



# China Economic Quarterly Q1–Q2 2025

(Combined Issue)



# In Brief

## Part 1: Economic Update – Mapping a Distorted Landscape

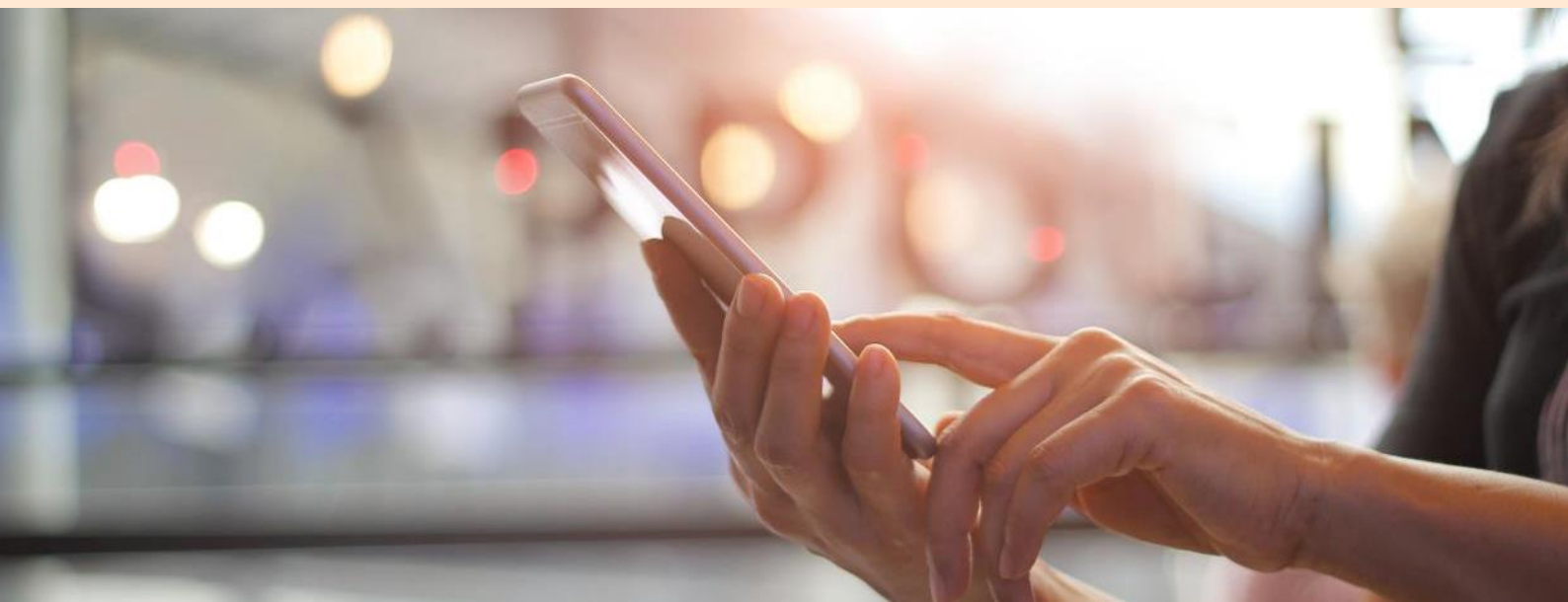
- China's economy recorded solid growth in the first half of 2025, with GDP growing 5.3% year-on-year, exceeding the official target despite mounting global headwinds. The resilience was underpinned by robust manufacturing and a strengthening services sector.
- Buoyant exports helped sustain economic momentum. While shipments to the US declined, strong growth in ASEAN, Africa, and Latin America helped offset the shortfall. However, this strength may be partially driven by front-loading ahead of anticipated tariff hikes, suggesting a potential pullback in the second half.
- The new US tariffs on transhipped goods add further uncertainty. Their impact will hinge on enforcement specifics and the definition of transshipment, but could ripple through China's indirect export routes and third-country trade flows.
- Domestic consumption received a boost from the trade-in programme, but the momentum is showing signs of fading amid cautious household sentiment. Continued support will be needed to sustain the recovery.
- Investment was subdued in the first half of 2025. Real estate remained a drag on growth, while private investment softness likely reflects delayed business decisions amid heightened uncertainty.





## Part 2: Special Topic – China’s Consumption Outlook

- China’s consumer market has grown into the world’s second-largest, but recent data reveals a slowdown in momentum. Retail sales growth has softened, and consumer sentiment remains subdued, weighed down by housing market stress and global uncertainty.
- Structurally, consumption remains underweight in China’s GDP mix. Household spending accounts for just 40% of GDP—far below levels seen in developed economies—highlighting both the challenge and the opportunity for rebalancing toward domestic demand.
- Policymakers have responded with a multi-pronged strategy to revive consumption, focusing on boosting household income, expanding social safety nets, and deploying counter-cyclical stimulus. The 30-point plan unveiled in mid-2025 marks a strategic pivot toward consumption-led growth.
- A notable shift is underway from goods-based to service-based consumption. Sectors like entertainment, wellness, and education are seeing strong demand, driven by changing preferences and policy support. This evolution presents new opportunities for businesses and investors.
- China’s consumer market remains a strategic priority for global investors and multinational businesses. Despite near-term headwinds, the market continues to offer substantial untapped potential. Realising its full promise will depend on advancing structural reforms, promoting inclusive income growth, and implementing targeted initiatives to restore consumer confidence.





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A low-angle, upward-looking photograph of several modern skyscrapers with glass facades, set against a bright blue sky with scattered white clouds. The perspective creates a sense of height and architectural grandeur. The buildings are primarily blue and grey, with many windows visible.

# 01

## Key Takeaways from the First Half of 2025 Economic Data

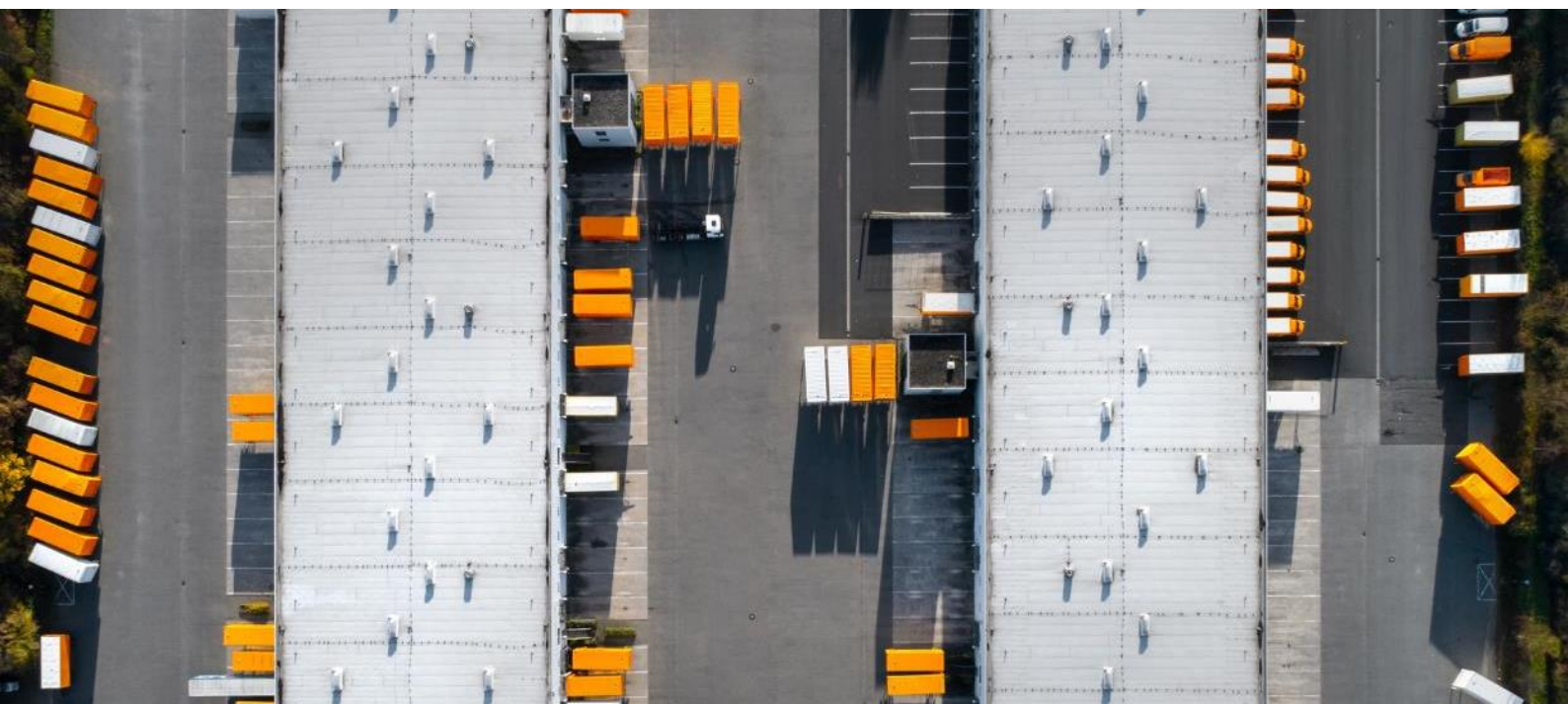


China's economy remained broadly stable in the first half of 2025, despite pockets of volatility driven by external uncertainty and trade tensions. GDP grew by 5.3% year-on-year, exceeding the official target and putting full-year growth on track. The expansion was supported by robust manufacturing activity and a strengthening services sector, reflecting a gradual rebalancing that is essential for navigating global headwinds.

Exports held up well, even as shipments to the US declined. The drop was offset by strong growth in exports to other markets, particularly ASEAN, Africa, and Latin America. However, part of this strength may reflect front-loading ahead of anticipated tariff deadlines, suggesting that export volumes could soften in the coming months. The outlook is further clouded by the new US tariffs targeting transshipped goods, which could have a ripple effect on China's exports to third countries. The impact will depend on how transshipment is defined and how the tariffs are enforced.

On the domestic front, consumer spending picked up, aided by the nationwide trade-in programme targeting consumer goods. However, the effect of stimulus may be waning. Without further policy action, consumption growth could moderate in the coming quarters, as households adjust after bringing forward purchases. Expanding the trade-in scheme to cover more sectors could help sustain momentum and support a more durable recovery in household demand.

