China: May fixed asset investment and retail sales data missed market expectations

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Bottom line:

China's May fixed asset investment and retail sales data missed market expectations, while industrial production was largely in line. Industrial production (IP) growth rose modestly to 4.5% yoy in May from 4.1% yoy in April thanks to stronger-than-expected exports, with faster output growth in computer and other equipment, electronic machinery, and utilities industries more than offsetting slower output growth in chemicals and non-ferrous metal smelting industries. On a single-month basis, fixed asset investment (FAI) growth fell further -10.6% yoy in May from -8.2% yoy in April, reflecting both adverse weather conditions and a still-slow pace of government bond issuance. Retail sales growth continued to slow in May, to -0.6% yoy from +0.2% yoy in April, the lowest since December 2022, partly due to last May's high base. That said, the services industry output index growth – which is on a real basis and tracks tertiary (services) GDP growth closely – edged up to 4.4% yoy in May from 4.3% yoy in April, and we believe its widening gap with retail sales growth suggests that services consumption growth continued to outperform goods consumption growth. Weaker-than-expected April-May activity data pose a downside risk to our Q2 real GDP growth forecast (4.0% qoq sa annualized and 4.7% yoy currently), while the latest development in the Middle East and recent policy communications bode well for a sequential growth improvement in Q3, in our view.

Asia-MAP scores:

Industrial production: 0 (5, 0)

Fixed asset investment: -10 (2, -5)

Retail sales: 0 (1, 0)

Key numbers:

Industrial production (IP): +4.5% yoy in May (GS forecast: +4.3% yoy; Bloomberg consensus: +4.4% yoy), vs. +4.1% yoy in April. Note sequential figures are highly sensitive to the specific seasonal adjustment methodology (NBS estimates: +0.4% mom sa non-annualized in May, vs. +0.1% mom sa non-annualized in April; GS estimates: +0.2% mom sa non-annualized in May, vs. -1.1% mom sa non-annualized in April).

Fixed asset investment (FAI): -4.1% ytd yoy in May (GS: -3.1% ytd yoy; consensus: -2.3% ytd yoy), vs. -1.6% ytd yoy in April; May single-month by GS estimates: -10.6% yoy, vs. -8.2% yoy in April (sequential growth by GS estimates: -4.4% mom sa non-annualized in May, vs. -9.4% mom sa non-annualized in April).

Retail sales: -0.6% yoy in May (GS: -0.6% yoy; consensus: -0.2% yoy), vs. +0.2% yoy in April (sequential growth by GS estimates: -0.4% mom sa non-annualized in May, vs. -1.0% mom sa non-annualized in April).

Services industry output index: +4.4% yoy in May, vs. +4.3% yoy in April (sequential growth by GS estimates: +0.4% mom sa non-annualized in May, vs. -0.2% mom sa non-annualized in April).

Surveyed unemployment rates:

- Nationwide: 5.1% in May, vs. 5.2% in April.
- 31 major cities: 5.1% in May, vs. 5.2% in April.

Property-related activity data:

- Floor space sold: -13.1% yoy in May, vs. -9.5% yoy in April (value of sales: -9.5% yoy in May, vs. -7.7% yoy in April).
- Floor area under construction: -12.3% yoy in May, vs. -12.1% yoy in April.
- New home starts: -24.6% yoy in May, vs. -26.6% yoy in April.
- New home completions: -19.9% yoy in May, vs. -18.8% yoy in April.
- Real estate investment: -24.3% yoy in May, vs. -20.1% yoy in April.

