Economic Research
GLOBAL MARKETS

恒生銀行 HANG SENG BANK

Faltering Growth Engine

Economic Monitor
CHINA

Q4 2025

- **This year, a significant positive aspect of the Chinese economy is the robustness of foreign trade, despite the challenges posed by US-China trade tensions.**
- **However, foreign trade is anticipated to slow down in the future as the effects of front-loading diminish.**
- **Investment has been underwhelming this year and is unlikely to provide countercyclical support as it has in the past.**
- **A crucial question is whether private consumption can lead overall growth, and we expect more proactive measures from the government.**
- **We maintained our growth forecast for 2025 at 4.9%, and expect a growth rate of 4.8% for 2026.**

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China Economic Indicators, y/y

	Sep 2025	Oct 2025	Nov 2025
Retail sales	3.0%	2.9%	1.3%
Year-to-date fixed asset investment	-0.5%	-1.7%	-2.6%
Industrial output	6.5%	4.9%	4.8%
Exports of goods	8.3%	-1.1%	5.9%
Imports of goods	7.4%	1.0%	1.9%

Source: National Bureau of Statistics of China, Macrobond, Hang Seng Bank

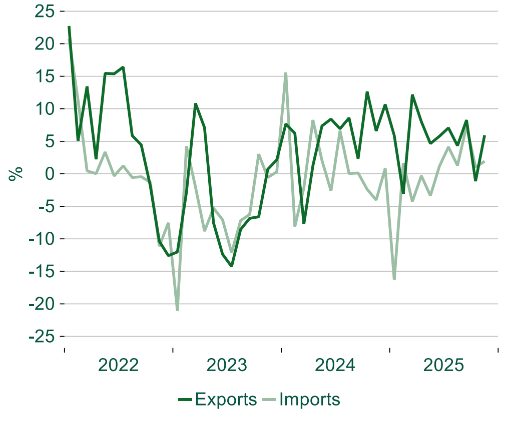
Foreign Trade Resilience Amidst Trade Tensions

China's foreign trade has demonstrated unexpected resilience this year. Initially, there were significant concerns among market participants about the impact of escalating trade tensions between China and the US, fearing they might severely hinder foreign trade and the broader economy. However, since the US imposed reciprocal tariffs on China in April, foreign trade has not only remained stable but has also emerged as a key growth driver this year.

In US dollars terms, China's exports rose by 5.4% in the first eleven months of the year compared to the same period last year (Exhibit 1). This robust trade performance significantly contributed to economic growth in the first three quarters, with net exports alone accounting for over 30% of the overall economic growth during this period (Exhibit 2).

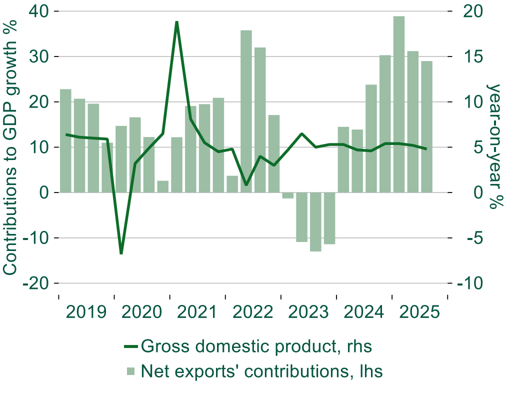
Contrary to initial market expectations, foreign trade seems largely unaffected by the increased US tariffs. Two major factors—trade diversion and front-loading—have supported foreign trade over the past year. While exports to the US have declined since the second quarter, exports to other global markets have increased, bolstering overall trade growth (Exhibit 3). Additionally, Chinese manufacturers have been motivated to front-load exports to avoid potentially higher future tariffs.

Exhibit 1: Foreign Trade, y/y



Note: data up to Nov 2025
Source: Macrobond, Hang Seng Bank

Exhibit 2: GDP vs Net Exports' Contributions



Note: data up to Q3 2025
Source: Macrobond, Hang Seng Bank

However, we believe the negative impact of tariffs is merely postponed, not eliminated. Before the US raised tariffs, it accounted for approximately 15% of China's total exports. It is challenging for neighbouring economies to replace such substantial demand quickly, despite the significant consumption potential in the ASEAN region. Nonetheless, trade diversion will remain a long-term strategy for managing single-country risk in foreign trade.

