

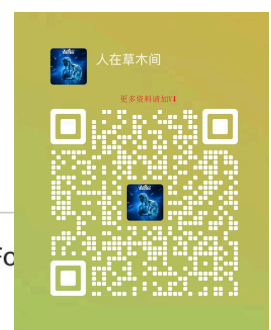
## CHINA MATTERS

## Not Too Worried About the April Data Miss

- **Largest downside surprise since May 2023:** With retail sales increasing only 0.2% yoy and fixed asset investment contracting 8% yoy in April, our China MAP score (measuring data surprise relative to consensus forecast) turned the most negative since China reopening from the Covid pandemic. Looking through the details of the data, however, we do not think the economy has weakened as much as the latest batch of official data suggests.
- **The impact of the Iran war is showing:** Industrial production missed consensus expectations by around 2pp in April. Chemicals and processed petroleum products showed the largest sequential declines in physical output, pointing to the negative impact of the energy-supply shock. We estimate that these sectors can explain around half of the data miss in industrial production, while the other half may be related to residual seasonality that should reverse in the next two months.
- **Retail sales distorted by government policies:** The government-subsidized consumer goods trade-in program boosted auto and home appliance sales by pulling forward replacement demand for consumer durables. We are seeing a payback effect now. In addition, the increase in the auto purchase tax at the beginning of 2026 has further weighed on auto sales. Although these factors will continue to pressure retail sales for the remainder of this year, they should not be interpreted as a sharp deterioration in the household consumption trend.
- **Investment slowdown reflects a policy choice:** With the April Politburo meeting characterizing Q1 growth as “better than expected,” policymakers scaled back infrastructure investment in April. Issuance of local government special bonds slowed notably and fiscal spending declined. With the negative impact of the Iran war on the Chinese economy emerging, we think fiscal spending should increase in the coming months.
- **What to watch:** China’s bifurcated economy, featuring strong exports and weak domestic demand, has largely remained the same. Two aspects of the economy deserve close monitoring. First, although exports have held up better than expected, rising 14.1% yoy in April, a material weakening in exports could prompt policy reactions. Second, the property market has shown some encouraging signs in select large cities. Continued improvements in the property market could go a long way toward boosting confidence and capital markets.

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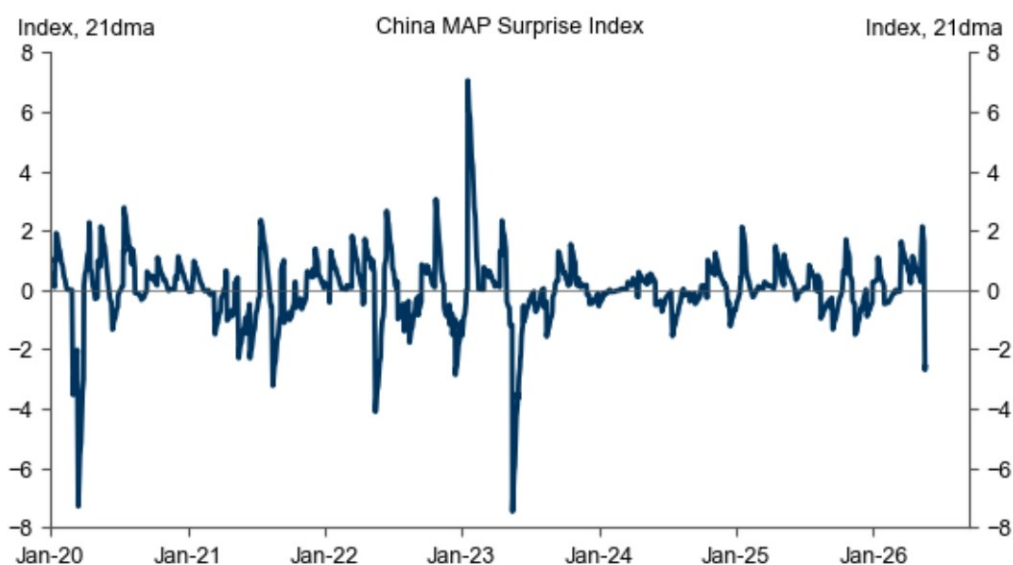
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## Not Too Worried About the April Data Miss

China's April activity data surprised significantly to the downside, with industrial production (IP), retail sales, and fixed asset investment (FAI) all missing market expectations by a large margin. [Exhibit 1](#) shows that the downside surprise was the largest since May 2023, when China's post-Covid reopening activity disappointed.

