China Outlook

Green shoots in the rear-view mirror

Stabilization in the property market was short-lived with property sales weakening into May. The de-stocking cycle still faces mounting challenges amid slowing property sales. Consumption showed more signs of weakness in May with steep auto sales contraction, while exports remain a bright spot.

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Property market weakened into May

Post the green shoots that emerged in March and early April, the high frequency data showed the property market began to weaken from late April. Growth in new property sales in 30 major cities almost stalled, posting 0.1% y/y in May versus 3% in April. The slowdown is led by lower tier cities, which reversed course, slumping 18% in tier-3 cities in May after increasing 5% in April, while the expansion in tier-1 cities narrowed significantly to 8% in May from 19% in April. We think the national property sales data could be worse than 30 major cities' data given the former covered more lower tier cities (tier 3-4 cities account for ~80% of national sales). For context, new national property sales declined 9.5% y/y in April from -7.4% in March.

With weakening property sales, the de-stocking cycle still faces mounting challenges. According to CIRC data, the unsold property inventory digestion period in 80 cities has risen to 34.5 months as of end-April, up 1.8 months from end-2025, due to weaker sales. By city tiers, tier 1, tier 2 and tier 3-4 cities stand at 23.0 months, 31.2 months and 44.7 months respectively, with core cities exhibiting relatively healthier supply-demand dynamics. That said, in absolute level terms, the pending-sale inventory across 80 cities went down 2.4% from end-2025 and 17% from the end-2020 peak amid the slump in new starts and completed property.

Property investment in China deteriorated significantly in April, with no signs of a turnaround. The contraction in property investment widened to -20% y/y in April from -11% y/y previously, bringing YTD decline to -13.7%, below our full-year forecast of a 11% contraction in 2026. Meanwhile, the CRIC data show that y/y declines in the value and volume of land purchases by the top 100 developers remained steep at around -50% and -29%, respectively, in January-April, unchanged from Q1. The deep contraction in land purchases by developers, along with deterioration in new starts (-27% y/y in April), suggested any quick recovery in property investment is unlikely this year.

Consumption showed more signs of weakness post disappointing April data

High-frequency indicators point to further weakness in consumption. Auto sales volumes fell to around -22% y/y in May, showing no recovery from the April data of -21%. The China Passenger Car Association (CPCA) projects total vehicle sales to contract by 1% in 2026, down sharply from ~4% growth last year. In our view, the 19% y/y contraction in auto sales YTD suggests the outturn could be even weaker than the CPCA's already bearish forecast. Moreover, we think the contractionary headline services PMIs and services new orders (a leading indicator for services PMIs), suggested services consumption is unlikely to alleviate the downward pressure for consumption.

Overall, we see a sustained recovery in consumption as challenging, given: (1) a deteriorating labour market amid structural headwinds, such as supply chain relocation and China's transition towards less labour-intensive high tech manufacturing, ; (2) a smaller scale of pro-consumption trade-in subsidies, declining by 20% to CNY250bn in 2026 YTD; and (3) a negative wealth effect from continued declines in home prices, albeit at a slower pace. We think the positive spillovers from surging exports to the labour market is limited this time given that strong exports are led by AI-related and green-tech sectors, which are capital-intensive rather than labor- intensive.

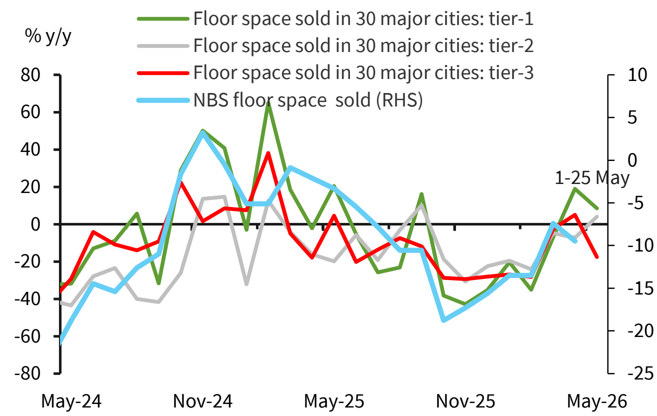
Exports strength, a key driver for growth, extends into May

On the external side, high-frequency trade indicators remain solid in May as evidenced by regional trade data and port cargo throughput shipping data. In particular, Korea's exports increased by 64.8% y/y in the first 20 days of May, further up from the 48% gain in April, while China-bound shipments almost doubled from year-earlier levels with a 96.5% surge MTD, up from the 62.6% increase in April. This suggested sustained AI capex upper cycle benefiting major AI-components manufacturing hubs including China, Korea and Taiwan.

Moreover, trade flows between the US and China are showing signs of continued normalization. China's exports to the US rebounded by 11.3% y/y in April, partly reflecting a low base effect. On a sequential basis, exports rose by 24.8% m/m-well above the 2022–24 average of around 3.2% (excluding tariff-distorted dynamics in 2025)-pointing to recovery in shipment momentum. High-frequency indicators suggest this improvement has extended into May. Daily ship departures from China to the US increased by 16.1% in the first 25 days of May, reversing the drop in April.

