QUARTERLY ANALYSIS OF ECONOMIC TRENDS IN CHINA

MERICS Economic Indicators

Record trade surplus masks domestic fragility

Q4/2025

CONTENTS

MERICS
Mercator Institute for China Studies

MERICS Q4 ANALYSIS

China's strong exports offset domestic weaknesses

By **Alexander Brown**

Beijing's policymakers will be pleased with the end-of-year report card for China's economy. Exports delivered a record trade surplus of USD 1.2 trillion, despite renewed trade frictions with the United States. The 5 percent GDP growth target was met. Major priorities progressed, for instance managing debt levels and growing China's strategic industries. However, growth slowed toward the end of the year, highlighting underlying domestic weaknesses.

In Q4, China's GDP grew at 4.5 percent – a three-year low – reflecting falls in fixed-asset investment (FAI) and sluggish consumer spending, though the weak year-on-year performance was partly due to comparison with an unusually strong growth surge from exports in Q4 2024 amid fears of a trade war. Fixed-asset investment shrunk by 3.8 percent over 2025, the first annual contraction since 1996 when data was first published. Cash-strapped local governments, cautious corporate investors and continued price falls in real estate all contributed to the negative FAI. The investment slowdown hit most sectors, with strong growth now limited to a few high-end manufacturing fields, such as automotive and aerospace.

Consumer demand remains weak

Weak consumer demand also dampened momentum in Q4. Retail sales growth continued trending downwards in Q4, finishing at only 0.9 percent in December. The government's trade-in scheme for consumer goods helped boost retail sales at the start of 2025. However, it suppressed consumer spending in the second half of the year as households had already purchased their big-ticket items. Youth unemployment (which is improving at a slower rate than a year ago) and falling house prices are also hurting consumer sentiment.

Policymakers remained remarkably restrained in rolling out support measures through Q4. This was probably because of strong exports, the one remaining reliable engine of growth. China has chalked up a record trade surplus through seamless diversification. Exports in USD terms grew by 6.6 percent in December and by 5.5 percent in 2025 overall. They did so even as annual exports to the US declined by 19.8 percent, thanks to growth of 13.4 percent in sales to ASEAN markets and 8.5 percent to the EU.

China's policymakers seem little worried about slowdown

The absence of any major announcements about stimulus in Q4 was notable in itself. Clearly, policymakers viewed the slowdown in some areas as acceptable and saw no reason for panic. In 2026, the GDP growth target is likely to be about 5 percent again. As China's leadership will want to avoid a bad start to the year, fresh stimulus announcements are more likely in the coming months.

There have already been some signals that support is coming. The Central Economic Work Conference in December declared reversing the decline in investment will be a priority in 2026. Promoting investment in strategic sectors will be a major part of the central government's approach. In December, it launched a national venture capital guidance fund aiming to mobilize CNY 1 trillion to support companies in strategic and emerging industries. At its press conference to preview the year ahead, the National Development and Reform Commission (NDRC) emphasized the role of new materials, aerospace, quantum technology and biomanufacturing industries as economic growth drivers.

Perhaps most crucial will be the government's ability to stimulate more consumption, though whether it is willing to take significant steps in this direction remains unclear. In January, the NDRC said it was working on increasing the income of urban and rural residents in 2026 but offered no details. The central bank announced it would maintain a moderately loose monetary policy. Slightly lower interest rates could deliver some relief to households paying off debt, but they are unlikely to respond by taking out substantial new loans for consumption purchases. The government will continue its consumer goods trade-in program in 2026, albeit with more limited subsidies and funding levels.

External pressure could be a trigger for change

So long as foreign markets continue to absorb the output of China's factories, the goal of boosting consumption will remain a secondary objective behind the tried and tested approach of supporting local industry. Substantial pushback from other countries to China's growing trade imbalance could be a trigger for change. Thus far, the tariffs and trade barriers erected by other countries have been too targeted in scope or ineffective to impose significant constraints on Chinese industries. If larger economies like the EU were to expand these measures in 2026, then Beijing might finally start to feel the need to make changes.

Without external pressure, it will likely require some sort of domestic shock to change the calculus in Beijing and direct more resources to households in meaningful ways, perhaps as a pressure valve against public discontent. A continued plunge in investment, persistently falling house prices and rising unemployment levels could be a toxic mix. Clearly the leadership does not feel tangible public dissatisfaction is on the horizon, or it would be taking more decisive action. But if this scenario becomes more plausible, their hand may be forced.

Beijing's "support for demand" is more about investment than consumption

By **Jacob Gunter**

Without external pressure, it will likely require some sort of domestic shock to change the calculus in Beijing and direct more resources to households in meaningful ways, perhaps as a pressure valve against public discontent. A continued plunge in investment, persistently falling house prices and rising unemployment levels could be a toxic mix. Clearly the leadership does not feel tangible public dissatisfaction is on the horizon, or it would be taking more decisive action. But if this scenario becomes more plausible, their hand may be forced.

