China Outlook

Trump-Xi readouts and April reality check

We compared official deliverables from the Trump–Xi summit, highlighting differences by topic, and summarised key outcomes from the Putin–Xi meeting. The sharp slowdown in April data underscores rising risks from K-shaped growth dynamics, oil price shocks and persistent property drag, in our view.

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Trump–Xi follow-ups: Unpacking official readouts

Follow-ups to the Trump-Xi meeting this week provided additional details from the US and China. Both sides emphasized on strategic stability and economic cooperation, while also highlighting outcomes related to their respective core interests. We have noted that China's top three priorities heading into the summit were Taiwan, tariffs, and technology restrictions, while the US priorities focused on rare-earth supply security, increased Chinese purchases of US goods, and further market opening (see: China Outlook: US–China: Strategic stability; divergent priorities, 15 May 2026).

Deliverables cited by both the US (the White House fact sheet) and China (China's Ministry of Commerce, MOFCOM) focused mainly on trade and investment frameworks, sector-specific deals like beef, poultry, and aircraft purchases, and rare earth access. Some areas of common ground included: **1) Establishment of boards on trade and investment; 2) China's purchase of 200 Boeing aircraft.** The White House fact sheet described this as an "initial" purchase, and President Trump told reporters on May 15, on his return flight to Washington[1] , that China had agreed to purchase "approximately 400, 450 engines, 200 planes and a promise of up to 750 if they do a good job". 3) **Beef and poultry trade.** China renewed export licenses for over 400 US beef plants and resumed poultry imports from relevant US states. 4) **Rare earths.** China emphasized on rules-based export controls on rare earths, and expressed willingness to work with the US to support the security and stability of the global industrial and supply chains.

Meanwhile, the White House fact sheet also highlighted additional outcomes on geopolitical coordination - like alignment on Iran (opposition to nuclear weapons, reopening of the Strait of Hormuz, and no transit tolls) and the de-nuclearization of North Korea , and China's agricultural purchase commitments. China MOFCOM referenced discussions on potential trade truce extension and tariff arrangements, including capping US tariffs at levels reached in October 2025, and reciprocal tariff reductions covering USD30bn goods from each sides. More specifically,

- **Tariff arrangement.** China's Ministry of Commerce (MOFCOM) stated: 1) it hoped that the US would honor its commitments, and in the future, regardless of imposing or replacing tariffs on

[1] "Trump and Boeing say China agreed to buy 200 aircraft, reopening a key market for the US planemaker, AP, 15 May 2026

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Chinese goods on any ground, the level of US tariffs on China must not exceed the level agreed upon in the joint arrangements reached during the economic and trade talks in Kuala Lumpur, in 2025. 2) through subsequent consultations, the two nations should work to further remove relevant unilateral tariffs on China; 3) US and China have agreed in principle to discuss, under the framework of a trade council, a reciprocal tariff reduction arrangement covering products of comparable scale, starting at USD30bn or more on each side.

- **Trade truce extension.** China's MOFCOM stated that both countries will maintain close communication and consultations to promote the extension of the joint arrangements reached during the economic and trade talks in Kuala Lumpur (see: China Outlook: Tactical truce, 31 October 2025).

- **Agricultural trade:** China's MOFCOM stated that both sides had "set guiding targets to expand two-way agricultural trade", with select farm products to be incorporated into a reciprocal tariff reduction framework.

  The White House fact sheet provided more specific figures, noting that China will purchase at least USD17bn of US agricultural products annually in 2026–2028, on top of earlier soybean commitments. Following the Trump–Xi Busan meeting last October, the US indicated that China agreed to purchase at least 12 mmt of US soybeans in late 2025 and 25 mmt annually in 2026-2028[2] . While China appears to have met last year's target, it has not publicly confirmed these commitments on soybean purchases[3] .

- **Geopolitical issues:** The White House fact sheet highlighted alignment on Iran: "Both leaders agreed Iran cannot have a nuclear weapon, called to reopen the Strait of Hormuz, and agreed that no country or organization can be allowed to charge tolls", and the shared goals on de-nuclearization of North Korea .