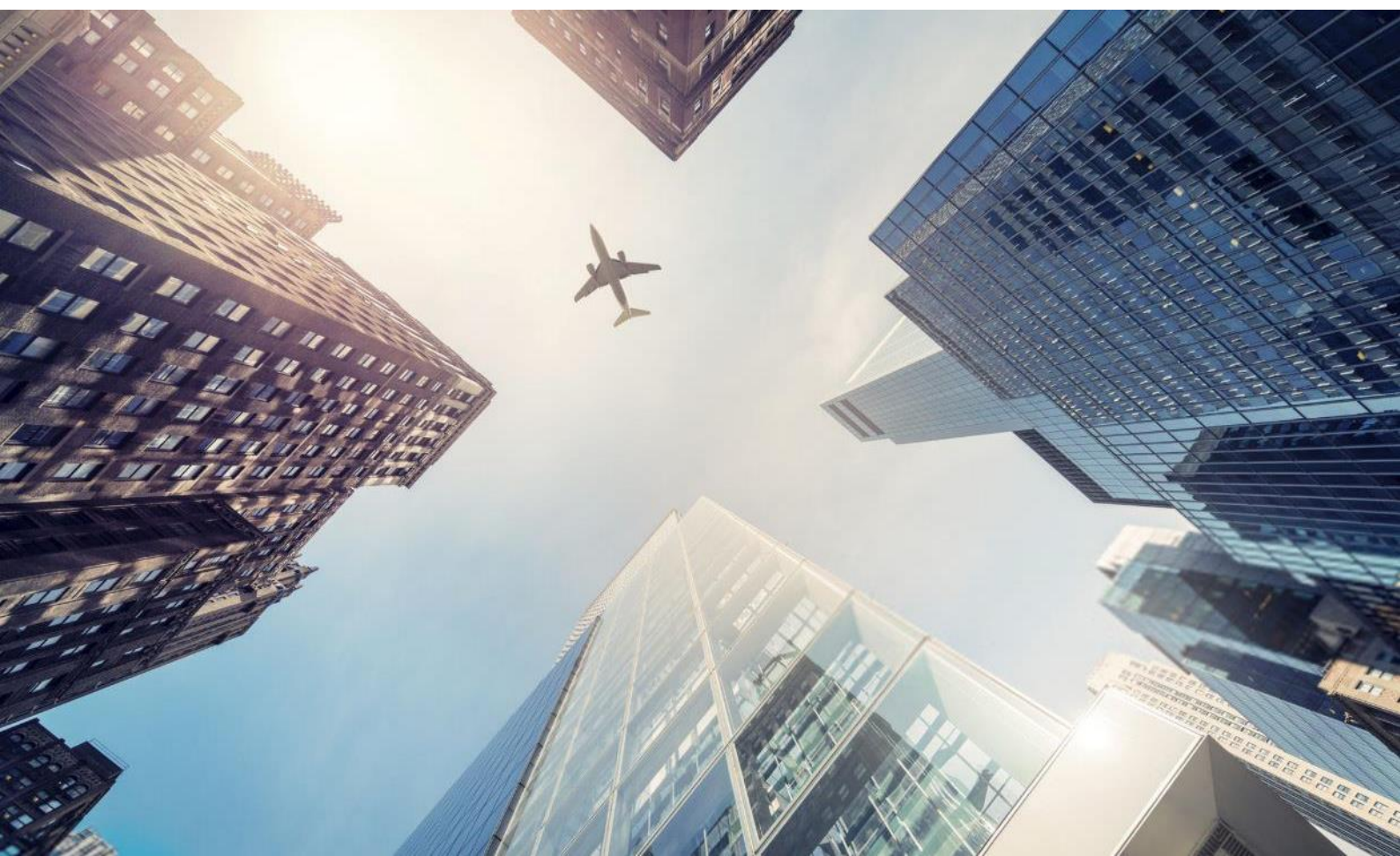
Global uncertainty continues to weigh on business sentiment, as reflected in subdued private fixed asset investment and foreign direct investment. The cautious tone is also evident in PMI readings, which point to restrained hiring and softening expectations. Meanwhile, credit data shows a shift toward short-term corporate borrowing, suggesting firms are prioritizing liquidity over long-term investment amid an unpredictable external environment.



Looking ahead, the outlook for the second half of the year remains cautiously optimistic. Policymakers have signalled their readiness to deploy fiscal support should external demand weaken further, while maintaining a moderately accommodative monetary stance. Consumption is poised to play a pivotal role, not only as a primary engine of growth but also as a strategic anchor for broader economic stability.

- Resilient household spending can cushion shortfalls in aggregate demand if trade tensions intensify, thereby sustaining momentum in overall growth.
- Stronger consumption is key to reflating an economy still facing deflationary pressures.
- As the world's second-largest consumer market, China holds strategic significance that neither domestic nor foreign businesses can overlook; a revival in consumption growth will spur renewed investment and deeper market participation.

At the same time, China's upgraded export structure—centred on high-tech products and intermediate goods—is expected to provide a buffer against external shocks and reinforce the economy's underlying resilience.







# 02

## China's Economic Momentum: A Snapshot



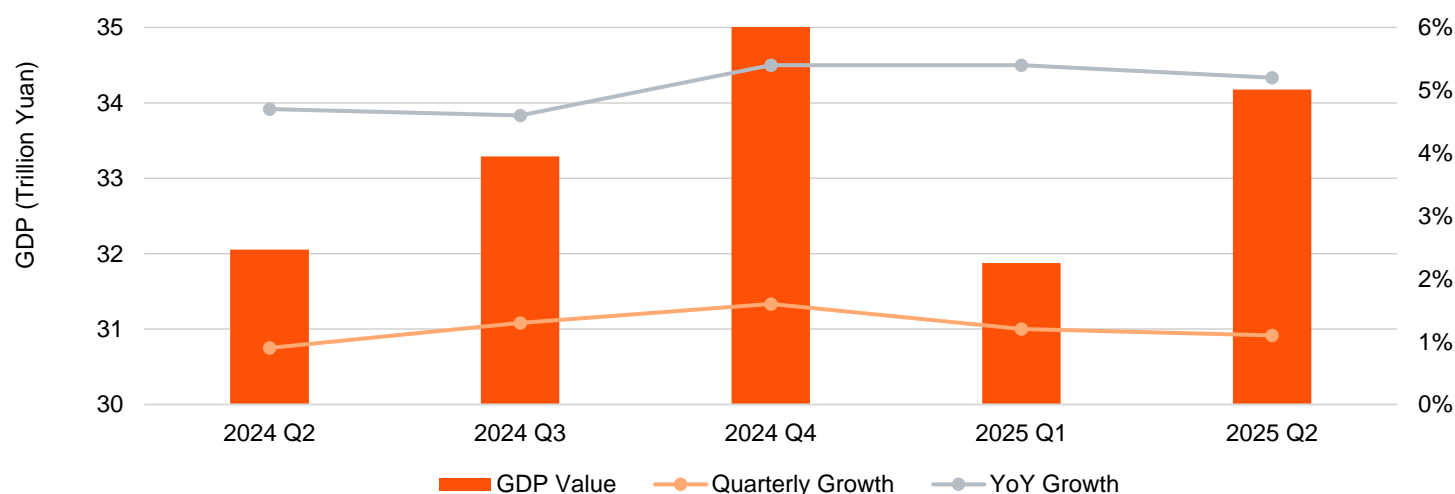
## GDP

China's economy continued to demonstrate resilience in the first half of 2025, expanding by 5.3% year-on-year despite persistent global headwinds and ongoing trade frictions. This pace comfortably exceeds the government's annual growth target of around 5%. Growth moderated slightly in the second quarter, with year-on-year expansion easing to 5.2%, down from 5.4% in Q1. On a quarterly basis, GDP grew by 1.1% in Q2, compared to 1.2% in Q1, signalling a mild deceleration in momentum.

Sectoral performance reveals a gradual shift in the composition of growth. The secondary sector, which includes manufacturing and construction, grew by 5.3% year-on-year in the first half of 2025. However, its momentum weakened over the period, slowing from 5.9% in Q1 to 4.8% in Q2, driven largely by a deceleration in construction activity. In contrast, the tertiary sector, comprising services, gained traction, accelerating from 5.3% in Q1 to 5.7% in Q2. This underscores the sector's growing role in sustaining overall economic growth. In the first half, services contributed 60.2% to GDP growth, up 5.8 percentage points from a year earlier.

Within services, notable strength was observed in information transmission, software, and IT services (+11.1%), leasing and business services (+9.6%), transport, storage, and postal services (+6.4%), and wholesale and retail trade (+5.9%).

Quarterly GDP Values and Quarterly and Annual GDP Growth Rate

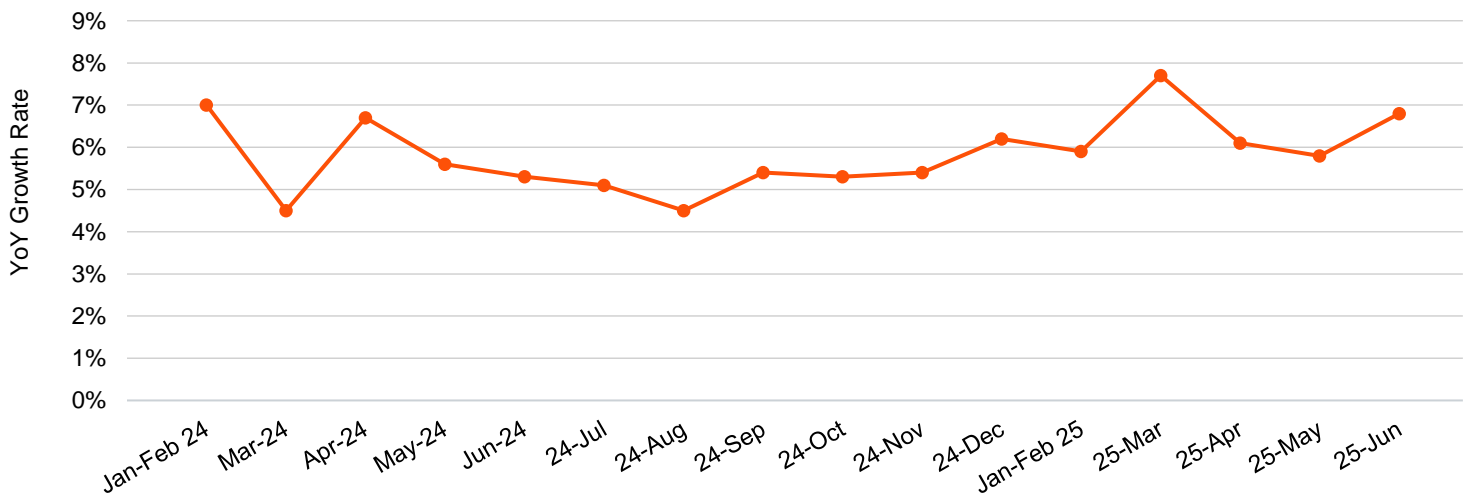


## Industrial Output

Industrial output grew by 6.4% year-on-year during the first six months of 2025, with manufacturing output rising by 7.0%, reaffirming its role as a key growth driver. Growth was particularly robust in high-tech manufacturing, which expanded by 9.5%, and equipment-related industries, which rose by 10.2%. These segments outpaced the overall industrial sector by 3.8 and 3.1 percentage points, respectively.