Chinese officials were recently tasked with policy priorities which can seem outright contradictory, but that is not quite how party-state officials will understand these signals. To grasp how Beijing will advance its economic ambitions in 2026 and beyond, we examine the December 2025 Central Economic Work Conference (CEWC) (link) and consider what its details might mean.

The 2025 CEWC, held in Beijing in December, listed eight priorities for economic work in 2026. Most of these could be grouped around two seemingly competing goals – to support demand and to support investment (particularly investment in innovation, industry, and infrastructure). To classically-trained economic observers, these two sets of goals are often in tension, with every yuan channeled to consumption meaning less funds for investment and vice-versa.

For state planners steeped in Marxist-Leninist economic thinking, these goals appear not contradictory but compatible: it is this mindset that will shape how they implement policy.

The CEWC does not list supporting 'consumption' (消费) as the number one priority; it puts supporting 'domestic demand' (内需) at the top. And when thinking like a state planner, domestic demand is not limited to household consumption; it extends to demand up-and-down the value chain to ensure, at each point, that supply and demand are broadly balanced. Especially important is to ensure sufficient demand for the upstream technologies and industries Beijing is most supportive of.

This understanding of demand was articulated at the March 2025 National People's Congress (NPC) in Premier Li Qiang's Government Work Report, when he listed the year's top priority as, "[We must] vigorously boost consumption and improve investment efficiency to comprehensively expand domestic demand." (大力提振消费、提高投资效益，全方位扩大国内需求 link).

Household consumption is not the sole meaning of supporting demand

From this viewpoint, unlocking household consumption to support demand is important, but it is neither the top priority nor the sole meaning of supporting demand. China's state planners view each step within any given value chain as a point where demand should be supported, so as to coordinate with the upstream supply.

Recalling the "Dual Circulation Theory", first promulgated in May 2020, when President Xi Jinping called for China's growth to be increasingly driven by domestic demand, hindsight shows the policy slogan did not amount to a switch towards prioritizing household consumption. Rather, it reflected a more comprehensive sense of demand being a priority at every step, all of them ideally located within China's own industrial ecosystem.

For example, supporting households as the end user consumers of EVs is a clear priority. But so too is supporting EV-makers to ensure strong demand for domestic EV battery-makers. They in turn need support to guarantee strong demand for inputs such as cathodes, anodes, materials. All these sustain demand for machine tools and industrial robots to manufacture such inputs and for industrial software to run it all. This is why, in the CEWC readout, we see a) support for generating demand by boosting incomes and hence consumption (or, in the language of CCP planners, by "formulating and implementing plans to boost urban and rural incomes" (制定实施城乡居民增收计划)) together with b) support for demand by promoting the reversal and stabilization of [declining] investment (推动投资止跌回稳).

The CEWC readout also urges support for demand by "expanding the supply of high-quality goods and services" (扩大优质商品和服务供给). This kind of framing is increasingly common; it implies consumption and demand are not materializing because of a lack of appropriate goods and services for those downstream. This standpoint offers China's officials two potential explanations, and policy cures, for weak consumption data like that of December 2025, when retail sales growth for consumer goods dropped to 0.9 percent. It could be down to lackluster income growth or household uncertainty. Or it could equally stem from insufficient supplies of the right goods at the right price, since high household savings rates mean consumers theoretically have the resources to make purchases but are choosing not to.

Looking forward, observers should keep in mind China's understanding of demand

Supporting demand also means implementing the "Two New" (两新) policy to support large scale equipment upgrades for producers and for trade in programs for consumer goods like EVs and home appliances. That unlocks consumption options for factories and households who might not otherwise be ready to demand those products. But they also create demand for the machinery and the consumer goods hand-picked by state planners so that demand is going to the right kinds of products and technologies as determined from the top-down.

Similarly, demand is to be generated by working on the "Two Priorities" (两重) which refers to programs that fall within "implementing major national strategies" (国家重大战略实施) and "the development of security capabilities in key areas" (重点领域安全能力建设). These initiatives qualify for the new ultra-long-term special treasury bonds to ensure sufficient financing.

For many in European capitals, financial markets and corporate headquarters, these and similar measures hardly fall under "supporting demand". But for China's state planners and the framework through which they analyze the economy, a wide range of supply-side measures are also demand-side measures.

