Domestic economy struggles while exports power ahead

- **China's economy grew stronger-than-expected in the first half of 2025 at 5.3% but has lost momentum again going into the summer.**
- **Private consumption and housing has disappointed lately while the export engine has continued to run strongly.**
- **A weak labour market and falling house prices are major obstacles to get a lift in household spending. We look for a step-up in stimulus measures but expect it to be inadequate to drive a sustained recovery in household spending. China is in a long-term transition of the economy that will take many years.**
- **We have revised our GDP forecast for 2025 up from 4.7% to 4.9% due to the stronger numbers for the first half of the year. In 2026 we keep the forecast unchanged at 4.8%.**
- **China is all-in on tech and increasingly leads in emerging technologies alongside improving the manufacturing muscle further through automation and fast diffusion of AI.**
- **US-China tensions have eased but the long term rivalry remains. Tensions with EU have been on the rise this summer and the relationship is set to be strained over the coming years.**
- **The question of reunification with Taiwan continues to linger but we see limited risk of military conflict during Trump's Presidency.**

3 September 2025
Important disclosures and certifications are contained from page 3 of this report.

	2024	Forecast 2025	2026
GDP Growth	5.0%	4.9% (4.7%)	4.8% (4.8%)
Inflation	0.2%	0.3% (1.0%)	1.0% (1.5%)
Unemployment	5.1%	5.2% (5.1%)	5.2% (5.1%)
Policy Rate*	1.50%	1.20% (1.20%)	1.00% (1.20%)

Parentheses are the old projections (From June 2025)
**End of period (7-day reverse repo rate)*
Source: Danske Bank, Macrobond Financial

Economy slowed down into the summer (again)
As has been the case the past three years since China came out of the pandemic, China's economy started the year on a strong footing only to see growth momentum weaken into the spring and summer months. Growth in the first half of the year was a surprisingly strong at 5.3% on average with both exports and consumption improving and housing showing signs of stabilization. However, over the past 2-3 months both the housing market and retail sales lost momentum again. Going into the year China's policy makers put boosting consumption growth as priority number one and stabilization of the housing market has been a goal since the autumn last year. Hence while expressing confidence, policy makers in Beijing are likely to be concerned over the latest development. At the Politburo meeting in July, China's leaders stated that *"macro policies must continue to exert strength and increase support when appropriate" and that "It is necessary to implement more proactive fiscal policies and moderately accommodative monetary policies in greater detail to fully unleash policy effects."*

China is in a long-term painful transition from old growth engines such as construction and infrastructure to new engines coming from tech investments, high-tech exports and private consumption.

Allan von Mehren, Chief Analyst

At the root of current headwinds to consumption is the continued decline in house prices and until China brings out a bigger bazooka to stabilize housing, consumers are likely to keep savings higher than usual. Policymakers have taken a range of structural measures over the summer to bring down the savings rate and add income to Chinese households. First, China launched a new program providing subsidies to families with young children. Second, the government will waive tuition fees for children in the final year of preschool. Third, a program was launched giving vouchers for elderly care for people above 60 with disabilities and fourth, the government will subsidize consumer loans and small-business loans. While these are steps in the right direction to widen social security and lower the structurally high savings rate, it is unlikely to provide any big short-term boost. We expect to see more initiatives soon, like widening the trade-in subsidy scheme for consumer goods to include more goods and some services as well. Stronger steps to buy up empty housing is also likely to be on the agenda.

Exports have been the main pillar of strength. China's strong position in EVs and solar and in many emerging technologies support exports. A 20% decline in the real effective exchange rate over the past 3-4 years due to China's producer price deflation has also strengthened the competitiveness of Chinese companies, although also hurt their profitability.

Looking into the last quarter and 2026 we expect more of the same, with a robust export engine and ebbs and flows in the domestic demand driven by the waves in stimulus. China is in a long-term painful transition from old growth engines such as construction and infrastructure to new engines coming from tech investments, high-tech exports and private consumption. While the first two of these engines are gaining strength, it will likely take a long time to get more growth from the consumer engine as the housing woes hold it back.

