China Economic Update: Key Developments and Outlook

October 20, 2025 | Economics

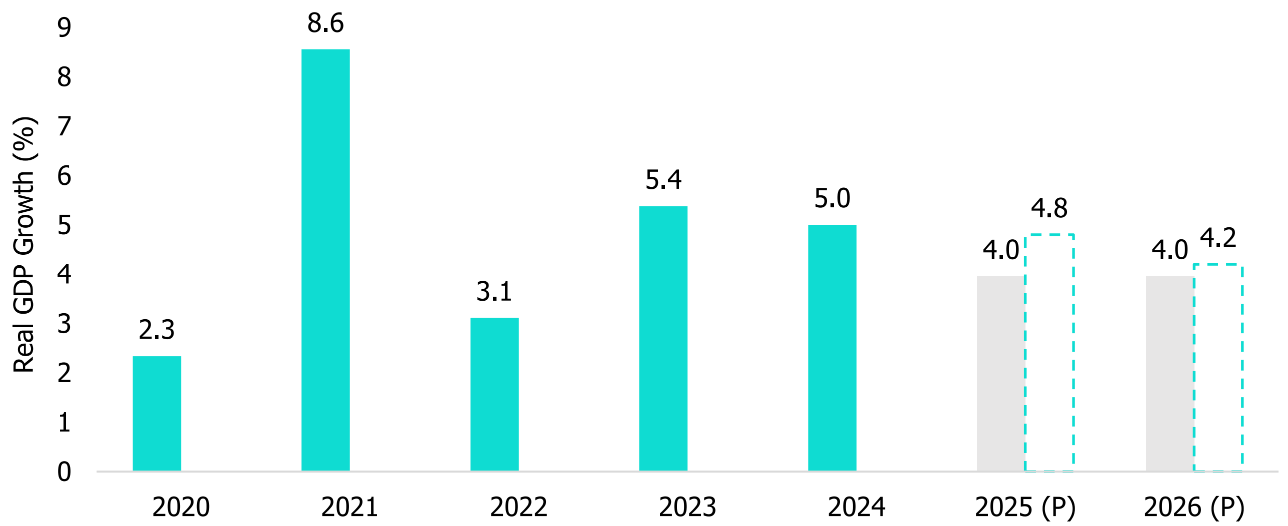
China's GDP growth slowed to 4.8% year-on-year in Q3 2025, the weakest pace in a year amidst a prolonged property sector downturn. This followed stronger H1 growth (5.4% in Q1 and 5.2% in Q2), driven by front-loading of exports and fiscal support such as consumption subsidies.

The IMF has raised its 2025 growth forecast for China to 4.8%, up 0.8 percentage points from its April projection, reflecting better-than-expected H1 activity. However, growth is expected to ease to 4.2% in 2026 (Refer Exhibit 1), as structural headwinds persist, including the property slump, weak consumption, and high government and private debt.

The upcoming Five-Year Plan will be closely watched, as it will set national priorities through 2030. The plan is expected to emphasize high-end manufacturing, artificial intelligence (AI) integration, strengthening the services sector, promoting consumption, and addressing demographic challenges.

Meanwhile, the recent flare-up in US-China trade tensions, with President Trump threatening additional tariffs, also warrants close monitoring for its potential impact on China's economic outlook.

Exhibit 1: IMF Lifts Forecast, But Growth to Slow



Source: IMF World Economic Outlook April and October 2025
Note: P=Projections

Ongoing Domestic Challenges

Home prices have declined for over three consecutive years following the government's crackdown on high leverage among property developers, though the pace of decline appears to have bottomed (Refer Exhibit 2). Total fixed asset investment contracted 0.5% year-on-year in the January–September 2025 period (Refer Exhibit 3), with real estate investment being a major drag on overall investment.

The labour market is showing signs of strain. Surveyed unemployment rate stood at 5.2% in September 2025, compared with 5% in June, while urban youth unemployment rate remained elevated at 18.9% in August. Consumer confidence has stayed weak, having failed to recover over the past three years (Refer Exhibit 4).

A consumer goods trade-in program had supported retail sales, but its impact now appears to be fading. Total retail sales growth slowed to 3% year-on-year in September, marking the fourth consecutive month of moderation, down from a recent peak of 6.4% in May. Retail sales growth has weakened sharply even in key subsidized segments between May and September: household electric and video appliances growth fell to 3.3% from 53.0%, communication appliances to 16.2% from 33.0%, sport and recreational goods to 11.9% from 28.3%, and furniture to 16.2% from 25.6% (Refer Exhibit 5). This deceleration underscores the continued weakness in consumer spending, as a weak property sector and soft labour market weigh on sentiment.