Is Chinese growth momentum on the ground really decelerating sharply? We think not. In this note, we explain that, although the Middle East conflict and higher energy prices have indeed taken a toll on certain industries, the broad macroeconomic picture in China has not changed much. Strong exports and weak domestic demand remain the key features of the Chinese economy at present. Going forward, two key things to watch are (1) whether export strength, especially to low-income oil-importing EM destinations, is sustained in the face of the global energy-supply shock, and (2) whether the property market continues to show signs of stabilization in top-tier cities.

### Exhibit 1: April activity data was the largest downside surprise since May 2023

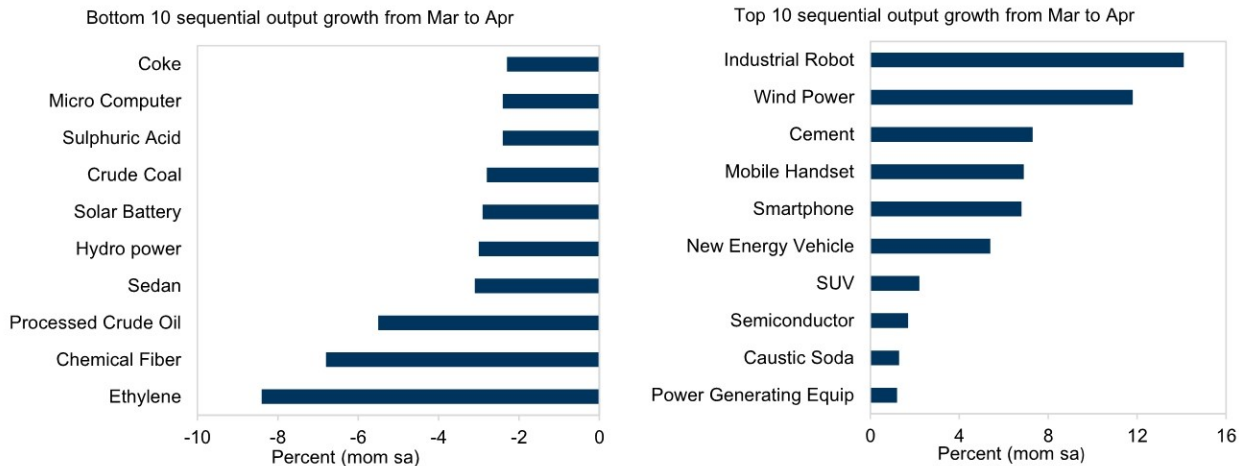


Source: Goldman Sachs Global Investment Research

### IP Data Shows Impact of the Iran War

IP growth slowed notably from 5.7% yoy in March to 4.1% yoy in April, nearly 2pp lower than the Bloomberg consensus expectation of 6.0% yoy. Examining the output of different products, we observe that chemicals (e.g., ethylene and chemical fiber) and processed petroleum products experienced the largest sequential declines, suggesting that the ongoing Middle East conflict and higher energy prices are indeed weighing on Chinese industrial activity (left panel of [Exhibit 2](#)). We estimate that the impact of the Iran war could explain roughly 1pp of the April IP growth miss. On the other hand, production of industrial robots and wind power generation showed the largest sequential increases in April, demonstrating the persistent trend in China's push for high-tech manufacturing and new energy sectors (right panel of [Exhibit 2](#)).

**Exhibit 2: April physical output data shows the negative impact of the Iran war as well as continued strength in high-tech manufacturing and new energy sectors**