By sector, autos (+11.3%), railway, ship, and aerospace equipment (+16.6%), electrical machinery (+12.2%), and computers, communication, and other electronic equipment (+11.1%) continued to outperform headline growth. Notably, output of key products such as 3D printing equipment, new energy vehicles, and industrial robots surged year-on-year by 43.1%, 36.2%, and 35.6%, respectively.

### Industrial Output





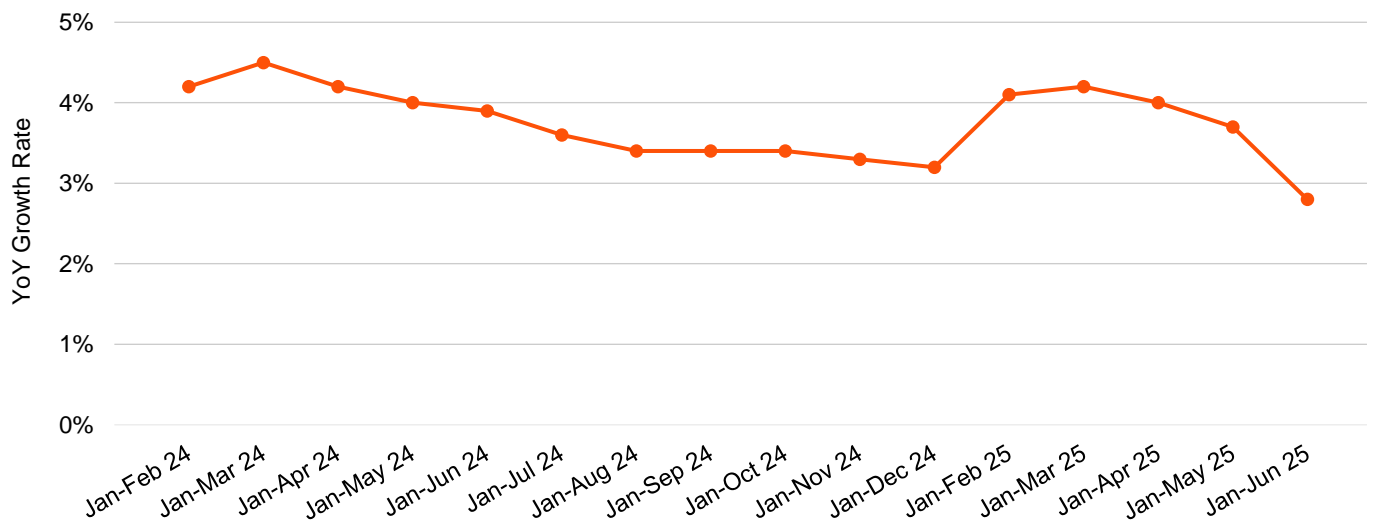
## Fixed asset Investment

In the first half of 2025, China's fixed asset investment rose by 2.8% year-on-year, marking a clear slowdown from 4.2% in the first quarter. The deceleration became increasingly evident over the second quarter, with cumulative growth easing to 4.0% for January–April, 3.7% for January–May, and ultimately 2.8% for January–June. The slowdown may also reflect rising global uncertainty, with ongoing trade frictions contributing to a more cautious investment climate as businesses wait for greater policy clarity.

The softness in overall momentum can also be partly attributed to continued weakness in the property sector, which contracted by 11.2% year-on-year. Excluding real estate, investment rose by 6.6%, driven primarily by infrastructure and manufacturing. Notably, investment in the auto sector surged by 22.2%, while rail, ship, and aerospace manufacturing saw a robust increase of 27.3%. However, even manufacturing investment showed signs of cooling, with cumulative growth through the first half of the year easing to 7.5%, down from 9.1% in Q1.

Private investment contracted by 0.6% overall, though it grew by 5.1% when excluding the real estate sector.

**Fixed Asset Investment**



## Retail Sales

Retail sales rose by 5.0% year-on-year in the first half of 2025, marking a clear pickup from the 3.8% growth recorded in the final quarter of 2024. Much of the early-year strength can be attributed to the rollout and expansion of China's trade-in policy, which spurred demand in select categories—household appliances surged by 30.7%, furniture by 22.9%, and telecommunication equipment by 24.1%. That said, the pace of growth began to moderate in June, with retail sales expanding by 4.8% YoY, a slowdown from the 6.4% increase seen in May.

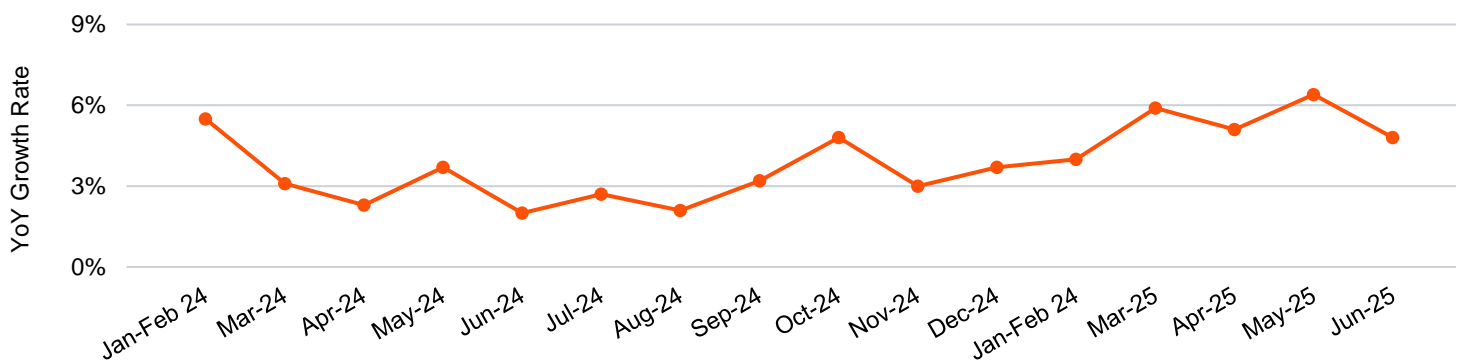
There are signs that the effect of earlier stimulus may be waning, and without additional support, consumption growth could moderate in the coming quarters. A payback effect is possible, as households brought forward purchases in response to incentives. If the trade-in programme is expanded to include additional sectors, it could help reinvigorate momentum and support a more sustained recovery in household spending. In August, a new loan interest subsidy programme was introduced to further boost consumption—covering not only automobiles, electronics, and home furnishings, but also service sectors including catering, healthcare, elderly care, childcare, and tourism. Borrowers can receive a 1-percentage-point annual rebate for up to one year, with loans capped at RMB 1 million per operator. According to the announcement, the subsidies could be extended or broadened to cover a wider range of consumer spending. Notably, the central government will shoulder 90% of the subsidy cost, signalling its readiness to leverage a strong fiscal position to stimulate service-sector development and broader consumer demand.





Meanwhile, the shift toward service consumption continues. Service-related retail sales rose by 5.3%, outpacing goods-related retail growth of 5.1%. The May Day holiday saw 314 million domestic trips, up 6.4% YoY, with total tourist spending reaching RMB 180.3 billion, an 8.0% increase. The film industry was a standout, with strong performance from domestic titles driving box office revenue to over RMB 29.2 billion in the first half, up more than 20% YoY. However, catering services, which had outperformed in recent years, showed signs of cooling, with growth slowing to 4.3%, below the overall retail pace. The deceleration may have been exacerbated by an intense price war among major food-delivery platforms, which offered steep discounts and free drinks to capture market share—squeezing restaurant margins until regulators intervened, summoning the platforms and urging them to curb aggressive pricing tactics.

#### Retail Sales of Consumer Goods



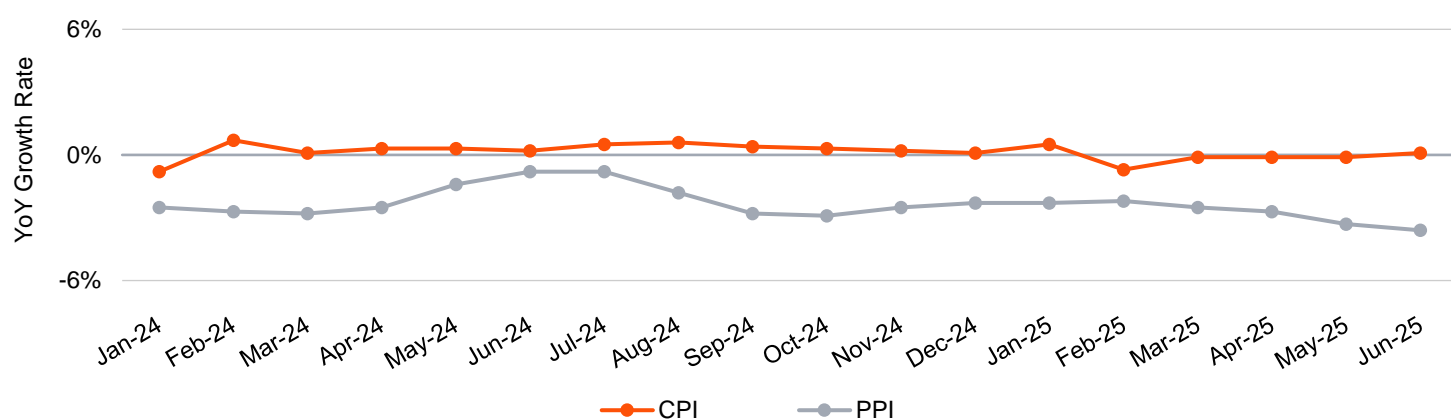
## Consumer Price Index (CPI) and Producer Price Index (PPI)

Inflation remained subdued in the first half of 2025, with headline CPI registering a 0.1% decline compared to the same period last year. In June, CPI edged up by 0.1% year-on-year, turning positive after four consecutive months of contraction. Core CPI, which excludes volatile food and energy components, rose by 0.7%—its fastest pace in nearly 14 months—suggesting a modest lift from recent efforts to support household spending.