- **On Taiwan**, US's acting navy secretary on Thursday said that, US arms sales to Taiwan have been "paused in order to make sure we have the munitions we need" for its Iran operations[4] . China's Foreign Ministry, on 21 May, reiterated its firm opposition to the US' official exchanges with Taiwan and arms sales to the island. This followed President Trump's comments to reporters on Wednesday, when asked if he would speak to President Lai ahead of a decision on arms sales. Trump said: "I'll speak to him. I speak to everybody." President Trump approved a USD11bn arms package to Taiwan last December, and a potential USD14bn package remains pending his approval. On 16 May, President Trump said the arms package is "a very good negotiating chip," while noting that "the last thing we need right now is a war… 9,500 miles away.""[5]

Putin–Xi Meeting: Strategic Cooperation, Limited POS-2 details

Russian President Putin visited China on May 19–20, marking his 25th visit to China, with the two leaders having met over 40 times since 2012. The visit followed President Putin's last visit to China in September 2025, for the annual summit of Shanghai Cooperation Organization in Tianjin, watching a military parade honoring the 80th anniversary of the end of World War II, and holding talks with Xi.

China and Russia released a joint communique[6] on 20 May, stating that both sides pledged to expand cooperation in areas from AI and civil aviation to mining and agricultural. The

[2] "Fact Sheet: President Donald J. Trump Strikes Deal on Economic and Trade Relations with China", The White House, 1 November 2025

[3] "China hits 12 million ton US soybean target pledged in trade truce", Reuters, 20 January 2026

[4] "US arms sales to Taiwan on 'pause' due to Iran war, says acting navy chief", the Guardian, 22 May 2026

[5] Trump says he will speak to Taiwan's president in break from protocol", BBC, 21 May 2026

communiqué also noted that both countries agreed to deepen energy cooperation spanning oil, gas, and nuclear power. The joint communique made no reference to the Power of Siberia 2 (POS-2) pipeline, while the Kremlin spokesman Dmitry Peskov on 20 May noted that there was a "shared understanding" between the two leaders on key parameters for the POS-2, including the route and construction framework, although "some details still need to be finalised".

The POS-2 project is expected to transport up to 50bn cubic metres (bcm) of gas annually from western Siberia to China via Mongolia[7], which by our estimate, represents ~28% of China's gas imports in 2025. For context, the existing Power of Siberia 1 (POS-1) pipeline delivered around 38.8bcm last year and during Putin's visit to China last September, the two nations agreed to increase annual volumes on the route to 44 bcm annually[8].

April reality check: supply can't lift demand

April reality check is particularly concerning

China's April activity data point to a clear loss of growth momentum at the start of Q2, with a sharp, broad-based slowdown across consumption and investment. Retail sales materially undershot expectations, rising only 0.2% y/y (Bloomberg consensus: 2.0%; Q1 average: 2.4%), one of the weakest readings since late 2022. Fixed-asset investment (FAI) declined unexpectedly, falling 1.6% y/y (consensus: +1.7%), as infrastructure and manufacturing investment slipped back into contraction (around -4% each) while the property drag deepened (around -20%). Reflecting this, industrial production (IP) growth decelerated to a 33-month low of 4.1% y/y, down from 6.1% in Q1 (consensus: 6.0%; March: 5.7%).