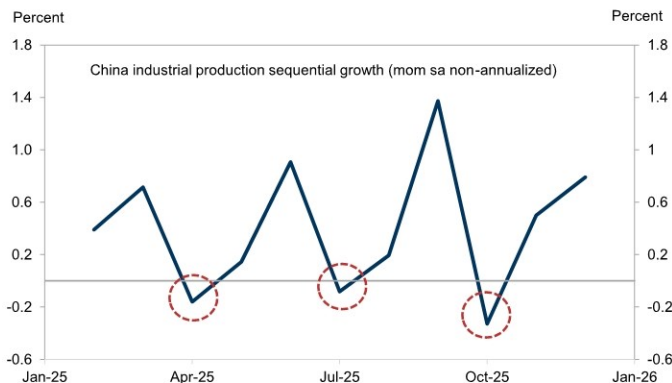


Source: CEIC, Goldman Sachs Global Investment Research

Besides the Iran war, we think the “residual seasonality” that occasionally appears in the IP data may have been at play in April as well. For example, during 2025, IP sequential growth tended to be strong in quarter-end months (March, June, and September) but weak in the month immediately after (April, July, and October), perhaps a sign of production being front-loaded into quarter-end months ahead of quarterly GDP releases (Exhibit 3). If such a pattern has reappeared this year (which is difficult to determine with certainty due to the compounding effects of the Iran war in March and April), it could explain the remaining 1pp of the IP data miss.

Taken together, of the roughly 2pp April IP growth disappointment, we think approximately half may be due to the Middle East conflict, and therefore could persist over the next few months, while the other half may be statistical and should dissipate soon.

**Exhibit 3: IP was strong in March, June and September but weak in April, July and October in 2025**



Source: Haver Analytics, Goldman Sachs Global Investment Research

**Retail Sales Distorted by Government Policies**

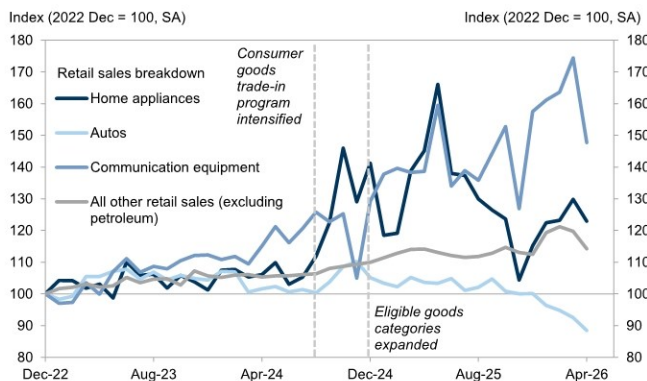
April retail sales grew only 0.2% yoy, the lowest since 2022 when China was still under the zero-Covid policy. Detailed breakdowns suggest that government policies may be

the main driver of the weak year-over-year growth. In 2024, the government-subsidized “consumer goods trade-in” program bolstered auto and home appliance sales. In 2025, the program continued and expanded into other consumer electronics such as smartphones before the government reduced the subsidies somewhat in 2026 (Exhibit 4). Because such a program pulls forward replacement demand for consumer durable goods, a payback effect would eventually emerge, as households will not replace cars, home appliances, and smartphones every year. For example, home appliance sales growth dropped from +53% yoy last May to -15% yoy this April.

The policy change to the auto purchase tax has exacerbated the slowdown in auto sales this year. To support the adoption of electric vehicles (EVs), the government exempted the 10% purchase tax on EVs in previous years. With EV share of auto sales exceeding that of internal combustion engine (ICE) cars, the purchase tax on EVs was raised from 0% to 5% this year, leading to a notable decline in EV and total auto sales. According to China Passenger Car Association data, domestic auto sales volume growth declined from +16% yoy in Q2 last year to -18% yoy in Q1 this year. In April, higher gasoline prices caused consumers to favor EVs: EV sales increased 8% month on month (seasonally adjusted), whereas ICE car sales dropped 23% (Exhibit 5).

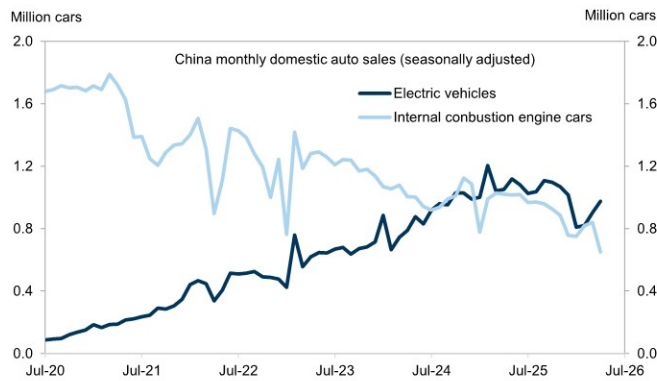
Taken together, most of the weakness in retail sales has been driven by government policies and does not indicate deteriorating consumption momentum. Because policies on consumer goods trade-in subsidies and EV purchase taxes are unlikely to change, retail sales should stay under pressure for the remainder of this year, although year-over-year growth may pick up starting in June on more favorable base effects.

