

Mission accomplished for 2024 as strong 4Q pushes China's growth back to target

China's 2024 GDP grew by 5.0%, completing the year's growth target of "around 5%" as monthly activity improved



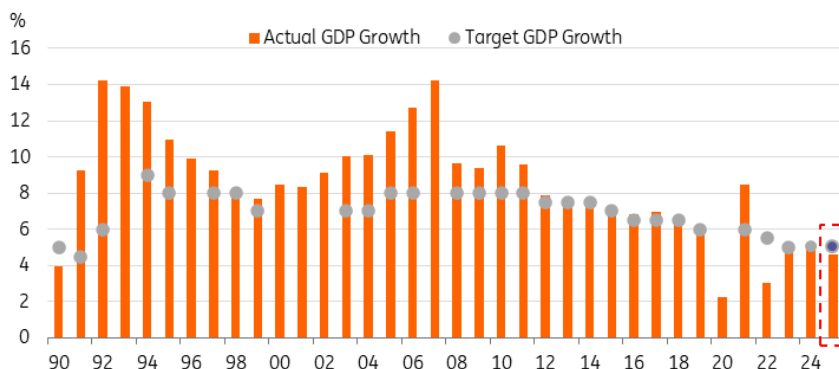
Source: Shutterstock

5.0%

China's 2024 GDP growth

Puts to rest the debate on what level satisfies an "around 5.0%" target

Mission accomplished on China's 2024 growth target



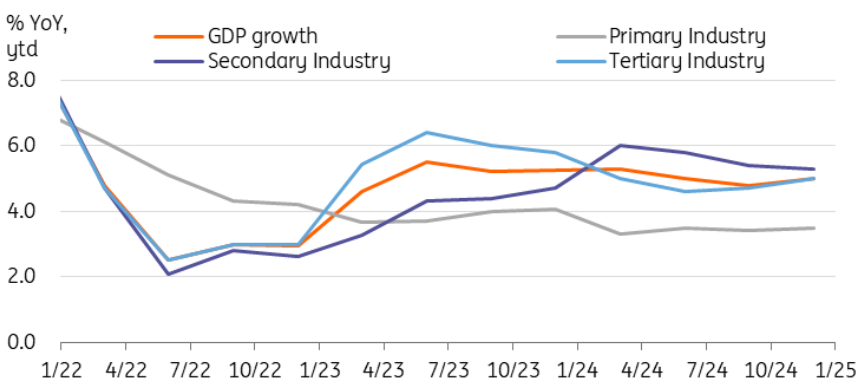
Sources: CEIC, ING

China GDP strongly beat forecasts to end 2024 on a high note

China's fourth quarter 2024 GDP surged to 5.4% year-on-year, up from 4.6% YoY and marking the highest level of the year, and the fastest YoY growth of any quarter since 2Q23. This was also a much more impressive read given 2Q23 benefitted heavily from a favourable base effect. The fourth quarter growth level was a significant beat and moving the full year growth back to 5.0% will put to rest any potential debate on whether or not a lower growth level would have been sufficient to fulfil the "around 5%" growth target.

In terms of the industry breakdown, China's primary industry grew by 3.5% YoY, the secondary industry grew by 5.3%, and the tertiary industry grew by 5.0%. This was the first non-pandemic impacted year since 2012 that the secondary industry saw a faster growth rate than the tertiary industry, and reflected the strong bounce back of manufacturing amid a more favourable than expected external demand environment for 2024, as well as the continued sluggish domestic demand acting as a headwind on China's services sector.

Strong external demand helped China meet its GDP target in 2024



Sources: CEIC, ING

Property market continued to show signs of stabilisation

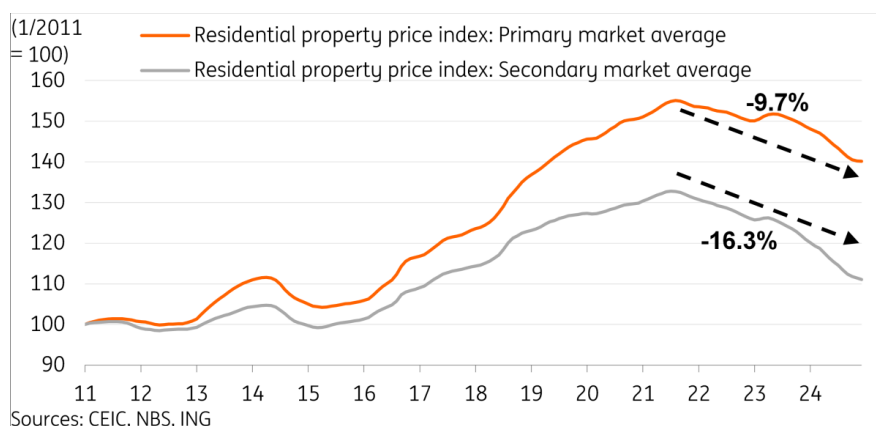
December's 70-city property price index showed another encouraging month of developments, and while prices were shown to be still falling, both new home and existing home prices fell by less

than the prior month for the fourth straight month, down by -0.08% and -0.31% respectively. These were the smallest sequential declines since the first half of 2023. For the full year of 2024, property prices fell -5.8% and -8.1% on the year for new home and existing home prices, bringing the respective declines from the peak to -9.7% and -16.3%.

