China Outlook

Mixed data, weak pass-through

May data painted a mixed picture, with strong exports offsetting weak consumption and housing. Despite higher oil-driven PPI, pass-through to CPI remains limited, reflecting firms' difficulty in passing on costs. Retail sales and FAI are set to weaken further, while IP is set to rebound on exports.

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Following the broad-based slowdown in April, major economic indicators released this week and high-frequency data for May painted a mixed picture, though on balance still pointing to a slowdown in growth momentum in Q2. Export growth accelerated and significantly exceeded market expectations, while softer-than-expected CPI inflation, slower credit growth and a deeper contraction in auto sales pointed to weak consumption, and the weak new property sales confirmed that the rebound in the housing market is short-lived. Next week, we expect retail sales and fixed asset investment to weaken further as the impact of front-loaded fiscal stimulus fades.

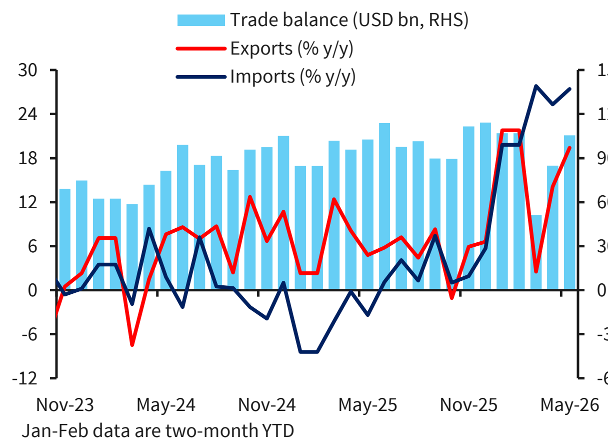
Moreover, despite the Middle East conflict lasting more than three months, May PPI and CPI data continued to suggest limited pass-through from higher oil and petrochemical-related raw material prices—which pushed up PPI significantly to 3.9% y/y—to consumer goods and services, with core CPI edging down to 1.1% y/y in May, remaining below its pre-conflict average of 1.3% in January–February. This is consistent with our channel checks, indicating that firms are still struggling to pass through higher input costs along the value chain.

AI and green-tech pushed exports higher

China's export growth accelerated further, rising 19.4% y/y in May following a 14.1% increase in April, exceeding both the market and our expectations (Bloomberg: 15%, Barclays: 14%). Breakdown data suggest stronger shipments to the US and across the region (ASEAN, Korea, Japan and Taiwan), while shipments to the EU and UK softened. The robust performance came against the backdrop of 1) a continued uptick in global manufacturing activity, evidenced by the global manufacturing PMI holding at a four-year high of 52.6 in May despite the prolonged energy shock, and 2) broad-based strength across major manufacturing exporters, ranging from low-to-mid product exports from Vietnam (May: 18% y/y), to high-end oriented product exports from Korea (May: 53.2%), to the full-supply-chain exports from China (May: 19.4%).

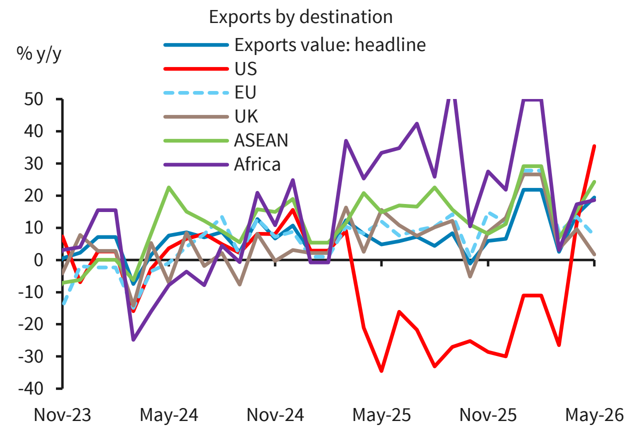
Demand for high-tech products, particularly AI-related and green-tech goods, remained a key driver, helping to alleviate concerns over the impact of the Middle East energy shock on external demand. The ongoing global AI capex cycle continues to underpin demand for China's AI-related exports, given the country is a key supplier of AI manufactured components. High-tech exports accounted for 29.8% of total export value in May, growing 51% y/y (April: 39%), with notable acceleration in semiconductors (+111%) and automatic data processing equipment and parts (+66%). At the same time, the energy shock is supporting demand for renewable products, while persistent geopolitical tensions could further accelerate the global green transition, an area where China remains well positioned as a leading low-cost, high-quality supplier. Year-to-date data show sustained double-digit growth in EVs, lithium batteries, wind turbines, and solar cells.

