Corporate Top Trends Update

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This report does not constitute a rating action

Charles Chang
Hong Kong
+852 2533 3543
charles.chang
@spglobal.com

Christopher Yip
Hong Kong
+852 2533 3593
christopher.yip
@spglobal.com

Chang Li
China
+86 10 6569 2705
chang.li
@spglobal.com

Melody Peng
Hong Kong
+852 2533 3598
melody.peng
@spglobal.com

China

Can Stimulus Offset Slow Growth And New Tariffs?

Key Takeaways

- China has the largest U.S. trade surplus in Asia-Pacific. Its U.S. exposure has been falling, but indirect effects can hit its large export sector.
- The tariffs' impact will unfold amid tepid growth. This will weigh on China's industrial, power, transport, property, and consumer sectors.
- Government initiatives will support renewable power, transition fuels (gas), industrial metals, and metro rail, while housing sales will stabilize.

Slowing growth, made worse by tariffs, will weigh on corporates. At US$319 billion in 2024, China's trade surplus with the U.S. is the largest in Asia-Pacific. The country's direct exposure to U.S. exports, however, has been falling--from 6.4% of GDP in 2010 to 2.5% currently (see chart 1). Despite this, the risk of indirect effects remain material. A global slowdown, for example, can hit China's large export sector, which amounts to one-fifth the size of its economy (see chart 2).

Chart 1

China's export exposure to the U.S. has been falling

China's trade with the U.S.

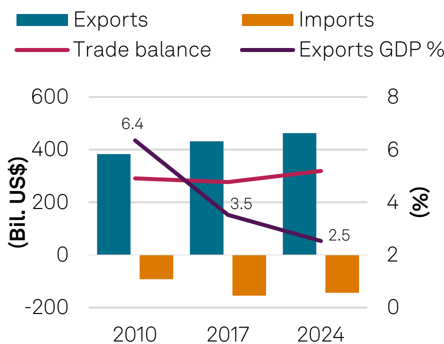
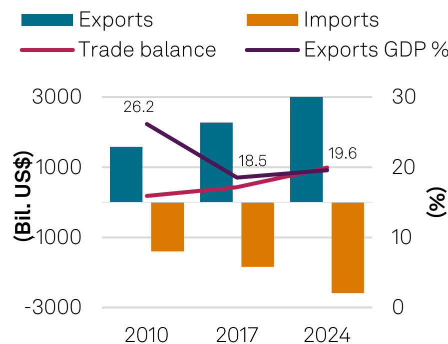


Chart 2

China's large export sector flags indirect risks

China's total trade



Sources: UN Comtrade, International Trade Centre, IMF, S&P Global Ratings.

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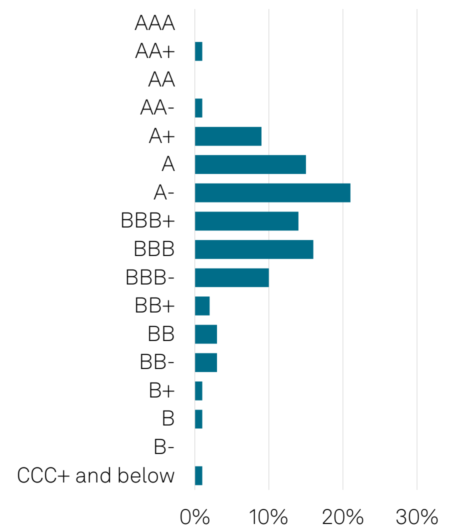
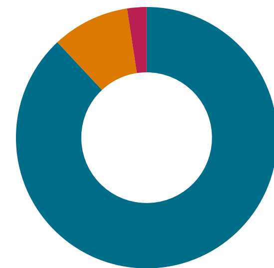


Outlook distribution



Data as March 10, 2025. Source: S&P Global Ratings.

S&P Global Ratings believes that the impact of U.S. tariffs will play out while China's economy softens, and that likely stimulus won't be enough to fully offset these effects. Slowing growth will hit the country's industrial, power, transport, property, and consumer sectors. Energy transition initiatives may help some commodity and metals sectors, and the housing market may stabilize.

Our economists project the Chinese economy will expand 4.1% in 2025, meaningfully slower than last year's 4.8%. The 10% U.S. tariffs imposed in February, took 0.2 percentage points off our previously projected GDP growth. The U.S. added a further 10% tariff on China in March, but we expect the additional impact will be offset by likely stimulus. China announced a slate of stimulus during the recently concluded session of the National People's Congress. The government also reiterated its aim to address local government debt and promote the technology and private sectors. While these measures may not fully offset the country's slowing growth, they may be the silver lining for investors.

The chemicals and oil and gas sectors brace for sluggish growth. China's oil demand will likely grow by a sluggish 2% this year due to weakening economic growth and softening demand for transport fuels. Energy security and transition initiatives may keep production growth at 3% per annum. Growth in gas production, a key transition fuel, may rise as much as 5%-6%.