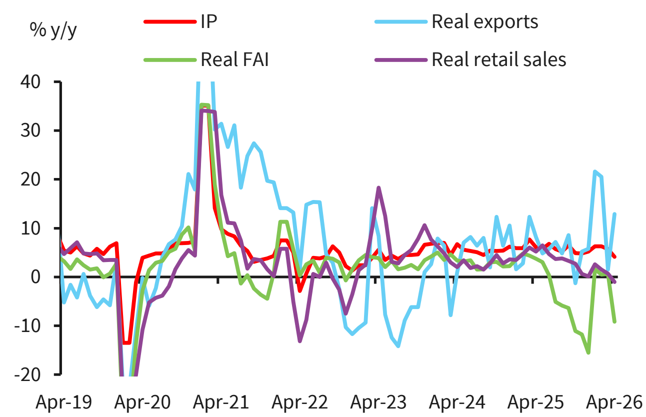
April's data serve as a reality check for a market split along two debates - property stabilisation and consumption recovery - neither of which is our base case. Three aspects of the April print are particularly concerning, in our view. First, the deceleration in IP occurred despite strong export growth (15% y/y Jan-April), underscoring that weakening domestic demand is increasingly spilling over into production as visibly shown in Figure 1. Second, household consumption has deteriorated much sharper than expected YTD, at a time when the property sector sentiment and sales were improving (though mainly secondary-market sales, Figure 3, while contraction in new home sales widened to 9.5%y/y in April from 7.4%, Figure 9). Third, Chinese households deleveraging has intensified, with households loan plummeting by CNY787bn in April, the largest net repayment on record, driving the first bank loan contraction since July 2025 (Figure 4).

[6] https://www.news.cn/world/20260520/06f5505d9d8f4ff48664d8e1b03c44c9/c.html

[7] "What is the Power of Siberia 2 pipeline that Russia, China are planning?", Aljazeera, 20 May 2026

[8] "Russia's growing energy ties with China since the Ukraine war", Reuters, 19 May 2026

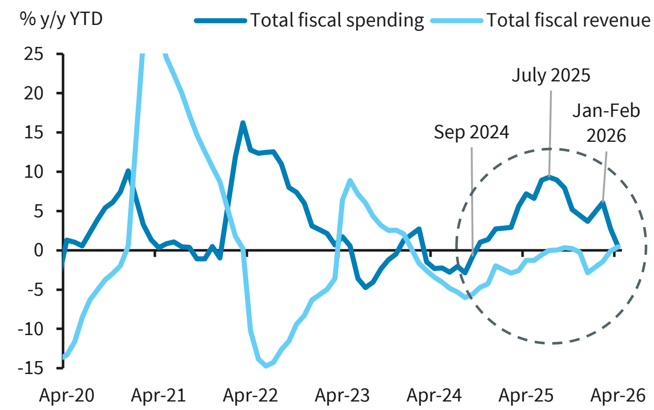
FIGURE 1. **Weakening domestic demand feeds into production**