**Exhibit 4: Effect of government-subsidized consumer goods trade-in program should fade over time**



Source: CEIC, Goldman Sachs Global Investment Research

**Exhibit 5: EV sales increased while ICE car sales declined in April on higher gasoline prices**



Source: Haver Analytics, Goldman Sachs Global Investment Research

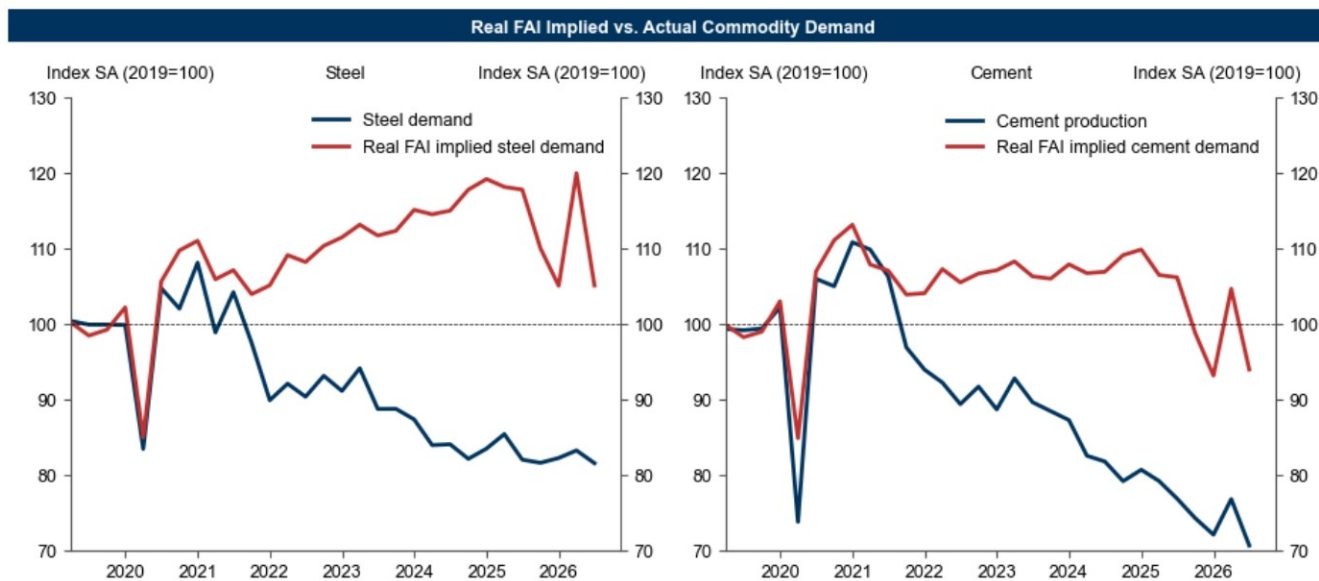
**Investment Weakness Likely Reflects a Policy Choice**

By our estimate, single-month FAI declined 8% yoy in April. Over the past year, FAI volatility has increased significantly and often shows patterns inconsistent with our industry analysts’ on-the-ground channel checks or alternative measures of construction activity. For example, Exhibit 6 shows that Chinese steel and cement consumption have been declining since the housing market peaked in 2021. By contrast, the official FAI data depicts stable or increasing investment in 2022-24 despite the severe housing downturn, followed by large swings in investment in recent quarters.

Our previous research suggests that measurement issues associated with FAI levels have

