China monthly: June and Q2 data preview

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Growth across major activity data slowed materially in April and May, confirming our view that the growth rebound in Q1 was short-lived, and we expect no major rebound in June. The export surge was largely fueled by a spike in chip prices amid the AI supercycle, which failed to provide a meaningful boost to real industrial production, while the Middle East conflict has severely *disrupted* factory operations across oil and chemical sectors. Growth of retail sales and fixed asset investment have turned negative again, as aggregate domestic demand is being weighed on by payback effects from the trade-in program, the prolonged property slump and a worsening of the *double K-shapes*. Based on an examination of both supply- and demand-side indicators, we maintain our forecast for real GDP growth to slow to 4.1% y-o-y in Q2 from 5.0% in Q1. With the *renewed* sharp declines in investment against Beijing's *commitment* to stabilize investment, we believe Beijing will likely accelerate bond issuance and step up fiscal spending in coming months.

Both supply- and demand-side indicators point to weaker growth in Q2

We evaluate Q2 GDP growth by analyzing supply- and demand-side indicators for April-May alongside our projections for June. We maintain our forecast for a marked slowdown in real GDP growth to 4.1% y-o-y in Q2 from 5.0% in Q1, while nominal GDP growth might stabilize in Q2 on an anticipated higher GDP deflator, compared with 4.9% in Q1.

The production side

On the supply side, monthly average growth for industrial and services output volumes slowed markedly to 4.3% y-o-y and 4.4%, respectively, in April-May. The quarterly growth of these data might both reach 4.5% y-o-y in Q2, down notably from 6.1% and 5.1%, respectively, in Q1. As industrial and services sectors account for 30% and 58% of GDP, respectively, a slowdown of this magnitude would shave 0.5pp and 0.4pp off of real GDP growth in Q2. Consequently, real GDP growth will likely slow noticeably to 4.1% y-o-y in Q2 from 5.0% in Q1, consistent with our current forecasts.

The expenditure side

The slowdown might have been even more pronounced when demand-side indicators are examined. In April-May, average monthly nominal growth for retail sales and fixed asset investment fell sharply to -0.2% y-o-y and -9.5%, respectively, while export growth in USD terms increased to 16.7%. We project Q2 quarter growth for these data at 0.2% y-o-y, -9.0% and 16.5%, respectively, compared with their readings of 2.4%, 1.7% and 14.7% in Q1. Factoring in higher anticipated inflation, we expect both real sales and FAI to contract markedly in Q2 in real terms. Moreover, since surging chip and electronics prices drove roughly half of the export strength, real export growth should be much lower than the nominal figure, resulting in a much smaller growth boost from exports and leaving it far from sufficient to offset the declines in retail sales and FAI.

Although demand-side indicators point a much sharper growth slowdown in Q2, we expect the official GDP figure to align more closely with supply-side indicators, as China's GDP is calculated primarily from the production side.

The GDP deflator is set to turn positive

Amid surging oil and chip prices, CPI and PPI inflation increased to 1.2% y-o-y and 3.4%, respectively, in April-May. We forecast the quarterly averages at 1.2% y-o-y and 3.6%, respectively, in Q2, up from 0.8% and -0.6% in Q1. With higher CPI and PPI inflation, we expect the GDP deflator to turn positive in Q2, rising to about 1.0% y-o-y from -0.1% in Q1 and breaking the trend in which it has been negative for 13 out of the past 14 quarters. However, the increase in inflation has been primarily driven by external factors, rather than a real recovery in domestic demand.

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June and Q2 data preview

Official manufacturing PMI in June: 49.8 (May: 50.0)

Official non-manufacturing PMI in June: 49.8 (May: 50.1)

RatingDog manufacturing PMI in June: 51.5 (May: 51.8)

We expect the official manufacturing PMI to drop to 49.8 in June from 50.0 in May, in view of sustained weakness in domestic demand, supply chain disruptions to upstream sectors despite recent easing of Middle East tensions and the weaker-than-usual EPMI. China's EPMI (Emerging Industries PMI), a non-seasonally adjusted leading indicator of the official PMI, dropped by 2.5pp to 50.4 in June from 52.9 in May, with the decline larger than the historical May-to-June average decrease of 1.4pp.

We expect the official non-manufacturing PMI to fall to 49.8 in June from 50.0 in May, as suggested by lackluster tourism spending during the Dragon Boat holiday. We believe household catering and entertainment demand could be further weighed down by ongoing *K-shape property market* and stock market rally amid the *AI boom*.