Inflationary pressures remain subdued amidst falling food prices, muted demand, and excess capacity. Headline Consumer Price Index (CPI) inflation stood at –0.3% in September, while core CPI (excluding food and energy) was 1% (Refer Exhibit 6). Meanwhile, producer prices have remained in contraction for three years, with the Producer Price Index (PPI) falling by 2.3% in September (Refer Exhibit 7). The deflationary pressures have prompted the government to launch an anti-involution campaign to address price wars and overcapacity. However, weak demand is likely to keep price pressures muted.

Exhibit 2: Home Prices Contract for Over Three Years

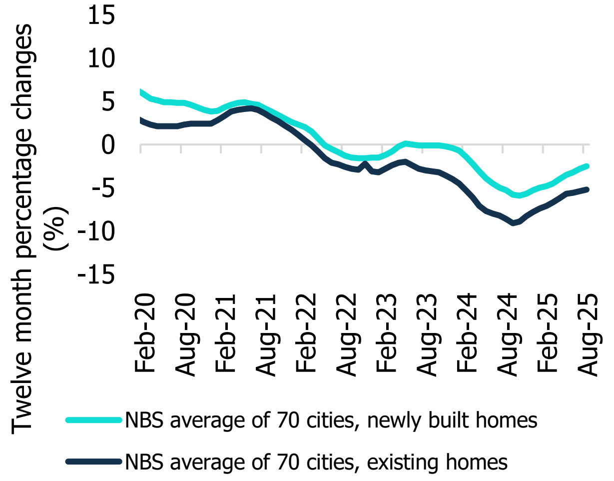
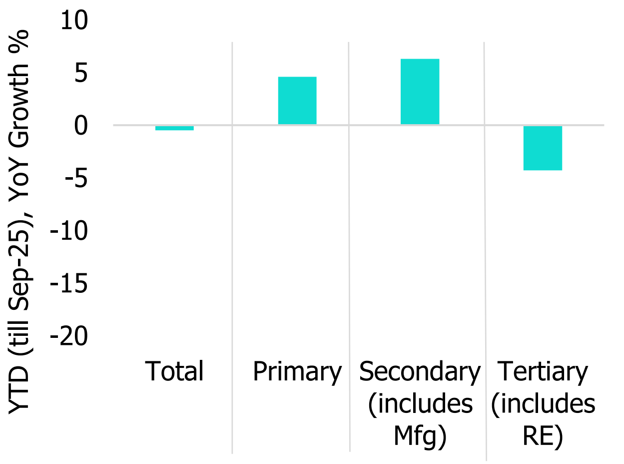


Exhibit 3: Real Estate Drag on Fixed Asset Investment



Sources: Refinitiv, CEIC. Note: NBS= National Bureau of Statistics; Mfg= Manufacturing; RE= Real Estate; YTD= Year-to-Date; YoY= Year-on-Year

