China's economic growth is expected to falter in 2025

Article

The insight: China's economic growth is expected to slow in 2025 as the country struggles to reinvigorate consumer demand and prepares for a potentially bruising trade war with the US.

- The World Bank expects GDP to rise 4.5% this year, down from an estimated 4.9% in 2024.

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- The deceleration is forecast to continue into the next decade: Goldman Sachs economists expect real GDP growth to average 3.5% from 2025 to 2035, compared with 9% during the period between 2000 and 2019.

The backdrop: Consumer demand in China remains in the doldrums, despite—or perhaps because of—Beijing's half-hearted efforts to boost confidence.

- **China's property crisis cost consumers roughly $18 trillion in household wealth**, per a Barclays estimate. That, coupled with high levels of unemployment and slowing wage growth, has driven shoppers to keep a tight lid on spending.
- Without widespread, comprehensive stimulus measures, demand is likely to remain subdued—especially if President-elect **Donald Trump** follows through on his promise to implement additional tariffs of 60% to 100% on Chinese imports.
- Given that China's strong manufacturing industry generates the majority of GDP growth, any hit to exports could lengthen the country's already-protracted economic recovery: **A 20 percentage-point increase in tariffs would have a negative impact of 0.7% on China's real GDP**, per a Goldman Sachs analysis, even assuming Beijing takes more forceful action to restore confidence.

What it means: China's subdued economic outlook poses problems for retailers—particularly domestic ecommerce giants **Alibaba and JD.com**, as well as more expensive Western brands—as they struggle to ride out the slump in consumer spending.

- Brands like **Apple** have been forced to participate in the country's price wars to attract consumers and keep lower-priced domestic rivals from taking share. Apple is currently offering discounts on the latest iPhone models to boost Chinese New Year sales after cutting prices during last year's 618 shopping festival.
- Alibaba recently sold its share in hypermarket chain **Sun Art**, as well as its **Intime** department store unit, as part of a broader push to refocus on its core ecommerce business. While the retailer recorded considerable losses on both transactions, it's betting that a more streamlined business will help it make up ground lost to newcomers like **Pinduoduo**, **Kuaishou**, and **Douyin**.

Our take: Geopolitical tensions and economic uncertainty are forcing retailers to rethink their approach to China.

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- From a manufacturing standpoint, the threat of new tariffs is pushing many to diversify their supply chains away from China, although many companies will likely remain reliant on Chinese products and parts.
- At the same time, with retail sales expected to grow by just 3.5% in 2025, retailers will have to find fresh ways to connect with consumers—such as by turning to new platforms like **Meituan** and **Xiaohongshu** or recalibrating products to align with local tastes.

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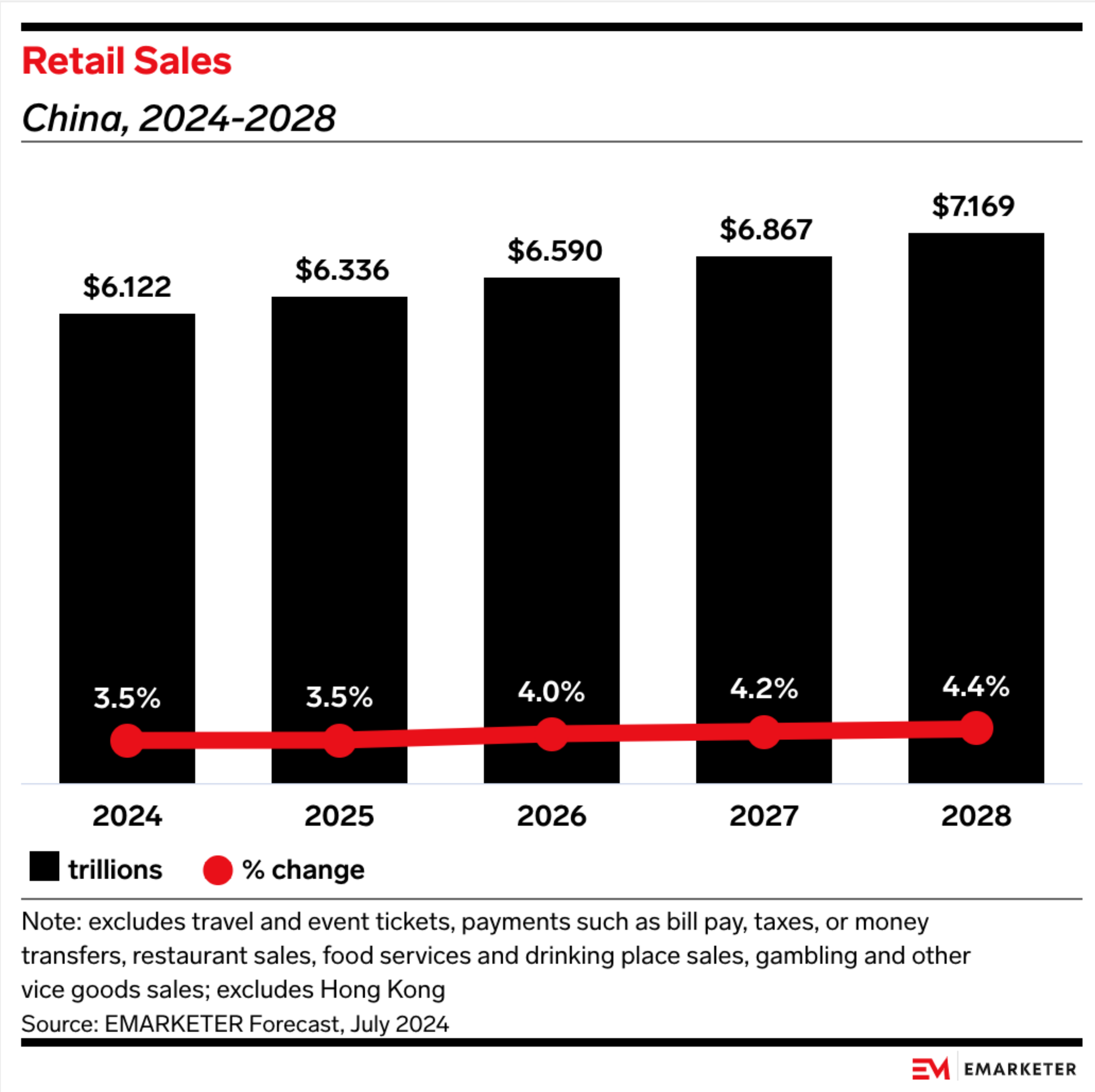

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