Producer prices continued to slide, with PPI falling 3.6% year-on-year in June—the steepest drop since July 2023 and the 33rd consecutive monthly decline. The prolonged weakness in factory-gate prices has taken a toll on corporate profitability: industrial profits fell by 18% in the first half of the year, despite a 2.5% increase in revenue, resulting in a sharp margin squeeze. In June alone, profits declined by 4.3%, highlighting the mounting pressure on manufacturers.

Looking ahead, the path to reflation will hinge on rebalancing supply and demand. Much will depend on the scale and effectiveness of consumption stimulus, including potential expansion of trade-in programmes to boost household spending. The government's campaign to curb involution—excessive competition that undermines pricing power—will also be critical. At the same time, weakening external demand remains a headwind, adding urgency to domestic policy efforts aimed at stabilizing growth.

Consumer Price Index and Producer Price Index





## Trade

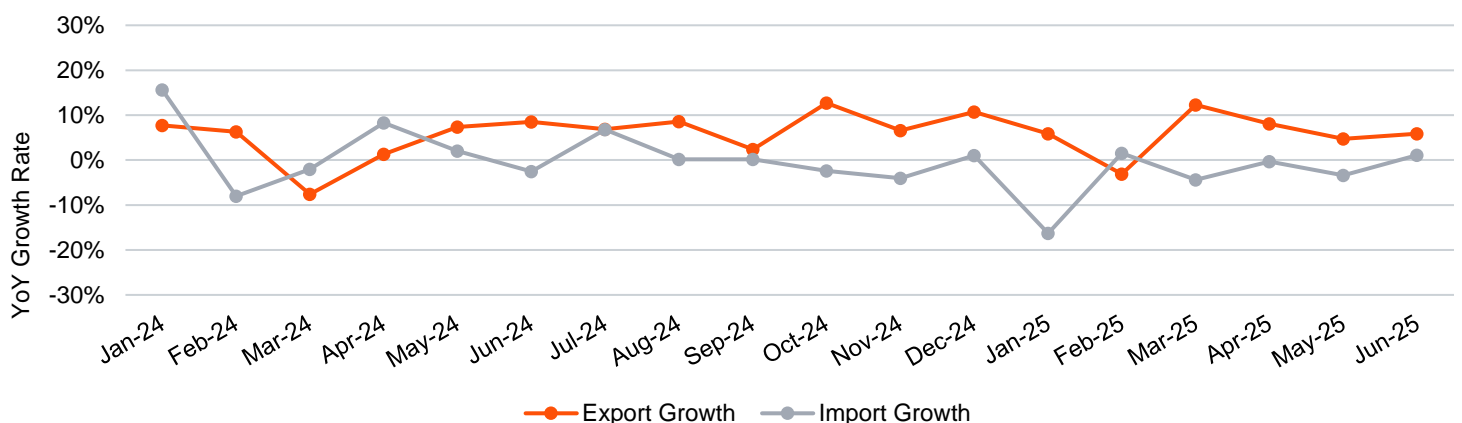
China's exports rose by 5.9% year-on-year in the first half of 2025, supported by strong demand from emerging markets and regional partners. While shipments to the US remained weak—falling 16.1% year-on-year in June after a sharper 35% drop in May—the pace of decline moderated, likely reflecting the effects of a tentative tariff truce. Exports to other destinations helped offset the shortfall, with notable gains to ASEAN (+13%), including Vietnam (+19.7%) and Thailand (+22%). Shipments also increased to Africa (+21.6%), India (+14.1%), Latin America (+7.2%), and Europe (+6.6%).

Exports of semiconductors (+18.9%), ships (+18.6%), and autos (+8.2%) outpaced headline growth, while the broader machinery and electrical products category rose by 8.2% year-on-year. In RMB terms, electromechanical products accounted for 60% of total exports, up 1.2 percentage points from a year earlier. High-end equipment exports grew by more than 20%, and the “new three” product categories—electric vehicles, lithium batteries, and solar cells—expanded by 12.7%.

Looking ahead, export momentum may face headwinds. Some of the recent strength likely reflects front-loading ahead of potential tariff hikes that could push duties on Chinese goods to as high as 145%, raising the risk of a reversal in coming months. Uncertainty surrounding the implementation and scope of US tariffs on transshipment could also affect China's indirect export routes. However, trade diversification and the evolving structure of China's export mix may help cushion the impact. The country continues to move up the value chain, exporting more intermediate goods and high-value products to manufacturing hubs abroad.

Imports, meanwhile, remained subdued. For the first half of 2025, imports declined by 3.9% year-on-year. June saw a modest recovery, with imports rising 1.1% year-on-year, reversing a 3.4% contraction in May. Whether this rebound is sustainable will depend largely on domestic consumption trends and the effectiveness of ongoing stimulus efforts.

### Exports and Imports



## Foreign direct Investment (FDI)

In the first half of 2025, China saw the establishment of 30,014 new foreign-invested enterprises, marking an 11.7% increase compared to the same period last year. Despite this uptick in new registrations, actual FDI inflows totalled RMB 423.2 billion, reflecting a 15.2% year-on-year decline. The contrast suggests that while interest in entering the Chinese market remains strong, global investors are proceeding cautiously amid lingering economic uncertainty and shifting geopolitical dynamics.

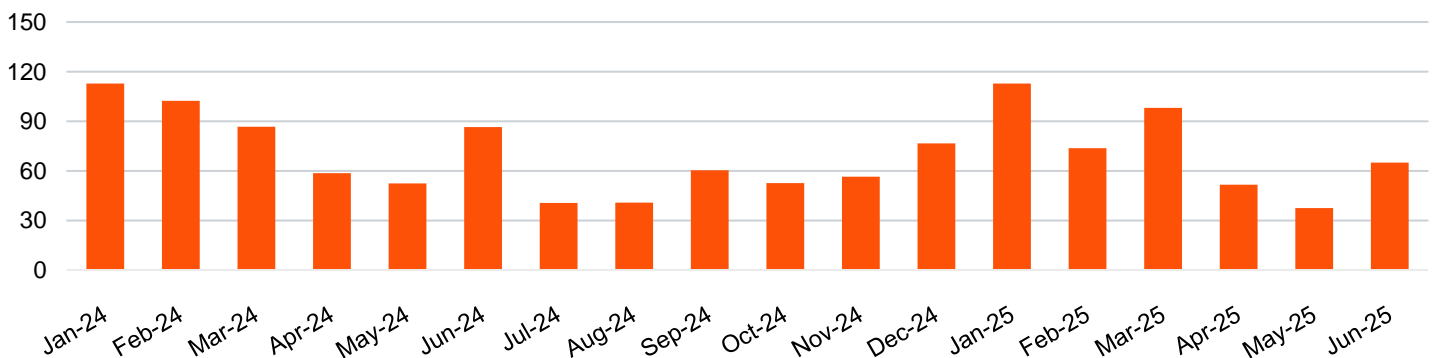
Sector-wise, foreign capital continued to favour the services industry, which attracted RMB 305.9 billion, followed by manufacturing, which drew RMB 109.1 billion. Within high-tech sectors, investment reached RMB 127.9 billion, with notable growth in areas such as e-commerce services (+127.1%), chemical pharmaceuticals (+53%), aerospace equipment manufacturing (+36.2%), and medical devices (+17.7%).

From a geographic standpoint, investment from ASEAN countries rose by 8.8%, while several developed economies posted strong gains: Switzerland (+68.6%), Japan (+59.1%), the United Kingdom (+37.6%), Germany (+6.3%), and South Korea (+2.7%).

To counter the slowdown in actual capital inflows, Chinese authorities have introduced a series of targeted initiatives. Alongside the 2025 Action Plan to Stabilise Foreign Investment, the government recently issued the Notice on Implementing Several Measures to Encourage Domestic Reinvestment by Foreign-Invested Enterprises, jointly released by seven ministries including the National Development and Reform Commission (NDRC). The directive aims to strengthen investor confidence by offering incentives for reinvested profits, streamlining approval processes, and expanding access to strategic sectors such as healthcare, education, and high-end manufacturing. These efforts mark a strategic shift from attracting one-off investments to fostering long-term reinvestment and deeper integration into China's evolving industrial landscape.

### FDI Inflows

RMB billion





## Purchasing Managers Index (PMI)

China's manufacturing sector faced renewed pressure in the second quarter of 2025, with the official manufacturing PMI falling to 49.0 in April, its lowest reading in 16 months. A sharp drop in new export orders, down to 44.7 from 49.0 in March, highlighted the impact of trade policy uncertainty and softening global demand. Although PMI rebounded to 49.7 in June, it remained below the 50-point threshold, indicating continued contraction. The new export orders index recovered slightly to 47.7, but still lagged behind March levels.

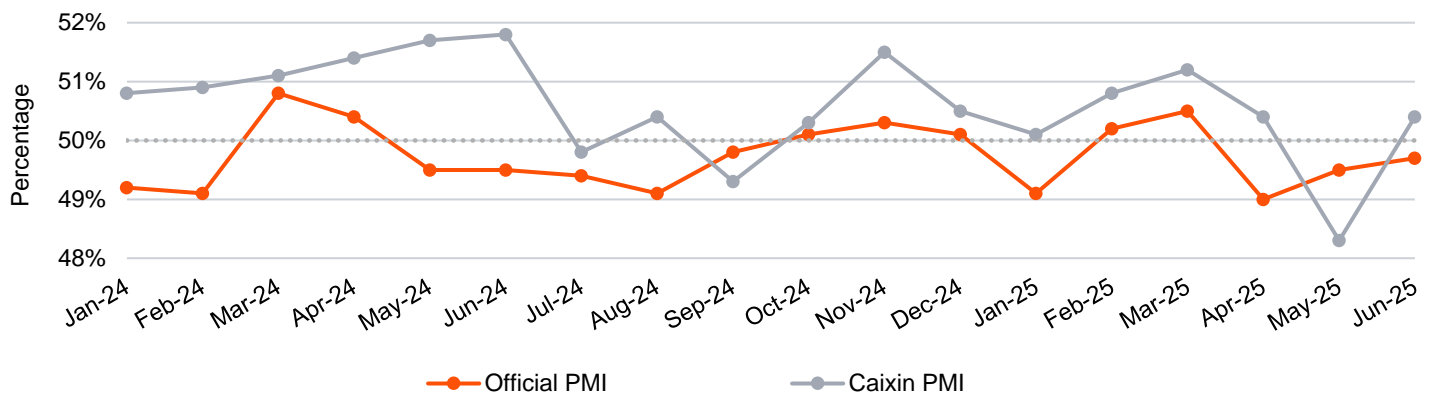
In June, underlying production and domestic demand indicators showed signs of stabilization. The production index rose to 51.0, and new orders reached 50.2, both returning to expansion territory. However, this improvement has yet to feed through to the labour market. The employment index dipped to 47.9 in June, down 0.2 points from May, suggesting a slight decline in hiring sentiment among manufacturers.

