Macro Note

China: 1Q25 GDP growth beat estimates but 2025 growth outlook downgraded as trade war escalates

Wednesday, 16 April 2025

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- The strong growth in the industrial sector due to frontloading activities continued to drive China's economic outperformance in 1Q25. Retail sales and urban fixed asset investment (FAI) also came in above expectation in Mar and the national surveyed jobless rate eased back to 5.2%.

- Despite the robust 1Q25 GDP, a downgrade to our full-year growth forecast is inevitable given the US-China tariff escalation. We have earlier highlighted that the impact on China's GDP growth could be as high as 2% point on a full-year basis if the exorbitant tariffs stay in place, with severe repercussions on export and investment. The strong improvement in Mar retail sales is also unlikely to sustain against this backdrop while the domestic challenges including real estate market, unemployment and fragile consumer sentiment remain.

- Hence, we revert our 2025 GDP growth forecast to where it was at the end of last year, at 4.3% (from current 4.7%). We expect growth to slip below 4% in 2H25. Having said that, there remains a high degree of uncertainty in our estimate depending on when we get a breakthrough in the US-China trade negotiations and the eventual tariff rates. Meanwhile, we maintain our forecast for China's growth at 4.2% for 2026. The risks are tilted to the downside.

- Amid a slowdown in both external and domestic demand, deflationary pressure is likely to intensify, increasing prospects of stronger fiscal and monetary policy responses from China. We expect the PBOC to frontload its monetary policy easing to stabilise markets with near-term prospects of a cut in banks' reserve requirement ratio (RRR) by 100 bps as well as the 7-day reverse repo rate by 20 bps to 1.30% by end-2Q25. The 7-day reverse repo rate and RRR cuts totaled 30 bps and 100 bps respectively last year.

Above consensus growth in 1Q25

China's economy expanded at a stronger-than-expected pace in 1Q25 while this was in line with our estimate. GDP growth stabilized at 5.4% y/y, 1.2% q/q sa in 1Q25 (Bloomberg's est: 5.2% y/y, 1.4% q/q; UOB est: 5.4% y/y, 1.5% q/q), vs. 5.4% y/y, 1.6% q/q sa in 4Q24.

The strong growth in the industrial sector due to frontloading activities continued to drive China's economic outperformance in 1Q25. By the three major industries, growth picked up in the secondary industry to 5.9% y/y (4Q24: 5.2%) – highest in a year – while moderating in the tertiary industry to 5.3% y/y (4Q24: 5.8%) and primary industry to 3.5% y/y (4Q24: 3.7%).

Broad-based recovery in March

Industrial production (IP) surged by 7.7% y/y in Mar (Bloomberg est: 5.9% y/y, Jan-Feb: 5.9%) as manufacturers rushed out orders before higher US tariffs hit. This is the fastest pace since Jul 2021. The momentum has stayed positive as IP posted 12 straight months of sequential gains, rising 0.44% m/m in Mar vs. 0.51% m/m in Feb.

Production was driven by the manufacturing sector which rose 7.9% y/y (Jan-Feb: 6.9%) with the high-tech production growth accelerating to 10.7% y/y (Jan-Feb: 9.1%). Output in the electricity, gas & water production and mining & quarrying industry rose 3.5% y/y (Jan-Feb: 1.1%) and 9.3% y/y (Jan-Feb: 4.3%) respectively.

Manufacturing industries such railway, ships, aircraft & other transportation (+19.0% y/y), communication equipment, computer & other electronic equipment (+13.1% y/y), electrical machinery & equipment (+13.0% y/y), automobiles (+11.5% y/y) led the robust growth in Mar.

Retail sales rose a stronger-than-expected 5.9% y/y in Mar (Bloomberg est: 4.3%, Jan-Feb: 4.0%) while its sequential gains remained robust at 0.58% m/m after rising 0.62% in Feb and 0.57% in Jan.

