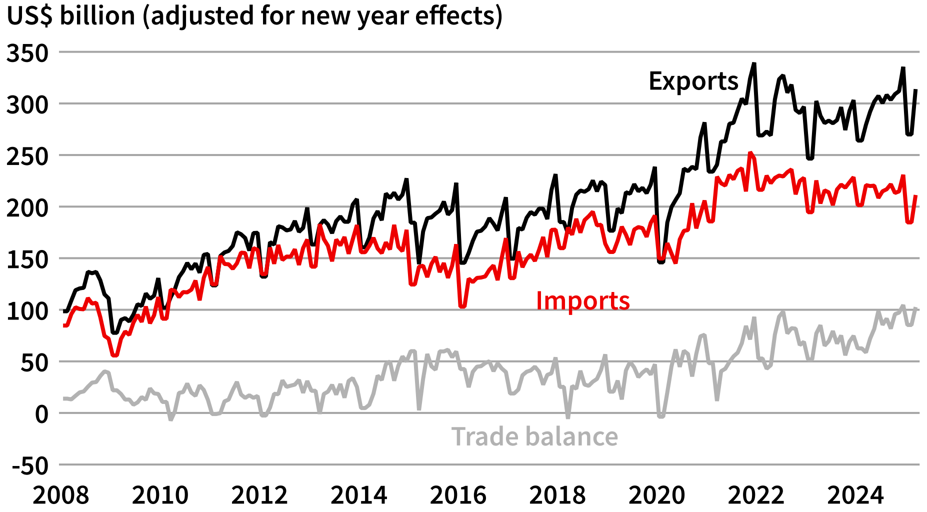
- Growth in China's nominal fixed asset investment was marginally stronger in March – increasing by 4.3% (compared with 4.1% yoy in January-February). A faster fall in producer prices in March – which flows through to the cost of investment goods – implies a larger pickup in real investment – up by 6.8% yoy (from 6.3% yoy previously).
- State-owned enterprises (SOEs) have dominated investment in the post-pandemic period, however there has been a modest uptick in private sector investment in recent months. Private investment rose by 3.0% yoy – its fastest pace since December 2023. SOE investment rose by 6.1% yoy in March, down from 7.0% yoy in January-February.
- There remains a notable divide in terms of investment by industry. Manufacturing investment continues to expand rapidly – rising by 9.2% yoy in March, while infrastructure investment has lifted from its mid-2024 lows – up by 5.9% yoy last month.
- In contrast, investment in real estate continues to fall, down by 10.3% yoy in March. Real estate investment has fallen every month since March 2022. Residential building starts continue to fall – down by 18.6% yoy in March – although sales appear to be stabilising – falling by just 1.2% yoy (from double digit declines across the first three quarters of 2024).