FIGURE 1. China May exports accelerated...



Source: Wind, Barclays Research

FIGURE 2. ... with faster regional trade (Asean, Japan, Korea and Taiwan) and shipments to the US



Source: Wind, Barclays Research

Upstream-driven PPI, weak pass-through

The May price data suggest oil prices continued to push up PPI inflation (May: 3.9% y/y, April: 2.8%) and energy-related components of CPI, while the impact on core and services CPI remained contained, pointing to limited second-round effects. On a month-on-month basis, PPI began to normalize alongside somewhat lower-though-still-elevated oil prices. Price declines emerged in oil and gas extraction, while price increases in chemicals, fibers, rubber, and plastics moderated.

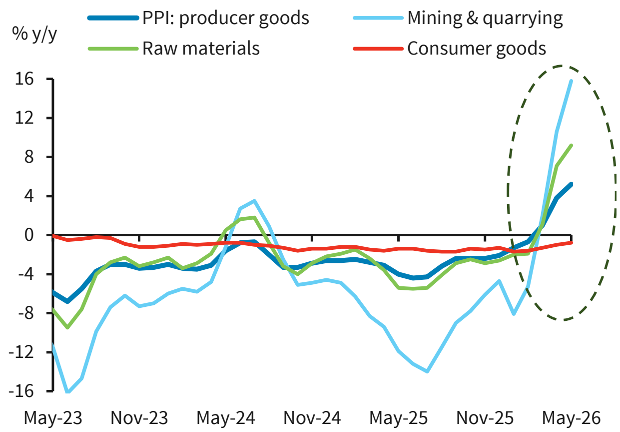
The May PPI breakdown underscores the uneven impact of the Middle East conflict on prices. Upstream segments continued to lead, with raw materials rising by 9.2% y/y (April: 7.1%) and mining by 15.8% (April: 10.6%). While select manufacturing segments such as electrical machinery and electronics saw some price gains, overall manufacturing inflation remained more subdued at 2.3% y/y (April: 1.5%). Meanwhile, price declines in downstream consumer goods persisted (May: -0.8%, April: -1.0%), suggesting that firms are still struggling to pass through higher input costs along the value chain.

CPI was unchanged at 1.2% y/y in May, with larger support from energy in May compared with April. Despite lower oil prices in the month, a favourable year-ago base pushed domestic gasoline inflation higher (23.5% y/y versus 19.3%), lifting its contribution to headline CPI to around 0.66pp (from 0.56pp previously). Elsewhere, both core and services CPI edged lower, with continued weakness in housing rents and auto prices, reinforcing the view that soft domestic demand is limiting demand-driven reflation and preventing meaningful second-round effects.

Credit growth searches for a bottom

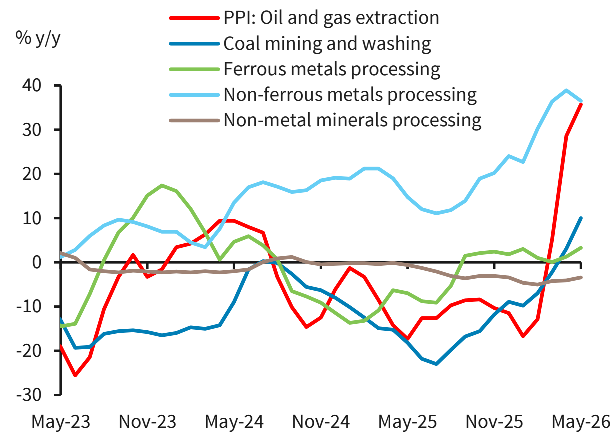
Credit growth slowed further to a new record low of 7.7% y/y in May, in line with our expectations. New bank lending declined on a y/y basis, as households continued to deleverage. It is worth noting that household loans contracted for a second consecutive month, with weakness in both short- and long-term demand. The softer credit data are consistent with high-frequency indicators (e.g., auto and property sales), pointing to a slowdown in private consumption and the property market. Meanwhile, corporate demand for long-term bank loans also contracted in May, suggesting subdued investment sentiment amid weaker domestic demand and energy-related price pressures linked to the Middle East tensions.

FIGURE 3. PPI continued to accelerate...