For commodity chemicals, another tough year lies ahead, given a structural supply glut and a shaky demand recovery. The crop protection sector may recover. Global destocking is largely complete. However, demand for chemical products would be hit if new U.S. tariffs slow global growth.

Metals and mining face downside risks in demand and prices. Thermal coal demand will decline this year due to slower GDP growth and more focus on the transition to renewable energy. Prices will also moderate due to improved supply. We assume seaborne prices will fall to US$115 per metric ton (mt) in 2025 from US$136 per mt in 2024. Government steps to ensure sufficient supply will limit upside on domestic prices.

High metals prices may encourage miners to maintain elevated capital expenditure and to acquire more upstream assets. Domestic steel consumption will decline by 1% in 2025, we assume, given still-weak property markets and decelerating investment in traditional infrastructure. Production will fall by 1%, but this will not be sufficient to alleviate current oversupply. As foreign markets turn even less friendly, with some, such as Vietnam and South Korea, also imposing tariffs, export volume could fall by 15%-20%.

Industrial metals, however, may fare better, supported by demand from green industries. Tight supply and high costs may keep metals prices elevated but downside risks are substantial, in our view.

Property markets will stabilize while continuing to weigh on related sectors. Property sales will likely reach Chinese renminbi 17 trillion this year, or roughly equal to last year. Higher-value properties in upper-tier cities will lead the recovery and will eventually boost buyer interest in cheaper properties in lower-tier cities.

Flattening sales in the property sector will translate to flat revenue gains in engineering and construction firms. We assume revenues in the sector will grow 1% to 3% in 2025, following a tepid 0% to 2% expansion in 2024. Building materials, however, will remain under pressure, with continuing overcapacity exacerbating

soft demand. This is despite regulatory efforts to rationalize production. Cement may stand out with modest margin improvements as coal prices decline.

Consumers not out of the woods despite stimulus. Auto sales will likely grow by a lackluster 0%-2% in 2025 given continued buyer caution on big-ticket purchases. The industry has limited exposure to overseas markets, but domestic price competition will remain intense and will continue to squeeze profitability.

In technology sectors, DeepSeek has shown China's AI competitiveness. However, AI features will not drive replacement cycles forward this year and will not reverse lukewarm PC demand and slowing smartphone sales, we assume.

Retail spending growth will remain at 4%-5% in 2025, or roughly flat to last year. While similar stimulus from trade-ins and other programs will come, they have been unable to reverse consumer caution despite the help of retailer discounts.

The food and beverage sector will follow a similar trend, with sales growth slowing to 5%-6% in 2025 from 8.2% in 2024. These domestically focused sectors have minimal direct exposure to the U.S. However, if U.S. tariffs lead to a deeper China slowdown than we now anticipate, consumer sectors will be pinched.

Airports will stand out; demand for rail, ports, and roads will moderate. Mainland ports' throughput growth may moderate somewhat amid trade pressures, including the addition of U.S. tariffs. However, shifting trade patterns resulting from these tariffs may also bring more demand to Chinese ports.

Toll-road traffic will grow more modestly, due to base effects and the slowing domestic economy. Railways, particularly urban rail in major cities, will remain stable, underpinned by resilient operations flowing from government support and expansion in key cities. Lastly, airports are likely to stand out. Overall volumes have hit record highs and international passenger demand has also largely recovered.

Power demand growth finds new drivers. Despite the slowing economy, power demand growth may stay at a relatively stable pace due to other drivers. In 2024, demand grew 7.1%, marginally higher than the previous two years. This is likely due to demand from areas such as further industrial electrification, new energy vehicles, and growth in certain consumer products such as air conditioning.

Renewable generation will climb given the government's energy transition push. However, we expect renewable capacity buildout to slow somewhat. Lower returns and greater price volatility may make independent power producers more selective, along with the higher curtailment risk of renewable power.

The government plans to push all new renewable power projects to market-based trading by midyear this year. Whatever is left will make that transition before 2030. While these initiatives will make the sector more competitive, it will also bring more volatility. The volume growth of gas--which is used a transition fuel--will moderate as parties shift from gas to meet the government's carbon-neutrality goals.

Local government financing vehicles (LGFVs) will likely see some immediate relief, but their long-term challenges remain. China has unveiled a basket of measures to manage LGFV debt such as extending the maturity of such debt, reducing the interest cost, and swapping eligible debt with local government bonds. The execution of these measures has been swift, but risks remain for the weakest entities that continue to rely on nonstandard financing and offshore debt, which are high cost.

LGFV debt has grown quickly over recent years. It will remain a heavy burden that will take more time and effort to resolve. The government is pushing to transform the LGFVs into more commercial, self-sustaining enterprises. This will depend on the LGFV's ability to make operations more profitable or their government owners' willingness to provide them more cash-generating assets. Some entities will be able to make this transition, but many may struggle.

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Editors: Jasper Moiseiwitsch, Cathy Holcombe

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