Sub-sector performance in June revealed some bright spots within the broader manufacturing landscape. Equipment manufacturing (51.4), high-tech manufacturing (50.9), and consumer goods (50.4) all remained in expansion territory for a second consecutive month. Equipment manufacturing stood out, with both its production and new orders indices exceeding 53.0, supported by the government's large-scale equipment renewal stimulus policy.

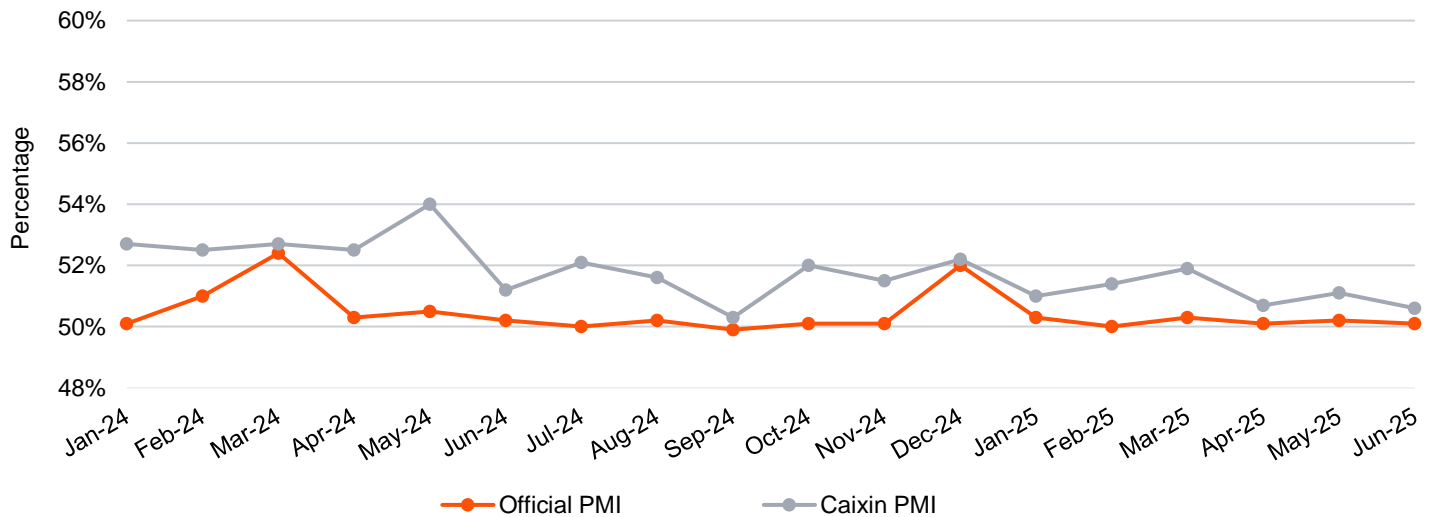


In the services sector, overall activity continued to expand, though performance varied significantly across industries. Postal services, telecommunications and broadcasting, internet and IT services, monetary and financial services, capital markets, and insurance all recorded business activity indices above 55.0, indicating strong momentum. In contrast, retail, road and air transport, accommodation, catering, and real estate remained below the threshold, reflecting weaker conditions. Despite the sector's expansion, labour market conditions stayed soft, with the services employment index falling to 46.4, signalling subdued hiring across service firms.

### Manufacturing PMI



### Services PMI





## Total Social Financing (TSF) and New Bank Loans

In the first half of 2025, aggregate social financing totalled RMB 22.83 trillion, an increase of RMB 4.74 trillion compared to the same period last year. The main driver was government bond issuance, which rose by RMB 4.32 trillion, reflecting proactive fiscal support. In contrast, corporate bond issuance declined by RMB 256.2 billion, amounting to RMB 1.15 trillion over the six-month period.

New RMB loans totalled RMB 12.74 trillion, up RMB 279.6 billion year-on-year, with credit flowing primarily to manufacturing and infrastructure. Medium- and long-term loans to manufacturing increased by RMB 920.7 billion, while infrastructure lending rose by RMB 2.18 trillion. The M2 money supply expanded by 8.3%, supported by a low base.

In June alone, monthly social financing rose by RMB 4.2 trillion, up RMB 900 billion from the same period last year. Government bond net issuance totalled around RMB 1.35 trillion, an increase of RMB 500 billion year-on-year, remaining the primary driver of TSF growth. New RMB loans totalled RMB 2.24 trillion, with medium- and long-term corporate loans rising RMB 1.01 trillion and short-term loans increasing RMB 1.16 trillion. The pickup in short-term borrowing likely reflects firms' efforts to shore up near-term liquidity amid rising external uncertainties and a more cautious outlook on future demand.

Monetary policy remained accommodative. Since 2020, the People's Bank of China (PBOC) has implemented 12 reserve requirement ratio (RRR) cuts and 9 policy rate reductions. In the first half of 2025, the average interest rate on newly issued corporate loans fell to 3.3%, down 45 basis points from a year earlier, while the average rate on new personal housing loans declined to 3.1%, a drop of 60 basis points.

### Credit Growth





# 03

## China Consumption Outlook: Navigating Transition, Unlocking Opportunity



China has emerged over the last two decades as the world's second-largest consumer market, driven by sustained economic growth, rapid urbanization, and rising household income. These forces have reshaped global trade patterns and domestic consumption alike. Now, as the country enters a new phase of development—marked by a more uncertain global climate and structural challenges at home—its consumption landscape reveals a complex blend of ongoing expansion, mounting pressures, policy recalibration, and emerging opportunities.



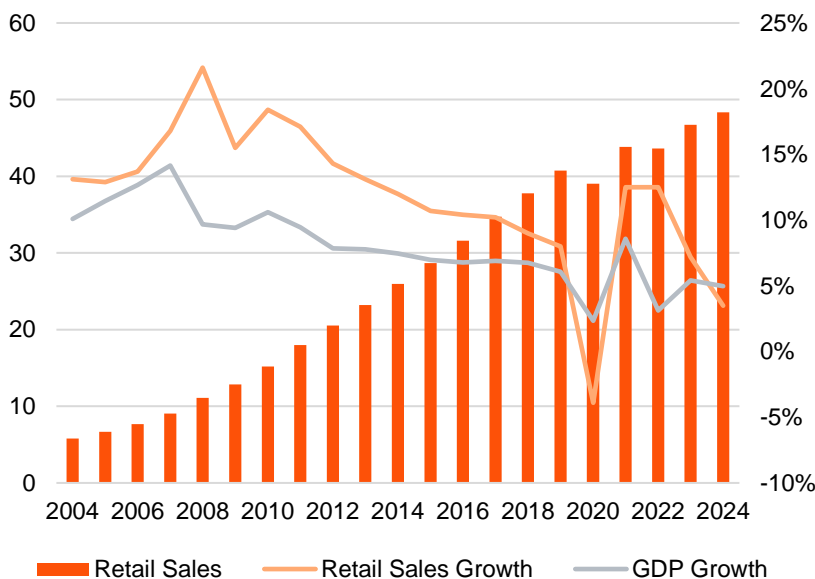
## Consumption Growth: A Two-Decade Surge

Over the past two decades, China has seen significant growth in consumption. Between 2005 and 2024, retail sales expanded dramatically, mirroring the country's GDP trajectory and underpinning a broader transition toward a middle-income society. The expansion was not limited to goods: household consumption expenditures including services posted consistent gains. Since 2011, China's incremental consumption has eclipsed that of most major economies, lagging only behind the US and far exceeding the EU, Japan, and India.

Yet this rise in consumption is still a work in progress, and is increasingly complicated by a convergence of cyclical pressures and long-standing macroeconomic constraints.

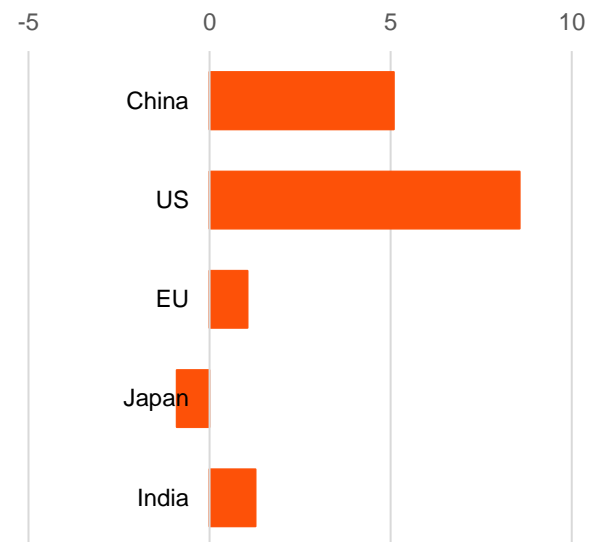
**Retail Sales of Consumer Goods**

Trillion RMB



**Household Consumption Growth Since 2010**

Trillion USD



**Source: National Bureau of Statistic of China**

Source: World Bank, PwC Analysis

Note: Data are in current US dollar terms, based on the World Bank's "Households and NPISHs final consumption expenditure." This measure covers total spending by households and nonprofit institutions serving households (NPISHs) on goods and services for the direct satisfaction of needs and wants, including purchases made directly by households as well as goods and services provided by NPISHs such as charities and non-governmental organizations. Figures compare 2023 with 2010 for all countries, except Japan, which compares 2022 with 2010.