Restaurant and dining sales rose 5.6% y/y in Mar (Jan-Feb: 4.3%) and consumer goods sales were up 5.9% y/y (Jan-Feb: 3.9%). Sales were robust for consumer goods such as household appliances (+35.1% y/y), furniture (+29.5% y/y), communication equipment (+28.6 % y/y), sports & recreation products (+26.2% y/y), cultural & office equipment (+21.5% y/y) and jewelry (+10.6% y/y) while car sales rebounded (+5.5% y/y). The government's trade-in subsidy program continued to boost demand for household goods and communication equipment while retail sales gains were more broad-based in Mar but this trend may not persist amid greater economic uncertainties.

Urban fixed asset investment (FAI) expanded slightly above expectation at 4.2% YTD y/y in Mar (Bloomberg est 4.1%, Feb: 4.1%). Investments by state-owned holdings continued to drive FAI, rising 6.5% YTD y/y while private sector FAI picked up slightly to 0.4% YTD y/y. Amid greater external uncertainties, the momentum in FAI eased to 0.15% m/m in Mar from 0.55% in Feb and 0.61% in Jan.

By industry, FAI growth was driven by investments in the primary industry at 13.0% YTD y/y and secondary industry at 11.9% YTD y/y in Mar. FAI in the tertiary industry was near-flat at 0.1% YTD y/y from a contraction of -1.1% in 2024. Tertiary industry FAI continued to be weighed down by the real estate sector. Real estate investment fell -9.9% YTD y/y (Bloomberg est -9.9%, Feb: -9.8%). This was cushioned by stronger infrastructure (excluding utilities) investment growth of 5.8% YTD y/y in Mar vs. 4.4% in 2024.

The national surveyed jobless rate eased back to 5.2% in Mar after the surprise jump to 5.4% in Feb. However, the 31 large cities jobless rate was unchanged from Feb at 5.2%, the highest since Sep 2024. The youth unemployment rate (excluding students) was last at 16.9% in Feb, up from 16.1% in Jan.

Home prices extended their decline, but the pace narrowed in Mar. **New home prices** in 70 cities dropped -0.08% m/m in Mar compared to -0.14% m/m in Feb. Out of 70 large- and medium- sized cities, 41 cities saw price declines, down from 45 in Feb while 24 cities registered price increases from 18 in Feb and 5 cities saw steady prices. **Used home prices** were down -0.23% m/m in Mar vs. -0.34% m/m in Feb where 56 cities registered price declines, down from 65 in Feb. The **residential property sales value** fell by -0.4% YTD y/y in Mar (Dec: -17.6% YTD y/y) as base effect turned more favourable. Sales value had fallen in the past three years due to falling transactions and prices.

New aggregate financing and **new local currency loans** posted a stronger-than-expected recovery in Mar, in addition to the seasonal drivers. Issuance of government bonds increased by CNY1.49 tn in Mar, the 7th out of 8 preceding months that it rose by more than CNY1 tn, as fiscal stimulus rolls in and the debt swap program kicked off. Corporate loans demand increased in Mar as manufacturers rushed out shipments before higher tariffs hit but household loans stayed weak. Household medium/LT loans reversed a drop in Feb to rise CNY505 mn in Mar and was higher compared to CNY452 mn in the same period last year. The gains to-date still indicated weak demand for mortgages.

Overall in 1Q25, **aggregate financing** rose CNY15.18 tn (Bloomberg est: CNY14.25 tn, Jan-Feb: CNY9.29 tn) due to strong issuance of government bonds and a pick-up in **new local currency loans** to CNY9.78 tn (Bloomberg est: CNY9.14 tn, Jan-Feb: CNY6.14 tn), above CNY9.46 tn in the same period last year.

Broad money supply M2 growth remained at 7.0% y/y in Mar (Bloomberg est: 7.1%, Feb: 7.0%) while **M1** growth rebounded to 1.6% y/y (Bloomberg est: 0.3%, Feb: 0.1%), its highest in a year following contractions between May-Nov 2024. The measure received a boost following the change in the scope of M1 to include individual demand deposits as well as funds stored on payment platforms. Relatively weak demand to hold cash for investment and consumption will continue to feed into the deflationary pressure. We have revised our forecast for 2025 CPI and PPI to 0% (from 0.9%) and -2.0% (from -1.2%) respectively after the Mar data indicated that the downward price pressure has increased due to economic headwinds from the trade war.

