PUBLIC

Chartbook

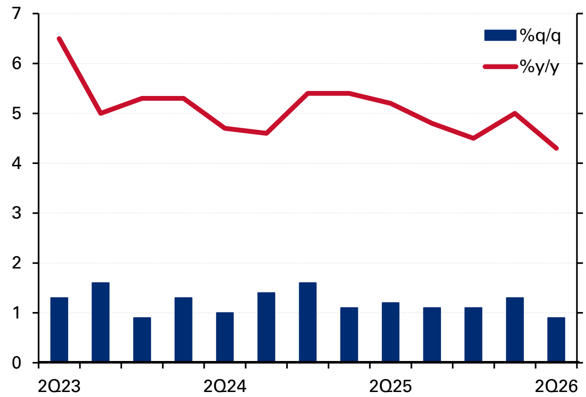
21 July 2026

China: Growth slows while reliance on AI-related exports deepens

China's economy lost momentum in Q2, with GDP growth slowing to 4.3% y/y from 5.0% in Q1, marking the weakest expansion since late 2022. Despite the slowdown, growth averaged 4.7% in the first half of the year, leaving authorities broadly on track to achieve the official 4.5-5.0% growth target for 2026. Recent data suggest that growth continues to rely on manufacturing and exports rather than domestic demand. Industrial production accelerated to 5.3% y/y in June and exports, still a bright spot, surged 27% y/y, driven by technology-related products and AI-linked supply chains, while retail sales increased just 1.0% y/y and fixed asset investment fell 5.7% y/y in the first half of the year. The contrast underscores the economy's growing dependence on external demand to offset weakness in consumption and investment. Additionally, the property sector also continues to act as a structural drag on growth and confidence. Real estate investment weakened further through Q2, while new home prices fell 3.3% y/y in June, extending a decline – albeit at a slower pace – that has now persisted for three years.

Looking ahead, the upcoming Politburo meeting, which is expected to take place in late July, will be closely watched for signs of additional measures aimed at supporting consumption, investment and confidence. In our view, growth is likely to remain resilient in the short term, supported by technology-related exports and industrial activity. However, without a more durable recovery in household demand, China's expansion risks becoming increasingly vulnerable to any slowdown in global demand or deterioration in the external environment. In the longer term, the broader economic issue is not only whether China can meet the growth target, but how it does so.

Chart 1: Real GDP growth

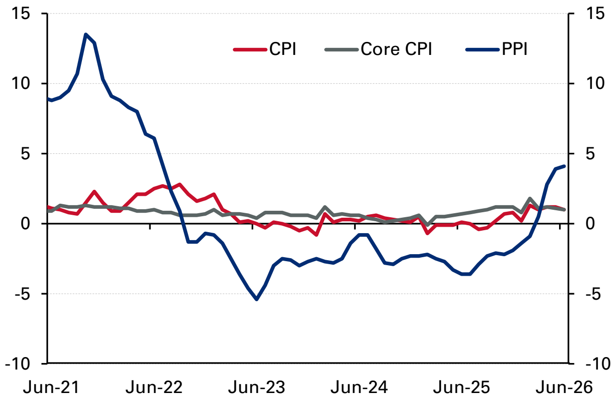


GDP growth moderated to 4.3% y/y in the second quarter, supported by strong external demand, though weak consumption and investment weighed heavily on growth.

Source: Haver Analytics

Chart 2: CPI and PPI inflation

(% y/y)



Producer prices reached a near four-year high in Q2, while moderate consumer inflation (+1.0% y/y in June) reflected still-subdued household demand conditions.

Source: Haver Analytics.

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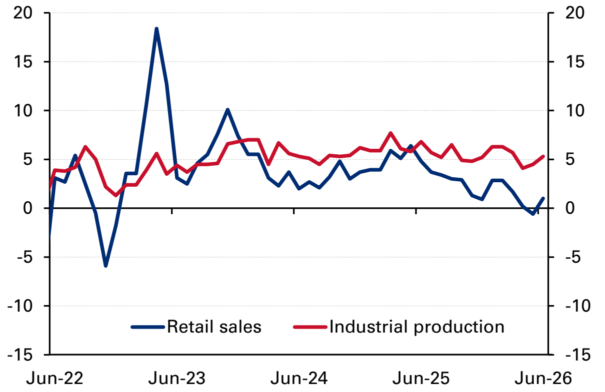
Chart 3: Industrial production and retail sales

(% y/y)