Main points:

1. Industrial production (IP) growth rose modestly to 4.5% yoy from 4.1% yoy thanks to stronger-than-expected exports, although automobile output growth remained weak and the ongoing global energy shock continued to weigh on chemical-related manufacturing output. In sequential terms, IP gained 0.2% mom non-annualized in May based on our estimates (vs. -1.1% mom non-annualized in April; Exhibit 1). By industry, the April-to-May acceleration in year-on-year IP growth was led by faster output growth in computer & other equipment, electronic machinery, and utilities industries, more than offsetting slower output growth in chemicals and non-ferrous metal smelting industries (Exhibit 2). Among major industrial products (different from by-industry breakdown), year-on-year growth in industrial robot output, metal cutting machine output and power generation rose to +27.9%, +10.7% and +4.2%, respectively, in May from +15.1%, +7.5% and +2.6% in April, while automobile, computer and smartphone output growth in year-on-year terms slowed to -3.2%, -19.4% and -8.8%, respectively, from -2.6%, -9.3% and +4.7%. Year-on-year growth in chemical fiber and sulfuric acid output remained weak at -3.3% and -1.6%, respectively, in May (vs. -3.9% and -2.2% in April), owing to continued supply chain disruptions amid the Middle East conflict. Crude steel and cement output growth increased slightly to -2.7% yoy and -8.1% yoy, respectively, in May from -2.8% yoy and -10.8% yoy in April.

2. Fixed asset investment (FAI) growth fell further -10.6% yoy in May from -8.2% yoy in April on a single-month basis (Exhibit 3), reflecting both adverse weather conditions (e.g., heavy rainfall in southern and central China and a heatwave in northern China) and a still-slow pace of government bond issuance. This takes year-to-date FAI growth to -4.1% yoy in May (vs. -1.6% yoy in April). By sector, year-on-year growth in infrastructure, property and other investment (i.e., services and agriculture-related) fell to -11.2%, -24.3% and -13.2%, respectively, in May from -5.6%, -20.1% and -10.6% in

April, while manufacturing investment growth improved slightly to -4.1% yoy from -4.8% yoy. That said, we caution that the occasional NBS "statistical correction" of previously over-reported data may have exaggerated the volatility of reported FAI growth in recent quarters, as the year-on-year contraction in crude steel and cement output narrowed modestly in May.

3. Nominal retail sales growth continued to slow in May, to -0.6% yoy from +0.2% yoy in April, the lowest since December 2022 (during the Covid exit wave), with year-on-year growth in goods sales and restaurant sales revenue both weakening. Offline goods sales growth dropped to -2.4% yoy in May from -0.2% yoy in April, while online goods sales growth rose to +2.8% yoy from +0.1% yoy. Restaurant sales revenue growth slowed to 0.6% yoy in May from 2.2% yoy in April. Retail sales by enterprises above the designated size declined 4.9% yoy in May (vs. -4.4% yoy in April), much weaker than headline retail sales growth, suggesting large retailers have underperformed smaller ones in recent months. Among major products, year-on-year growth in home appliance and electronic equipment sales slowed further to -15.6% and +0.7%, respectively, in May from -15.1% and +6.2% in April on a high base last year, and year-on-year contraction in automobile sales widened to -16.1% from -15.3%. Gasoline and other oil products sales growth remained subdued at -3.2% yoy in May, despite a modest improvement from -6.5% yoy in April. Adjusting for price factors, we estimate gasoline and other oil product sales volume contracted by 13% yoy in May (vs. -17% yoy in March-April) amid an 11% yoy increase in domestic fuel prices, which implies a larger demand response than historical patterns would suggest, likely because alternatives such as non-fossil energy supply, rapid EV adoption, and urban public transportation are now more widely available than in earlier oil-price upcycles. In sequential terms, retail sales value declined by 0.4% mom sa non-annualized in May after seasonal adjustment, based on our estimates (vs. -1.0% mom sa non-annualized in April).

4. Year-on-year growth in the Services Industry Output Index – which is on a real basis and tracks tertiary GDP growth closely (58% of the Chinese economy as of 2025) – edged up to 4.4% in May from 4.3% in April. Its gap with retail sales growth widened further to 5.0pp in May from 4.1pp in April, suggesting that services consumption growth continued to outperform goods consumption growth. In sequential terms, we estimate the Services Industry Output Index gained 0.4% mom sa non-annualized in May (vs. -0.2% mom sa non-annualized in April).