Downgrading our GDP forecast for 2025 to 4.3%

Despite the robust 1Q25 GDP, a downgrade to our full-year growth forecast is inevitable given the US-China tariff escalation. We have earlier highlighted that the impact on China's GDP growth could be as high as 2% point on a full-year basis if the exorbitant tariffs stay in place, with severe repercussions on export and investment. The strong improvement in Mar retail sales is also unlikely to sustain against this backdrop while the domestic challenges including real estate market, unemployment and fragile consumer sentiment remain.

Hence, we revert our 2025 GDP growth forecast to where it was at the end of last year, at 4.3% (from current 4.7%), while taking into account potential offsetting policy measures ahead. We expect growth to slip below 4% in 2H25. Having said that, there remains a high degree of uncertainty in our estimate depending on when we get a breakthrough in the US-China trade negotiations and the eventual tariff rates. Chinese policymakers are expected to increase their policy support at a measured rate, targeting domestic consumption and investment to offset the negative external outlook in view of the official growth target of "around 5%". Meanwhile, we maintain our forecast for China's growth at 4.2% for 2026. The risks are tilted to the downside.

Amid a slowdown in both external and domestic demand, deflationary pressure is likely to intensify, increasing prospects of stronger fiscal and monetary policy responses from China. **We expect the PBOC to frontload its monetary policy easing to stabilise markets with near-term prospects of a cut in banks' reserve requirement ratio (RRR) by 100 bps as well as the 7-day reverse repo rate by 20 bps to 1.30% by end-2Q25.** The 7-day reverse repo rate and RRR cuts totaled 30 bps and 100 bps respectively last year.

For the full-year, we retain our call for 30 bps cut to the benchmark 7-day reverse repo rate (with loan prime rates to fall by 30 bps). These moves will bring the 7-day reverse repo rate, 1Y LPR and 5Y LPR to 1.2%, 2.8% and 3.3% by end-2025.