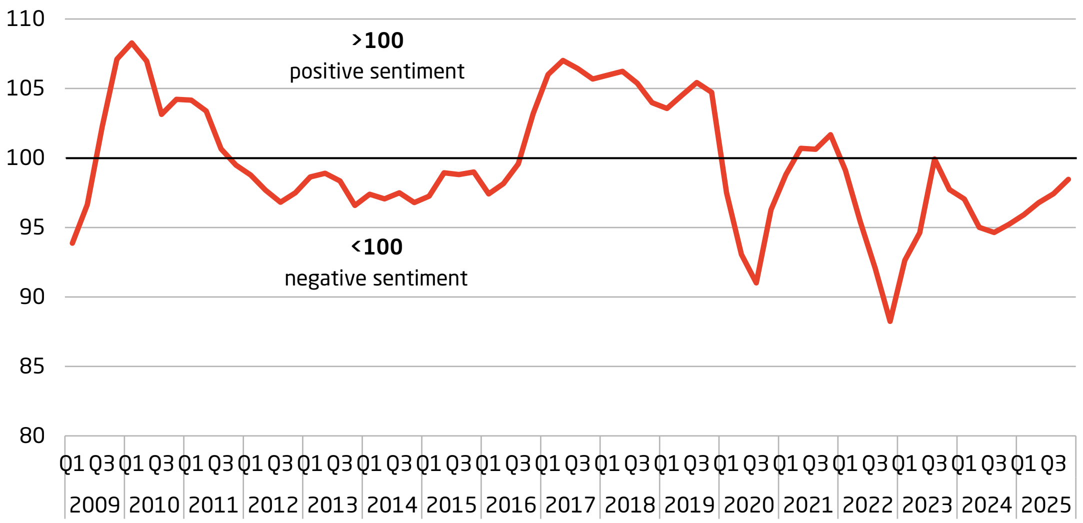
Observers should consider the perspective of their Chinese counterparts when examining the Q4 2025 economic data release. Or in the run up to the NPC in March, and the release of the 15th Five-Year Plan. Understanding their mindset and training might dampen expectations that any significant reallocation of resources away from producers and towards households is about to take place.

Over the coming years, data trends and policy measures will continue to prioritize demand upstream from consumers. It would be a mistake to be blinded by our own traditional economic training and read Beijing's (genuine) desire to boost end-user consumption as signaling a major redirection of resources towards households without also considering the broader sense of what supporting demand means in the PRC context.

MERICS CHINA CONFIDENCE INDEX (MCCI)

Stock market keeps lifting the MCCI

MERICS China Confidence Index, measuring household and business confidence in future income and revenues through various indicators



Note: International air travel was removed from the MCCI in Q3/2021.

Source: MERICS

- The MERICS China Confidence Index (MCCI) continued its gradual ascent in the final months of 2025, rising to 98.5 in Q4 2025 from 97.4 in Q3 2025. The MCCI has been steadily recovering from a two-year low in Q3 2024, indicating that sentiment has been gradually improving since then.
- Persistently strong turnover value at the Shanghai Exchange Stock underpinned its rise, as the value of shares traded reached an all-time high of CNY 85.33 trillion in December 2025.
- Despite its steady rise, the MCCI remains significantly below earlier levels; it touched 104.7 in Q4 2019, shortly before collapsing at the onset of the Covid pandemic.

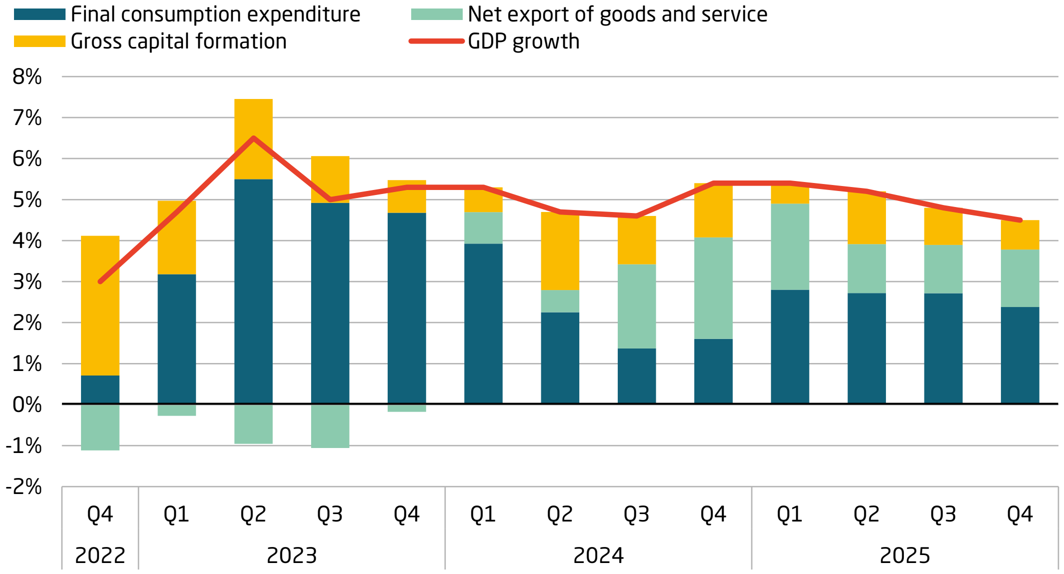
The MERICS China Confidence Index (MCCI)

The MCCI – first developed in 2017 – includes the following indicators: stock market turnover, future income confidence, international air travel, new manufacturing orders, new business in the service sector, urban households' house purchase plans, venture capital investments, private fixed asset investments and disposable income as a share of household consumption. All components have been tested for trends and seasonality. The index is weighted between household and business indicators.