Exhibit 4: Consumer Confidence Fails to Recover

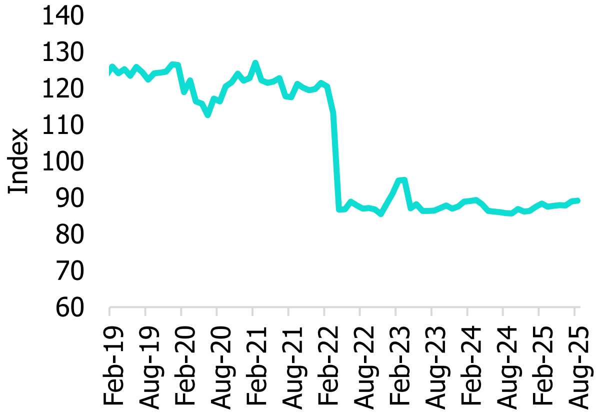


Exhibit 5: Retail Sales Slow

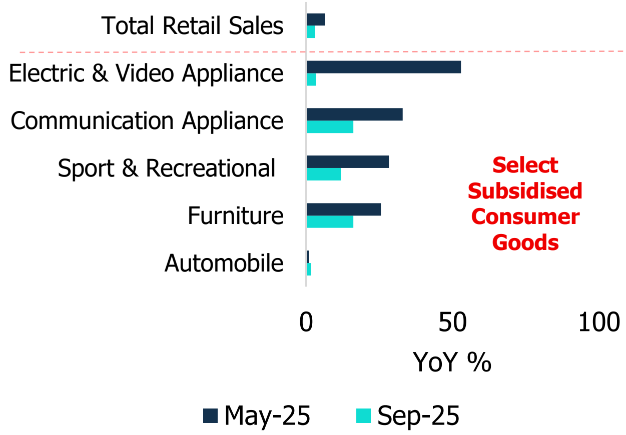


Exhibit 6: Subdued Consumer Price Growth

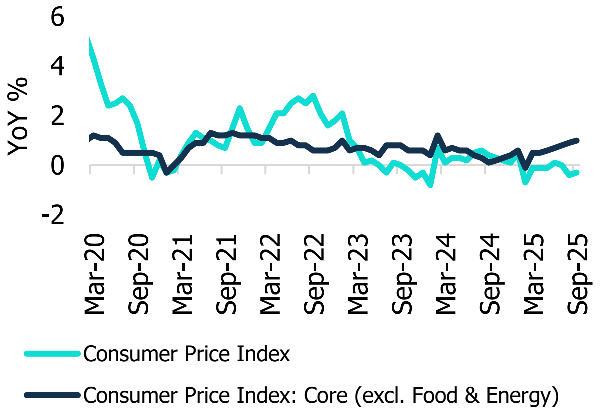
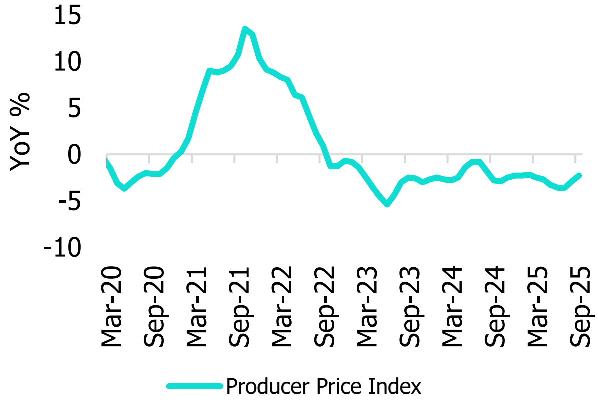


Exhibit 7: Producer Prices Continue to Contract



Source: CEIC

Exports Hold Up

China's exports have remained resilient in the year to date (January–September 2025), supported by shipments to non-US markets and continued advancement up the value chain. Overall exports grew 6.1% year-on-year during this period, compared with 2.8% in corresponding period a year ago. Regionally, export growth was strong in January to September period to Africa (27.9%), Asia (10.9%), Latin America (6.9%), and Europe (5.7%), while shipments to North America declined 15.0% (Refer Exhibit 8). At the country level, exports to the US fell 16.8%, but this was offset by robust growth to other markets, including Thailand (22.5%), Vietnam (22.2%), Indonesia (14.6%), and India (12.9%).

By type of product, exports of mechanical and electrical goods and high-tech products increased 8.4% and 6.8% year-on-year, respectively, in the January-September period, highlighting China's competitive edge and rising presence in higher value-added segments. In contrast, exports of labour-intensive goods such as garment and clothing accessories and toys declined by 2.7% and 8.8%, respectively (Refer Exhibit 9). Exports of these items have been falling since 2023, having contracted in both full years of 2023 and 2024.

Exhibit 8: Non-US Markets Support Export Growth

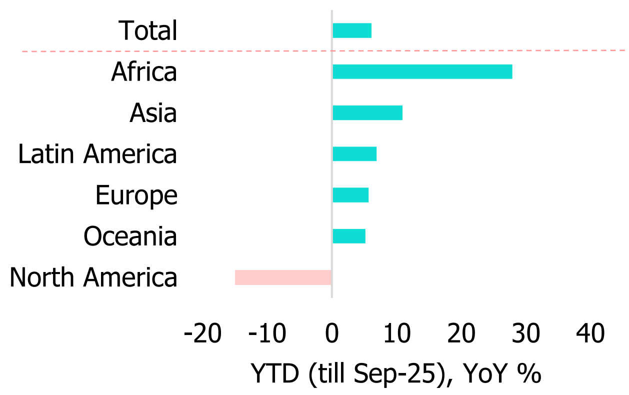
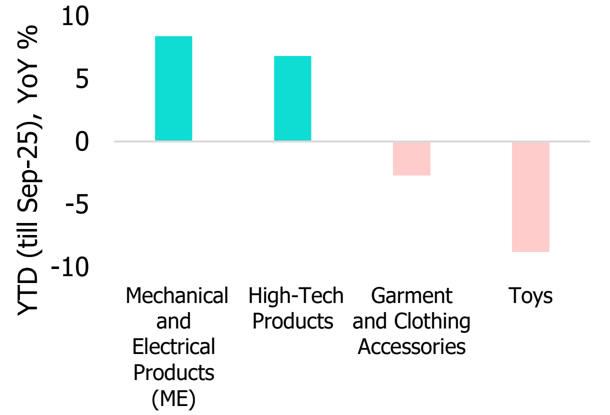