Sources: Macrobond, NAB Economics

International trade – trade balance and imports

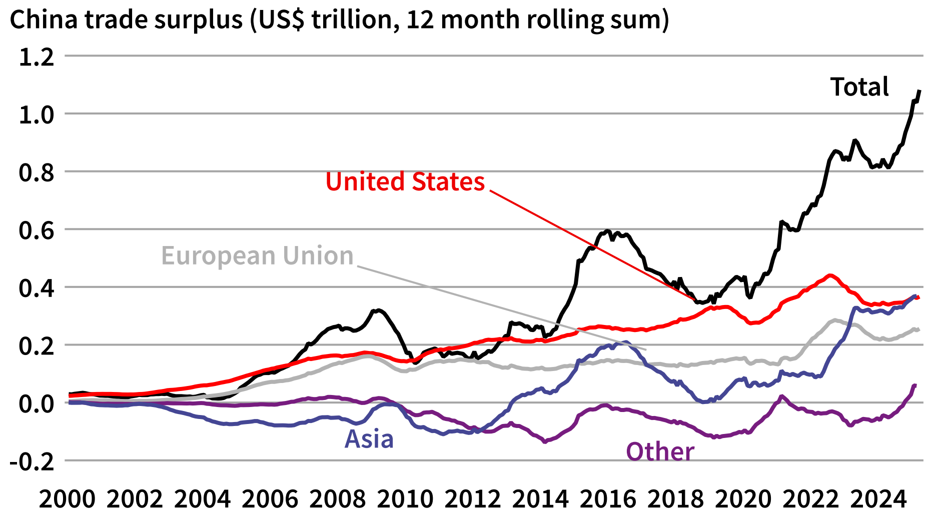
China's trade balance

Trade surplus rises to second highest level on record



Rolling trade surplus

China's rolling surplus has surpassed US$1 trillion



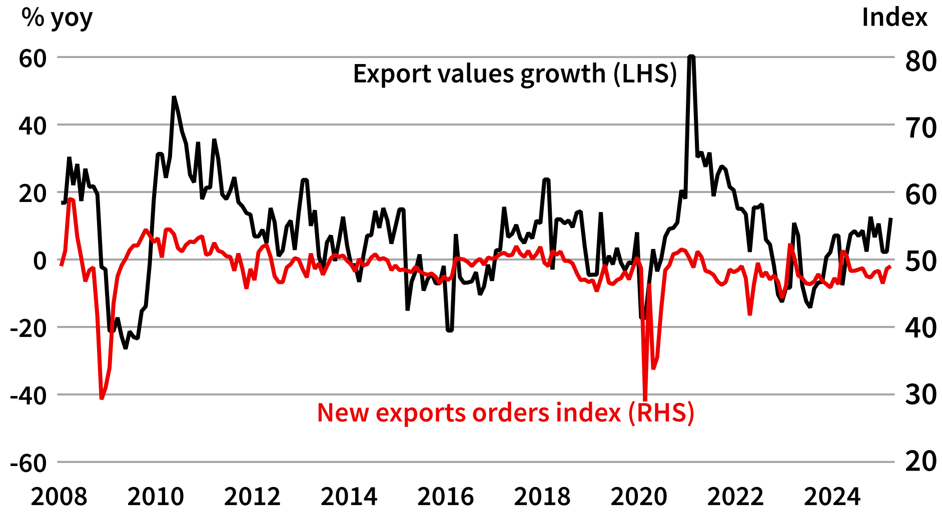
Sources: Macrobond, NAB Economics

- China's trade surplus increased in March 2025 – rising to US$102.6 billion (from an average of US$85.3 billion per month across January and February). This was the second highest monthly surplus on record, only marginally softer than the level recorded in December 2024 (US$104.6 billion). Despite this result coming ahead of the anticipated increase in US tariffs in April, there was no strong evidence for front running exports to the US – with stronger growth in exports to emerging Asia and the European Union (see over).
- China's twelve month rolling trade surplus has continued to climb – reaching a new record high of US$1.08 trillion in March (having surpassed the US$1 trillion mark for the first time in January). The rapid acceleration of this measure that occurred since April 2024 has been driven by an increase in net exports to Asia (largely the ASEAN economies), Latin America and the European Union.
- The value of China's imports totalled US$211.3 billion in March (compared with an average of US$184.7 billion in the first two months). In year-on-year terms, import values fell by 4.3%.
- Import prices have generally declined year-on-year since September 2024 (with the exception of a 0.1% yoy increase in January) – with this relatively consistent with falls in global commodity prices. Import volumes have been more volatile over this period – increasing noticeably year-on-year in December and more modestly in September, but down on average across January-February and likely March as well.
- Among the major import categories in March, there were sizeable year-on-year price declines for fertiliser, soybeans, crude oil, integrated circuits and LPG & other gases. In contrast, the cost of aircraft soared (up almost 80% yoy), while rubber, copper ore and products and refined petroleum products.