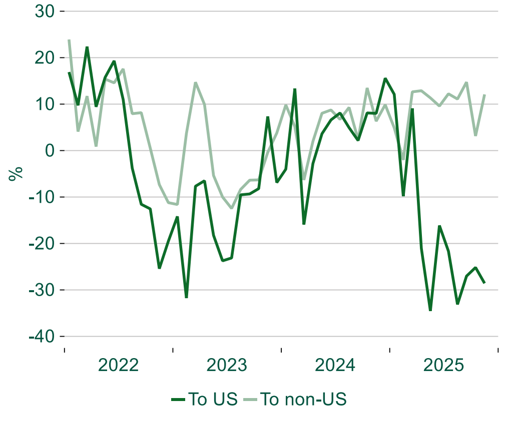
The trade truce between China and the US at the end of October has provided some market relief and reduced uncertainty in the short term. However, this reduced uncertainty might also lessen manufacturers' urgency to front-load exports. The positive effects of front-loading, which have supported trade for over six months, could diminish. The moderate slowdown in exports observed in the past two months might be an early indication of this effect waning. Consequently, the positive impact of foreign trade on economic growth could decrease in the coming year.

Diminishing Role of Investment

In contrast to the strong trade performance, investment has generally been disappointing this year. Fixed asset investment contracted by 2.6% in the first eleven months compared to the same period last year, a deeper contraction than the 1.7% decline in the first ten months (Exhibit 4).

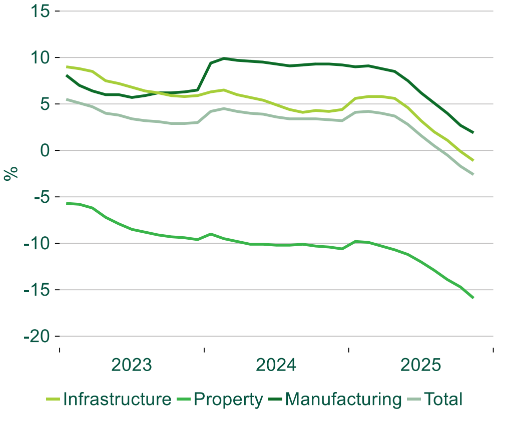
The investment slowdown is widespread. Property investment remains the largest drag, declining by 15.9% in the first eleven months, reflecting the ongoing property market downturn as prices continue to fall.

Exhibit 3: Exports by Destinations, y/y



Note: data up to Nov 2025
Source: Macrobond, Hang Seng Bank

Exhibit 4: Fixed Asset Investment, ytd y/y



Note: data up to Nov 2025
Source: Macrobond, Hang Seng Bank

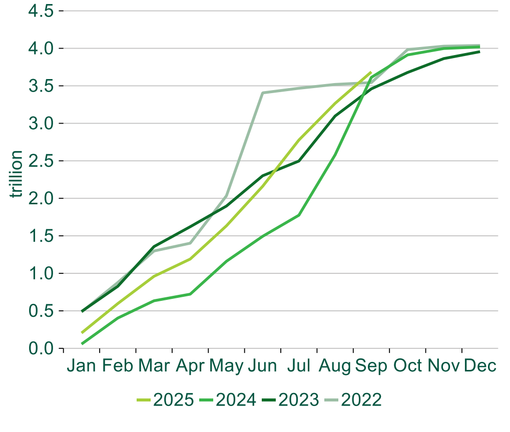
While the weakness in property investment is understandable, infrastructure investment has also weakened more than expected. In general, infrastructure investment is more stable and is less affected by economic fluctuations due to its nature as necessity goods. It has historically played a countercyclical role in supporting economic growth during downturns. The issuance of special local government bonds, closely linked to infrastructure investment, reached a multi-year high in the first nine months of this year (Exhibit 5). However, this has not translated into higher infrastructure investment, suggesting local governments may be hesitant to initiate new projects due to debt concerns.