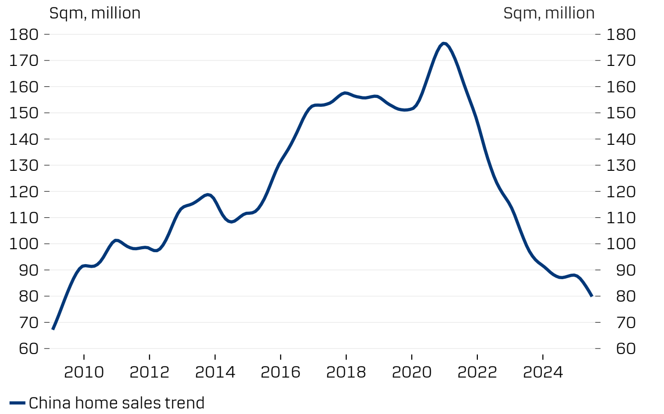
Easing US-China tensions but long-term rivalry to stay

The US-China trade war has been on stand-by for a while now as the trade truce made in May was extended by 90 days in August. We estimate the current average tariff on China to be just above 40%, not far from our baseline scenario for where tariffs will eventually end (40%). Tensions between the two countries have eased over the summer and there are signs that we could be at the end of the tech war as we have witnessed the first easing of tech sanctions on China since the tech war started in 2018. While tensions have calmed down, there is still no doubt the two countries will remain in a long term rivalry.

EU-China tensions back to the surface

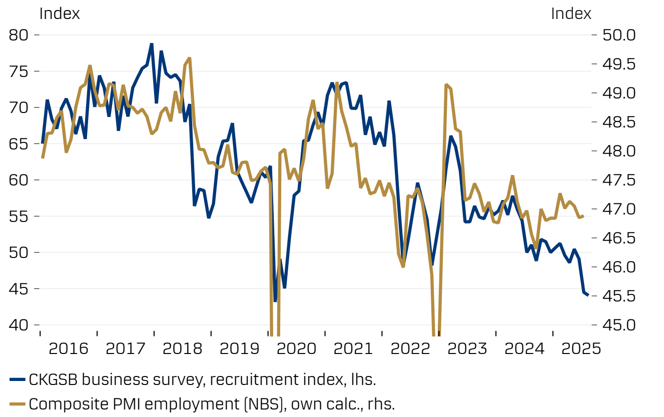
A moderate softening in the EU-China relationship in the beginning of the year did not last long and going into the summer we have instead seen tensions rise again over China's rising trade surplus as well as its' still close relationship with Russia. With Chinese companies continuing to get more competitive, China doubling down on industrial policy and not changing its' relationship with Russia, the EU-China tensions are likely to continue in the years to come.

Chinese home sales turning lower again lately



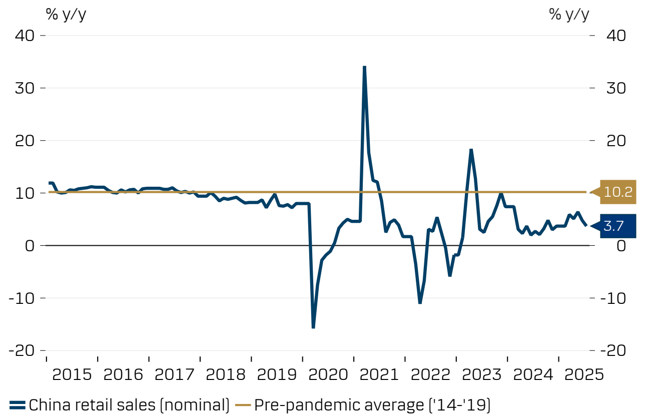
Source: China National Bureau of Statistics (NBS)
Note: Trend- and seasonally adjusted

Labour market is very weak



Source: China National Bureau of Statistics (NBS)
Macrobond Financial, NBS, Danske Bank

Consumers keep holding back



Source: China National Bureau of Statistics (NBS)
Note: Seasonally adjusted

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