

China: A reassuring but lacklustre start to the year

Slight improvement in business climate. Manufacturing PMIs rebounded in February, returning to their average level of Q4 2024 (50.2 for the NBS index and 50.8 for the Caixin index). In services, the PMIs remain below their Q4 level but are above the expansion threshold (50 for the NBS index and 51.4 for the Caixin index). The latest activity data confirm this reassuring but rather lacklustre performance: growth in industrial production slowed in January-February after accelerating in December, but held steady at almost 6% y/y. The slowdown in growth in production in services was more marked (+5.6% y/y in January-February, vs. +6.3% in Q4).

Households are still hesitant. The consumer confidence index recovered slightly in January-February. Consumers' concerns remain strong, however, as a result of the prolonged property crisis and degraded labour market conditions; they are a major brake on strengthening domestic demand and a challenge for the authorities. Yet, retail sales growth continued to accelerate slowly in January-February (+4% y/y in value terms, vs. +3.6% in Q4), notably thanks to the government-subsidised consumer goods trade-in programme.

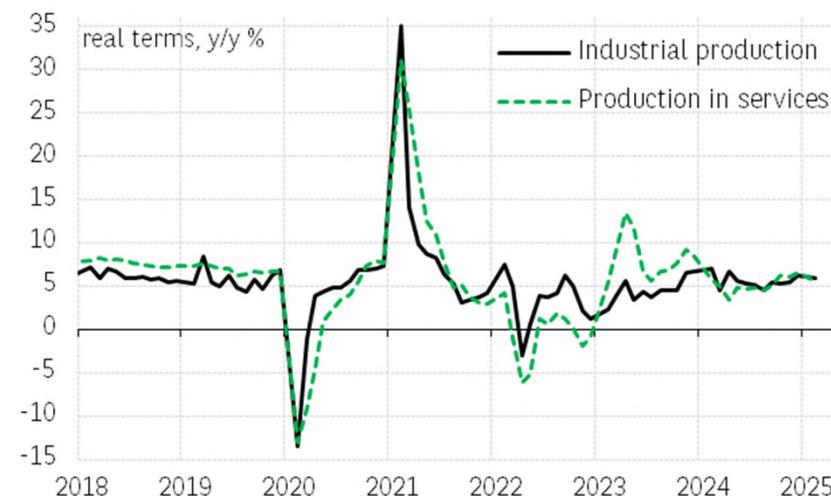
Deterioration of the labour market. The unemployment rate rose again in January-February. While this is partly due to the Chinese New Year holiday period, the unemployment rate is at its highest level for two years (5.4%, vs. 5.1% at the end of 2024).

Deflation. The CPI index contracted by -0.1% y/y on average over the first two months of 2025 (after +0.2% in Q4). This decline is partly due to price volatility over the New Year period, but above all reveals the persistence of deflationary pressures. In January-February, food prices fell again (-1.5% y/y) after rising for two quarters, and core inflation eased very slightly (to +0.25%). The producer price index, which fell in 2023 and 2024, continued to fall (-2.3%).

Downside risks to economic growth. Given the limited recovery in household demand and the expected slowdown in exports, real GDP growth could slow more than expected in Q1. Thereafter, monetary and fiscal stimulus should gain further momentum, as the growth target has been set at about 5% for 2025. Beijing has just announced that a plan would be implemented to boost household income growth and consumption.

Christine Peltier, article completed on 17/03/2025

China: Economic growth by sector



Source: NBS, BNP Paribas

GDP GROWTH (q/q) : observed, carry-over, forecast

Actual				Carry-over	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
1.5	0.9	1.3	1.6	0.3	1.3	0.9	1.2	5.0	4.5	4.3

Source: Refinitiv, BNP Paribas