The Increasing Importance of Consumption

With investment generally underperforming, the question arises whether consumption can take the lead in supporting growth, especially as trade is expected to slow down next year. This year's consumption performance has been mixed.

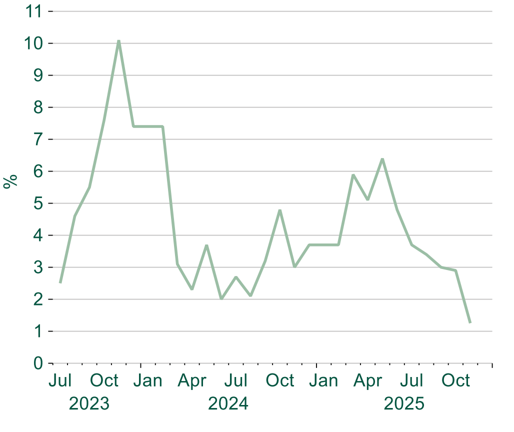
Government-supported consumption stimulus boosted retail sales growth in the first half of the year. However, in the second half, the positive effects of the stimulus appear to be fading, with annual retail sales growth slowing to just 1.3% in November (Exhibit 6). This is understandable, as most consumption subsidies target goods, particularly durable goods, which can easily trigger a front-loading effect on spending.

Exhibit 5: Newly Issued Special-purpose Bond, ytd CNY



Note: data up to Sep 2025
Source: Macrobond, Hang Seng Bank

Exhibit 6: Retail Sales, y/y



Note: data up to Nov 2025
Source: Macrobond, Hang Seng Bank

In addition to the fading effect of consumption subsidies, the negative wealth effect associated with the property market downturn continues to affect consumer sentiment. The slowdown in private consumption coincides with a larger slump in property market prices in the second half of the year. Although the equity market outperformed in the third quarter, the positive wealth effect remains insignificant, given that most household wealth is still tied to the property market.

Both cyclically and structurally, private consumption needs to play a more significant role in supporting economic growth. We anticipate the government will introduce more supportive measures next year, particularly stimulus targeted at services spending.

Given that the Chinese economy expanded by 5.2% in the first three quarters, a slowdown in the fourth quarter is not expected to prevent achieving the full-year growth target of about 5%. We maintain our 2025 growth forecast at 4.9% and project a slightly slower growth rate of 4.8% in 2026.