Exports, FAI and retail sales used CPI as deflator for this chart

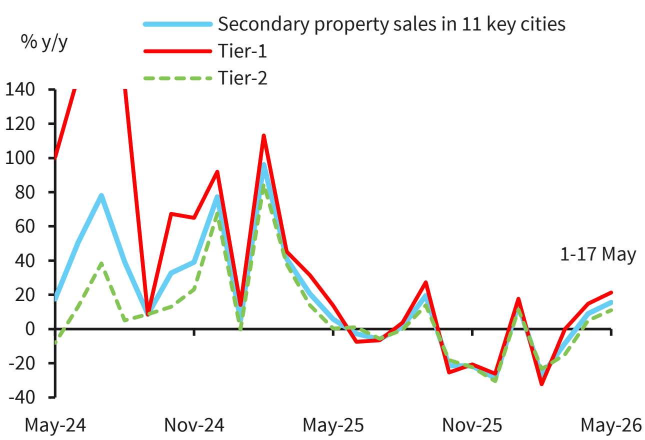
Source: Wind, Barclays Research

FIGURE 2. **Fading fiscal support weighs on consumption**



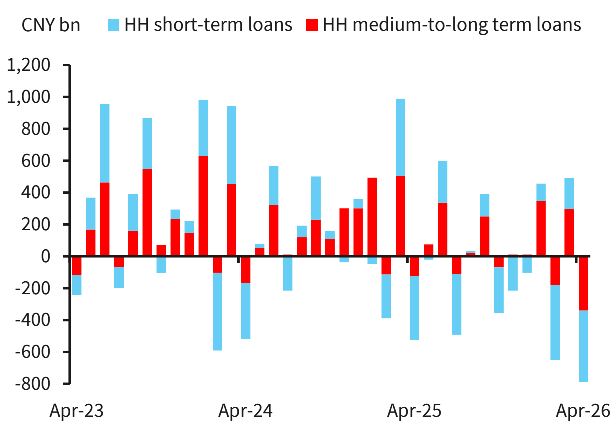
Source: Wind, Barclays Research

FIGURE 3. **Secondary-market home sales improved**



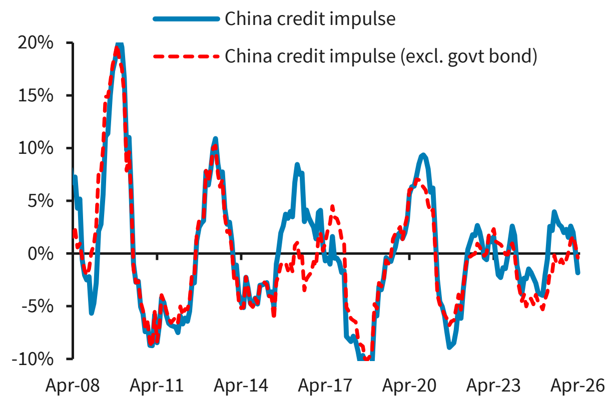
Source: Wind, Barclays Research

FIGURE 4. **Households deleveraging intensified**



Source: Wind, Barclays Research

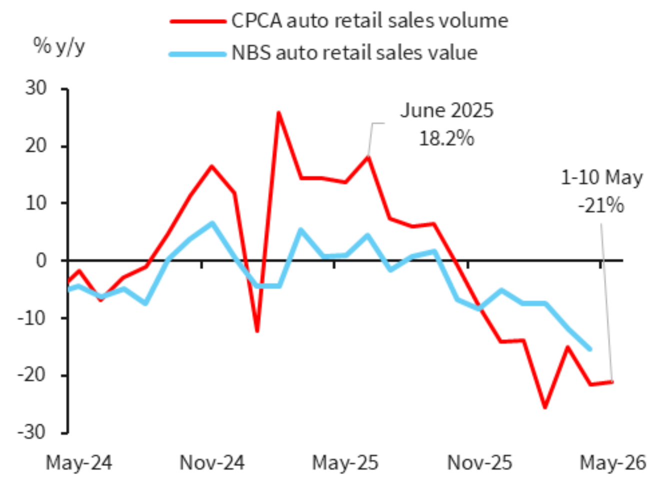
FIGURE 5. Credit impulse weakened sharply



Note: China credit impulse is Barclays alternative measure

Source: Wind, Barclays Research

FIGURE 6. Auto sales tumbled further



Source: Wind, Barclays Research

Three recurring themes to help frame the discussion

What explains the unexpectedly sharp slowdown—and how much is cyclical versus structural? In our view, the April surprise reflects the fading of front-loaded Q1 fiscal support (Figure 2) and a weakening credit impulse (Figure 5), but it is anchored by structural constraints that keep domestic demand subdued. We note the three recurring themes since China reopened in 2023 that help frame the picture.

First, China remains a two-speed economy, characterised by strong supply—supported by exports and high-tech manufacturing—while domestic demand remains persistently weak, particularly in household consumption (see China: Two-speed economy persists, 19 January 2026).

Second, quarterly growth continues to exhibit a common pattern, with a strong early-year rebound followed by moderation in Q2–Q3 as stimulus effects fade; notably, this year's loss of momentum has occurred earlier, is more pronounced, and more broad-based than in 2025.

Third, the prolonged property downturn continues to erode household wealth and confidence, weighing on consumption and reinforcing disinflationary pressures. At the same time, China's ongoing structural transformation is weighing on the broader labour market (China: Youth unemployment - just hang in there, 14 Jul 2023) —dampening employment and income prospects and reinforcing precautionary savings behaviour.

