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China Economics | Asia Pacific

Q1 GDP Tracking at 5.4%, Limited Policy Actions Ahead

Key Takeaways

- Jan-Feb data beat consensus on a broad base, driven by policy front-loading in industrial production, infrastructure capex, and consumption goods trade-in.
- 1Q25 real and nominal GDP are tracking at 5.4%Y and 4.5%Y, respectively, largely stable vs. 4Q24.
- We continue to expect growth to moderate from 2Q25 as tariffs hit, but a strong 1Q25 means July's Politburo meeting could be the next major policy catalyst.
- The new national consumption boosting plan is modest, focusing on easing bottlenecks and promoting gradual welfare reform.
- National fertility subsidy and expansion in trade-in program could be additional policy support for 2H.

Strong start to the year: FAI saw the largest beat, with a large uptick in housing investment [as we expected](#), but manufacturing and infrastructure investment also came in stronger than we expected on policy support. The beat in industrial production also defied softer-than-expected (yet still decent) exports somewhat amid possible front-loading.

Growth mix echoes policy support: Local government financing looks to be improving, with local-government-led "utilities management" accelerating to 8.5%Y (vs. 8%/6%/0% in 4Q24/3Q24/1H24). Within retail, mobile phone sales jumped, while home appliance sales remained strong, thanks to the expanded trade-in program.

Outlook: We estimate that 1Q25 real and nominal GDP are tracking at 5.4%Y and 4.5%Y, respectively, considering that for March, potential payback from front-loading in Jan-Feb would be met with a lower comparison base. We still expect growth moderation from 2Q25.

New consumption support - overall in line and modest: The new guideline mentioned several incremental and implementable measures to ease consumption bottlenecks ([Exhibit 2](#)). It also indicates: (1) room for expanding the goods trade-in program (to AI-embedded products), and (2) an upcoming national fertility subsidy program, which could be potential new measures should growth slowdown warrant additional policy. That said, social welfare reforms remain on a gradual path.

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Exhibit 1 : Jan-Feb activity: broad-based resilience, but housing FAI uptick is merely a seasonal pattern

(YoY% unless specified otherwise)	Jan-Feb 25	Dec-24	Nov-24	4Q24	3Q24
Industrial Production (IP)	5.9	6.2	5.4	5.6	5.0
Mining	4.3	2.4	4.2	3.7	4.0
Manufacturing	6.9	7.4	6.0	6.3	4.9
Utility	1.1	1.1	1.6	2.7	7.0
Fixed Asset Investment (FAI)					
YoY% YTD	4.1	3.2	3.3	3.2	3.4
YoY%	4.1	2.2	2.4	2.7	2.6
Manufacturing	9.0	8.3	9.3	9.2	8.8
Infrastructure	9.9	7.5	9.8	9.0	11.9
Property	-9.8	-13.5	-11.5	-12.4	-10.1
Retail Sales					
Nominal	4.0	3.7	3.0	3.8	2.7
Clothing	3.3	-0.3	-4.5	1.1	-2.4
Auto	-4.4	0.5	6.6	3.6	-3.9
Furniture	11.7	8.8	10.5	8.9	-1.5
Mobile Phones	26.2	14.0	-7.7	6.9	13.3
Home Appliances	10.9	39.3	22.2	33.6	7.2
Property Sector					
Sales	-3.4	3.7	4.3	2.3	-12.8
New Starts	-28.9	-21.9	-26.9	-24.9	-19.7

Source: NBS, Morgan Stanley Research

Exhibit 2 : New consumption support is in line and modest overall, with several incremental and implementable measures

Incremental Measures and Initiatives	
Boost Income	- Improve minimum wage appropriately - Expand property income by stabilizing the stock market
Settle the arrears owed to corporates	Accelerate the settling of government arrears owed to corporates, especially SMEs.
Fertility and Maternity Support	- "Study" a national fertility subsidy program. - Local governments are encouraged to offer fertility insurance for migrant workers.
Annual Leave/Holiday	- Strictly implement annual leave policy with regular monitoring by related agencies - "Explore" spring/fall vacation for students
Car Sales	- Relax purchase restrictions and instead focus on usage management - Grant purchase quota for families waiting in license plate lottery
Subsidies on Consumer Loans	Interest subsidies for consumer loans and service corporates

Source: Government Website

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