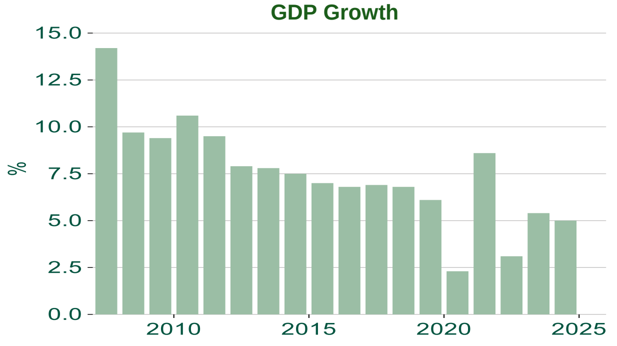
China Economic Statistics

	GDP		Industrial output	Fixed asset investment	Retail sales	Foreign trade			Consumer prices		
	Nominal	Real	Real	Nominal	Nominal	Exports	Imports	Trade balance		Food	Non-food
	RMB bn	yoy (%)	yoy (%)	ytd (%)	yoy (%)	yoy (%)	yoy (%)	USD bn	yoy (%)	yoy (%)	yoy (%)
2020	103,487	2.2	2.0	2.9	-4.4	3.6	-0.6	524.0	2.5	10.9	0.4
2021	117,382	8.4	11.5	4.9	14.2	29.6	30.0	670.4	0.9	-1.4	1.4
2022	123,403	3.0	3.7	5.1	-0.2	5.6	0.7	837.9	2.0	2.9	1.8
2023	129,427	5.2	4.4	3.0	7.5	-4.7	-5.5	822.1	0.2	-0.3	0.4
2024	134,908	5.0	5.7	3.2	3.1	5.8	1.0	992.6	0.2	-0.6	0.4
Q1 2024	30,476	5.3	6.2	4.5	4.7	1.4	1.5	183.3	0.0	-3.2	0.7
Q2 2024	32,884	4.7	5.9	3.9	2.7	5.7	2.5	252.3	0.3	-2.3	0.8
Q3 2024	34,176	4.6	5.0	3.4	2.7	5.9	2.1	258.8	0.5	2.0	0.2
Q4 2024	37,373	5.4	5.6	3.2	3.8	9.9	-1.8	298.2	0.2	1.1	0.0
Q1 2025	31,876	5.4	6.5	4.2	4.4	5.6	-6.8	271.2	-0.1	-1.4	0.2
Q2 2025	34,178	5.2	6.2	2.8	5.4	6.1	-0.9	313.1	0.0	-0.3	0.0
Q3 2025	35,450	4.8	5.8	-0.5	3.4	6.5	4.3	290.5	-0.2	-3.4	0.5
Jul 2025	NA	NA	5.7	1.6	3.7	7.1	4.1	97.8	0.0	-1.6	0.3
Aug 2025	NA	NA	5.2	0.5	3.4	4.3	1.3	102.1	-0.4	-4.3	0.5
Sep 2025	NA	NA	6.5	-0.5	3.0	8.3	7.4	90.5	-0.3	-4.4	0.7
Oct 2025	NA	NA	4.9	-1.7	2.9	-1.1	1.0	90.1	0.2	-2.9	0.9
Nov 2025	NA	NA	4.8	-2.6	1.3	5.9	1.9	111.7	0.7	0.2	0.8
YTD	NA	NA	5.9	-2.6	4.0	5.4	-0.6	1076.5	0.0	-1.7	0.4

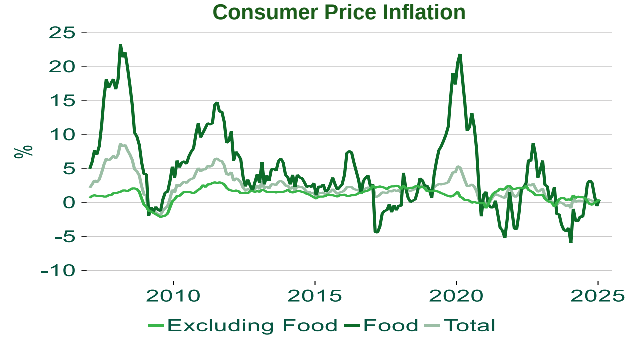
	Deposits (domestic currency)		Loans (domestic currency)			Loan Prime Rate (LPR)	Money supply (M2)	Forex reserves	CNY per USD (period end)	Total social financing
					New loans	1-year				
	RMB bn	yoy (%)	RMB bn	yoy (%)	RMB bn	%	yoy (%)	USD bn		RMB bn
2020	212,572	10.2	172,745	12.8	19,630	3.85	10.1	3,217	6.5268	34,792
2021	232,250	9.3	192,690	11.5	19,946	3.80	9.0	3,250	6.3525	31,351
2022	258,500	11.3	213,985	11.1	21,310	3.65	11.8	3,128	6.8973	32,010
2023	284,262	10.0	237,591	11.0	22,744	3.45	9.7	3,238	7.0786	35,585
2024	302,254	6.3	255,678	7.6	18,090	3.10	7.3	3,202	7.2991	32,256
Q1 2024	295,505	7.9	247,049	9.6	9,460	3.45	8.3	3,246	7.2212	12,803
Q2 2024	295,717	6.1	250,853	8.8	3,810	3.45	6.2	3,222	7.2673	5,295
Q3 2024	300,882	7.1	253,611	8.1	2,750	3.35	6.8	3,316	7.0183	7,567
Q4 2024	302,254	6.3	255,678	7.6	2,070	3.10	7.3	3,202	7.2991	6,592
Q1 2025	315,223	6.7	265,414	7.4	9,780	3.10	7.0	3,241	7.2633	15,184
Q2 2025	320,174	8.3	268,559	7.1	3,140	3.00	8.3	3,317	7.1725	7,675
Q3 2025	324,939	8.0	270,390	6.6	1,830	3.00	8.4	3,339	7.1195	7,227
Jul 2025	320,670	8.7	268,510	6.9	-50	3.00	8.8	3,292	7.1769	1,131
Aug 2025	322,727	8.6	269,099	6.8	590	3.00	8.8	3,322	7.1308	2,566
Sep 2025	324,939	8.0	270,390	6.6	1,290	3.00	8.4	3,339	7.1195	3,530
Oct 2025	325,549	8.0	270,607	6.5	220	3.00	8.2	3,343	7.1174	816
Nov 2025	326,960	7.7	271,000	6.4	390	3.00	8.0	3,346	7.0756	2,489
YTD	326,960	7.7	271,000	6.4	15,360	3.00	8.0	3,346	7.0756	33,390