The K-shaped growth, broad demand weakness, and uneven recovery

The April data also send a clear warning on China's well-known bifurcation: strength in high-tech and export-oriented sectors is not sufficient to offset the weakness in domestic demand, calling for stepped-up policy support. As we highlighted in China: Lower 2026 inflation, 9 January 2026, such imbalance would weigh on domestic demand through at least two key channels. (1) **The labour market remains under pressure** as the transition toward less labour-intensive high-tech manufacturing—alongside rapid adoption of AI and "AI+" applications—should lead to a net reduction in total employment. (2) **Policy support remains modest**. Figure 2 shows that fiscal spending picked up strongly following the September 2024 policy pivot, but peaked around mid-2025, and the renewed push in January–February was not sustained; a pattern consistent with the subsequent trend in retail sales growth.

Meanwhile, withstanding the tentative property "green shoots", we maintain our view that they are unlikely to be sustained. Year-to-date, the property recovery has been highly selective, concentrated in top-tier cities, specific locations and segments (see China Outlook: Property green shoots, watch sustainability, 24 April 2026). Our investor trip to Beijing, Shanghai and Hangzhou last week reinforces this view: discussions with experts point to still weak mass-market demand, while both low-priced units (around CNY 3mn, accounting for ~70% of core-city transactions) and premium/luxury segments show relative resilience. Notably, the March–April common seasonal rebound appears to have ended, according to some Shanghai-based property experts.

In the consumer space, we note that while there are early signs of improvement, consistent with the broader K-shaped dynamics, it is also highly selective. Some NBS consumer confidence indicators have edged higher, but remain fragile and uneven. While the size and heterogeneity of China's consumer market mean that pockets of resilience persist, under the themes of "health, niche, and experience", with firms that tap into evolving consumer preferences - by offering differentiated products, stronger perceived value for money, compelling narratives, and greater "emotional value"-standing out, overall consumption and aggregate demand will remain subdued.

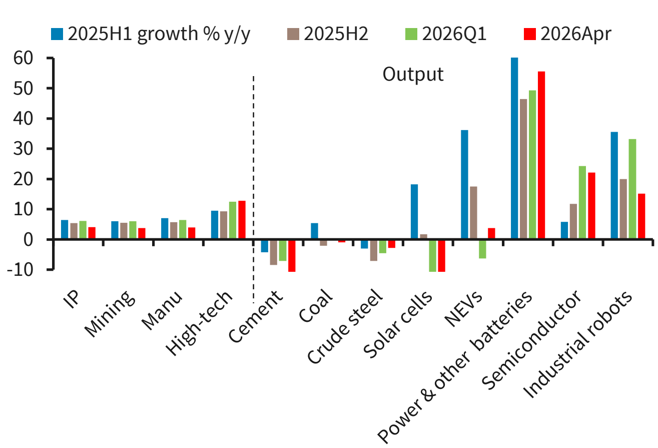
US-Iran conflict and higher oil costs add additional downside pressures

Moreover, the US-Iran conflict and associated oil price shocks are increasingly feeding into activity data, primarily through rising input costs in energy-related sectors, but also employment and consumption, in our view.

On the production side, industrial output softened more than expected in April, with notable moderation across chemicals, pharmaceuticals, and rubber and plastics—likely reflecting margin compression from higher feedstock costs. These cost pressures are also weighing on investment decisions. Manufacturing investment in energy-intensive sectors has weakened, with chemical investment slipping into contraction and textile investment growth slowing markedly.