We expect the RatingDog manufacturing PMI (formerly Caixin manufacturing PMI), which surveys more SMEs and exporters in the eastern coastal region of China, to remain elevated at 51.5 in June, albeit down from 51.8 in May, supported *by robust exports driven by the AI supercycle*. Growth in imports from Korea accelerated further to 86.9% in 1-20 June from 80.9% in May, and growth in exports to Korea surged to 41.1% from 33.2% during the same period.

Industrial production growth in June: 4.5% y-o-y (May: 4.5%)

We expect industrial production (IP) growth to remain subdued in June, unchanged from 4.5% y-o-y in May, as supply disruptions from the Middle East conflict remain largely in place and as one additional working day should provide a modest technical lift. There are 21 working days this June, compared to 20 a year ago.

High-frequency data related to the oil and chemical industries

- The operating rate of Shandong oil teapot refineries slipped further to 48.8% at end-June from 53.6% in late May and 60.0% in late April. Its monthly average operating rate fell further to 1.4pp above last year's June levels from 6.2pp above in May, 7.0pp above in April and 9.7% above in March.
- The operating rate of purified terephthalic acid (PTA) factories rebounded to 62.3% at end-June from 55.5% at end-May, while its monthly average operating rate dropped to 15.0pp below last year's June levels from 9.6pp below in May.
- The operating rate of polyester filament yarns (PFY) factories in Jiangsu and Zhejiang provinces dropped to 73.8% at end-June from 79.2% at end-May, and its monthly average operating rate dropped to 16.4pp below last year's June levels from 10.3pp below in May.
- The operating rate of asphalt factories dropped further to 17.3pp below last year's June levels from 14.6pp below in May.

Other high-frequency data

- The weekly operating rate of cement factories increased to 2.4pp above last year's June levels from 0.3pp above in May.
- The weekly cement shipment-to-output ratio increased to 0.5pp above last year's June levels from 0.2pp above in May.
- Growth in weekly steel rebar output at major steel mills increased to 1.5% y-o-y in June from -8.2% in May, while output growth of crude steel also increased to -2.9% from -4.4%.
- Growth in the daily average volume of coal burned at power plants in eight provinces in South China moderated to 1.1% y-o-y in June from 2.6% in May.

Export growth in June: 16.2% y-o-y (May: 19.4%)

Import growth in June: 26.2% y-o-y (May: 27.4%)

Trade balance in June: USD111.3bn (May: USD105.4bn)

We expect export growth to remain elevated at 16.2% y-o-y in June, slowing only moderately from 19.4% in May, as we forecast persistently strong export momentum in the near term.

We expect import growth to edge down marginally to 26.2% y-o-y in June from 27.4% in May, driven by a higher base and strong price effects. We also expect the previous surge in global crude oil and natural gas prices to continue feeding into China's import data in June, given the approximate, 20-day shipping window from the Persian Gulf to China. We do not expect the recent pullback in crude prices to be reflected in June import data yet, although imports of crude in volume terms could remain highly depressed. Additionally, ongoing price increases across a range of semiconductor products – particularly memory chips – are adding further upward pressure to import values.

As a result, we expect the trade surplus to widen to USD111.3bn in June from USD105.4bn in May.

Higher-frequency trade-related data

According to the Ministry of Transport, growth in weekly container throughput at major ports edged up marginally to 4.3% y-o-y on a month-to-date basis (as of 21 June) from 4.2% in May.

DM manufacturing PMIs remain generally strong, despite some marginal pullback. The manufacturing PMIs for the US and Japan strengthened to 55.7 and 54.9, respectively, in June from 55.1 and 54.5 in May, while the euro area index edged down to 51.3 from 51.6.

On imports, the year-over-year change in the China Import Dry Bulk Freight Index (CDFI), which reflects freight rates for dry bulk cargo (including iron ore, coal, grain and nickel ore) imported into China, moderated to 48.4% y-o-y on a month-to-date basis in June from 76.3% in May. Brent crude oil price growth moderated notably to 21.8% y-o-y on a month-to-date basis in June from 68.3% in May but remains somewhat elevated.

CPI inflation in June: 1.2% y-o-y (May: 1.2%)

We expect CPI inflation to remain flat at 1.2% y-o-y in June, unchanged from May, as a smaller drag from food prices is largely offset by less support from energy and core prices. In sequential terms, we expect CPI inflation to remain at -0.1% m-o-m in June, unchanged from May and its year-ago level.