5. Property activity data remained under pressure in May despite recent green shoots in large cities (Exhibit 4). Year-on-year growth in property sales registered -13.1% in volume (floor space) terms and -9.5% in value terms in May (vs. -9.5%/-7.7% in April). New home under construction and completions growth slowed to -12.3% yoy and -19.9% yoy, respectively in May from -12.1% yoy and -18.8% yoy in April. New home starts growth remained depressed at -24.6% yoy in May, despite a modest improvement from -26.6% yoy in April. NBS and private sector data both showed continued downward pressure on home prices in May, mainly in lower-tier cities.

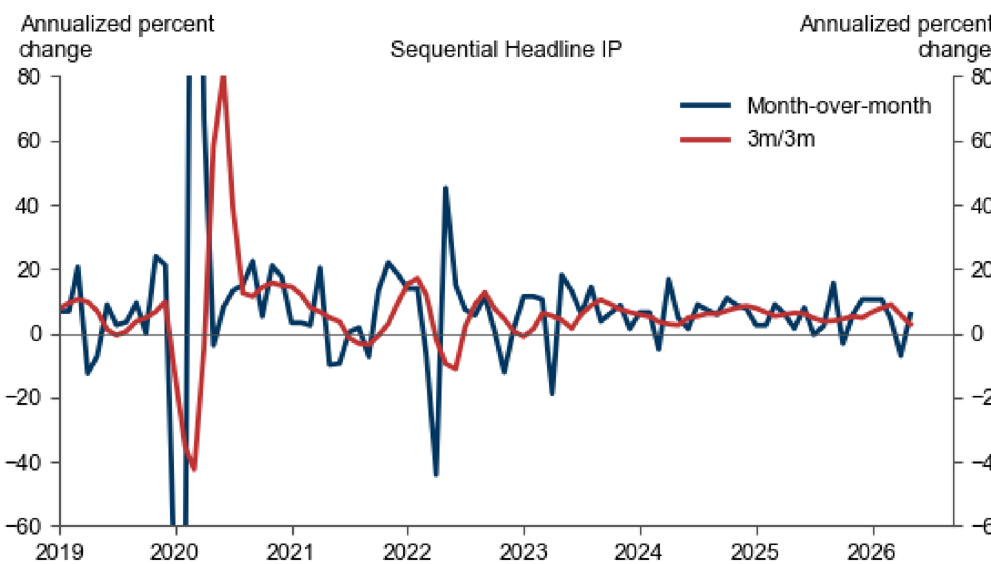
6. Regarding the labor market, both the nationwide and 31-city unemployment rates (not seasonally adjusted) edged down to 5.1% for May from 5.2% for April. After seasonal adjustment, we estimate the nationwide unemployment rate inched down to 5.2% in May from 5.3% in April, and the 31-city metric remained flat at 5.2% (Exhibit 5). The unemployment rate for migrant workers (without local Hukou) edged down to 4.9% in May from 5.0% in April after seasonal adjustment. Following the NBS definition

revisions (excluding students in schools) in January 2024, the release of youth unemployment rate data has been delayed by around three days vs. general labor market statistics. The latest data available suggests the unemployment rate of the 16-24 age group declined to 16.3% in April from 16.9% in March (vs. 15.8% in April 2025), while we caution that this indicator may have underestimated the labor market stress that younger generation is facing amid weak domestic demand and risks of AI adoption weighing on entry-level white-collar jobs, because of the definition change.

7. In our view, weaker-than-expected April-May activity data reflects the negative impact from the global energy-supply shock, adverse weather conditions and a lack of significant policy easing, and we see a downside risk to our Q2 real GDP growth forecast (4.0% qoq sa annualized and 4.7% yoy currently). However, the latest development in the Middle East and recent policy communications bode well for a sequential growth improvement in Q3, especially given the significant unused government bond quota left for the remainder of this year. We see July as an important window to monitor potential policy fine-tuning: if Q2 GDP disappoints meaningfully, there is a decent chance for policymakers to step up their easing rhetoric in the July Politburo meeting and draw on remaining fiscal buffers quickly to stabilize investment and growth.