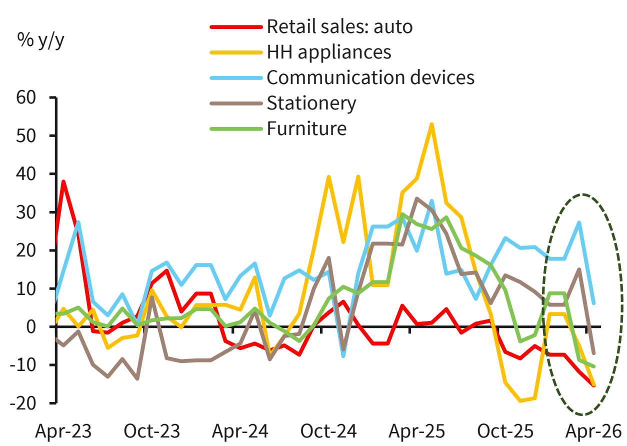
At the same time, cost-push energy supply shocks will worsen downstream profitability, particularly for smaller and less cost-efficient firms along the supply chain. Resulting firm exits could intensify labour market pressures, reinforcing downside risks to household income and consumption.

FIGURE 7. High-tech production outperformed



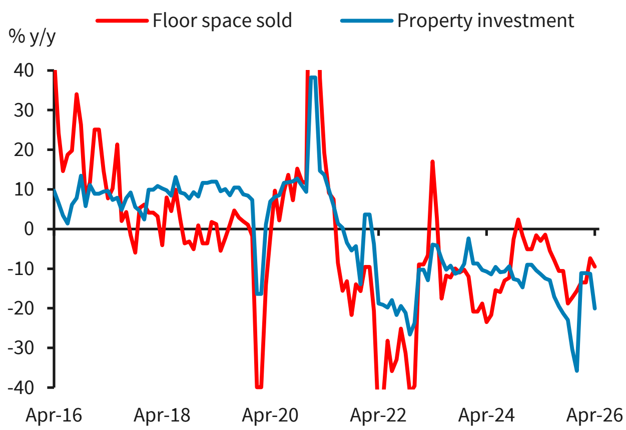
Source: Wind, Barclays Research

FIGURE 8. Trade-in goods sales weakened y/y



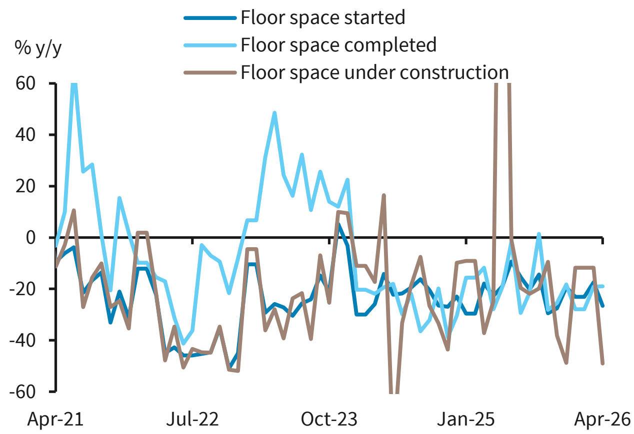
Source: Wind, Barclays Research

FIGURE 9. **Property sales and investment weakened...**



Source: Wind, Barclays Research

FIGURE 10. **...key property indicators also stayed deep in contraction**



Source: Wind, Barclays Research

We highlight some key takeaways from the April data

- Industrial production moderated to 4.1% y/y in April, down from an average of 6.1% in Q1 and below expectations (Bloomberg: 6%, Barclays: 6.2%). The slowdown was partly driven by softer output in energy-related sectors, such as chemicals, pharmaceuticals, and rubber and plastics, likely reflecting rising feedstock costs amid the latest Middle East conflicts, which squeezed margins and weighed on production. By contrast, high-tech manufacturing continued to outperform (Figure 7), in line with strong exports of high-tech and green products.

- Retail sales growth slowed sharply to 0.2% y/y and marking the weakest print since the contraction in December 2022, when China reopened from Covid. The weakness was driven by goods consumption, which fell for the first time in 40 months. We noted that: 1) Trade-in-related categories softened across the board. Auto sales fell at a double-digit pace for a second consecutive month (Figure 8). 2) Meanwhile, discretionary spending weakened visibly, with jewellery sales posting the steepest decline in four years and cosmetics sales also moderating.

