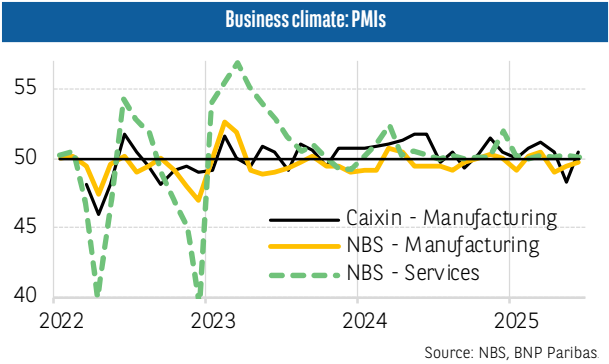
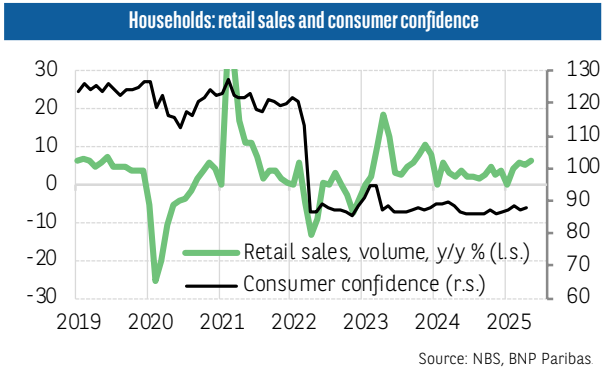


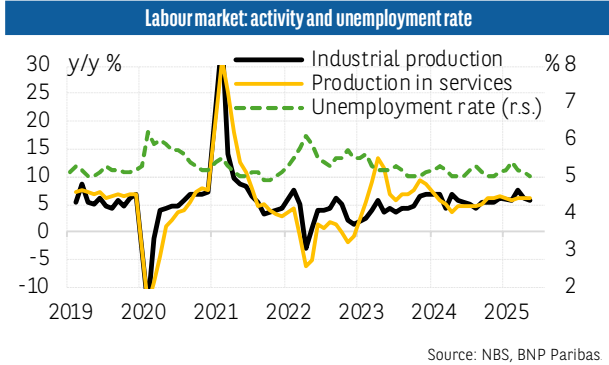
China: Moderate slowdown in exports and fiscal support



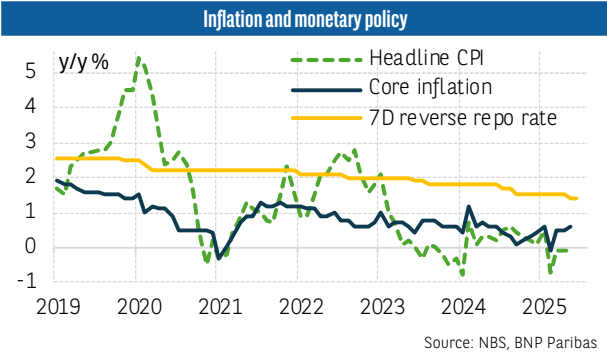
Trade truce. The official PMI for the manufacturing sector has been in contraction territory since April, mainly due to the US-China trade war and worsening export prospects. However, the index rose slightly from 49 to 49.5 in May and 49.7 in June, following the agreement reached between Washington and Beijing (after discussions in London in early May and in Geneva in early June). The Caixin manufacturing PMI even rose above 50 in June (vs. 48.3 in May). In the services sector, the official PMI has been close to 50.3 for the past three months.



Household consumption is supported by government subsidies. Retail sales growth picked up again in May (+6.5% y/y in volume terms, vs. +5.2% in April), boosted by government subsidies for the replacement of consumer goods. However, housing sales continued to contract (-5.5% y/y in April) and consumer confidence remains fragile.



The slowdown in industrial growth is expected to weigh on the labour market. The unemployment rate continued to decline slightly in May (to 5.0%). However, the average number of hours worked declined slightly in the first five months of 2025. Labour market conditions are expected to deteriorate in the short term given the slowdown in industrial activity.



Monetary and fiscal easing. The CPI index continued to fall in May (-0.1% y/y, for the third consecutive month) and core inflation reached +0.6% (vs. +0.5% in April). Producer prices fell by -3.3% y/y in May, the sharpest decline since Q3 2023. Despite new monetary easing measures, growth in outstanding bank loans continued to slow in May (+7.0% y/y vs. +7.4% six months earlier). Growth in bond financing remained solid, supported by Treasury and local government bond issuance.

Real GDP growth q/q: actual, carry-over, forecasts										
Actual				Carry-over	Actual	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
1,3	1,0	1,4	1,6	0,3	1,2	0,8	1,1	5,0	4,8	4,5

Source: Refinitiv, BNP Paribas

Economic slowdown in Q2. Real GDP growth is expected to be +0.8% q/q in Q2 2025, down from +1.2% q/q in Q1. The economic growth slowdown is driven by a slowdown in export growth (+4.8% y/y in USD in May, vs. +8% in April), which remains moderate, however, and is partially offset by stronger domestic demand.

Christine Peltier (completed on July 2, 2025)