International trade – exports

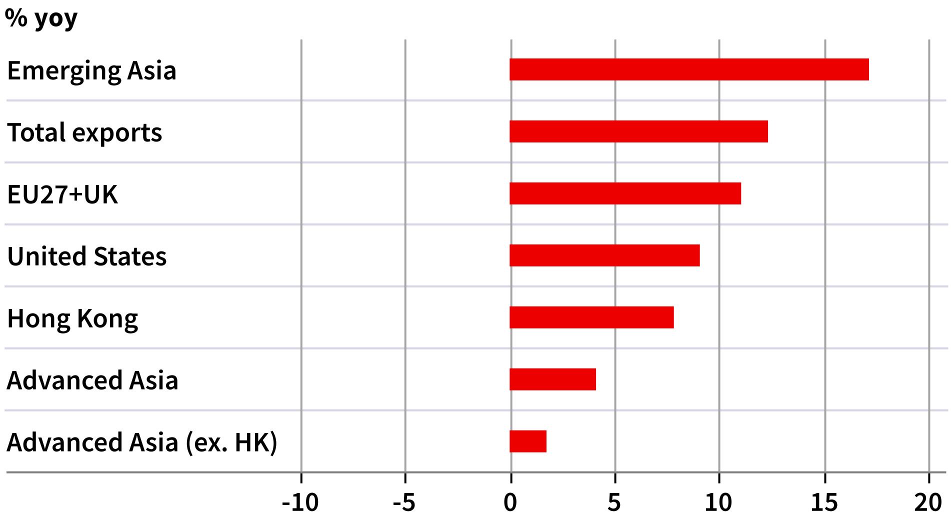
Export value and new export orders

Growth in export volumes likely to fade in coming months



Exports to major trading partners

Surge in exports to Vietnam, India, Thailand and Indonesia



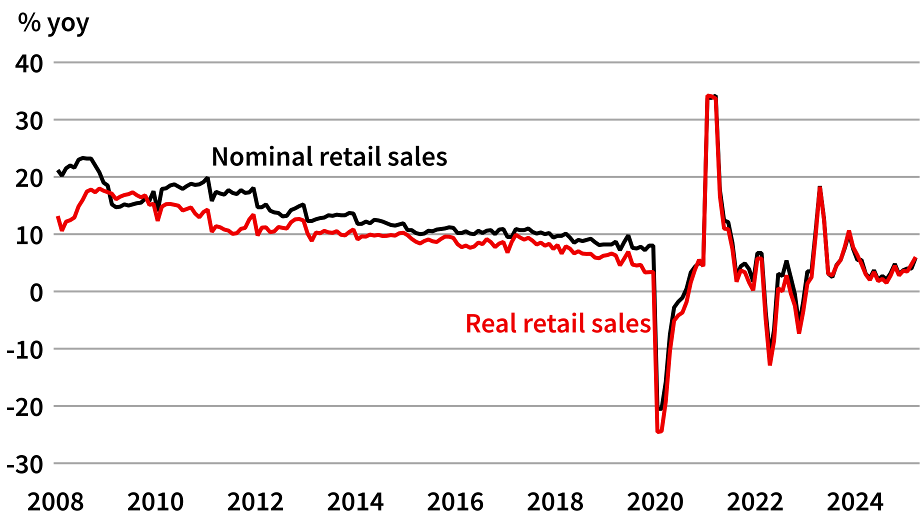
Sources: Macrobond, NAB Economics

- China's export values rose strongly in March – up by 12.3% yoy to US$313.9 billion (compared with an average US$270.0 billion per month across January and February).
- We expect China's exports to slow in coming months. The rapid and severe increase in opposing tariffs imposed by the United States and China will curtail much of the trade between the two countries. Attempts by Chinese exporters to divert trade to other countries may be met by further protectionism.
- Growth in exports to major trading partners was led by a rapid increase in deliveries to emerging Asian economies – up by 17.2% yoy. This reflected large increases in exports to Vietnam, India, Thailand and Indonesia.
- There was somewhat more modest growth – below the overall average – in exports to the European Union-27 + the United Kingdom (which rose by 11.1% yoy) and the United States (up by 9.1% yoy).
- In contrast, exports to advanced Asian economies grew more slowly – up by 4.1% yoy. This growth included Hong Kong, where there has been long standing distortions in trade data, in part related to capital flows disguised as trade activity. Excluding Hong Kong, exports to advanced Asia rose by just 1.8% yoy – with deliveries to Singapore and South Korea falling.