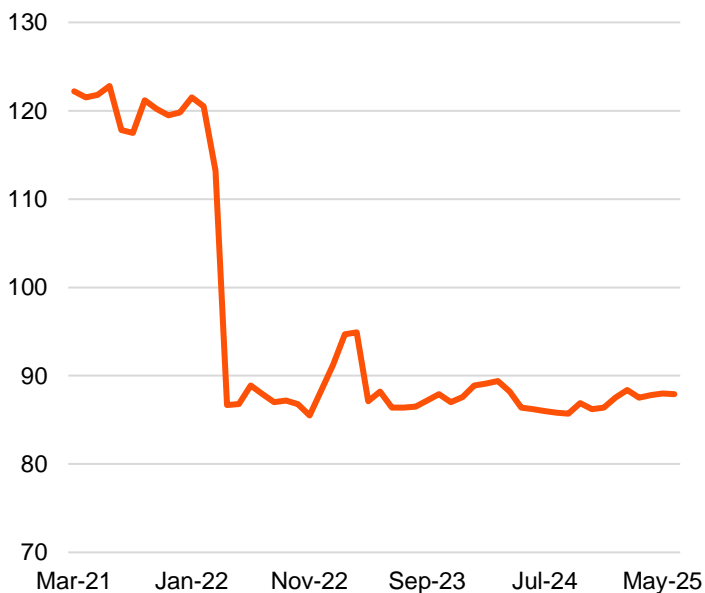


## Recent Sluggishness: Cyclical or Structural?

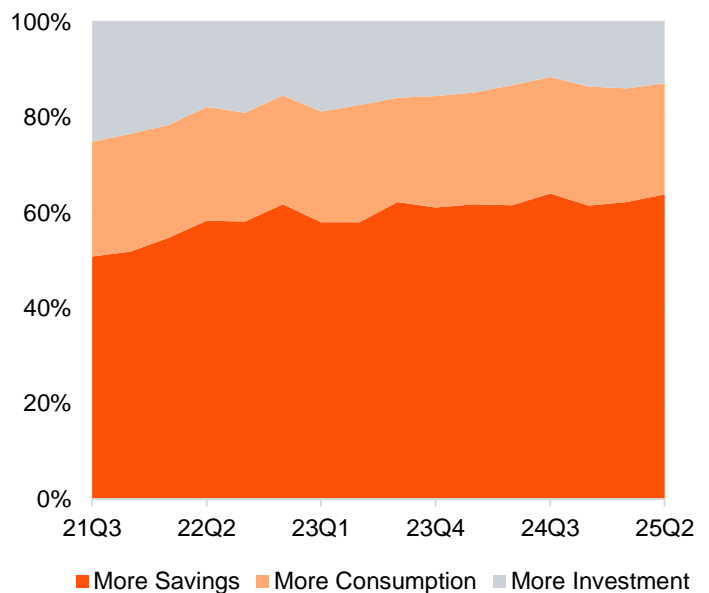
Despite its long-term growth trajectory, China's consumption has recently shown signs of fatigue. The rebound following the pandemic was short-lived: retail sales grew by 7.2% in 2023, largely from a low base, but momentum quickly faded. In 2024, retail sales growth slowed to just 3.5%, a sharp deceleration compared to the 8% and 9% rates seen in 2019 and 2018, respectively. This weakening trend has raised concerns about whether the slowdown is cyclical or indicative of deeper structural issues.

On the cyclical side, consumer confidence has deteriorated and remains subdued. Households are increasingly inclined to save rather than spend, driven by a confluence of factors. China's economic transition has created uncertainty in traditional sectors particularly low-end manufacturing, while emerging industries have yet to fully absorb displaced labour. The property market slump is particularly impactful—over 70% of household wealth is tied to housing, and falling home prices have eroded perceived wealth and spending power. Global economic uncertainty, including weak external demand and geopolitical tensions, further compounds the cautious sentiment.

**Consumer Confidence Index: Signs of Weakness**



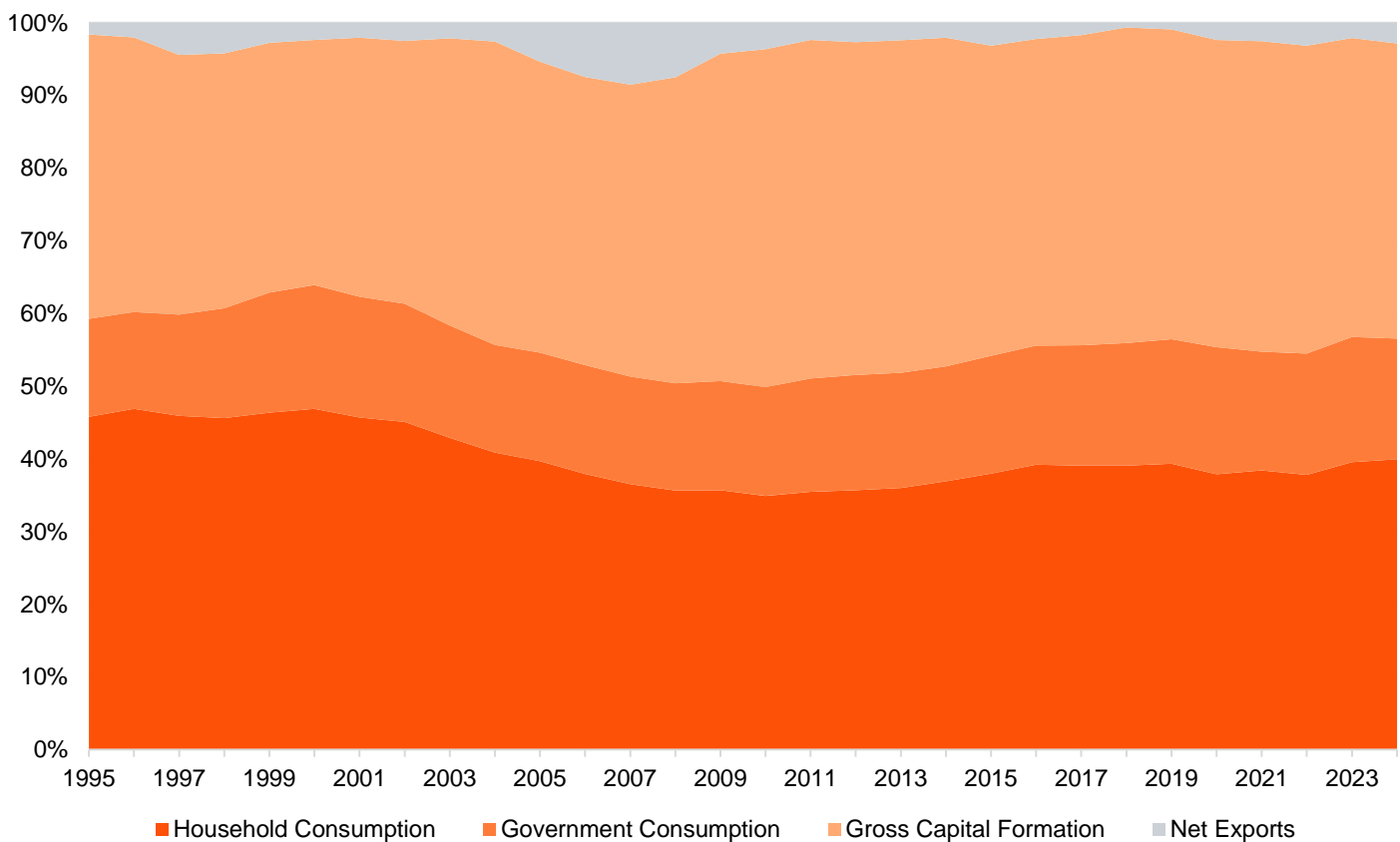
**China's Households Choose to Save (% of Respondents)**



Structurally, China's consumption remains underweight relative to its GDP. Final consumption as a share of GDP has hovered below 60% since 2003, and in 2024 stood at just 56.6%—well below the 80% range typical of developed economies. Household consumption alone accounted for only 40% of GDP, a level unchanged from 2005 and significantly lower than the in OECD countries such as the United States (68%), Japan (55%), and Germany (50%). Even compared to other developing economies like Mexico (70%) and Vietnam (54%), China's consumption levels remain comparatively lower. This reflects a persistent imbalance in China's growth model, which has historically favoured investment and exports over domestic demand. At the same time, it underscores the vast untapped potential of China's consumer market as a future driver of economic growth.

### China's GDP by Expenditure

Trillion RMB



**% of GDP, by Country and Expenditure**

There has been some progress. During the first four years of the 14th Five-Year Plan (2021–2025), final consumption contributed an average of 56.2% to GDP growth—an 8.6 percentage point improvement over the previous planning period. Insufficient demand has increasingly manifested in soft inflation figures. Recent CPI trends illustrate the subdued pricing environment, reinforcing the view that consumption remains a weak link in China’s economic recovery.

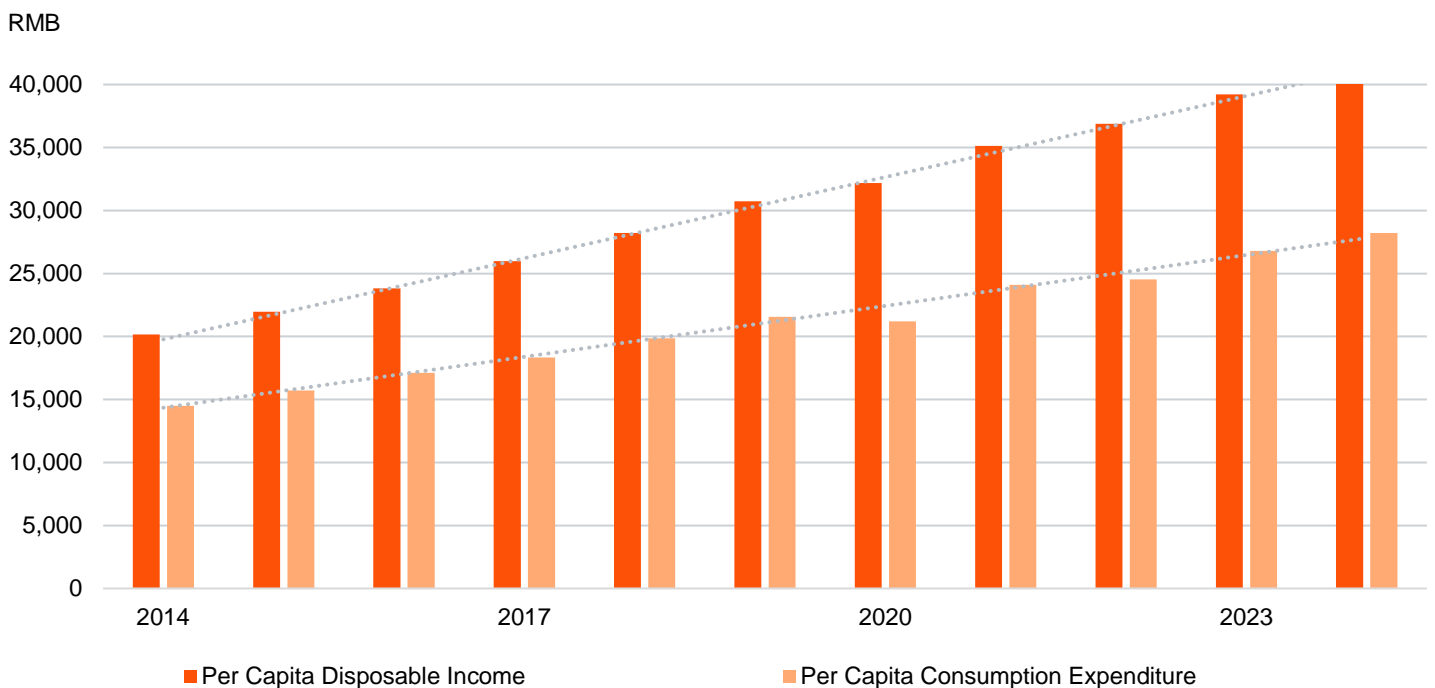


## Policy Outlook: Rebuilding Confidence and Stimulating Demand

In response to persistent consumption weakness, Chinese policymakers have rolled out a comprehensive strategy aimed at reviving domestic demand and restoring consumer confidence. The centrepiece of this effort is a 30-point plan unveiled in mid-2025, which targets three critical dimensions of consumption: the ability to spend, the willingness to spend, and counter-cyclical support.