MACROECONOMICS

Exports retained their strength as a major contributor to GDP growth in 2025

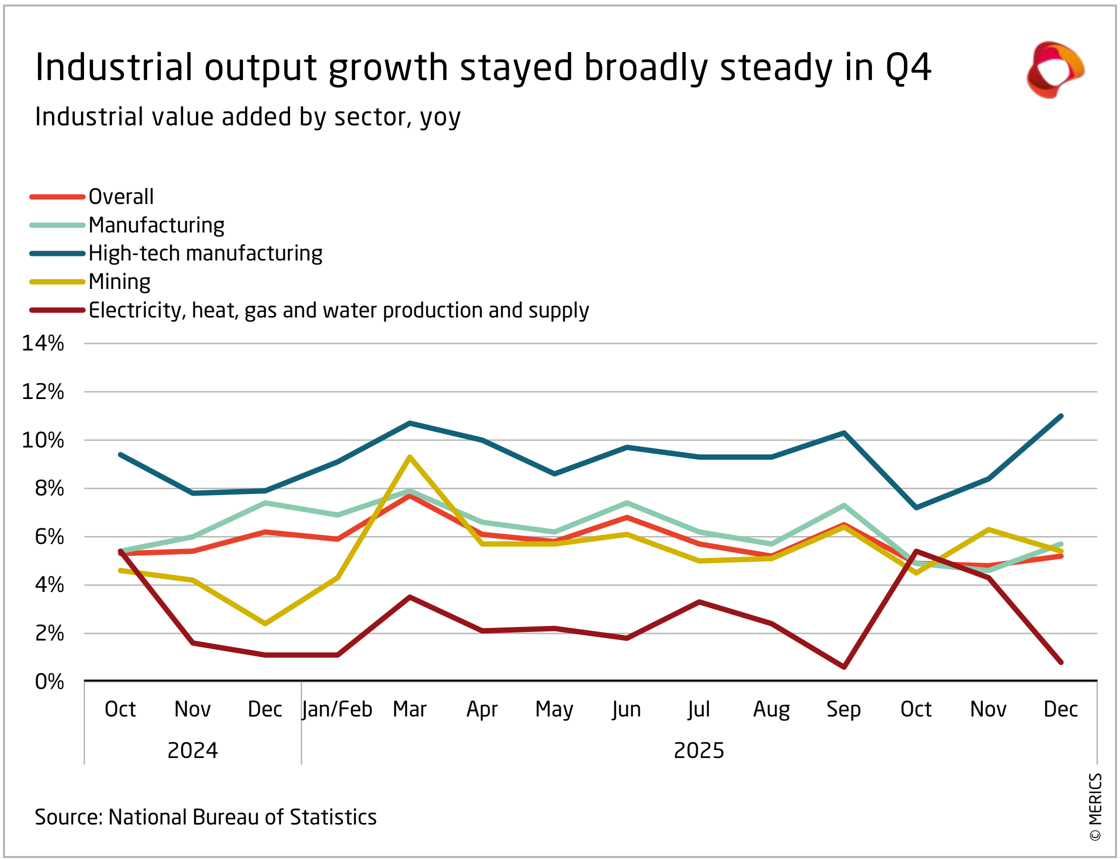
Contribution to GDP growth by component



Source: National Bureau of Statistics

- Quarterly GDP growth has been declining gradually since Q1 2025, to a 3-year low of 4.5 percent in Q4 2025. The government will likely want to introduce moderate stimulus in the coming months to reverse this downward trend and safeguard current levels of GDP growth.
- China’s GDP growth has received a significant boost from exports since Q3 2024. Exports accounted for 32.7 percent of GDP growth in 2025, underlining their crucial role in compensating for weak consumption. The threat of tariffs from the Trump administration encouraged the frontloading of orders in early 2025. Even after the US raised tariffs on Chinese goods, exports continued their strong growth and gained momentum throughout 2025.
- Beijing will be eager to see exports generate further growth momentum in 2026. Whether this is possible will depend on the extent that other markets, particularly European ones, are willing or able to absorb additional imports.