Retail sales and inflation

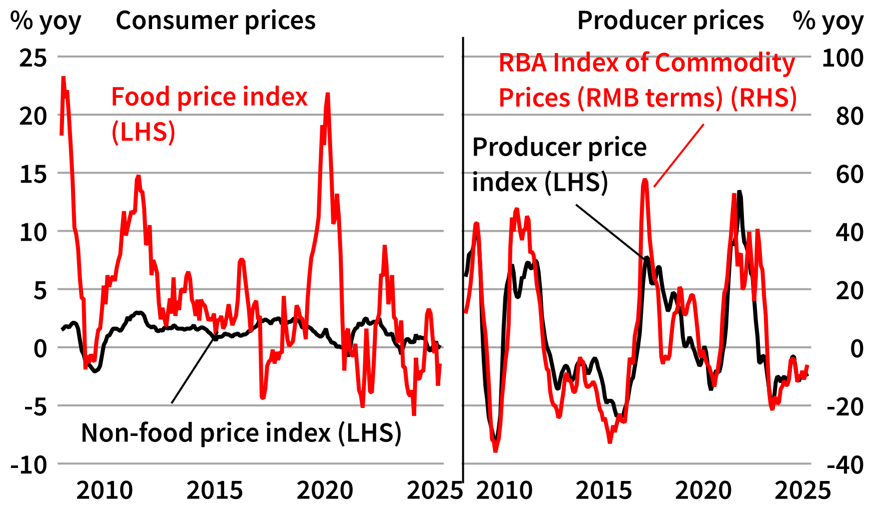
Retail sales growth

Real sales growth at its highest since late 2023



Consumer and producer prices

Deflationary pressures highlight supply-demand imbalance



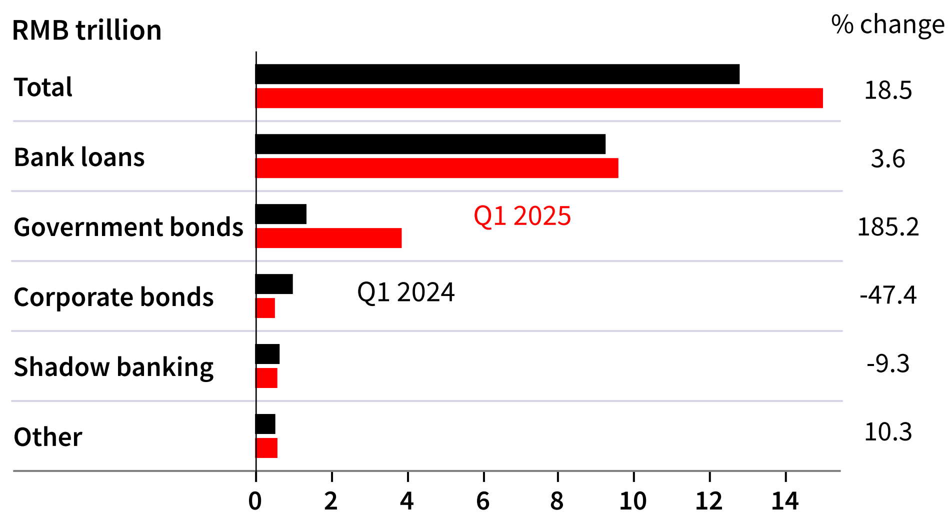
- Nominal retail sales also picked up in March – increasing by 5.9% yoy (compared with a 4.0% yoy increase in January-February). When adjusted for inflation (using the consumer price index as the deflator), real retail sales rose by 6.0% yoy (up from 4.1% yoy previously). This was the fastest rate of increase since December 2023 but remains weaker than the pre-pandemic trend.
- China's consumer price index fell by 0.1% yoy in March 2025 – unchanged from the average decline recorded across January and February.
- Food prices were the main driver of this deflation, falling 1.4% yoy (similar to the -1.5% yoy average across the first two months of the year). Pork prices grew slightly more softly – up by 6.7% yoy (compared with 8.8% yoy in January-February), while fresh vegetables fell by 6.8% yoy and eggs declined by 1.6% yoy.
- Non-food prices rose by 0.2% yoy, essentially unchanged since December. Vehicle fuel prices fell steeply – down 5.7% yoy – but this was offset by prices for durable consumer goods that fell more modestly than late 2024.
- China's producer prices have fallen year-on-year for thirty straight months. Producer prices fell by 2.5% yoy in March, compared with a 2.2% yoy fall across January and February. Commodity prices – as measured by the RBA Index of Commodity Prices (converted to RMB terms) – fell by 6.0% yoy in March, compared with a 9.9% yoy fall in January-February. While this implies that input costs are weaker, comparatively subdued domestic demand may also be constraining prices.