For energy prices, easing geopolitical tensions in the Middle East drove down global oil prices, prompting the NDRC to cut retail petrol prices by RMB1,040/tonne in month-to-date June, against a price hike of RMB325/tonne last year. We expect domestic retail fuel price inflation to drop to -3.1% m-o-m in June from -0.3% in May. However, due to a low base from last year (-12.0% m-o-m in June 2025), fuel price inflation still provides support to headline CPI inflation in year-on-year terms, albeit to a lesser extent. We expect domestic retail fuel price inflation to remain elevated at 21.3% y-o-y in June from 25.6% in May, which could boost headline CPI inflation by 0.64pp, given its weighting of 3%.

We expect food price inflation to improve to -1.3% y-o-y in June from -1.7% in May. In sequential terms, it is likely to improve to 0.0% m-o-m in June from -0.4% in May, also above the -0.4% recorded a year ago. According to high-frequency data from the MARA, the Agricultural Product Wholesale Price Index 200 improved to -0.1% y-o-y in June from -0.7% in May. The improvement was mostly led by egg prices, while pork prices remain a drag. Amid sustained unprofitability caused the mass culling of older hens and delayed restocking, egg price inflation surged to 41.8% y-o-y in month-to-date June from 17.8% in May, boosting headline inflation by 0.25pp, given its 0.6% weighting in the CPI basket. On the other hand, pork price inflation remained deeply muted at -28.2% y-o-y in June, little changed from -28.5% in May, dragging headline inflation by 0.53pp.

We expect core inflation to drop to 1.0% y-o-y in June from 1.1% in May, driven by weak domestic demand as suggested by lackluster sales data during the 618 shopping festivals and the Dragon Boat holiday. This could be partly offset by the recent rise in consumer electronics prices, driven by surging chip prices amid the AI supercycle.

PPI inflation in June: 4.0% y-o-y (May: 3.9%)

We expect PPI inflation to climb further to 4.0% y-o-y in June from 3.9% in May, due to a low base from last year, despite the retreat of global oil prices. On a sequential basis, PPI inflation is likely to turn negative at -0.3% m-o-m in June, down from 0.5% in May but above -0.4% recorded a year ago. As Brent oil prices retreated, support from prices of non-ferrous metals, AI-related products and new energy products is likely to remain intact.

Brent oil price inflation fell notably to 21.8% y-o-y in June from 68.3% in May, amid easing tensions in the Middle East. In sequential terms, Brent oil price inflation turned more negative, falling to -19.5% m-o-m in June from -10.4% in May. Falling oil prices should ease PPI inflation in oil-related sectors, which together comprise 14.1% of the PPI basket, according to our estimates.

Despite easing global oil prices, we see sustained drivers that support PPI inflation from non-ferrous metal prices and rising chip prices amid the AI boom. Global LME price inflation remained elevated at 38.4% y-o-y in month-to-date June (May: 41.7%); this should continue to support price inflation in non-ferrous related industries, which take up 7.3% of the PPI basket. Also, surging global chip prices should continue to push up PPI inflation in the computer, communication and other electronics equipment manufacturing sector, which accounts for 12.8% of the PPI basket.

Amid rising global demand for new energy products, prices of raw materials for solar panels and EV batteries remained elevated; this should provide support for PPI inflation in the electrical machinery and equipment manufacturing sectors, which account for 8.4% of the PPI basket.

Retail sales growth in June: 0.9% y-o-y (May: -0.6%)

We expect retail sales growth to remain soft at 0.9% y-o-y in June, little improvement from -0.6% in May, weighed down by payback effects from the scaled-back trade-in program, subdued consumer confidence and negative price effects from domestic fuel and consumer electronics, driven by imported inflation. By components, we expect retail sales growth in autos, catering and “merchandise excluding autos” of -16.0% y-o-y, 2.0% and -10.3%, respectively, in June from -16.1%, 0.6% and 3.3% in May.

On auto sales, according to early estimates from the CPCA, volume growth in passenger car retail sales is likely to remain subdued at -19.4% y-o-y in June (May: -22.1%). We expect auto sales to be the main drag for headline retail sales, due to the scaled-back trade-in program and the increase in the EV purchase tax to 5% from 0%.

For other components, growth in the catering sector is likely to remain soft, given the lackluster tourism revenue from the Dragon Boat holiday, but in year-on-year terms, it is likely to rebound slightly, as the *new austerity rule* rolled out last May significantly dragged down catering sales growth in June last year. Growth in merchandise sales excluding autos is likely to continue to fall back across major durable goods categories on the payback effect from the trade-in program. Households are also likely to cut spending on petroleum products and consumer electronics, given the rising prices led by imported inflation.