INDUSTRY

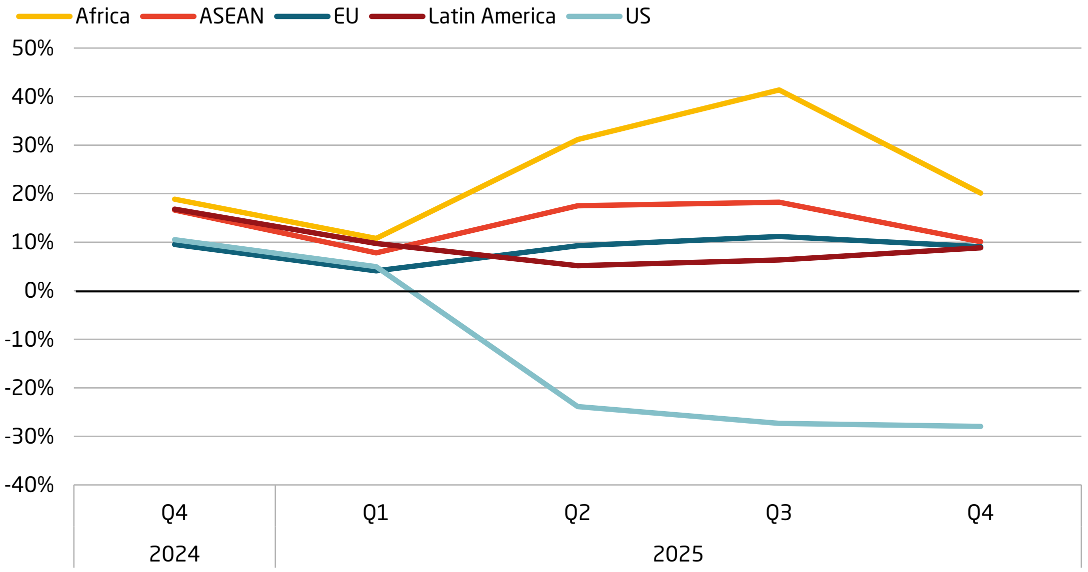


- Value-added industrial output growth made a mild recovery from its gradual downward trend, to finish at 5.2 percent in December, a notch below 5.9 percent growth in 2025 as a whole.
- Growth in high-tech manufacturing jumped to 11.0 percent in December, its highest level since April 2024, driven by demand for industrial robots (up 14.7 percent), semiconductors (up 12.9 percent) and new energy vehicles (NEVs) and power generation equipment (both up 8.7 percent).
- Official concerns about "involution" (i.e., overcapacity issues) have not led to any overall slow-down in industrial output. The broad policy agenda remains supportive of continued growth. In addition to expanding new industries, such as NEVs, policies supporting the upgrade of all domestic sectors with advanced equipment and production processes have helped to boost demand for inputs like chips and industrial robots.

INTERNATIONAL TRADE

Chinese exports are growing everywhere except North America

Chinese exports in USD terms by region, yoy



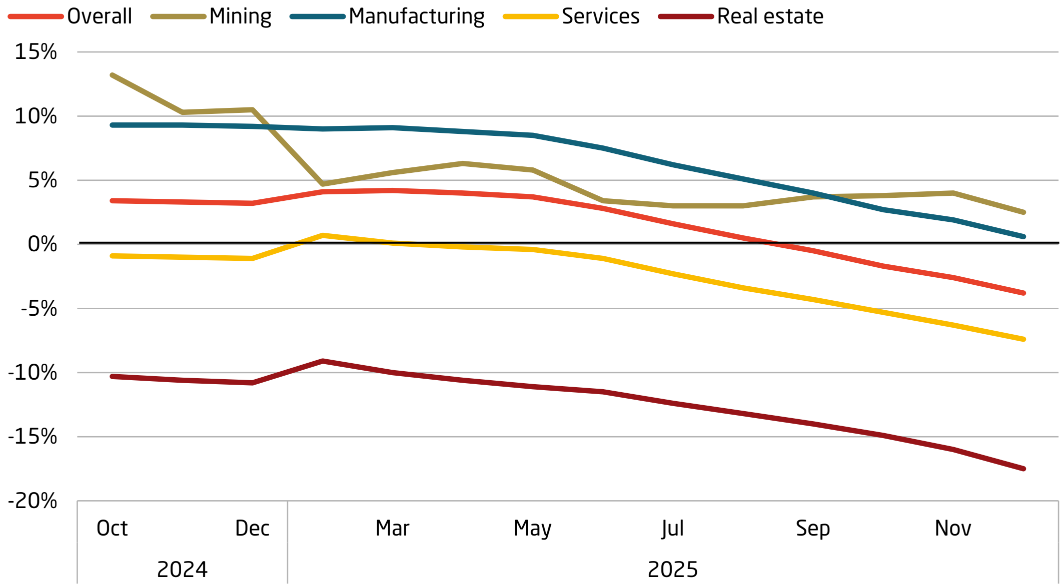
Source: General Administration of Customs

- China's trade surplus hit a new record in 2025, reaching USD 1.2 trillion, on a rise of 5.5 percent. The latest record may trigger stronger policy pushback from third countries and increase pressure on Beijing to address industrial overcapacity—often discussed domestically as "involution"—to reduce Chinese manufacturers' reliance on external demand.
- Exports have been redirected away from the US since the renewed trade war in Donald Trump's second presidency: an 11 percent year-on-year increase in Q4 2024 turned into a 28 percent decrease by Q4 2025 .
- Third markets have absorbed China's reallocated surplus goods, led by ASEAN, Europe and Africa. The share of China's total exports going to the three regions rose to 38.4 percent in 2025, up from 35.8 percent in 2024. Meanwhile, those sent to US ports shrank to 11.1 percent in 2025, down from 14.6 percent in 2024.