Lisheng Wang

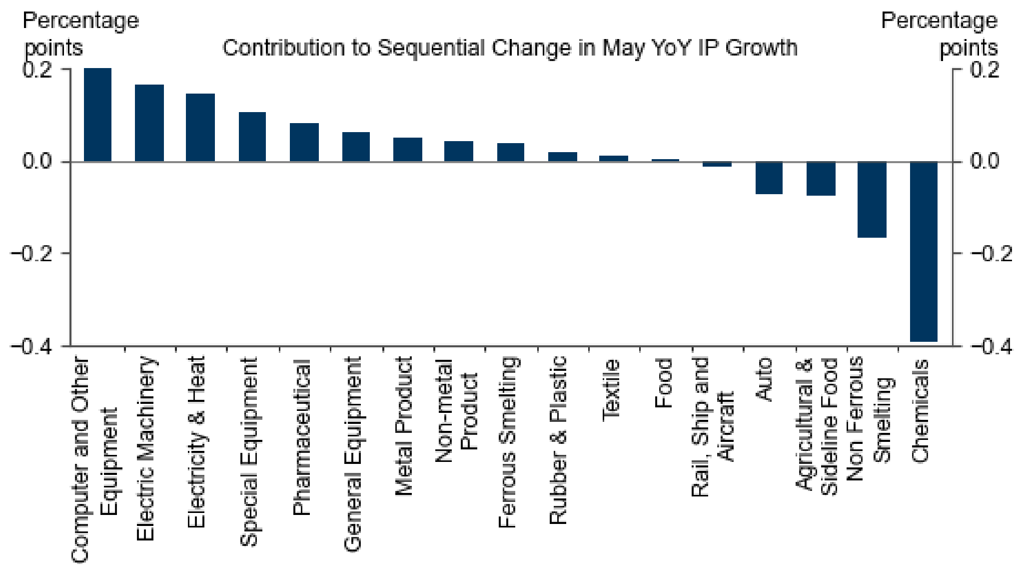
Exhibit 1: Industrial production rose in month-on-month terms in May after seasonal adjustment



Sequential IP growth numbers refer to GS estimates.

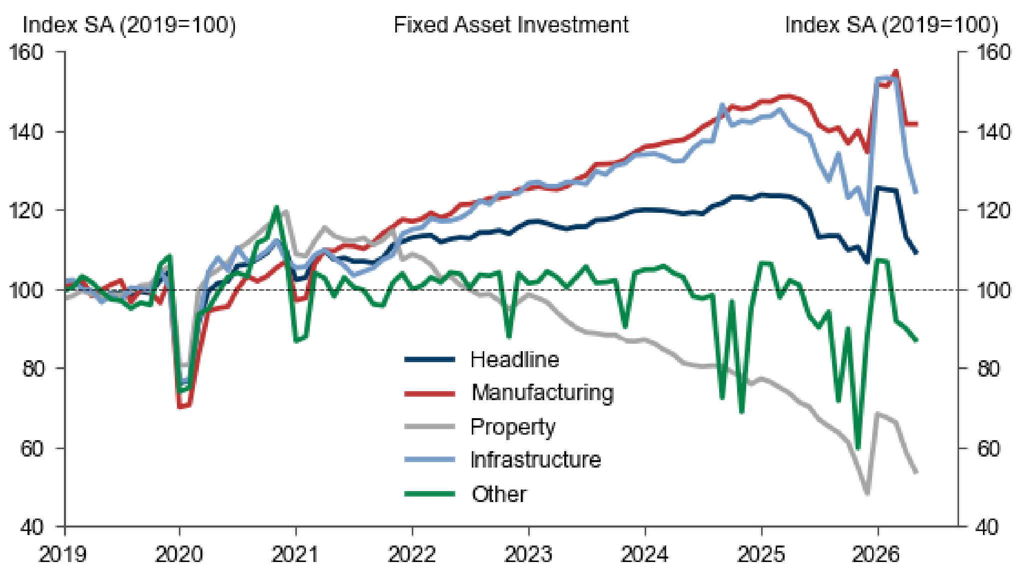
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 2: April-to-May acceleration in year-on-year IP growth was led by computer & other equipment, electric machinery and utilities industries