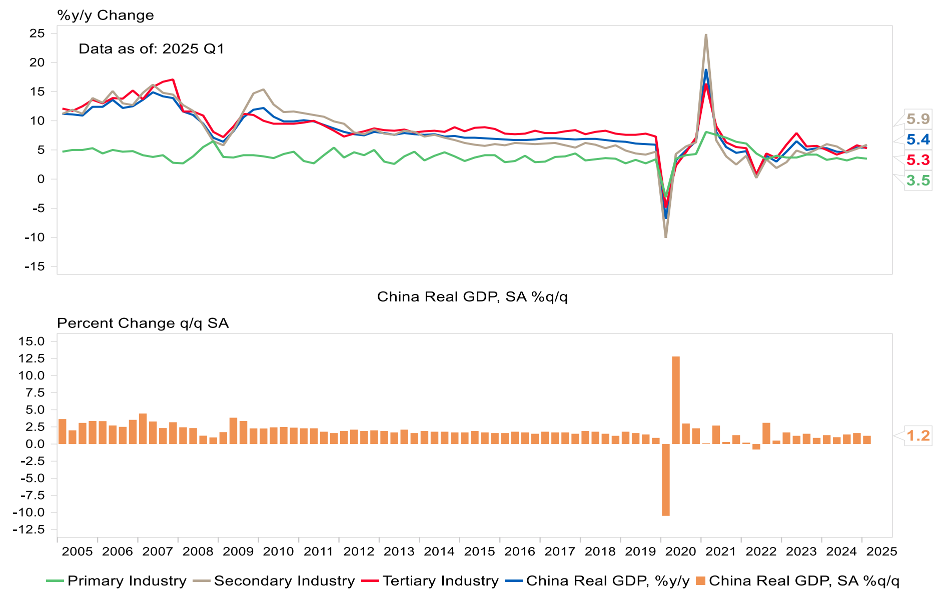
China's Key Macro Data

	2023	2024	3Q24			4Q24			1Q25		
Real GDP Growth %y/y	5.4	5.0	4.6			5.4			5.4		
Real GDP Growth %q/q SA	-	-	1.4			1.6			1.2		
%y/y change except noted	2023	2024	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Industrial Output	4.6	5.8	5.1	4.5	5.4	5.3	5.4	6.2	-	-	7.7
CFLP Manufacturing PMI	49.0	50.1	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2	50.5
Caixin Manufacturing PMI	50.8	50.5	49.8	50.4	49.3	50.3	51.5	50.5	50.1	50.8	51.2
CFLP Non-Manufacturing PMI	50.4	52.2	50.2	50.3	50.0	50.2	50.0	52.2	50.2	50.4	50.8
Caixin Services PMI	52.9	52.2	52.1	51.6	50.3	52.0	51.5	52.2	51.0	51.4	51.9
CPI	0.2	0.2	0.5	0.6	0.4	0.3	0.2	0.1	0.5	-0.7	-0.1
PPI	-3.0	-2.2	-0.8	-1.8	-2.8	-2.9	-2.5	-2.3	-2.3	-2.2	-2.5
Exports (USD terms)	-4.6	5.9	7.0	8.7	2.4	12.7	6.7	10.7	6.0	-3.0	12.4
Imports (USD terms)	-5.5	1.1	7.2	0.5	0.3	-2.3	-3.9	1.0	-16.5	1.5	-4.3
Trade Balance (USD bn)	$ 822.1	$ 991.8	$ 84.6	$ 91.0	$ 81.7	$ 95.7	$ 97.4	$ 104.8	$ 138.8	$ 31.7	$ 102.6
New Loans (RMB bn chg)	¥ 22,750.0	¥ 18,090.0	¥ 260.0	¥ 900.0	¥ 1,590.0	¥ 500.0	¥ 580.0	¥ 990.0	¥ 5,130.0	¥ 1,010.0	¥ 3,640.0
Aggregate Financing (RMB bn chg)	¥ 35,579.9	¥ 32,255.8	¥ 770.7	¥ 3,032.3	¥ 3,763.5	¥ 1,412.0	¥ 2,328.8	¥ 2,850.7	¥ 7,054.6	¥ 2,233.1	¥ 5,889.4
M1	1.3	1.2	-2.6	-3.0	-3.3	-2.3	-0.7	1.2	0.4	0.1	1.6
M2	9.7	7.3	6.3	6.3	6.8	7.5	7.1	7.3	7.0	7.0	7.0
Urban Fixed Asset Investment YTD	3.0	3.2	3.6	3.4	3.4	3.4	3.3	3.2	-	4.1	4.2
Retail Sales	7.2	3.5	2.7	2.1	3.2	4.8	3.0	3.7	-	-	5.9

Source: CEIC, Bloomberg, National Bureau of Statistics; UOB Global Economics & Markets Research estimates. All data for individual months except noted