INVESTMENT

For the first time in decades, fixed asset investment turns negative

Fixed asset investment by type, yoy ytd

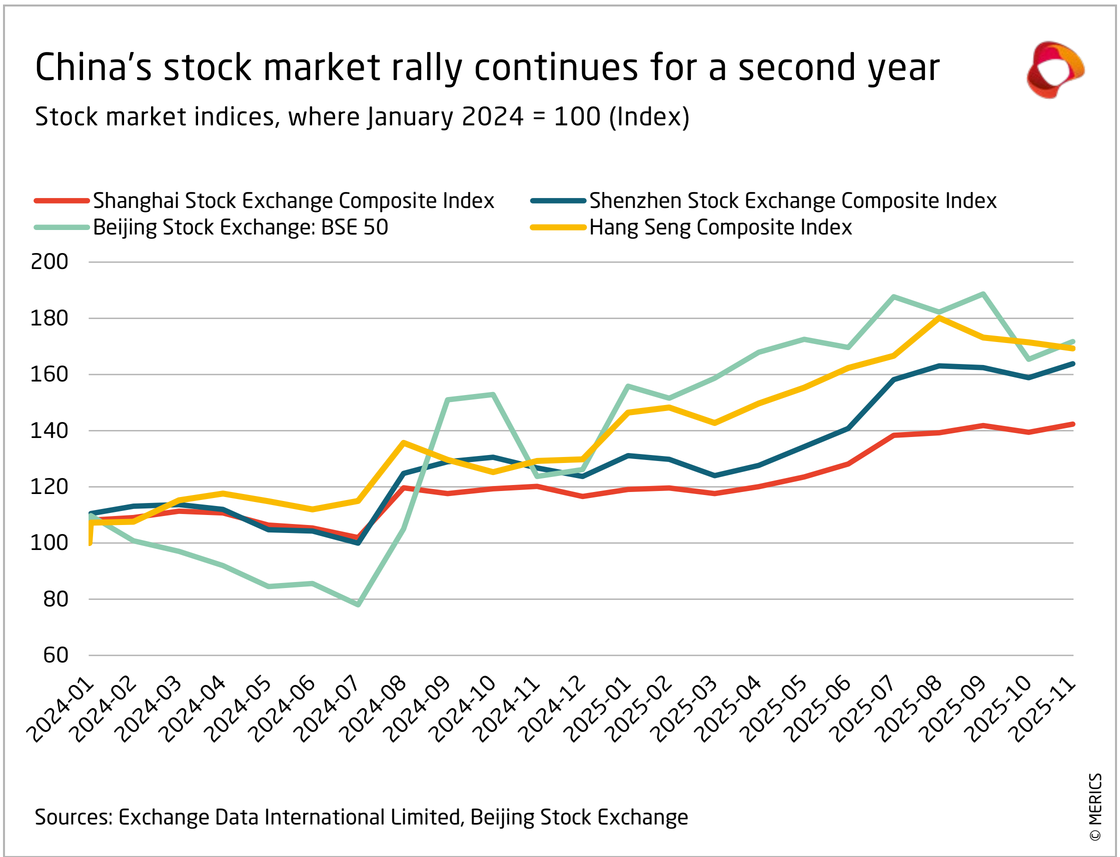


Source: National Bureau of Statistics

© MERICS

- Overall fixed asset investment (FAI) declined 3.8 per cent for the January-December period on a year earlier, showing the first contraction in reported FAI in recent decades (with the exception of the Covid-19 pandemic in 2020).
- Growth in manufacturing investment eased down to remain slightly positive at 0.6 percent year-on-year (ytd) in December. This slowdown shows that the unusually high growth rates for manufacturing investment in previous quarters proved unsustainable at last. On a sectoral basis, investment growth in the automotive industry remained strong 11.7 percent year-on-year in December. Yet, it did not defy the trend, decelerating from 19.2 percent year-on-year growth in September.
- The slowdown in manufacturing growth is further undercut by a sharp fall in investment in services (7.4 percent yoy ytd decline in December). The main driver for this was the still tumbling real estate sector, in which investment fell by a whopping 17.5 percent yoy ytd in December, the sharpest decline in five years.