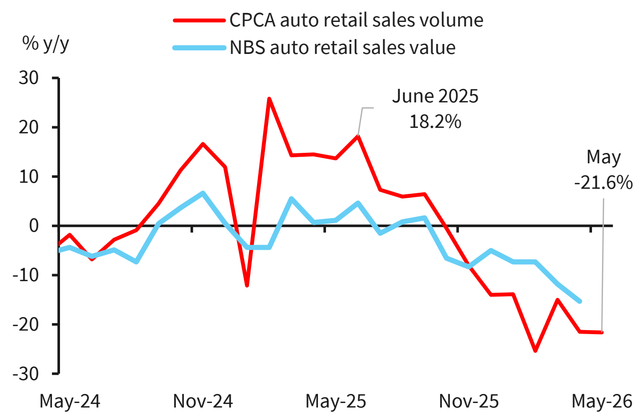
We think the recent Trump-Xi meeting could protect the downside from US-China bilateral trade, at least in the near term, with the two sides seeking to reduce tariffs on at least USD30bn worth of goods under the Board of Trade. Follow-up discussions have continued at the working level: China's Minister of Commerce Wang Wentao met with a US delegation led by Deputy Trade Representative Rick Switzer in Suzhou on 21 May, where Wang emphasized the need to finalize the outcomes from the latest round of consultations promptly and ensure effective follow-through.

FIGURE 1. Property sales weakened in May



Source: Wind, Barclays Research

FIGURE 2. Auto sales posted a 22% y/y decline in May

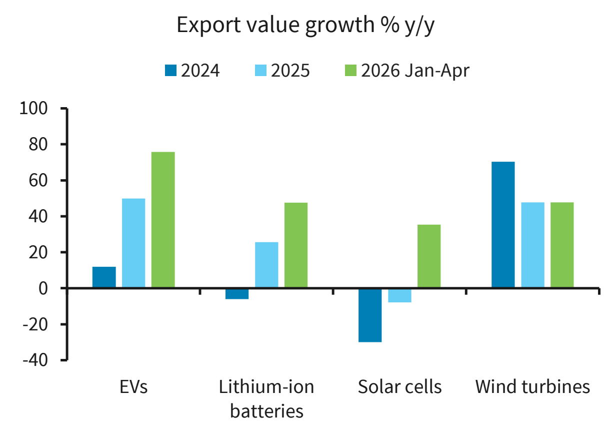


Source: Wind, Barclays Research

FIGURE 3. May shipments may stay resilient on high tech...

Source: Wind, Barclays Research

FIGURE 4. ...and green-tech exports



Source: Wind, Barclays Research

Limited new details from Trump–Xi follow-ups

Follow-ups to the Trump–Xi meeting have largely reaffirmed initial readouts, with no material new details announced to date. Recent developments—such as China tightening Fentanyl-related export controls and USTR Greer signalling the imminent launch of a China Board of Trade—are broadly consistent with the earlier framework (see China Outlook: Trump-Xi readouts and April reality check).

On agriculture, China has reiterated cooperation in areas such as beef, poultry, and selected farm products within a broader tariff-reduction framework, without confirming specific US figures on purchase commitments. The absence of detailed announcements does not necessarily imply a lack of progress. A precedent can be seen following the Trump–Xi meeting in Busan last October, when the US announced that China would purchase at least 12 mmt of US soybeans in late 2025 and 25 mmt annually in 2026–2028. Despite the absence of China's official commitment, we note China purchased the amount of US soybean mentioned by the US in late 2025.

Next week, PMIs are in focus

China will release the May NBS manufacturing PMI on 31 May. We expect the headline manufacturing PMI to moderate to 50 in May from 50.3, largely due to the decline in utilization rates in petro-chemical related sectors and some distortion due to Labour Day holiday. We see a sharper m/m decline in operating rates across oil-related sectors, including auto tyres and PVC, alongside softer readings in textiles, asphalt equipment, and rebar steel.

CHINA DATA REVIEW & PREVIEW

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Review of last week's data releases

Main indicators	Period	Previous	Barclays	Actual	Comments
No releases scheduled this week					

Preview of upcoming data

Sunday, 31 May		Period	Prev 2	Prev 1	Latest	Forecast	Consensus
09:30	China: NBS manufacturing PMI, index	May	49.0	50.4	50.3	50.0	50.0
09:30	China: NBS non-manufacturing PMI, index	May	49.5	50.1	49.4	49.5	49.5

China: We expect the headline NBS manufacturing PMI to ease to 50 (from 50.3), partly reflecting Labour Day distortions. We also note that rising energy prices may weigh more visibly on activity, with a sharper m/m decline in operating rates across energy related sectors, including auto tyres and PVC, alongside softer readings in textiles, asphalt equipment, and rebar steel. The non-manufacturing PMI may edge up to 49.5 with improvements in services activities offsetting weaker construction.

Monday, 01 June		Period	Prev 2	Prev 1	Latest	Forecast	Consensus
09:45	China: RatingDog manufacturing PMI, index	May	52.1	50.8	52.2	52.0	51.3

China: The Ratingdog manufacturing PMI, which covers more export-oriented firms, likely edged down to 52 given fewer working days in May, while export-related manufacturing likely stayed supportive on high-tech and green-tech products.

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