
China's economy in 2025: Five themes to watch

- ◆ China faces a number of challenges in 2025, but we believe both the government and enterprises are adjusting
- ◆ More proactive and collaborative economic policies will likely be rolled out, with a focus on supporting domestic demand
- ◆ Structural reforms should accelerate under a new Five-year Plan: stay tuned for efforts to stabilise business sentiment

China data review (Q4, December 2024)¹

- **China's GDP** grew by 5.4% y-o-y in Q4 2024, rounding out growth for the full year 2024 at 5%, in line with the government's target of "around 5%".
- **Retail sales** rose by 3.7% y-o-y in December, continuing to benefit from the consumer trade-in programs, with household appliance sales rising by 39% y-o-y and auto sales staying in positive territory. Consumer trade-in programs have so far driven sales of over RMB1.3trn (SCIO, 15 January) while the government recently announced it would add more funding for the program.
- **Industrial production** was a key bright spot, rising 6.2% y-o-y in December, helped in part by front-loading from exporters in anticipation of potential tariffs. Even if the front-loading cushion may be more temporary, the expansion of equipment upgrading and trade-in programs has also helped to drive growth. Manufacturing investment was also buoyant, rising by 7.4% y-o-y.
- **Property investment** saw a deeper contraction, dropping by 13.3% y-o-y in December, suggesting more time and policy support may still be needed to stabilise the property sector. This is despite some recent green shoots, with residential primary home sales in volume terms rising by 4.4% y-o-y, the second straight month of positive growth.
- China's December inflation print saw some mixed performances with **headline CPI** edging down to 0.1% y-o-y, though **headline PPI** deflation narrowed to 2.3%. Food became a drag last month, although core CPI managed to improve a touch (to 0.4% y-o-y) due to the recent easing package. The expanded consumer trade-in programs should continue to boost consumer demand and prices levels.
- **Exports** rose 10.7% y-o-y in December driven by front-loading of shipments in anticipation of the US imposing higher tariffs this year. Indeed, exports to the US saw its growth double to c16% y-o-y from 8% in November. Meanwhile, **imports** rebounded to positive territory again, rising 1.0% y-o-y, partly stemming from the front-loading in exports, as processing imports saw a recovery to 7.7% y-o-y.

¹ Source: Wind, HSBC

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As we enter the Year of the Snake, there is a great deal of uncertainty as to what Trump's proposed policy measures could mean for the global economy. In China, the wait for policy action continues after China's promise to 'forcefully' lift domestic consumption. Given this backdrop, we outline five key macro themes for China's economy in 2025.

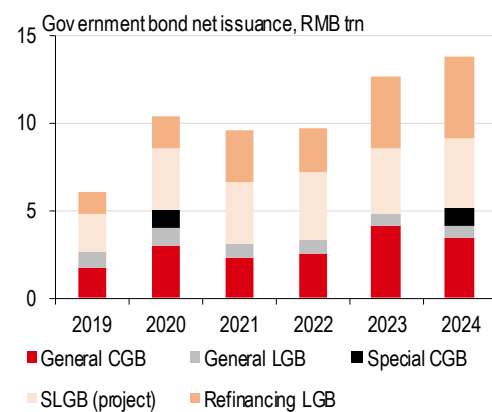
1. Overseas investments set to rise

With potential new US trade policies set to reshape trade flows, China's overseas direct investments (ODI) are accelerating. And unlike during Trump's first presidency where ODI was mainly about facilitating trade diversions (e.g. moving some production to ASEAN), this time it may act as an alternative strategy to slowing exports with investments closer to end consumers.

2. A major policy shift targeting growth

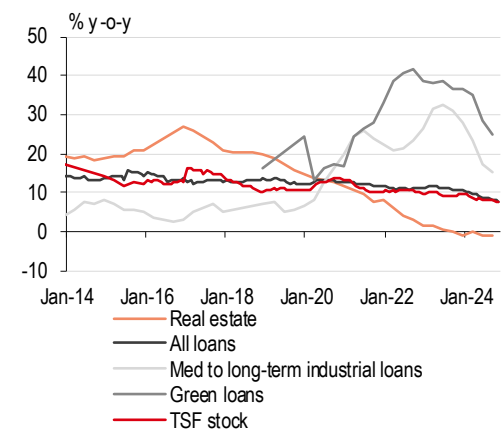
China has set the tone for more forceful and effective economic policies: fiscal easing will likely mean a higher budget deficit and record-high government bond issuance; monetary easing may include additional Reserve Ratio Requirement cuts, interest rate reductions and asset buying from the secondary market.

Chart 1. Another year of record-high government bond issuance is expected



Source: Wind, HSBC

Chart 2. This round of fiscal easing hasn't translated into a credit impulse



Source: CEIC, HSBC

3. Prioritising domestic demand

A key feature of China's policy support is its pro-consumption nature. That will likely come with both cyclical and structural measures. An expanded consumer goods trade-in programme, an increase in basic pensions, and civil servant pay rises are all set to be implemented. China will not only expand the social safety net but also explore ways to stabilise the housing and equity market, though structural measures will take longer.

4. China to emerge from deflation

China's GDP deflator has been in contraction for 7 straight quarters. That said, we expect supply side policies to supplement demand stimulus in order to rebalance demand and supply, and 'systemically rectify' the cut-throat competition (NDRC, 3 January).

5. Structural reforms to accelerate

China is concluding its 14th Five-year Plan in 2025 and devising a new five-year strategy. Fiscal reform is critical to resolving local governments' fiscal stress and strengthening their capacity to implement de facto fiscal easing during economic downturns. Other structural reforms, such as establishing a fair and transparent regulatory framework, can also help to rejuvenate entrepreneurship and attract more foreign direct investment.

Key upcoming China economic data

Date	Indicator	Prior
20 Jan	Loan Prime Rate 1Y	3.10%
20 Jan	Loan Prime Rate 5Y	3.60%
27 Jan	NBS Manufacturing PMI	50.1
31 Jan	Caixin Manufacturing PMI Final	50.5
5 Feb	Caixin Services PMI	52.2
9 Feb	Producer Price Index (PPI) y-o-y	-2.3%
9 Feb	Consumer Price Index (CPI) y-o-y	0.1%
20 Feb	Loan Prime Rate 1Y	-
20 Feb	Loan Prime Rate 5Y	-

Source: LSEG Datastream

Performance of key A-share indexes*

	Current	Year-to-	
		Date	Last 1yr
Shanghai Composite	3,227	-3.41%	11.82%
Shenzhen Composite	1,901	-2.45%	9.55%
CSI 300	3,796	-3.42%	15.13%

* Past performance is not an indication of future returns

Source: LSEG Datastream. As of 16 Jan 2025 market close

Disclosure appendix

Important disclosures

Additional disclosures

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