FINANCIAL MARKETS

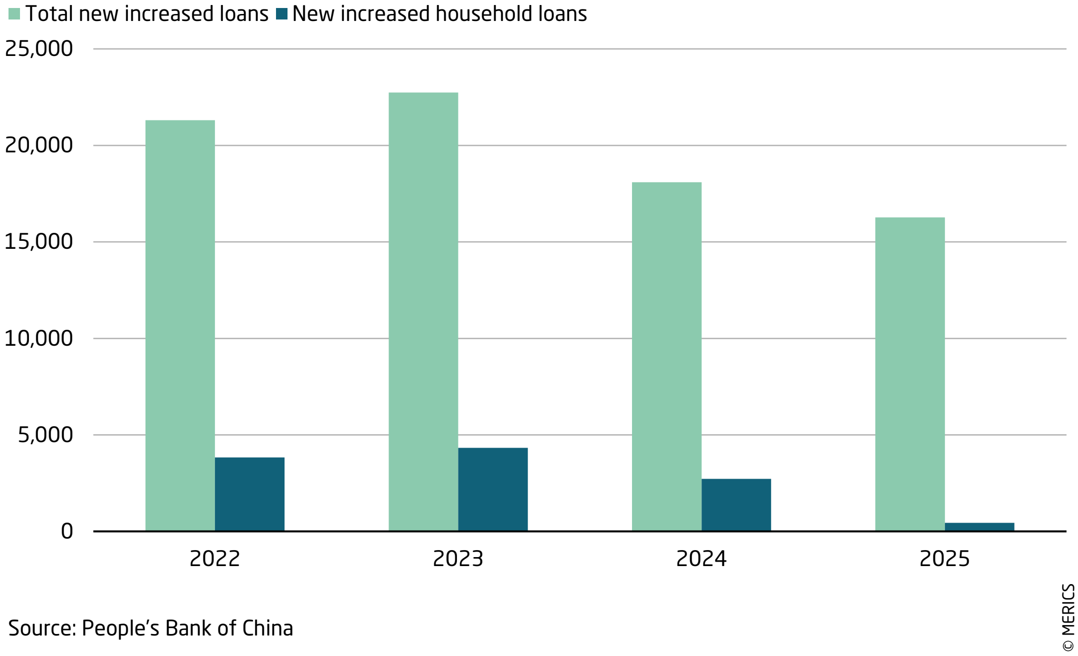


- China's stock market rally continues, with indices at exchanges in Shanghai, Shenzhen, Beijing and Hong Kong up between 42 percent and 71 percent since January 2024. In December 2025, the Shanghai Composite Index and Shenzhen's Composite Index reached their highest levels since China's stock market boom in 2015, at 3954.8 and 2509.3 respectively. Beijing's BSE 50 has almost doubled within two years, touching a record 1582.7 in October 2025.
- China's "slow bull market" has been aided by recent developments, such as the injection of ample liquidity into the economy and steady investments by institutional investors. The central government will be mindful to avoid any re-run of 2015 when stock markets underwent a drastic spike, then crashed.
- Stock markets were a favored investment option for Chinese households in 2025, as the housing market has failed to bottom out, heightening the government's need to avoid volatility.

CREDIT

Household borrowing plunged in 2025 as the real estate slump continued to bite

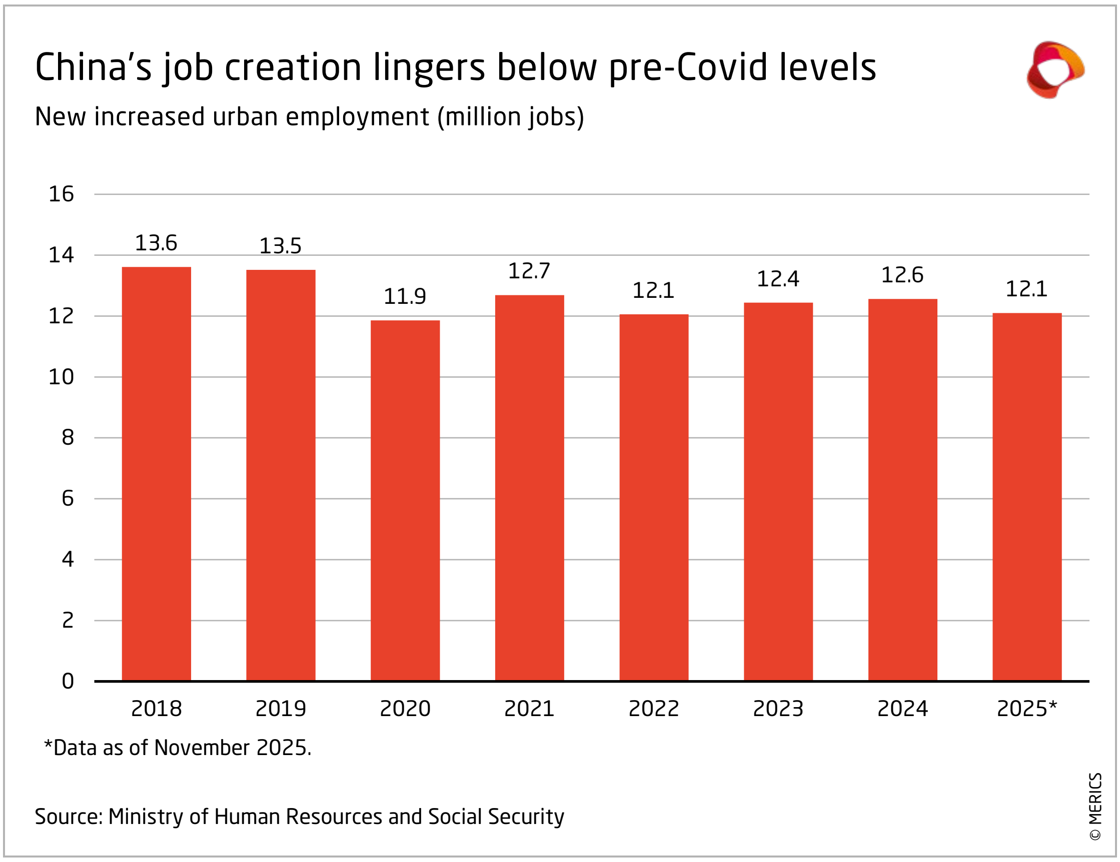
New increased loans, i.e. new lending minus repayments, in China (CNY billion)



Source: People's Bank of China

- Total new increased loans fell by 28 percent between 2023 and 2025 (from CNY 22.744 billion to CNY 16.270 billion), indicating that sentiment in the Chinese economy is still low.
- Household borrowing has been particularly weak: it accounted for only 3 percent of total new loans in 2025, whereas it accounted for 19 percent of new loans in 2023. Households have not been persuaded to take on more new loans, despite Beijing's stimulus measures in 2025, such as cuts to the reserve requirement ratio or interest rate cuts.
- With housing prices still falling, many households are repaying mortgages on property that is losing value – a fact that is likely to make others wary of taking on property loans while there is no end in sight to the real estate crisis.