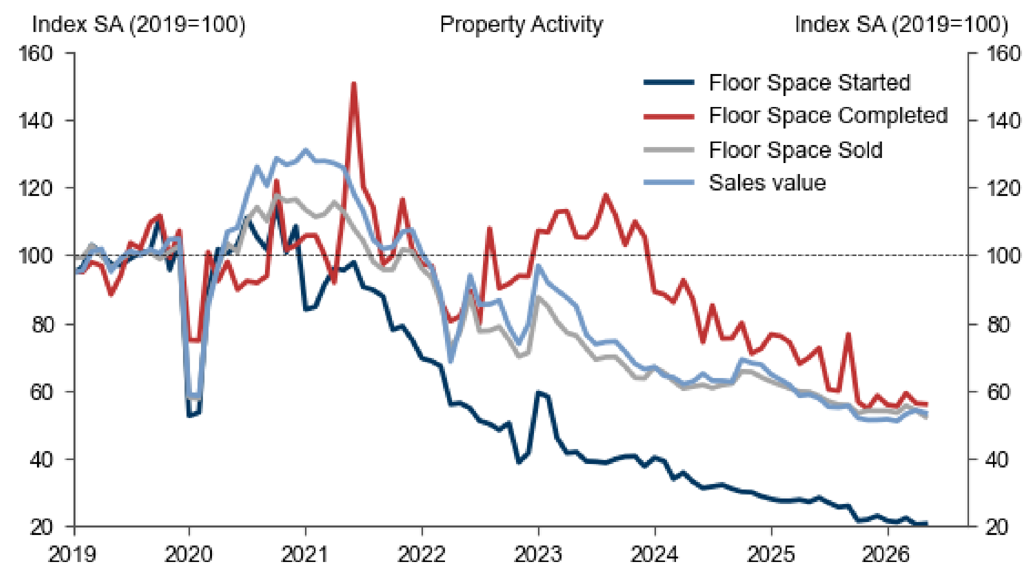
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 3: FAI growth declined further in May



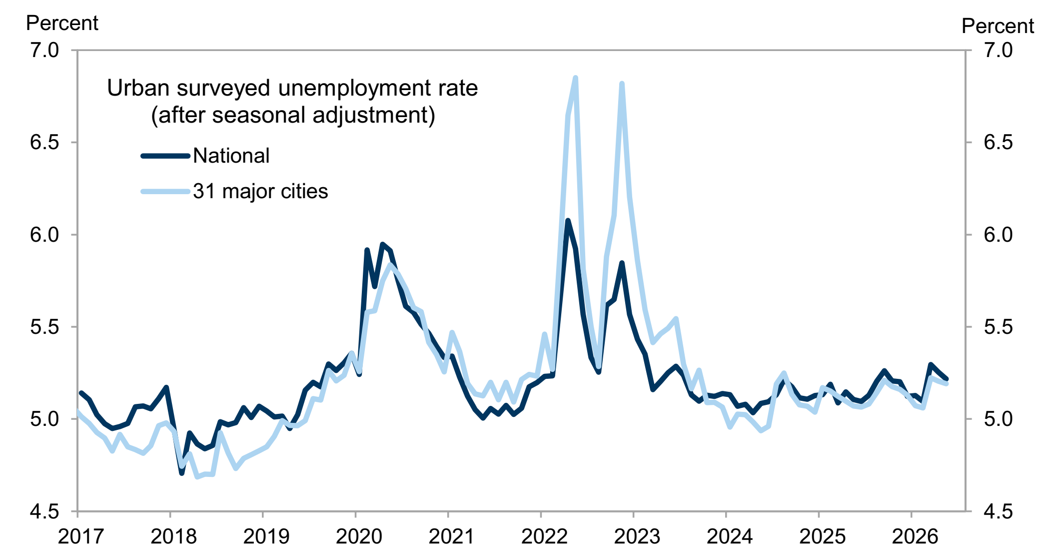
Source: CEIC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 4: Most property activity data remained subdued in May



Source: CEIC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 5: After seasonal adjustment, nationwide surveyed unemployment rate edged down in May, while the 31-city metric stayed flat



Source: NBS, Wind, Goldman Sachs Global Investment Research

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