Exhibit 9: High Value Products Lead Export Growth



Source: CEIC

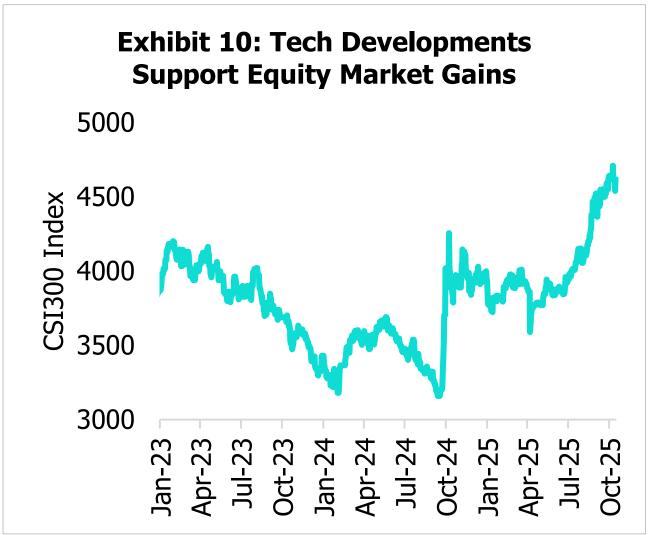
Tech Optimism Supports Equities

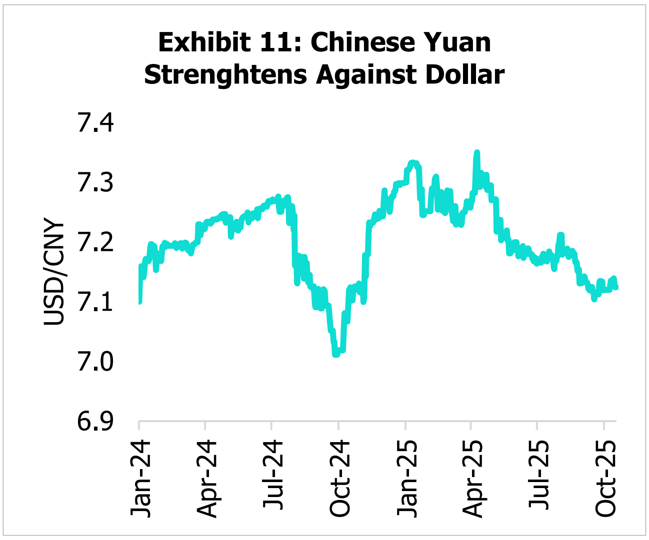
China's CSI300 Index has gained around 15% year-to-date (Refer Exhibit 10). This has been supported by the country's rapid progress in AI and the government's strong focus on technological self-sufficiency. Recent breakthroughs such as DeepSeek have strengthened China's position in the global AI race. In addition, the recently announced "AI Plus" initiative provides a detailed roadmap through 2035 to advance AI development and deployment, highlighting AI's central role in China's broader economic strategy. The plan aims to integrate AI across six key areas, namely, science and technology, industrial development, consumption upgrades, people's well-being, governance, and global cooperation. Together, such developments are playing a major role in supporting China's equity market performance, with reports pointing to a rotation of capital from Chinese bonds into equities.

Yuan Strengthens

On the currency front, the Chinese yuan has appreciated around 2.4% against the US dollar so far this year (Refer Exhibit 11). This appreciation has been supported by a weaker dollar and a resilient domestic equity market, and these factors are expected to provide near-term support to the currency. We expect the yuan to maintain an appreciation bias in the near-term. However, some risks remain, particularly from US–China trade-related developments, which could weigh on sentiment. On a real effective exchange rate basis, the yuan remains competitive against a broad basket of currencies, supporting Chinese exports.

Monetary policy is expected to stay accommodative, with the People's Bank of China likely to implement further rate cuts to support growth. The pace of easing, however, may be gradual, as the central bank is expected to balance stimulus against the record low net interest margins of banks.