First, to enhance the ability to spend, the government is focused on boosting household income through employment growth and financial inclusion. Wage growth is positioned as the ultimate driver of sustainable consumption. Measures include expanding consumption loans, improving access to capital markets to grow household wealth, and supporting job creation in emerging industries. For example, a new consumption loan subsidy programme launched in August 2025 offers an annual interest rate reduction of one percentage point on eligible purchases under RMB 50,000. These efforts aim to stabilise income expectations, reduce precautionary saving, and unlock more resilient consumer demand.

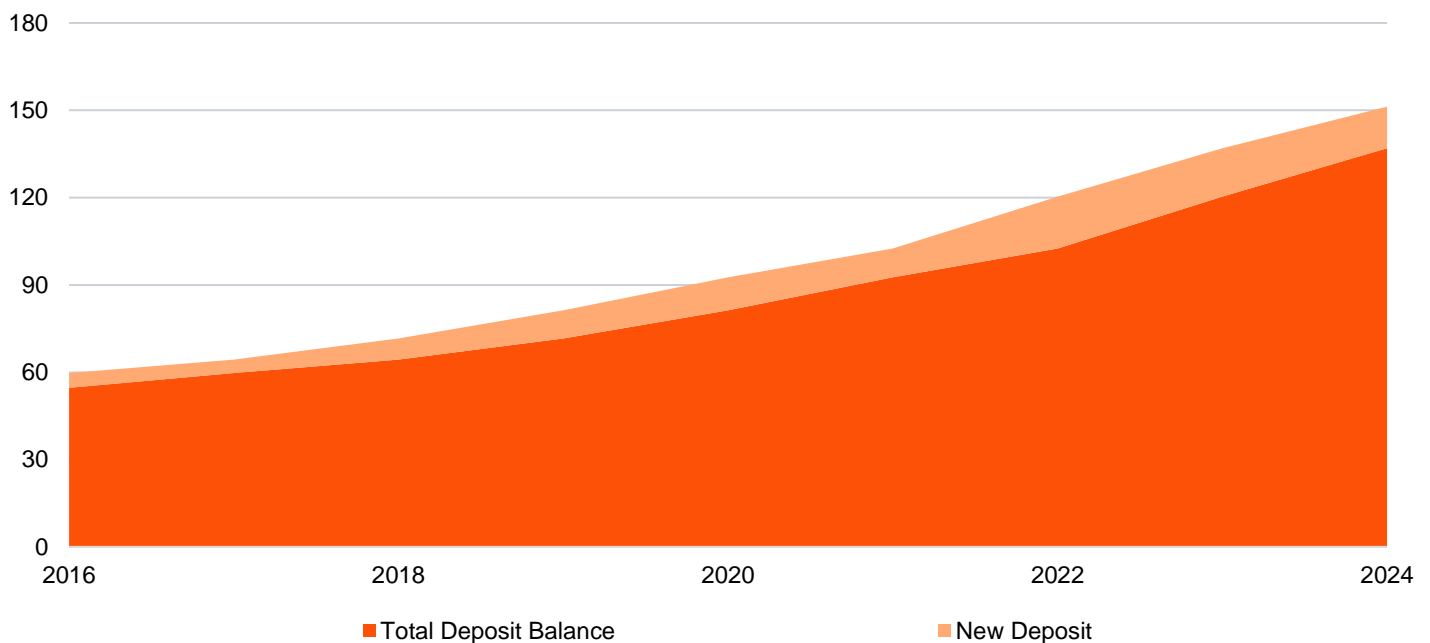
### Disposable Income: The Engine of Long-Term Consumption Growth



Second, to bolster consumer confidence and encourage spending, authorities are ramping up investments in social safety nets and measures to stabilise the housing market. In July 2025, China launched a nationwide childcare subsidy programme, offering families 3,600 yuan annually for each child under age three. This initiative is part of a broader push to address livelihood concerns and reduce financial burdens on young households. Additional measures include raising the basic retirement pension and extending medical and pension insurance coverage to gig workers—groups traditionally excluded from formal welfare systems. On the housing front, Beijing has pledged to “stabilise and reverse” the property market’s decline, with targeted interventions to support home prices and liquidity. The government is also taking steps to shore up the equity market, recognizing its role in household wealth and sentiment.

#### High Household Savings: A Reservoir of Untapped Consumption Potential

RMB Trillion



Third, counter-cyclical stimulus remains a key lever. Trade-in programmes for consumer goods—such as vehicles, appliances, and electronics—have been expanded to encourage replacement purchases. However, the initial boost from these programmes has begun to fade, raising concerns about payback effects if consumers merely pulled forward future demand. In June 2025, the Ministry of Finance allocated 69 billion yuan from the third batch of ultra-long special treasury bonds to support trade-in subsidies, with a fourth batch scheduled for October. While these measures provide short-term relief, their long-term efficacy will depend on whether they catalyse broader shifts in consumption behaviour.

In parallel, tax system reforms are being deployed to reinforce the shift toward consumption-led growth. The planned relocation of consumption tax collection from the production stage to the retail end is designed to realign fiscal incentives toward demand-side development. By allowing local governments to capture more revenue where spending occurs, the reform is expected to strengthen their motivation to improve the overall business and consumption environment.

Taken together, these policies reflect a strategic pivot toward consumption-led growth. Yet challenges remain. The structural underpinnings of China's cautious consumer—low social security coverage, high housing-related wealth concentration, and uneven income distribution—require deeper reforms. Without sustained improvements in household income and confidence, short-term policy interventions may struggle to generate lasting momentum.