Quarterly real GDP growth by sector

Source: Macrobond, UOB Global Economics & Markets Research



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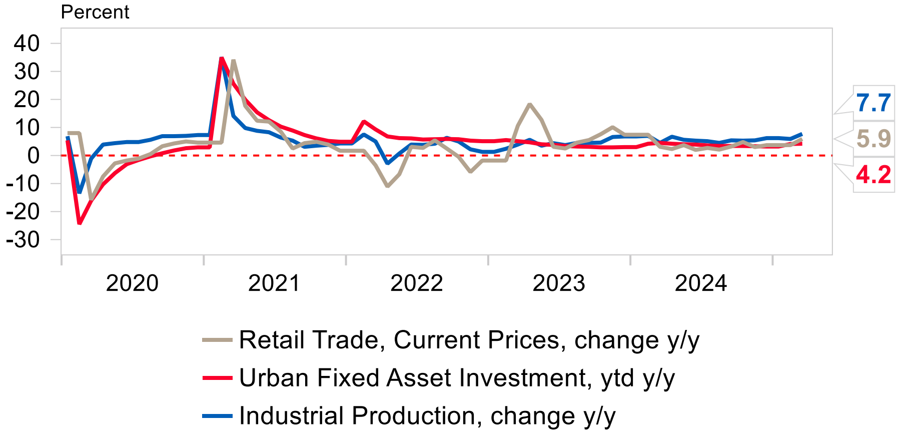
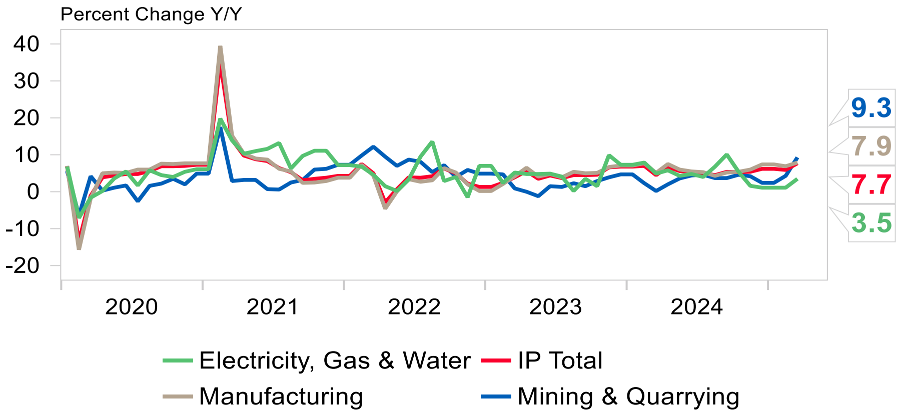
Key economic indicators strengthened in Mar

Source: Macrobond, UOB Global Economics & Markets Research



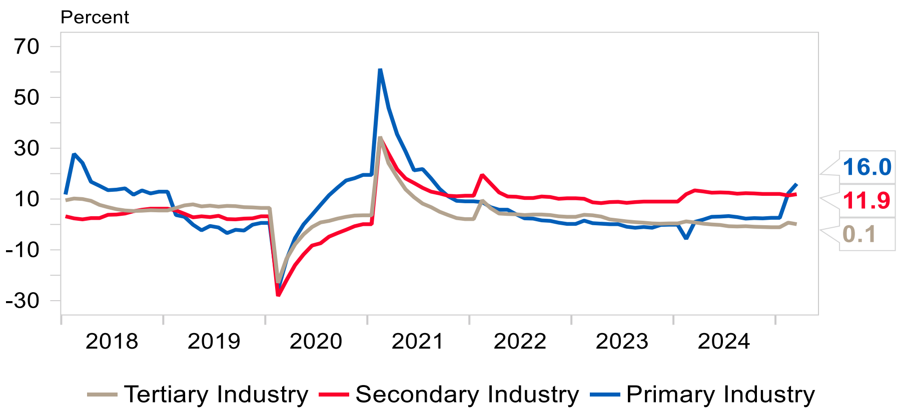
Industrial value add by segments

Source: Macrobond, UOB Global Economics & Markets Research



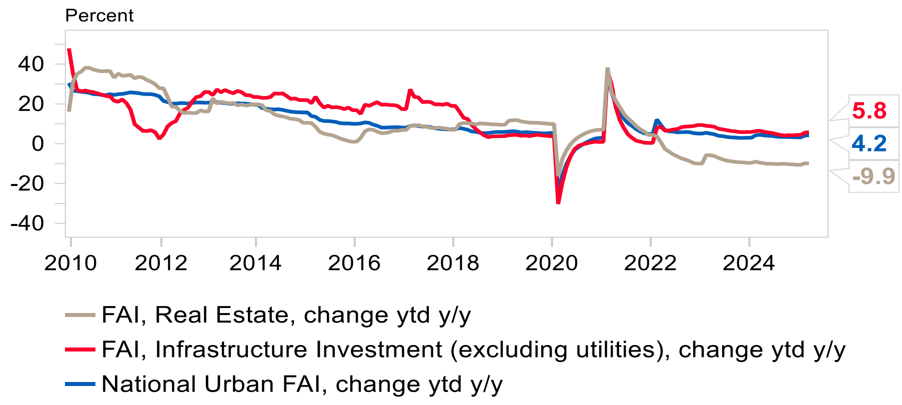
Urban fixed assets investment, change YTD y/y