In terms of the city breakdown, 27 of 70 cities saw prices stabilise or increase in the primary market, and 10 of 70 cities for the secondary market. The stabilisation had previously been concentrated to the T1 and top T2 cities, but the December data is a positive sign that stabilisation is gradually widening. We expect to see prices bottom out in 2025, though an L-shaped recovery still looks like the most likely scenario.

We continue to see stabilising property prices as one of the top priorities moving forward; representing 60-70% of household balance sheets, it is the single most important asset for many households and its decline has created a negative wealth effect and remained a significant drag on household confidence. While stabilising the property market alone is not a panacea for the economy, it is a vital step in the process to restore confidence. Despite several months of improving data, it would be wise to ensure the job is done, and policy support should continue.

Property prices declined at a slower rate for the fourth consecutive month



Value added of industry rebounded to an eight-month high

Value added of industry rebounded to 6.2% YoY in December, up from 5.4% YoY in November, and marking an eight-month high. December's strong move higher brought the full year growth to 5.8% YoY, which was also the strongest growth rate of the past three years.

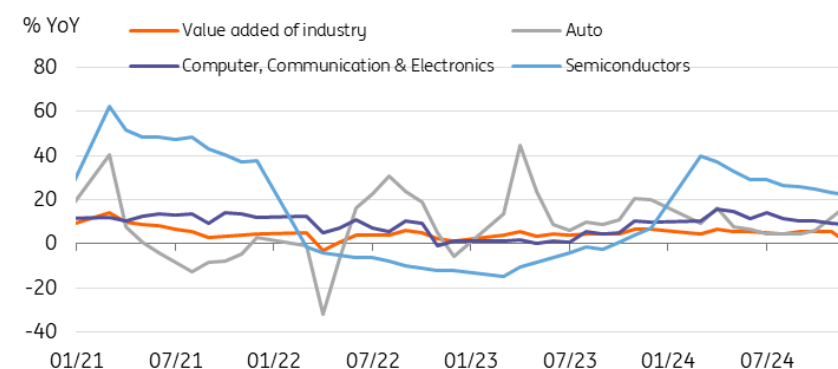
In 2024, China's manufacturing made good progress in moving up the value added ladder. Hi-tech manufacturing grew by 8.9% YoY, and key industries such as auto (9.1%), ships (10.9%), computer, communication and electronics (11.8%) all significantly outperformed the headline growth. From a relatively lower base, we are also seeing China's semiconductor industry begin to flourish, with production of integrated circuits up 22.2% YoY in 2024.

Unsurprisingly, the industries which are more correlated with the property market continued to struggle in 2024. We saw production of cement (-9.5%) and steel (-1.7%) remain in contraction.

China's efforts toward a green energy transition can also be seen in the breakdown of data on

energy generation. While thermal power generation remained the biggest category, it saw the lowest growth rate of just 1.5%. Green energy sources such as solar (28.2%), wind (11.1%), and hydro (10.7%) all saw notably faster growth. With ambitious long-term carbon targets, China's green transition remains an area of strong growth.

Value added of industry shows signs of moving up the value added ladder



Sources: CEIC, ING

Retail sales growth rebounded amid boost from trade-in policies

Retail sales growth reached 3.7% YoY in December, up from 3.0% YoY in November, and beating consensus forecasts. The uptick brought China's full year retail sales growth to 3.5% YoY.

December's data continued to be driven by the ramp-up of trade-in policies, which saw household appliance sales surge 39.3% YoY on the month.

Looking at 2024 as a whole, we can see several key themes for consumption in China:

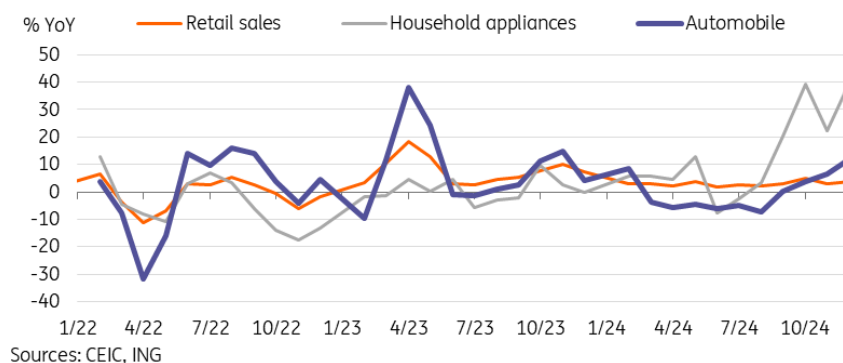
- Eat, drink, and play theme outperformed for most of the year. One of our key calls for consumption was that these categories including catering (5.3%), alcohol (5.7%), and recreation (11.1%) would outperform, as they tend to have the stickiest demand amid a downturn, and unless things have gone seriously wrong, households tend not to cut these areas of consumption out. Growth in this category began to slow toward the end of the year amid a less supportive base effect, but they all clearly outperformed the headline in 2024.
- Trade-in policies clearly helped boost beneficiary categories. After policies ramped up in the second half of 2024, we saw a clear acceleration of home appliance and auto sales after underperforming heavily in the first half of the year.
- Weak consumer confidence suppresses the other categories of discretionary consumption. Gold & jewellery (-3.1%) and cosmetics (-1.1%) were both in contraction on the year.