NA: not available; yoy= year-on-year; ytd= year-to-date

Source: State Statistical Bureau, China Statistical Yearbook, Macrobond, CEIC, Bloomberg, Hang Seng Bank



Source: Macrobond, Hang Seng Bank



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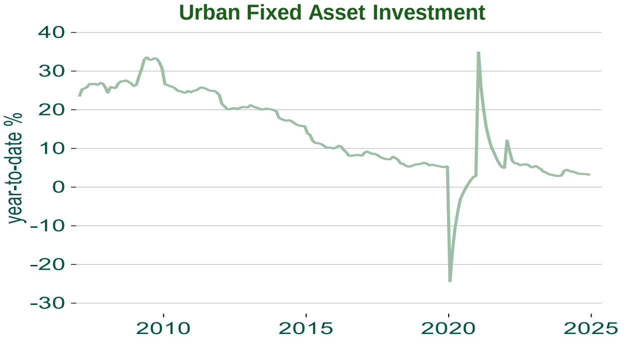

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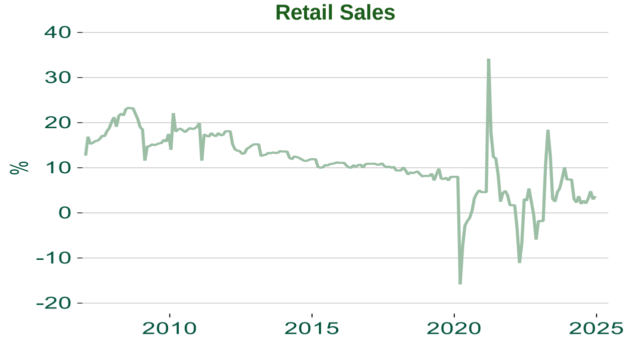

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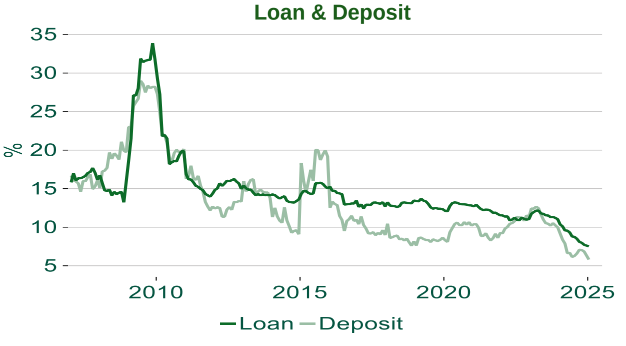

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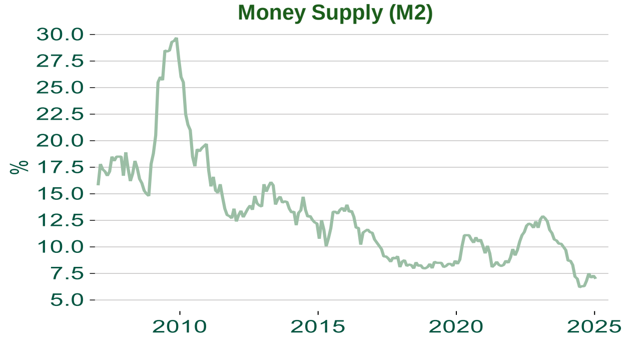