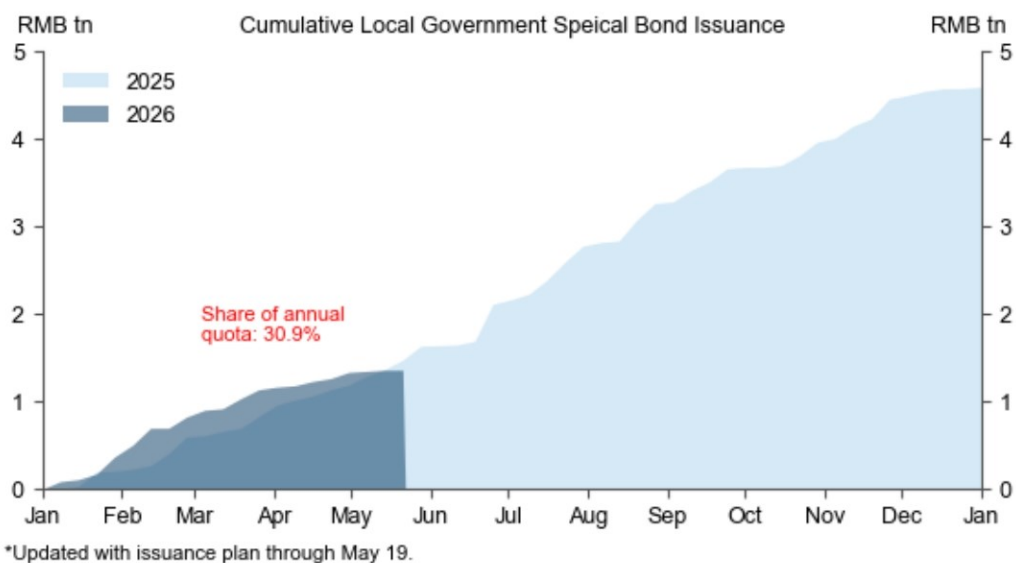
increased over time. Relative growth across different FAI components still contain useful signals. For example, manufacturing FAI declined by less than infrastructure FAI in April. Within manufacturing, investment growth in high-tech sectors outperformed that in non-high-tech sectors. Within infrastructure, the sequential decline in transportation infrastructure investment was the largest, consistent with April's heavy rainfalls and weakness in the construction PMI.

#### Exhibit 6: FAI data diverged significantly from alternative measures of construction activity



Source: CEIC, Goldman Sachs Global Investment Research

Most importantly, we believe much of China's investment slowdown in April, infrastructure investment in particular, reflects a policy choice. [Exhibit 7](#) shows that the pace of local government special bond (LGSB) issuance was fast in Q1 but slowed notably in April through mid-May after Q1 GDP surprised to the upside and the [April Politburo meeting](#) noted that major economic indicators were "better than expected." [The latest fiscal data](#) showed a significant decline in government spending in April. With the [15<sup>th</sup> Five-Year Plan](#) having just approved a pool of major projects, and with most of this year's government bond quota not yet tapped, policymakers have plenty of room to accelerate investment growth if needed.

**Exhibit 7: The pace of LGSB issuance slowed notably from Q1 to Q2**

Source: Wind, Goldman Sachs Global Investment Research

Taken together, the official FAI data has become extremely volatile for reasons we do not fully understand, making it increasingly important to monitor alternative measures of investment. April fiscal data suggests that policymakers slowed fiscal spending after Q1 real GDP beat expectations. Now that the negative impact of the Iran war is visible in the April data, government bond issuance is likely to pick up and fiscal spending should accelerate in the coming months.

### The Big Picture

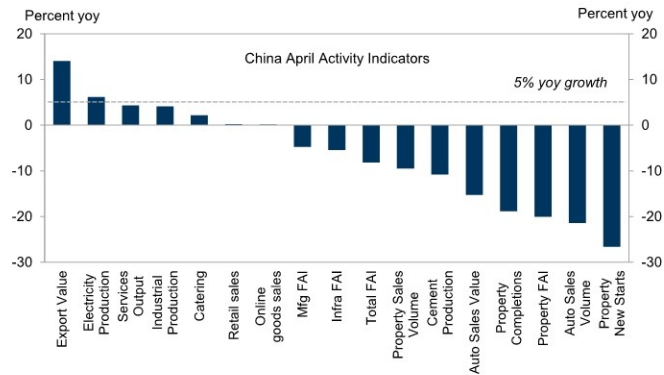
Sifting through the detailed April activity data, we draw three conclusions about the current state of the Chinese economy.

First, despite the sizeable disappointment in the official data release, the picture of a bifurcated economy has not changed ([Exhibit 8](#)).

Second, the ongoing Middle East conflict and higher energy prices have negatively impacted the Chinese economy. This includes lower production of chemicals and processed petroleum products, squeezed margins for downstream businesses, and higher inflation and lower real income for households. We continue to expect sequential real GDP growth to slow from 5.3% qoq annualized in Q1 to 4.0% in Q2 ([Exhibit 9](#)).