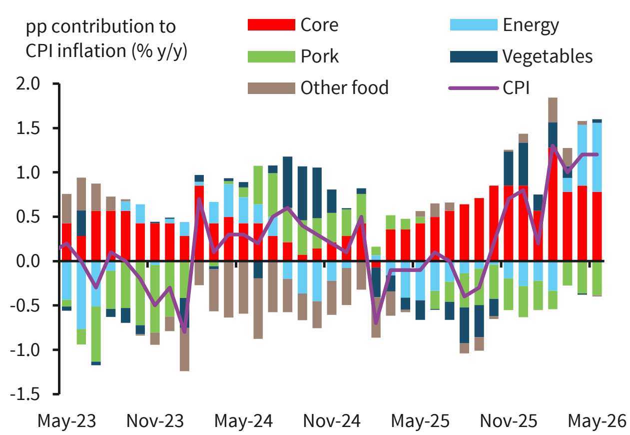
Source: Wind, Barclays Research

FIGURE 4. ...led by non-ferrous metals and energy-related sectors



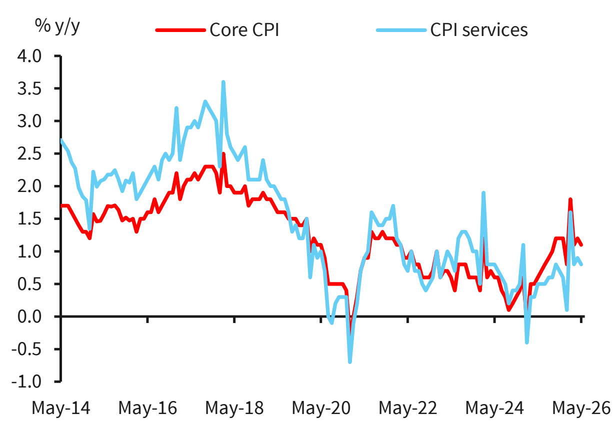
Source: Wind, Barclays Research

FIGURE 5. Energy remains a key driver of headline CPI...



Source: Wind, Barclays Research

FIGURE 6. ...while core and services CPI moderated



Source: Wind, Barclays Research

Next week, retail sales, FAI and IP are in focus

- **Retail sales:** We expect retail sales to decline modestly by 0.2% y/y, marking the first contraction since China's reopening in late 2022. This reflects a less favorable base effect, alongside continued weakness in auto sales, which remained falling at around a 20% pace in May.

- **FAI:** FAI is likely to contract at a faster pace, with YTD growth estimated at -2% y/y for the first five months. High-frequency data show that new home sales across 30 major cities softened further in May, while the pace of local government special bond issuance moderated following front-loading in Q1.

- **IP:** We expect industrial production growth to pick up to 4.5% y/y. This reflects a tug-of-war between stronger output in high-tech, green-tech, and export-oriented sectors, and ongoing drag from weak domestic demand, as well as rising energy prices weighing on related production.

CHINA DATA REVIEW & PREVIEW

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Review of last week's data releases

Main indicators	Period	Previous	Barclays	Actual	Comments
China: Foreign reserves, USD bn	May	3410.5	3400.0	3442.3	Slight rise in FX reserves
China: Trade balance, USD bn	May	84.8	95.0	105.4	
China: Exports, % y/y	May	14.1	14.0	19.4	AI and green-tech keep exports strong
China: Imports, % y/y	May	25.3	25.0	27.4	
China: PPI, % y/y	May	2.8	4.0	3.9	Upstream-driven PPI, weak pass-through
China: CPI, % y/y	May	1.2	1.2	1.2	
China: M2 growth, % y/y	May	8.6	8.5	8.6	
China: Aggregate financing stock, CNY trn	May	456.9	458.9	458.8	Credit expansion rebounded
China: New loans, CNY bn	May	-10.0	500.0	520.0	

Preview of upcoming data

Tuesday, 16 June		Period	Prev 2	Prev 1	Latest	Forecast	Consensus
10:00	China: Retail sales, % y/y	May	1.5	1.7	0.2	-0.2	-0.5
10:00	China: Industrial production, % y/y	May	6.3	5.7	4.1	4.5	4.3
10:00	China: Fixed asset investments, YTD % y/y	May	1.8	1.7	-1.6	-2.0	-2.3

China: We expect retail sales to decline by -0.2% y/y, marking the first contraction since China's reopening in late 2022. This reflects less favourable base effects, alongside continued weakness in auto sales, which fell at a c.20% pace in May. FAI also likely contracted at a faster pace, which we estimated at -2% y/y YTD for the first five months. High-frequency data show that new home sales across 30 major cities softened further in May, while the pace of local government special bond issuance moderated following front-loading in Q1. We estimate industrial production growth grew by 4.5% y/y. This reflects a tug-of-war between stronger output in high-tech, green-tech, and export-oriented sectors, and an ongoing drag from weak domestic demand, as well as rising energy prices weighing on related production.

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	...	...	...
Real GDP per capita (% y/y)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
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