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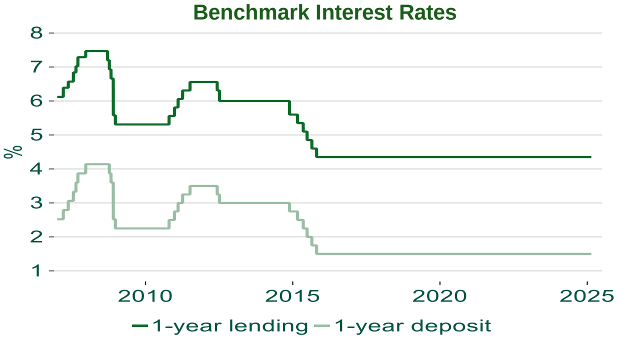
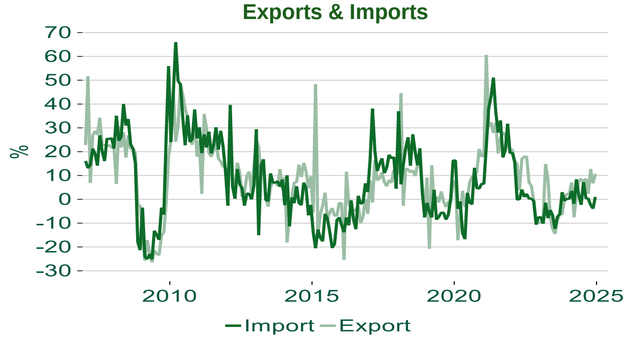


Source: Macrobond, Hang Seng Bank



Source: Macrobond, Hang Seng Bank

Hong Kong Economic Data Forecasts

	2025	2026	2027
GDP	3.2%	2.5%	2.6%
Inflation	1.6%	1.9%	1.8%
Unemployment rate	3.8%	3.6%	3.3%
Retail sales value	1.8%	5.5%	5.0%
Retail sales volume	0.4%	4.0%	3.2%
Exports	13.0%	4.0%	7.0%
Imports	12.0%	3.0%	5.0%

Mainland China Economic Data Forecasts

	2025	2026	2027
GDP	4.9%	4.8%	4.7%
Inflation	0.1%	1.5%	2.0%
Industrial output	5.9%	5.5%	5.3%
Fixed asset investment	-2.6%	2.0%	3.5%
Retail sales	3.9%	5.5%	5.3%
Exports	5.4%	3.0%	4.0%
Imports	-0.3%	4.0%	5.0%

Source: Hang Seng Bank
Note 1: All figures are annual change, except unemployment rate
Note 2: forecasts by Global Markets, Hang Seng Bank

Central Bank Policy Rates Forecasts

(end period)	Nov 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026
North America					
US	3.75 – 4.00%	3.50 – 3.75%	3.50 – 3.75%	3.25 – 3.50%	3.00 – 3.25%
Canada	2.25%	2.25%	2.25%	2.25%	2.25%
Europe					
Eurozone	2.00%	2.00%	2.00%	2.00%	2.00%
UK	4.00%	3.75%	3.50%	3.25%	3.00%
Asia Pacific					
China	1.40%	1.40%	1.30%	1.30%	1.30%
Japan	0.50%	0.75%	0.75%	1.00%	1.00%
Australia	3.60%	3.60%	3.60%	3.85%	3.85%
New Zealand	2.25%	2.25%	2.25%	2.25%	2.25%

Exchange Rates Forecasts

(end period)	Nov 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026
North America					
USD / CAD	1.40	1.39	1.38	1.37	1.37
Europe					
EUR / USD	1.16	1.17	1.18	1.19	1.19
GBP / USD	1.32	1.33	1.33	1.34	1.34
Asia Pacific					
USD / CNY	7.07	7.10	7.10	7.10	7.10
USD / JPY	156.18	153.00	148.00	146.00	144.00
AUD / USD	0.65	0.66	0.67	0.68	0.69
NZD / USD	0.57	0.58	0.58	0.59	0.59

Source: Macrobond, Bloomberg, Hang Seng Bank
Note 1: China's policy rate refers to 7-day reverse repo rate
Note 2: forecasts by Global Markets, Hang Seng Bank

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