Third, the Chinese economy has so far been more flexible than expected in adapting to higher oil prices. Consumers bought EVs rather than ICE cars. Travelers shifted to high-speed trains from flights. According to the National Energy Administration, electricity consumption grew 6.0% yoy in April. High-frequency data show that daily coal consumption in coastal provinces rose around 4% yoy on average from March through mid-May (compared to -2% growth in 2025). On the other hand, conversations with industry contacts suggest that consumption of petroleum products declined 20% from March to April.

**Exhibit 8: April activity data continue to show a bifurcated economy with strong exports and weak domestic demand**



Source: CEIC, Goldman Sachs Global Investment Research

**Exhibit 9: We expect sequential real GDP growth to slow from 5.3% qoq annualized in Q1 to 4.0% in Q2**

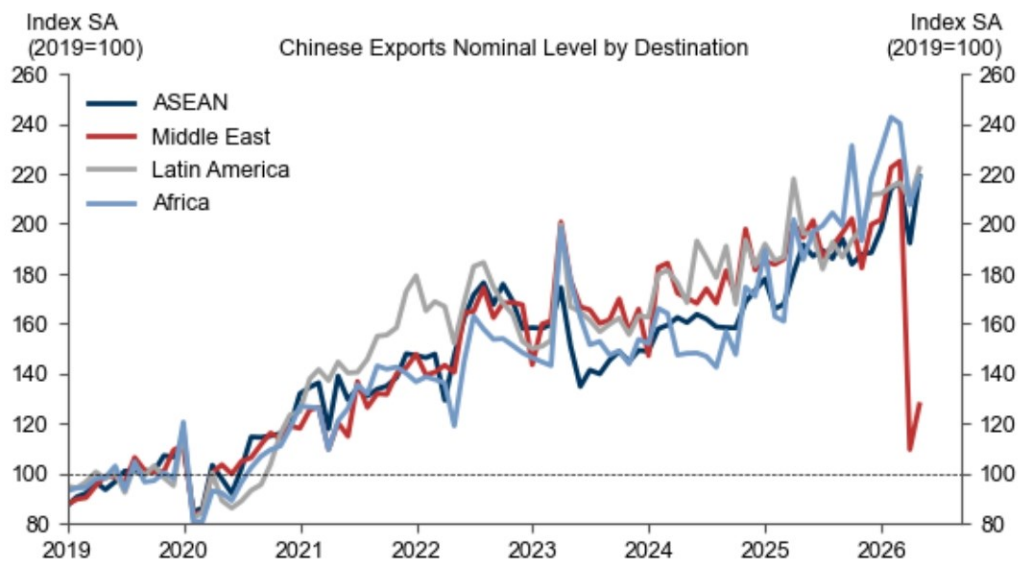


Source: Haver Analytics, Goldman Sachs Global Investment Research

**Exports and the Property Market Key to Watch**

With growth slowing in April but policymakers not feeling the urgency to ease policy, we think there are two parts of the economy that deserve close monitoring. First, exports have been the engine of Chinese growth over the past few years, and signs that they are coming under significant pressure would change policymakers’ thinking. As of April, other than in the Middle East, where the closure of the Strait of Hormuz has stopped shipments, we have not seen weakening in Chinese exports to EM destinations ([Exhibit 10](#)).

**Exhibit 10: Other than the Middle East, China exports to EM destinations held up well in March and April**



Source: Haver Analytics, Goldman Sachs Global Investment Research

Second, there have been some encouraging signs from the property market in top-tier cities. Both the 30-city daily transactions of new properties and the 16-city daily transactions of existing homes have been relatively stable this year. The NBS 70-city indices show higher existing home prices (which tend to be more reliable of house prices than new home prices due to stricter local government controls over new home prices)

in tier-1 cities in April vs. March ([Exhibit 11](#)). It is still too early to conclude that property markets in these top-tier cities have bottomed. After all, similar improvements seen in late 2024 and early 2025 turned out to be ephemeral. That said, if and when the property market shows compelling signs of reaching a bottom, it could provide a significant boost to confidence and capital markets.

**Exhibit 11: NBS data shows that existing home prices increased sequentially in tier-1 cities in April**



Source: CEIC, Goldman Sachs Global Investment Research

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