LABOR MARKET

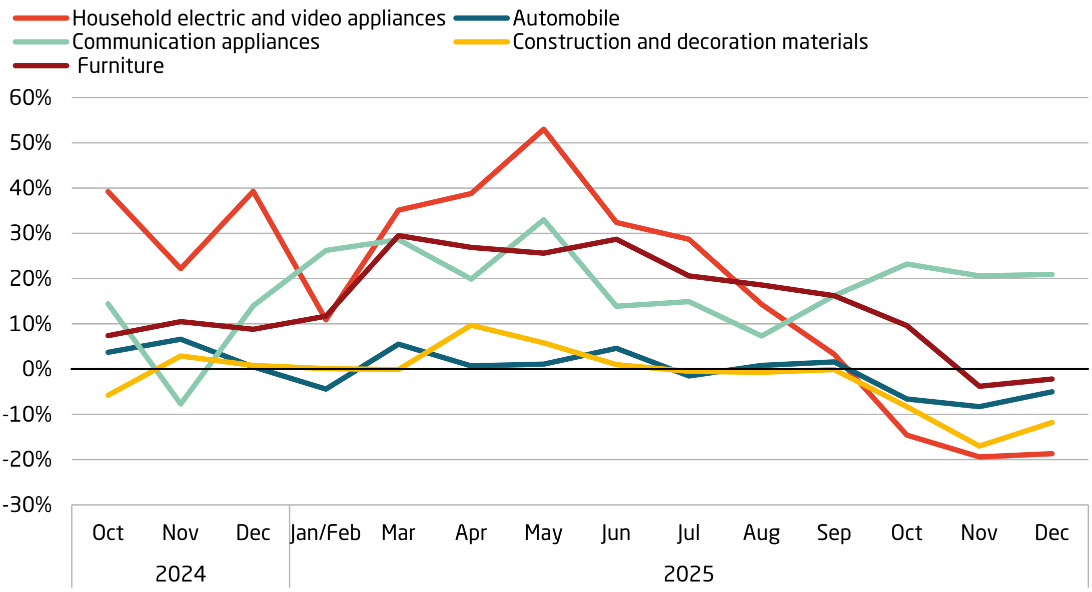


- New job creation seems to have been stronger in 2025 than in the previous year. While December data has not yet been released, 12.1 million new urban jobs were added in the year to end-November 2025, compared with 11.98 million urban jobs in the same period of 2024.
- However, job creation still lags far behind the more dynamic pre-Covid labor market. In both 2018 and 2019, more than 13.5 million new urban jobs were added.
- Although overall urban unemployment is fairly low, at around 5 percent, finding work remains a painful problem for young people. Among 16 to 24 year-olds, unemployment stood at 16.9 percent in November 2025, higher than the 16.1 percent a year earlier. Labor market pressures and imbalances continue, in the form of weak demand, skills gaps, and automation.

RETAIL

Consumer spending growth slowed significantly in Q4

Retail sales of consumer goods, by product, yoy



Source: National Bureau of Statistics

- Consumer spending remained weak as growth in consumer goods sales continued declining in the final months of 2025, slipping from a peak of 6.4 percent in May to a mere 0.9 percent in December. For the year as a whole, retail sales grew by 3.7 percent, slightly more than the 3.5 percent growth recorded in 2024.
- The government's consumer goods trade-in program, which subsidized purchases of home appliances, cars and digital products, succeeded in bringing purchases forward at the start of 2025. However, it also resulted in growth contracting in Q4 for some of these products, in particular household appliances.
- The continued weakness of the real estate and construction sector is hitting consumption. Sales growth for furniture, and in construction and decoration materials, finished the year in negative territory.

EDITORIAL TEAM

AUTHORS

Alexander Brown
Senior Analyst, MERICS

Jacob Gunter
Head of Program, MERICS

Andreas Mischer
Analyst, MERICS

Esther Goreichy
Visiting Fellow, MERICS

EDITORS

Claudia Wessling
Director Communications & Publications, MERICS

Mary Hennock
Freelance editor

PUBLISHER

MERICS | Mercator Institute for China Studies
Alte Jakobstraße 85–86
10179 Berlin
Tel.: +49 30 3440 999 0
Mail: info@merics.de
www.merics.org

MERICS MEMBERSHIP

The MERICS Economic Indicators are part of the publication portfolio for MERICS Members. For more information about the MERICS Membership program and privileged access to our research and expertise, please contact:

Bernhard Bartsch
Director External Relations, MERICS
membership@merics.de