Source: Macrobond, UOB Global Economics & Markets Research



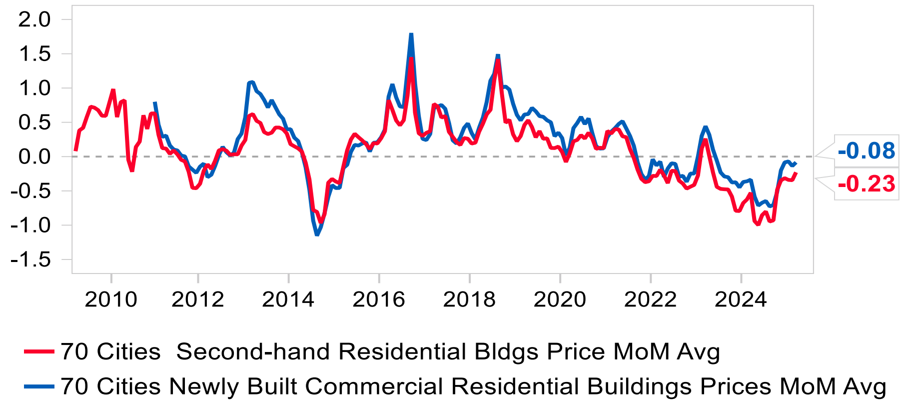
Real estate investment contraction cushioned by infrastructure investment pick up

Source: Macrobond, UOB Global Economics & Markets Research



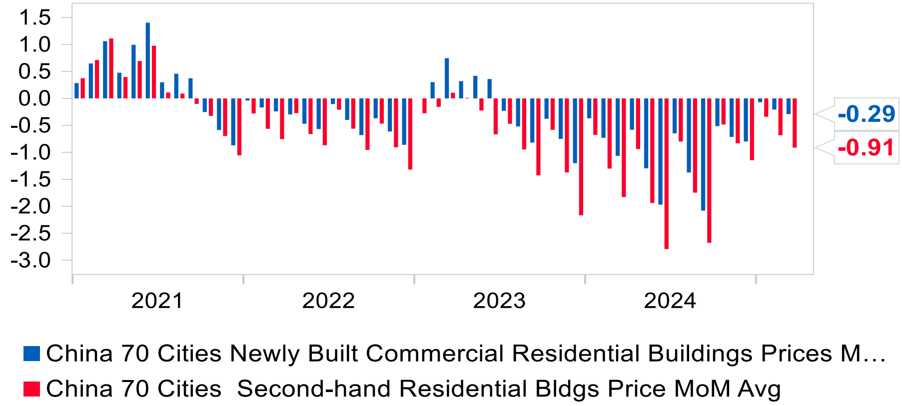
China home prices (m/m %)