Source: Refinitiv

Key Upcoming Events

A. 15th Five-Year Plan

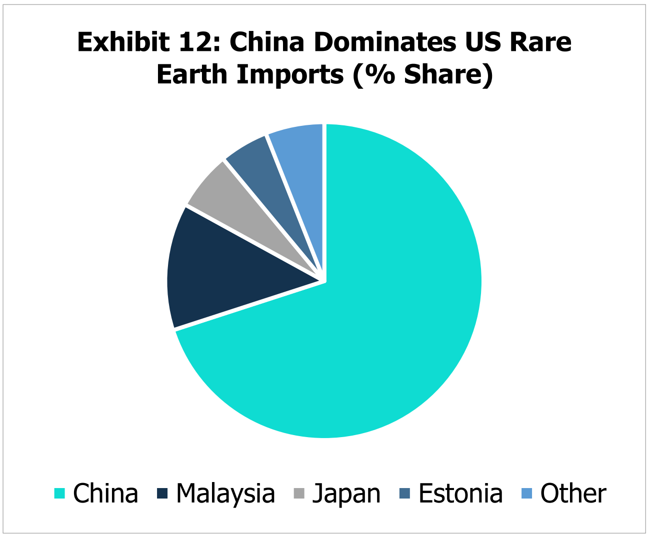
In October, Chinese officials will convene to shape the country's next Five-Year Plan (2026–2030), with the final draft scheduled for release in March. The plan is expected to place strong emphasis on high-end manufacturing and may also include measures to strengthen the services sector. It is also expected to outline priorities for integrating AI to enhance productivity. Promoting a consumption-driven economy will be another key priority, with measures likely to focus on strengthening the social safety net (e.g. through improvements to the pension system) and addressing income inequality. The plan is also expected to address demographic challenges stemming from China's ageing and shrinking population.

B. US-China Trade Relations

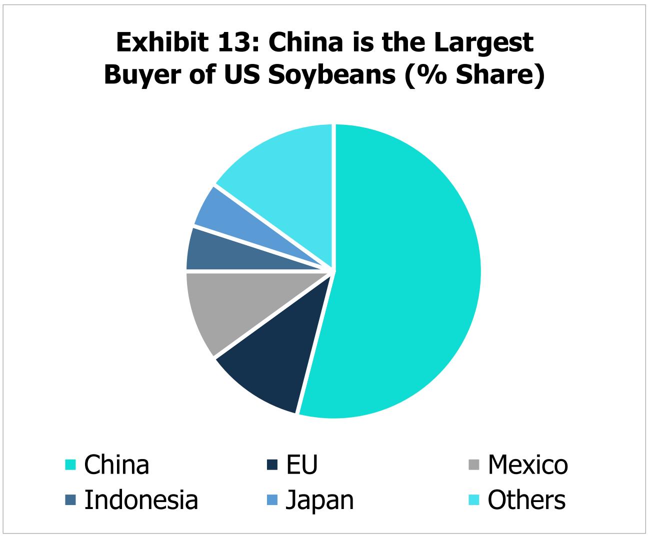
US-China tensions have flared once again. At the end of September, the US tightened its tech restrictions on China, extending them to any foreign entity with more than 50% ownership by a Chinese company on the US blacklist. Following this, on October 9, China expanded its rare earth export controls, significantly increasing oversight over the supply chain. Under the new rules, foreign companies exporting goods containing 0.1% or more Chinese rare earths will require a license. The list of minerals requiring export licenses has also been expanded to include key minerals used in advanced chip production and lithium for EV batteries. Additionally, the controls now cover Chinese technologies used in rare earth extraction and processing.

In retaliation, President Trump has threatened China with an additional 100% tariff on top of existing tariffs and has warned of new export restrictions on virtually all products and critical software. If implemented, these measures could weigh on China's growth and increase disinflationary pressures. With the additional tariffs scheduled for November 1, there is still an opportunity for negotiations between the two countries.

China is leveraging its dominance in the rare earth supply chain and its role as the largest importer of US soybeans to strengthen its bargaining position. It supplies more than two-thirds of US rare earth imports (Refer Exhibit 12) and accounts for about half of US soybean exports (Refer Exhibit 13). Currently, China has curtailed US soybean purchases due to tariffs and is sourcing from alternatives such as Brazil. China may use these levers to seek concessions. The potential meeting between Presidents Trump and Xi Jinping at this month's APEC Summit will be closely watched for any signals on trade negotiations.



Source: US Geological Survey
Data for 2020-23



Source: American Soybean Association
Data for MY 2023-24

Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Mihika Sharma	Senior Economist	mihika.sharma@careedge.in	+91 - 22 - 6754 3538
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CareEdge Global IFSC Limited

(subsidiary of CARE Ratings Ltd.)
Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
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