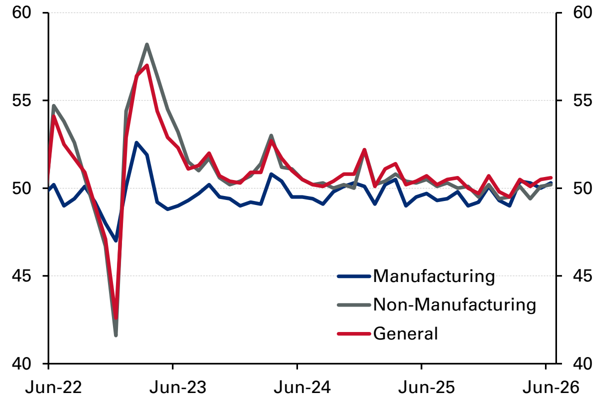


Industrial output strengthened through Q2 (+5.3% in June), while retail sales remained comparatively soft, underscoring the economy's uneven recovery dynamics.

Source: Haver Analytics

Chart 4: Purchasing Managers' Index surveys

(index; above 50 = expansion)

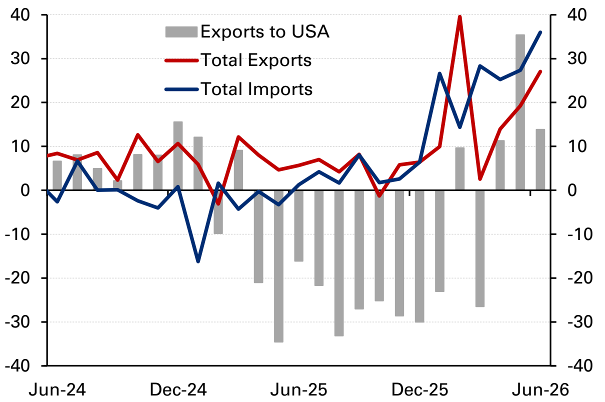


Business activity remained resilient, with manufacturing and non-manufacturing PMIs improving to 50.3 and 50.2 in June.

Source: Haver Analytics

Chart 5: International trade

(% y/y)

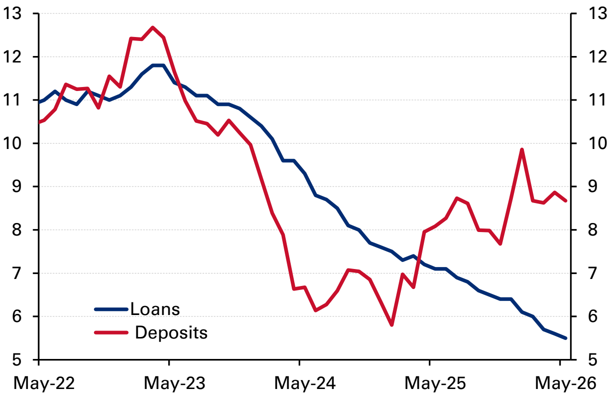


Exports rose 20% y/y in Q2, supported by technology-related products. Imports also surprised to the upside, increasing 36.0% y/y in June, bringing the trade surplus to USD 125.6bn.

Source: Haver Analytics

Chart 6: Growth in loans and deposits

(% y/y)

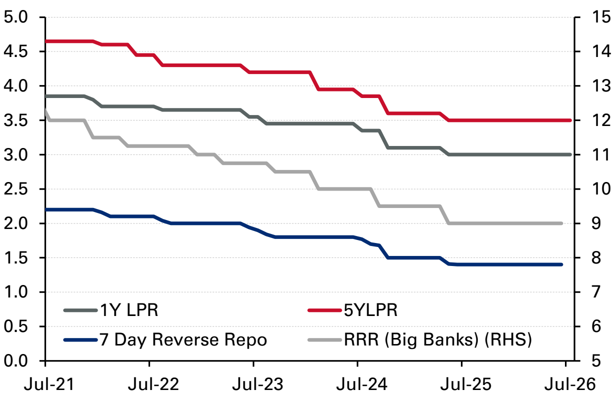


Loan growth continued to soften, down to 5.5% y/y in May, as cautious borrowing contrasted with stronger deposit accumulation, reflecting weak private-sector confidence.

Source: Haver Analytics

Chart 7: Policy rates

(%)



The PBoC maintained an accommodative stance, prioritizing targeted support measures while avoiding broad-based monetary stimulus.

Source: Haver Analytics.

