Weekly Market Flash

China Fast Out of the Gate

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There is a lot going on in China right now. Talk of punitive tariffs against the Middle Kingdom swirled through the halls of Congress during a week of hearings for cabinet nominees. China's trade surplus with the rest of the world hit an all-time high of $992 billion, probably giving even more grist to the tough-tariff mill. Its population fell by 1.4 million souls, declining for a third year in a row. Though China did, apparently, manage to gain several hundred thousand-odd virtual humans as TikTok aficionados the world over, in a fit of pique over the potential loss of their beloved app from which all mercies flow, signed up for Chinese social media start-up Xiaohongshu, which means "Little Red Book" and no doubt fewer than one percent of all those newbies signing up for the service will have a sense of the dark historical context of the Little Red Book. Let a thousand flowers bloom, in online spaces the world over.

Despite all the actual and potential headwinds, though, China has had a spate of good economic data to start off the year. Fourth quarter GDP growth came in at 5.4 percent year-on-year, higher than the 4.9 percent economists had expected. December industrial output rose 6.2 percent, and retail sales were up by 3.7 percent, both numbers beating consensus estimates. The National Bureau of Statistics (not known for being one of the more straight-up statistical agencies in the world) attributed the strong performance to the bevy of stimulus measures implemented last September to jump-start the economy.

Stimulus, Or Front-Loading?

Another, possibly more likely explanation for the strong showing is that Chinese companies have been front-loading exports, ahead of fears that those tariffs will come into effect sooner rather than later. That could imply a reversal that slows growth later in the year. Plus, of course, the actual impact of tariffs and other sanctions won't be known until the rhetoric turns into actual policy. Which may be as soon as next week, or not until the second half of the year.

But even before the new administration takes office, the first two weeks of the year have seen a handful of other measures taken against China by the outgoing Biden administration. A start-up for developing large language modules for artificial intelligence called Zhipu was blacklisted by Washington, citing national security grounds. The administration is also imposing a wide range of export controls on US-made chips used for artificial intelligence. The EU is also getting in on the act, threatening Chinese medical device makers with curbs on access to European markets.

Deflation Trap Still Looms

Arguably, though, the biggest economic problem China still faces is the threat of deflation. The Consumer Price Index for China is currently 0.1 percent year-on-year. To put that into context, consumer prices in the US rose 0.4 percent just in the month of December alone. Economists think it will take considerably more stimulus than the measures Beijing implemented last September to pull the consumer sector of the economy out of its prolonged funk.

All things considered, we would prefer to see an economically healthy China to a troubled one, as we believe that will be a better recipe for global stability (and this year, anything that can add to stability will be welcome in our book). This first batch of upbeat headline numbers represents a good start. But there is still a very long way to go.

Masood Vojdani
President & CEO

Arian Vojdani
Principal & Investment Adviser

Katrina Lamb, CFA
Head of Investment Strategy & Research