Sources: Macrobond, NAB Economics

Credit conditions

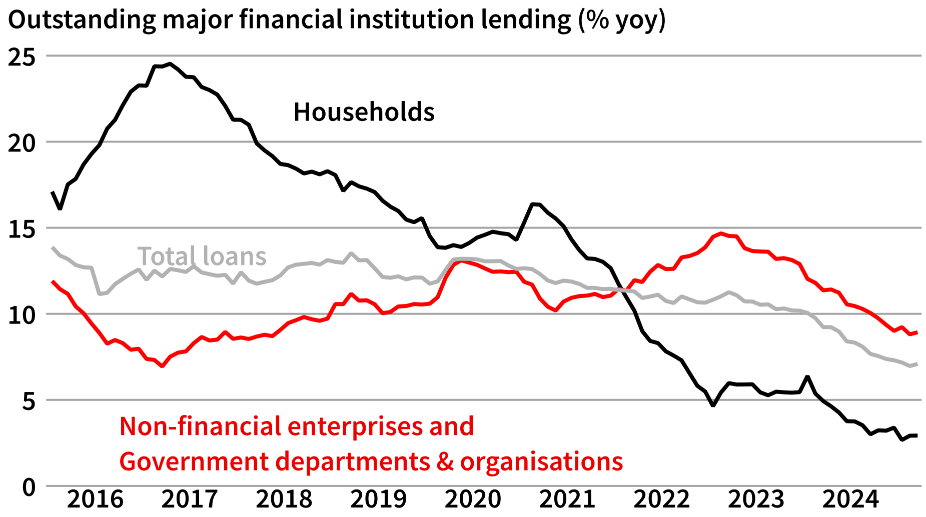
New credit issuance

Government bonds drive credit growth once again



Bank lending

Weak loan environment limited monetary policy effectiveness



Sources: Macrobond, NAB Economics

- China's new credit issuance increased strongly in the first quarter of 2025 – increasing by 18.5% yoy to total RMB 15.2 trillion. It is worth noting that this increase followed a sizable contraction (-9.4%) in 2024.
- This increase has overwhelmingly been driven by government bond issuance – which rose by 185% yoy to RMB 3.9 trillion.
- Bank lending also rose – up by 3.6% yoy to RMB 9.6 trillion – with much of this increase occurring in the month of March, while both corporate bond issuance and shadow banking declined year-on-year.
- The modest uptick in bank loans in Q1 2025 followed on from steep falls in 2024 (-24.3%) and it remains to be seen whether this early 2025 trend can be sustained. Weakness in lending reflected the downturn in China's property market (for both mortgages and property development) and the subdued private business investment.
- Weak demand for loans limited the effectiveness of monetary stimulus by the People's Bank of China (PBoC) in 2024, with the increase in liquidity and lower interest rates fuelling a rally in government bonds rather than supporting growth.

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