Policymakers have already signalled that [we will see an expansion of trade-in policies in 2025](#), with new categories including electronic devices and home renovation and decoration products. These categories will likely see a boost in 2025.

The key question is if we can see consumer confidence bottom out and begin a meaningful

recovery. Pessimism has grown quite entrenched as of late, and it will take a lot of effort to break out of the doldrums. We think that this process must start with stabilisation of asset prices and an exit of the contractionary and cost cutting mindset that has set in – easier said than done.

Trade-in policies continued to drive home appliance and auto outperformance in December



Fixed asset investment slowed slightly to end the year

China's fixed asset investment growth ended the year a little weaker at 3.2% YoY, in line with our forecasts. This growth level was a little improved from 2023's 3.0% YoY growth, but continues to show a lack of confidence in the economy.

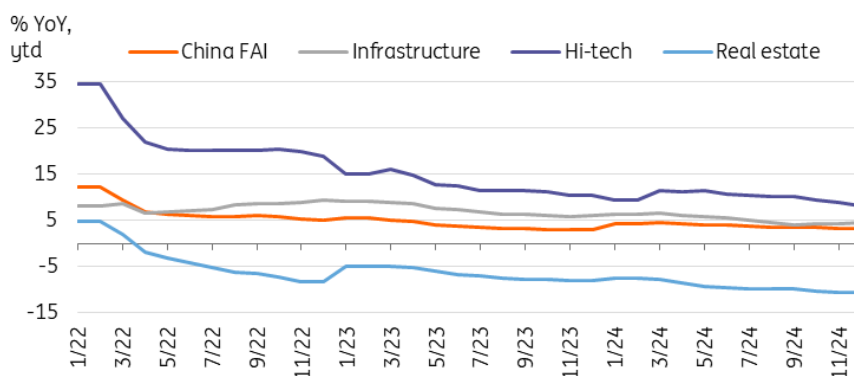
The clearest indication of this can be seen in the divide between public-led investment and private-led investment, where public-led investment ended the year up 5.7%, while private investment was very sluggish, ending the year in contraction at -0.1% YoY. Until the private sector regains confidence, it is likely that the public side will have to continue to carry the brunt of the investment load.

Looking at the industry level breakdown, we can see that China's strategic priorities drove much of the investment activity in 2024. Hi-tech investment grew by 8% YoY in 2024, which continued to significantly outpace headline growth even though it slowed from 2023's 10.3% YoY growth rate, while infrastructure also grew by 4.4% YoY. In contrast, the continued difficulties in the property sector kept real estate investment down -10.6% YoY, and until prices stabilise and inventories normalise, it is likely that real estate investment will remain a drag on the economy.

Moving forward, we expect to see an acceleration of FAI in 2025 amid a more supportive fiscal policy stance. Local governments should have more capacity for driving investment after short-term debt pressures are alleviated following the debt package announced last November. The National Development and Reform Commission and Ministry of Finance published a document in early January which illustrated [what form China's fiscal stimulus may take](#), with equipment renewals as a major focus for the year, and likely to benefit investment numbers.

With that said, unlike in past economic cycles, it is likely that China's fiscal policy will be somewhat less concentrated on boosting investment than in the past, with recent guidance showing that fiscal policy measures could be directed toward supporting consumption as well.

FAI showing limited resources flowing to strategic priorities



Sources: CEIC, ING

All eyes ahead on the Two Sessions and Trump's inauguration

As China prepares for the Lunar New Year, Trump's upcoming inauguration and the potential for tariffs looms large ahead, and how initial discussions play out could help set the stage for China's Two Sessions meetings in early March.

Moving forward, after the success in reaching the growth target in 2024, the key question for 2025 is where policymakers will set the growth target at the upcoming Two Sessions in March. Our baseline scenario has policymakers electing to set a target of "around 5%" again or at the least a target of "above 4.5%". In our view, the setting of such a growth target despite likely headwinds from tariffs and sanctions would imply that we will see stronger fiscal policy support as well as continued monetary policy easing and would likely be seen by markets as a signal of confidence.

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