Source: Macrobond, UOB Global Economics & Markets Research



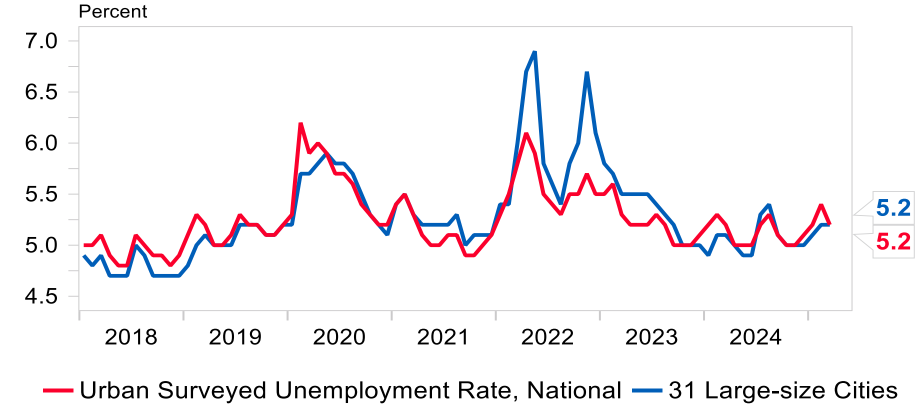
China home prices (quarterly changes %)

Source: Macrobond, UOB Global Economics & Markets Research



Nationwide unemployment rate improved in Mar

Source: Macrobond, UOB Global Economics & Markets Research



Mar new total social financing boosted by large government bond issuances and recovery in loans

Source: Macrobond, UOB Global Economics & Markets Research

China, Social Financing, CNY

Last update: Mar 2024

Monthly New Increase CNY, trillion

	Latest billion	1 month ago billion	1 year ago billion
China, Social Financing, Total	5,889	2,233	4,834
In Flow, Loans in Local Currency (RMB)	3,823	653	3,292
In Flow, Issuance of Government Bonds	1,487	1,694	463
In Flow, Undiscounted Bankers' Acceptances	363	-299	355
In Flow, Loans Written Off	197	54	159
Equity Issuance (By Non-financial Enterprises)	41	8	23
In Flow, Trust Loans	24	-33	68
Depository Corps' Asset-backed Securities	-8	-27	-59
In Flow, Entrusted Loans	-17	-23	-47
In Flow, Loans in Foreign Currencies	-30	-28	54
In Flow, Corporate Bonds	-91	170	424

Latest ▲ 1 month ago ▲ 1Y ago

Corporate loans demand rebounded in Mar but household loans stayed weak

Source: Macrobond, UOB Global Economics & Markets Research

China: Local Currency Loans, Monthly New Increase

Last update: Mar 2025

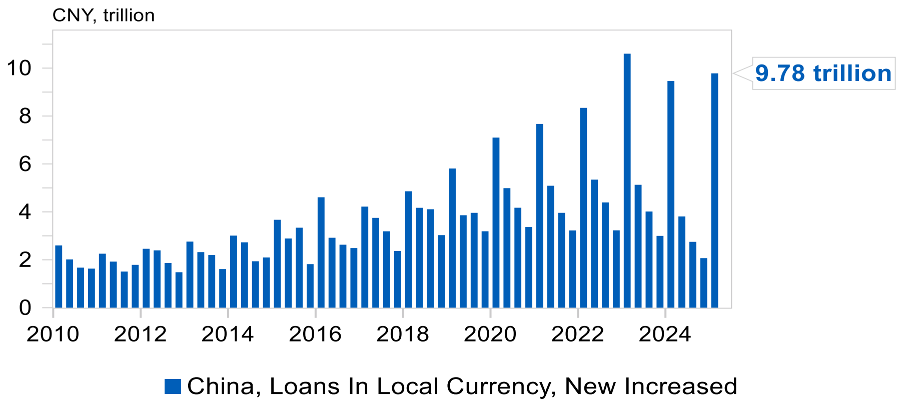
Monthly New Increase CNY, trillion

	Latest billion	1m ago billion	1y ago billion
New Increased, Total	3,640	1,010	3,090
Corporates, Total	2,840	1,040	2,340
Corporates, Medium & Long-Term Loans	1,580	540	1,600
Corporates, Short-Term Loans & Bill Financing, Short-Term Loans	1,440	330	980
Households, Total	985	-389	941
Households, Medium & Long-Term Loans	505	-115	452
Households, Short-Term Loans	484	-274	491
Non-Banking Financial Institutions (FIs), Total	-170	284	-196
Corporates, Short-Term Loans & Bill Financing, Bill Financing	-199	169	-250