FAI growth in June: -8.4% y-o-y (May: -10.7%)

FAI growth in June: year-to-date: -5.3% y-o-y (May: -4.1%)

We expect FAI growth to rise slightly to -8.4% y-o-y in June from -10.7% in May, implying year-to-date growth of -5.3%. We see no material improvement in FAI growth in June, and the issuance of government bonds (both central and local) was again lower than the same period last year.

We expect fixed asset investment (FAI) growth to improve slightly to -8.4% y-o-y in June from -10.7% in May, which implies cumulative year-to-date growth of -5.3% for H1. Despite this modest monthly improvement, we see no material recovery in FAI growth in June. The persistent weakness reflects subdued fiscal support, with issuance of government bonds – both central and local – again falling below year-earlier levels in June. This continued shortfall in bond issuance has constrained public investment spending, limiting the scope for a meaningful rebound in overall FAI activity.

Property investment growth in June (single-month): -25.0% y-o-y (May: -24.3%)

Property investment growth in June (year-to-date): -18.2% y-o-y (May: -16.2%)

We expect the deep contraction in property investment to extend in June, at -25.0% y-o-y, worsening from -24.3% in May. On high-frequency data, growth in new home sales by floor space in the Wind survey of 20 major cities fell to -6.2% y-o-y in June from 0.0% in May. Growth in existing home sales volumes in a sample of 18 cities moderated to 12.8% y-o-y in June from 17.5% in May.

Amid the AI boom, existing home prices in tier-1 cities have shown further signs of stabilization, with three consecutive months of 0.4% m-o-m gains, while a couple of tier-2 cities have improved mildly. Shanghai emerged as the best performer among the NBS 70 surveyed cities, with existing home prices rising by 0.6% m-o-m in May and a cumulative gain of 1.9% from the January lows. Shenzhen reported a 0.6% gain in May, on par with Shanghai, backed by the latest *easing* of home purchase restrictions. Beijing and Guangzhou also posted consecutive mild price upticks. Hangzhou and Hefei are among the few tier-2 cities showing tentative positive market signals. By contrast, housing price declines worsened in most lower-tier cities, leading to a wider decline in national average housing prices again to 0.26% m-o-m in May, after the price decline narrowed over four straight months to a 0.23% decrease in April.

The home price data for May are largely in line with the Iceberg index, a leading indicator based on the lowest listing housing prices, which recorded a 0.3% m-o-m decline in *May*, following a 0.4% decrease in April. As the Iceberg index weekly data indicated a decline of 0.4% m-o-m in the first two weeks of June, we see a limited rebound in June.

Aggregate financing (AF) in June: RMB3,477bn (May: RMB2,026bn)

New RMB loans in June: RMB1,647bn (May: RMB520bn)

Outstanding AF growth in June: 7.4% y-o-y (May: 7.7%)

Outstanding RMB loan growth in June: 5.3% y-o-y (May: 5.5%)

M2 growth in June: 8.4% y-o-y (May: 8.6%)

We expect credit growth – measured as the year-on-year growth in outstanding aggregate financing (AF) – to decline further to 7.4% y-o-y in June from 7.7% in May, as strong corporate bond issuance was once again largely offset by weak new RMB loans. This is also likely to be weighed on by soft government bond issuance. Growth in outstanding RMB loans is also likely to fall further to 5.3% y-o-y in June from 5.5% in May.

In absolute terms, we forecast new AF and new RMB loans of RMB3,477bn and RMB1,647bn, respectively, in June, down from year-earlier levels of RMB4,225bn and RMB2,240bn.

On bond issuance, according to Wind's estimates using deal-level bond data, net government bond financing – for both central and local governments – was RMB940bn in June (as of 28 June), notably below its year-earlier level of RMB1,409bn.

For other major bond categories (as of 28 June), net corporate bond financing totalled RMB609bn, above its year-earlier level of RMB230bn. Net bond financing for LGFVs was -RMB26bn, above its year-earlier level of -RMB66bn. Property developers' net bond financing was RMB25bn, above its year-earlier level of -RMB6bn.

Short-term liquidity conditions tightened in June. The average DR007 rose to 1.436% on a month-to-date basis from 1.341% in May, returning to above the PBoC's 7-day OMO reverse repo rate of 1.40%, while the monthly average of 10-year CGB yields edged down to 1.730% from 1.748%.

