

Chinese economy hits 2024 growth target, but storm clouds are gathering

Strong December data pushed 2024 growth to the target level, but 2025 is off to a weak start as PMI softens and tariffs loom



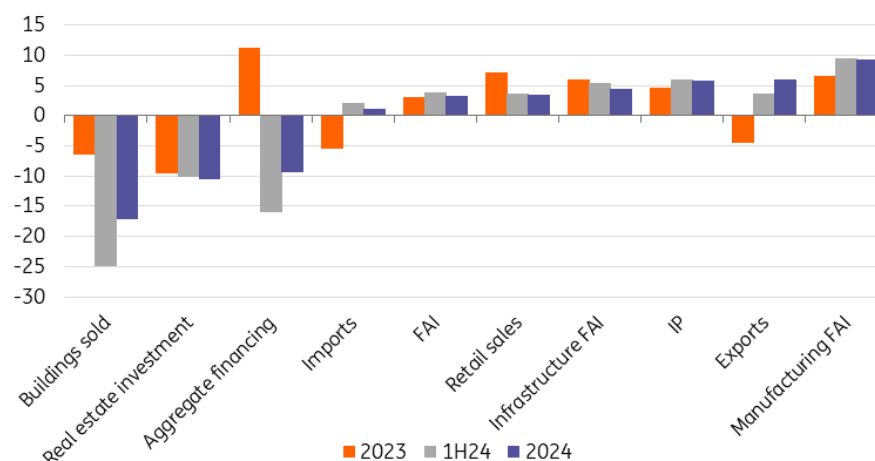
Mission accomplished on 2024 growth target as growth drivers shift

Data published over the past month confirmed that the Chinese economy grew by 5.0% year-on-year in 2024, which was exactly in line with its growth target of around 5%. China's fourth quarter 2024 GDP surged to 5.4% year-on-year, up from 4.6% YoY in 3Q24, marking the highest level of the year, and the fastest YoY growth of any quarter since 2Q23, benefiting from an adjustment in the GDP calculation methodology to better reflect the rental market.

Last year featured a fairly significant shift in terms of growth drivers. In 2023, consumption momentum was relatively solid thanks to a wave of “revenge consumption” after the pandemic restrictions were lifted, but fell off significantly in 2024 as sentiment reached new all-time lows amid widespread pay freezes and pay cuts and the continued slide in property values. At the same time, the continued pressure on local governments led to lacklustre investment growth. As a result, the main growth driver last year was actually from external demand, with a pickup in exports and a recovery in manufacturing.

External demand became an increasingly important growth driver in 2024

%YoY, ytd



Source: CEIC, ING

Early warning signs cloud the 2025 outlook

With Trump's return signalling a new era of tariffs and protectionism, external demand is expected to weaken, heightening the need to boost domestic demand. Trump's initial actions against China include announcing an additional 10% tariff on Chinese exports. Following the suspension of tariffs on other countries, upcoming bilateral talks will be crucial in determining whether the situation with China improves or deteriorates.

While we will not get China's key activity data until March as the January-February data is released together to minimise the impact of Lunar New Year-related distortions, the data we have seen so far suggests that 2025 is off to a relatively weak start.

China's official PMI unexpectedly fell to 49.1 in January, breaking a three-month expansion streak. Subindices weakened across the board, but there was a particularly glaring drop in new export orders which fell to a 13-month low last month, suggesting that the export frontloading ahead of tariffs ended in January.

China's first response to tariffs: muted but with a thinly veiled threat

Following the failure to reach a last-minute deal to prevent tariffs, China announced several retaliatory measures after the US implemented a 10% tariff on 4 February.

On top of the earlier announcement that China would be filing a complaint with the World Trade Organisation, the retaliatory measures included tariffs on what should be something in the range of US\$14-17bn of products or something in the range of 10% of total imports from the US. Specifically, the retaliatory tariffs announced were:

- 15% tariff on coal (US\$1.5bn imported in first 11 months of 2014) and LNG imports (\$1.6bn in 11M24)

- 10% tariff on crude oil (\$6.0bn in 11M24), agricultural machinery (\$108mn in 11M24), large displacement engine vehicles, and pickup truck imports (\$6.1bn of road vehicles imported in 11M24, not all will be subject to tariffs).

Additionally, while not an official part of the response, China also announced an antitrust probe into Google, and added the PVH Group (the parent company of Calvin Klein) and Illumina Inc. to the unreliable entities list, which opens them up for potential restrictions and sanctions. These won't have an immediate impact but could be interpreted as a thinly veiled threat that China will hit back against US conglomerates instead of just token tariffs on commodities if negotiations go poorly.

We feel that this combination of measures shows China is taking care not to flip the proverbial table but also to show it has cards to hit back at real US economic interests if talks sour. We feel like policymakers still hope to reach some sort of a deal – we have argued that the fentanyl issue is an area where it should be relatively easier to reach an agreement on. There should be more formal talks on this topic in the coming days.

Moving forward, there are three big issues for China and the US; the fentanyl issue, China's purchase agreement under the Phase One Trade Deal, and the potential upcoming TikTok sale, all of which have some room for cooperation but are also subject to high risk of negotiation breakdowns.

We think that if pushed into a corner, China's retaliation could be stronger than what most expect, but we haven't reached that point yet. [The path to avoiding a more destructive trade war remains a narrow one.](#)

With the external environment looking difficult to navigate, for China's economic outlook, we believe the domestic response is actually more important. So far this year, China has announced expansion of equipment renewal subsidies and trade-in policies to support domestic demand. We expect monetary policy easing to resume in the coming weeks and months, with one rate and one RRR cut forecasted for 1Q25. All eyes now turn to China's Two Sessions starting on 5 March, where this year's growth target will signal how much support is likely to come through this year. We expect policymakers to run back last year's "around 5%" growth target in a show of confidence.

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