Latest ▲ 1 month ago ▲ I year ago

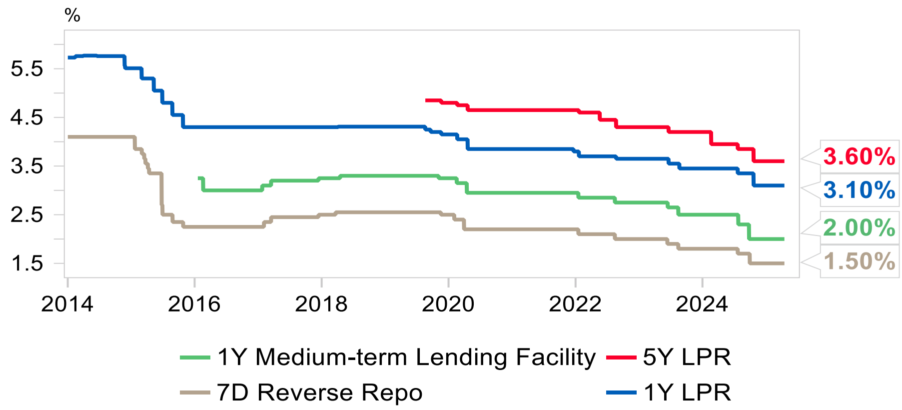
Quarterly new loans in 1Q25 above same period last year

Source: Macrobond, UOB Global Economics & Markets Research



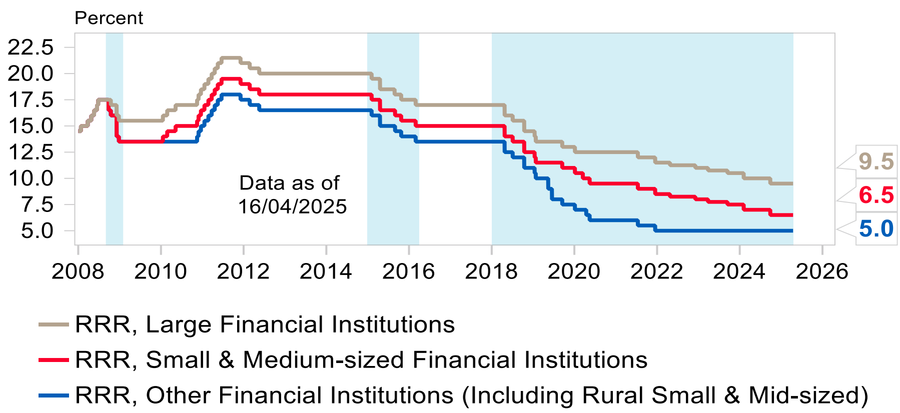
PBOC to further ease monetary policy to support growth

Source: Macrobond, UOB Global Economics & Markets Research



RRR cut to release low cost long-term funds to the banking sector

Source: Macrobond, UOB Global Economics & Markets Research



Movements of LPR on fixing dates (changes, in bps)

	Aug 19	Sep 19	Nov 19	Feb 20	Apr 20	Dec 21	Jan 22	May 22	Aug 22	Jun 23	Aug 23	Feb 24	Jul 24	Sep 24
1Y LPR	-6	-5	-5	-10	-20	-5	-10	0	-5	-10	-10	0	-10	-25
5Y & above LPR	0	0	-5	-5	-10	0	-5	-15	-15	-10	0	-25	-10	-25

Source: UOB Global Economics & Markets Research

UOB's Forecast Of 7D Reverse Repo & Loan Prime Rate (LPR)

	16 Apr	2Q25F	3Q25F	4Q25F	1Q26F
7D Reverse Repo	1.50%	1.30%	1.20%	1.20%	1.20%
1Y LPR	3.10%	2.90%	2.80%	2.80%	2.80%
5Y LPR	3.60%	3.40%	3.30%	3.30%	3.30%

Source: UOB Global Economics & Markets Research

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