- The property sector remained the key drag, with most indicators deteriorating further. Property investment fell 20.1% y/y in April, a level last seen in Q3 2025 and nearly double the pace of decline in Q1, and property sales fell at a faster pace (Figure 9). Leading indicators weakened across both floor space started and under construction, while completions remained deeply negative (Figure 10). On the price side, conditions were relatively stable, with month-on-month declines in both new and existing home prices holding at -0.2%.

- Infrastructure investment lost momentum (April: -3.7%, Q1: 9.5%) after three months of gains in Q1, in line with slower local government bond issuance following earlier front-loading and a net repayment of corporate long-term loans in April.

CHINA DATA REVIEW & PREVIEW

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Review of last week's data releases

Main indicators	Period	Previous	Barclays	Actual	Comments
China: Retail sales, % y/y	Apr	1.7	2.0	0.2	
China: Industrial production, % y/y	Apr	5.7	6.2	4.1	Supply can't lift demand
China: Fixed asset investments, YTD % y/y	Apr	1.7	1.6	-1.6	
China: 1y Loan prime rate, %	May	3.00	3.00	3.00	LPR unchanged

Preview of upcoming data

Monday, 25 May	Period	Prev 2	Prev 1	Latest	Forecast	Consensus
No upcoming data releases scheduled						

Note: Bloomberg consensus forecasts and release dates are subject to change.
Source: Bloomberg, Barclays Research

CHINA SNAPSHOT

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	2025				2026				2027				Calendar year average		
% change y/y	**Q1**	**Q2**	**Q3**	**Q4**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2025**	**2026E**	**2027E**
Real GDP (% y/y)	5.4	5.2	4.8	4.5	5.0	4.7	4.4	4.3	3.7	3.9	4.1	4.2	5.0	4.6	4.0
Real GDP (% q/q saar)	5.6	4.3	3.6	4.4	6.8	3.2	3.2	4.0	4.5	4.1	4.1	4.1	...	...	...
Real GDP (% y/y YTD)	5.4	5.3	5.2	5.0	5.0	4.8	4.7	4.6	3.7	3.8	3.9	4.0	...	...	...
Consumption (pp)	2.8	2.8	2.8	2.6	2.4	2.0	2.0	2.0	1.9	1.8	2.0	2.0	2.6	2.0	2.0
Investment (pp)	0.5	1.0	0.9	0.8	1.9	1.4	1.3	1.2	1.1	1.0	1.0	1.0	0.8	1.2	1.0
Net exports (pp)	2.1	1.5	1.5	1.6	0.8	1.4	1.4	1.4	0.7	1.0	1.0	1.0	1.6	1.4	1.0
Industrial production (% y/y)	6.5	6.2	5.8	5.0	6.1	5.2	4.9	4.8	4.2	4.4	4.6	4.7	5.9	5.2	4.5
Nominal GDP (% y/y)	4.6	3.9	3.7	3.9	4.9	5.0	5.0	4.9	4.3	4.5	4.7	4.7	4.0	5.2	4.6
CPI inflation (% y/y)	-0.1	0.0	-0.2	0.5	0.8	0.5	0.7	0.9	1.3	1.2	0.8	0.0	0.1	0.7	0.8
Surveyed unemployment rate (%)	5.2	5.0	5.2	5.1	5.4	5.1	5.1	5.1	5.2	5.1	5.2	5.1	5.1	5.1	5.1
Current account (% GDP)	3.7	2.7	4.0	4.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.7	4.0	4.0
Government balance (% GDP)	...	...	...	...	...	...	...	...	...	...	...	...	-4.0	-4.0	-4.0
Central government debt (% GDP)	...	...	...	...	...	...	...	...	...	...	...	...	29.1	32.8	36.5
7d OMO rate (%)	1.50	1.40	1.40	1.40	1.40	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.40	1.30	1.30

Note: All numbers are expressed in y/y % change unless otherwise specified. Contributions by GDP expenditure components are all reported as "year to date" numbers officially.
Source: Barclays Research