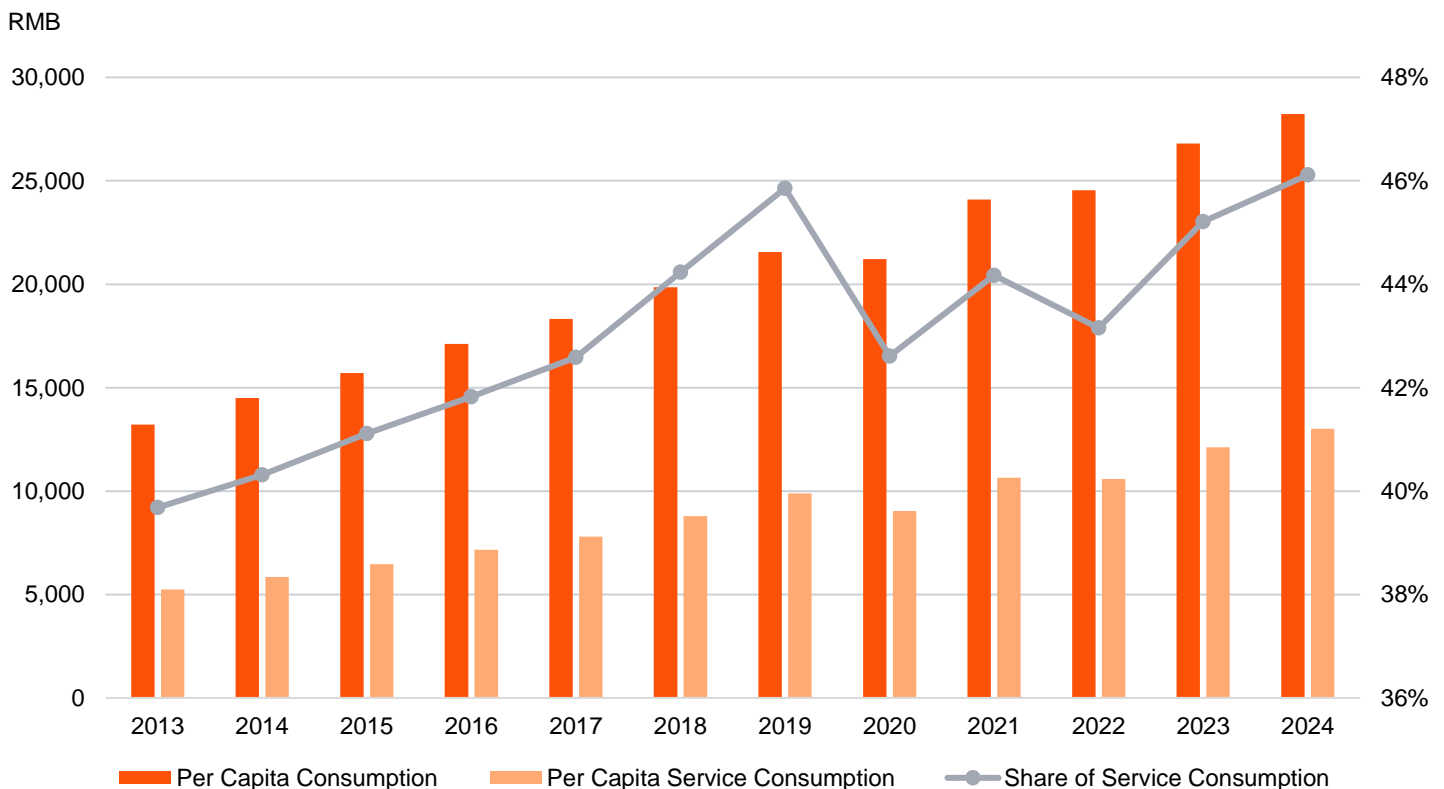


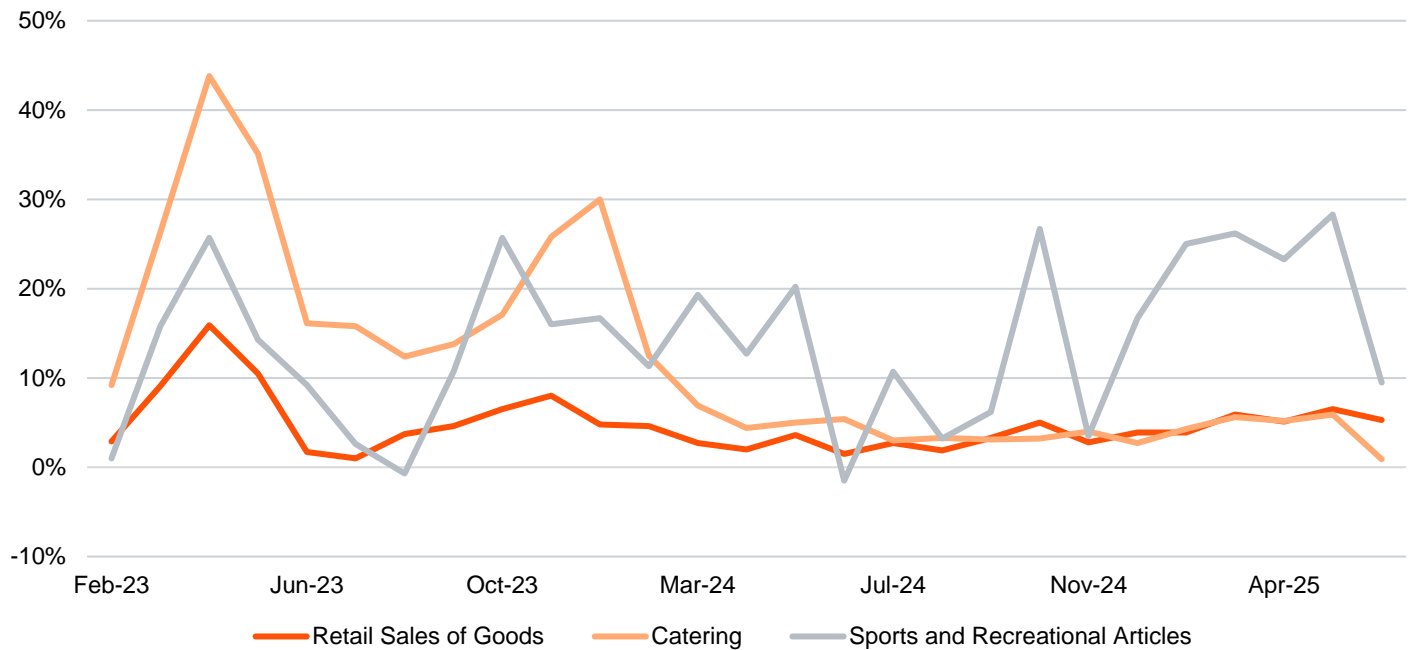
## Market Opportunity: Consumption's Next Frontier

Despite near-term headwinds, China's consumer market remains a powerful engine of long-term growth. Rising per capita income, supported by continued GDP expansion, provides a solid foundation for future consumption. Even as growth moderates, the sheer scale of China's middle class and its evolving preferences offer significant opportunities for businesses and investors.

One of the most promising shifts is the transition from goods-based to service-based consumption. Between 2020 and 2024, China's service consumption grew at an average annual rate of 9.6%, outpacing overall consumption growth. In the first half of 2025, the State Information Centre reported a 15.7% year-on-year increase in the life service consumption index, with strong performance in entertainment, dining, and accommodations. This reflects a broader cultural shift toward experiential spending, as consumers prioritise quality of life, leisure, and personal enrichment.

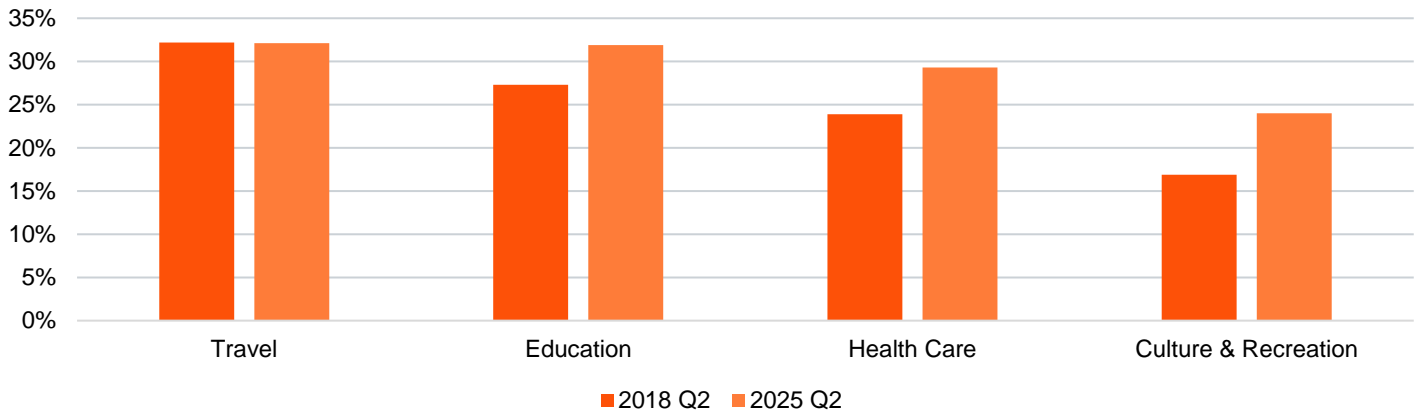
### Shift Toward Services in Consumer Spending



**Retail Sales Growth: Goods vs. Experiences**

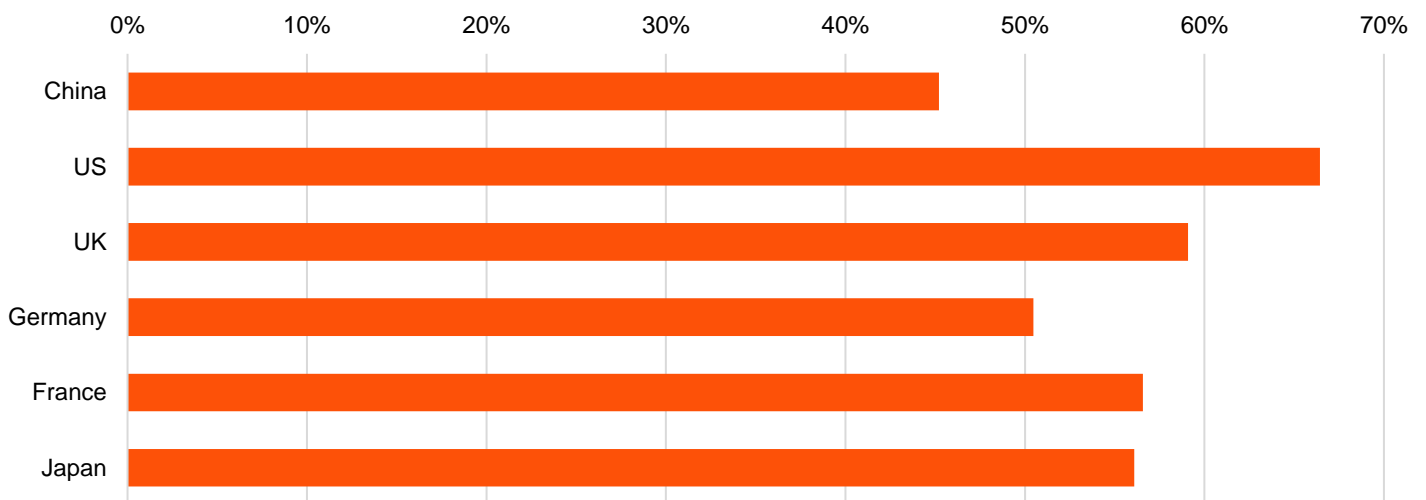
New consumption scenarios are driving this boom. Sporting events, live performances, cultural exhibitions, and themed markets are attracting younger, urban consumers. Policy support for holidays and leisure activities—such as extended public holidays and subsidies for domestic tourism—has further catalysed demand. Consumer sentiment surveys from Q2 2025 show a marked increase in willingness to spend on travel, education, healthcare, and cultural/recreational activities. Notably, cultural and recreational consumption registered the largest jump compared to Q2 2018, signalling a structural shift in preferences. This evolution presents opportunities for sectors such as entertainment, wellness, and education technology.

### Planned Consumer Spending Over the Next Three Months (% of Respondents)



Although service consumption is rising rapidly, China still lags behind developed economies in its overall service consumption share. In countries such as the United States, Japan, and Germany, services account for a dominant portion of personal consumption—often exceeding 70%. In contrast, China’s service share remains significantly lower, suggesting substantial room for expansion. This gap reflects a broader opportunity to deepen and diversify service offerings in areas like healthcare, eldercare, education, and professional services. As income levels rise and consumer preferences evolve, bridging this gap will be central to China’s transition toward a more mature, demand-driven economy.

### Share of Service Consumption





Within this structural transformation, two demographic forces are emerging as powerful growth engines. The “micro-silver” generation—consumers aged roughly 50 to 65—are asset-rich and time-abundant, with a growing focus on health, leisure, and self-fulfilment. Their preferences centre on high-quality products and services with strong emotional resonance, favouring experiences that integrate health, cultural richness, and lifestyle enhancement—creating opportunities for cohesive, premium solutions.

At the same time, younger consumers are setting the pace in digital adoption, experiential spending, and values-driven purchasing. They are enthusiastic participants in immersive entertainment, sports, and cultural events, and readily embrace AI-powered tools, smart-home devices, and hybrid “goods-as-services” models. Sustainability, personalization, and brand storytelling strongly influence their choices, making agility in product innovation and omnichannel engagement critical for capturing their loyalty.





## Conclusion

China's consumer market remains a cornerstone of its economic future. While recent softness reflects both cyclical pressures and structural constraints, policy efforts are increasingly focused on unlocking household demand and rebalancing growth. The shift toward services, digital consumption, and experiential spending signals a maturing market with significant upside. For businesses and investors, the path forward lies in aligning with evolving consumer preferences and capturing opportunities in underpenetrated segments. Consumption will not only drive growth—it will define China's next economic chapter.





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