Chart 8: China and US government bond yields

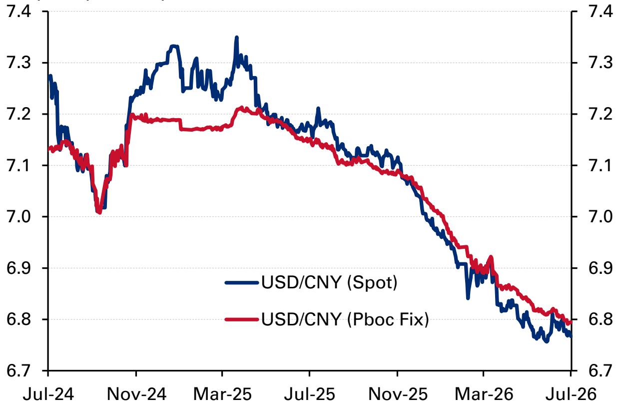
(%)

Chinese 10 -year bond yields remained subdued, while US 10-year yields remained elevated, widening the yield differential.

Source: Haver Analytics. Data as of July 20.

Chart 9: Dollar-yuan exchange rate

(CNY per USD)

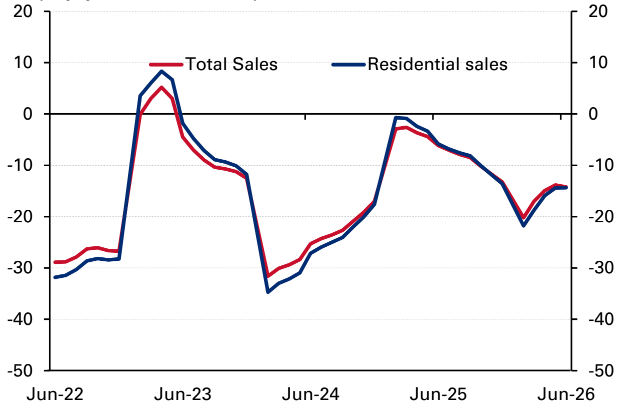


The yuan strengthened against the US dollar during Q2, supported by resilient exports despite persistent yield differentials with the United States.

Source: Haver Analytics. Data as of July 20.

Chart 10: Real estate sales

(% y/y, Cumulative YTD)

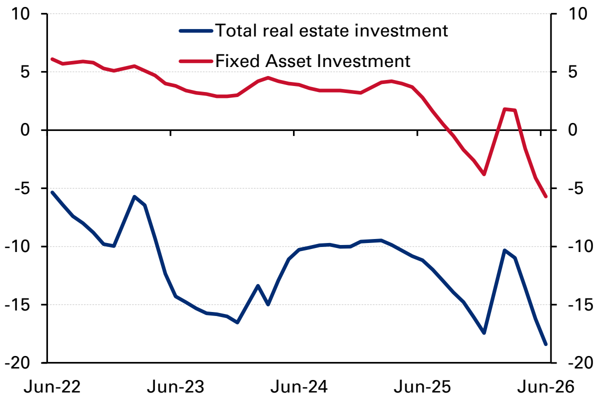


Property sales remained on a downtrend amid still reserved household demand, though data through June showed a slight improvement from Q1.

Source: Haver Analytics

Chart 11: Total and real estate investments

(% y/y, Cumulative YTD)

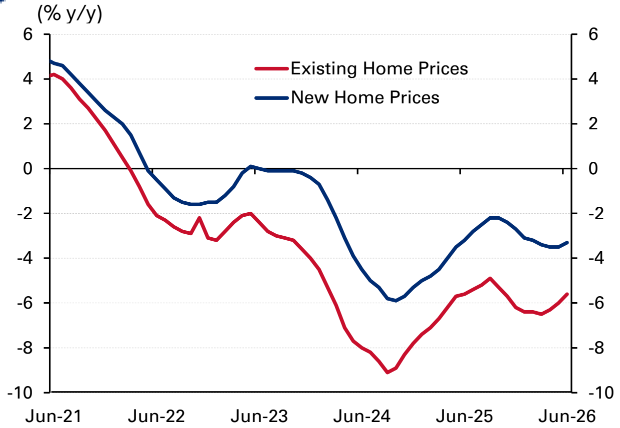


The decline in real estate investment deepened through April-June, reaching -18.4% y/y in June. Reflecting this, FAI posted its steepest decline since 2020 at -5.7% in June.

Source: Haver Analytics

Chart 12: House price indices

(% y/y)



New home prices continued to decline in Q2 (-3.3% y/y in June vs -3.5% in May), though the slower pace of contraction suggests tentative signs of stabilization.

Source: LSEG

Chart 13: Stock markets

(Rebased; 30 December 2022 = 100)

Mainland equities continued to outperform Hong Kong stocks, with the CSI 300 declining 0.7% YTD compared with a 1.9% fall in the Hang Seng.

Source: Haver Analytics. Data as of July 20.

Chart 14: Consumer confidence

(Index, above 100= optimistic)

Consumer confidence improved modestly through May but remained subdued, reflecting persistent concerns over employment, incomes and housing-market conditions.

Source: Haver Analytics.

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