Fig. 1: Forecast for June and Q2 economic indicators

Indicators	Unit	Forecast Jun 26	May 26	Apr 26	Q1 26	Q4 25	2025	2024	Release date
Economic survey									
Official mfg PMI	Index	**49.8**	50.0	50.3	49.6	49.4	49.6	49.8	30-Jun
Official non-mfg PMI	Index	**49.8**	50.1	49.4	49.7	49.9	50.2	50.9	30-Jun
RatingDog mfg PMI	Index	**51.5**	51.8	52.2	51.1	50.2	50.3	50.8	3-Jul
Activity									
Real GDP growth	% y-o-y	**4.1**			5.0	4.5	5.0	5.0	15-Jul
Industrial production (IP)	% y-o-y	**4.5**	4.5	4.1	6.1	5.0	5.9	5.8	15-Jul
Retail sales	% y-o-y	**1.0**	-0.6	0.2	2.4	1.7	3.7	3.5	15-Jul
Fixed asset investment (FAI) ytd	% y-o-y	**-5.3**	-4.1	-1.6	1.7	-3.8	-3.8	3.2	15-Jul
FAI	% y-o-y	**-8.4**	-10.7	-8.0	1.7	-12.8	-3.8	3.2	15-Jul
Inflation									
CPI	% y-o-y	**1.2**	1.2	1.2	0.9	0.6	0.0	0.2	9-Jul
PPI	% y-o-y	**4.0**	3.9	2.8	-0.6	-2.1	-2.6	-2.2	9-Jul
Trade									
Exports (USD)	% y-o-y	**16.2**	19.4	14.0	14.7	3.8	5.4	5.8	14-Jul
Imports (USD)	% y-o-y	**26.2**	27.4	25.2	23.2	3.6	0.2	1.0	14-Jul
Trade balance	% y-o-y	**111**	105	85	262	311	1181	993	14-Jul
Money and credit									
Outstanding aggregate financing	% y-o-y	**7.4**	7.7	7.8	7.9	8.3	8.3	8.0	9-15 Jul
Outstanding RMB loan	% y-o-y	**5.3**	5.5	5.6	5.7	6.4	6.4	7.6	9-15 Jul
M2	% y-o-y	**8.4**	8.6	8.6	8.5	8.5	8.5	7.3	9-15 Jul
New aggregate financing	RMB bn	**3,477**	2,026	624	14,826	5,518	35,603	32,259	9-15 Jul
New RMB loan	RMB bn	**1,647**	520	-10	8,600	1,520	16,270	18,090	9-15 Jul
Corporate bond	RMB bn		168	452	1,047	819	2,392	1,909	9-15 Jul
Government bond	RMB bn		1,224	904	3,544	2,376	13,837	11,295	9-15 Jul
Entrusted loan	RMB bn		-9	-28	-66	178	120	-58	9-15 Jul
Trust loan	RMB bn		5	-13	13	168	368	398	9-15 Jul
Property market									
Property investment ytd	% y-o-y	**-18.2**	-16.2	-13.7	-11.2	-17.2	-17.2	-10.6	15-Jul
Property investment	% y-o-y	**-25.0**	-24.3	-20.1	-11.2	-29.5	-17.2	-10.6	15-Jul
Property sales (value)	% y-o-y		-9.5	-7.7	-16.7	-24.1	-12.6	-17.1	15-Jul
Floor space sold	% y-o-y		-13.1	-9.5	-10.4	-16.9	-8.7	-12.9	15-Jul
Floor space started	% y-o-y		-24.6	-26.6	-20.3	-25.3	-20.4	-23.0	15-Jul
Funds for property development	% y-o-y		-21.5	-21.8	-17.3	-27.7	-13.4	-17.0	15-Jul
New home completion	% y-o-y		-19.9	-18.8	-25.0	-21.0	-18.1	-27.7	15-Jul
Homes under construction	% y-o-y		-12.3	-12.1	-11.7	-10.0	-10.0	-12.7	15-Jul

Note: For real GDP growth, June data forecast refers to Q2 forecast.
Source: Wind, Nomura Global Economics.

Key events in coming months

Date	Events
Late Jun	PBoC monetary policy committee meeting
Late Jul	Politburo meeting
Mid-Aug	PBoC monetary policy report for Q2 2026
24 Sep	President Xi's state visit to the US
Late Sep	PBoC monetary policy committee meeting
1-7 Oct	National Day Golden Week holiday
Mid-Nov	PBoC monetary policy report for Q3 2026
18-19 Nov	APAC Shenzhen
Mid Dec	Central Economic Work Conference
14-15 Dec	G20 Summit
Late Dec	PBoC monetary policy committee meeting
Late Dec	Politburo meeting

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Appendix A-1

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