China: Real GDP growth slowed meaningfully in Q2 amid mixed June activity data

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Bottom line:

China's real GDP growth slowed meaningfully in Q2 and missed market expectations, reflecting the negative impact from the global energy shock, slower government spending, and adverse weather conditions, although June activity data were mixed – industrial production (IP) and retail sales beat expectations, while fixed asset investment (FAI) missed. The details suggest China's economy remains highly bifurcated: exports and manufacturing—especially in the high-tech sectors—stayed resilient, while property construction and consumer spending remained weak. Real GDP growth slowed meaningfully to 4.3% yoy in Q2 from 5.0% yoy in Q1, with sequential growth easing to 0.9% qoq sa non-annualized in Q2 from 1.3% qoq sa non-annualized in Q1. By contrast, nominal GDP growth jumped to 5.9% yoy in Q2 from 4.9% yoy in Q1, as the GDP deflator turned positive on higher PPI inflation. IP growth rose to 5.3% yoy in June from 4.5% yoy in May on the back of stronger-than-expected exports, led by faster output growth in electric machinery, general equipment and metal product industries. In sequential terms, IP gained 1.0% mom non-annualized (vs. 0.4% mom non-annualized in May), consistent with last year's pattern of firmer sequential growth in quarter-end months. On a single-month basis, FAI growth remained depressed at -9.3% yoy in June despite a small improvement from -10.6% yoy in May, as unfavorable weather and slow government spending continued to weigh on activity. Retail sales growth rose to +1.0% yoy in June from -0.6% yoy in May on favorable base effects, although auto sales maintained double-digit year-on-year contraction, pointing to weakening effectiveness of the ongoing consumer goods trade-in program. The services industry output index—which is reported in real terms and closely tracks tertiary GDP growth—rose to 4.7% yoy in June from 4.4% yoy in May, and we view its wide gap with retail sales growth as evidence that services consumption continued to outperform goods consumption. Onboarding Q2 GDP outturns, we maintain our sequential growth forecast for coming quarters, which leads to a mechanical downward revision to our 2026 full-year real GDP growth forecast to 4.6% from 4.7% previously. We expect policymakers to step up their easing rhetoric in the July Politburo meeting and draw on remaining fiscal buffers quickly to stabilize investment and growth.

Asia-MAP scores:

GDP: -5 (5, -1)

Industrial production: +5 (5, +1)

Fixed asset investment: -6 (2, -3)

Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

Retail sales: +1 (1, +1)

Key numbers:

GDP: +4.3% yoy in Q2 (GS forecast: +4.5% yoy; Bloomberg consensus: +4.5% yoy), +0.9% quarter-over-quarter sa non-annualized in Q2. Q1: +5.0% yoy, +1.3% quarter-over-quarter sa non-annualized.

Industrial production (IP): +5.3% yoy in June (GS forecast: +5.0% yoy; consensus: +4.6% yoy), vs. +4.5% yoy in May. Note sequential figures are highly sensitive to the specific seasonal adjustment methodology (NBS estimates: +0.8% mom sa non-annualized in June, vs. +0.4% mom sa non-annualized in May; GS estimates: +1.0% mom sa non-annualized in June, vs. +0.4% mom sa non-annualized in May).

Fixed asset investment (FAI): -5.7% ytd yoy in June (GS: -5.4% ytd yoy; consensus: -5.0% ytd yoy), vs. -4.1% ytd yoy in May; June single-month by GS estimates: -9.3% yoy, vs. -10.6% yoy in May (sequential growth by GS estimates: -0.1% mom sa non-annualized in June, vs. -3.7% mom sa non-annualized in May).

Retail sales: +1.0% yoy in June (GS: -0.1% yoy; consensus: -0.1% yoy), vs. -0.6% yoy in May (sequential growth by GS estimates: +0.6% mom sa non-annualized in June, vs. -0.2% mom sa non-annualized in May).

Services industry output index: +4.7% yoy in June, vs. +4.4% yoy in May (sequential growth by GS estimates: +0.6% mom sa non-annualized in June, vs. +0.5% mom sa non-annualized in May).

Surveyed unemployment rates:

- Nationwide: 5.0% in June, vs. 5.1% in May.
- 31 major cities: 5.0% in June, vs. 5.1% in May.

Property-related activity data:

- Floor space sold: -14.2% yoy in June, vs. -13.1% yoy in May (value of sales: -13.9% yoy in June, vs. -9.5% yoy in May).
- Floor area under construction: -12.5% yoy in June, vs. -12.3% yoy in May.
- New home starts: -26.0% yoy in June, vs. -24.6% yoy in May.
- New home completions: -25.0% yoy in June, vs. -19.9% yoy in May.
- Real estate investment: -24.2% yoy in June, vs. -24.3% yoy in May.

Main points:

1. China's real GDP growth slowed to a weaker-than-expected 4.3% yoy in Q2 from 5.0% yoy in Q1, below market consensus and our forecast (4.5% yoy). Although Q2 real GDP growth fell below the lower bound of this year's growth target (4.5-5.0%), average growth in H1 was 4.7% yoy. In sequential terms, NBS estimated that real GDP growth moderated to 0.9% qoq sa non-annualized in Q2 from 1.3% qoq sa non-annualized in Q1, consistent with market consensus and our forecast (0.9% qoq sa non-annualized). We believe the combination of weaker-than-expected year-on-year growth and in-line sequential growth stems from the NBS revisions to historical sequential growth estimates. Specifically, the NBS slightly raised its sequential growth estimate slightly for

Q2 2025 (to 1.2% qoq non-annualized from 1.1% qoq non-annualized previously) but lowered it for Q4 2025 (to 1.1% qoq annualized from 1.2% qoq non-annualized previously), although this appears to be a common practice as the magnitude of revisions was still within the historical range. By comparison, nominal GDP growth increased notably to 5.9% yoy in Q2 from 4.9% yoy in Q1, as the GDP deflator turned positive in Q2 (+1.6% yoy vs. -0.1% yoy in Q1), ending the longest span (12 consecutive quarters) with negative prints since the 1960s thanks to a significant increase in PPI inflation amid higher global energy prices.

2. Industrial production (IP) growth rose further to 5.3% yoy in June from 4.5% yoy in May thanks to stronger-than-expected exports. In sequential terms, IP gained 1.0% mom non-annualized in June based on our estimates (vs. +0.4% mom non-annualized in May; Exhibit 1). By industry, the May-to-June acceleration in year-on-year IP growth was led by faster output growth in electric machinery, general equipment and metal product industries, more than offsetting slower output growth in computer and other equipment industries (Exhibit 2). Among major industrial products (different from by-industry breakdown), growth in industrial robot output and metal cutting machine output rose to +28.1% yoy and +18.1% yoy, respectively, in June from +27.9% yoy and +10.7% yoy in May, and year-on-year contraction in automobile output also narrowed to -0.2% from -3.2%. Crude steel and cement output growth rose to +0.4% yoy and -5.6% yoy, respectively, in June from -2.7% yoy and -8.1% yoy in May. By comparison, year-on-year growth in smartphone output and power generation slowed to -13.6% and +2.0%, respectively, in June from -8.8% and +4.2% in May. Chemical fiber and sulfuric acid output growth also declined to -3.8% yoy and -10.0% yoy, respectively, in June from -3.3% yoy and -1.6% yoy in May, owing to the lingering supply chain disruptions amid the Middle East conflict.

3. Fixed asset investment (FAI) growth remained sluggish at -9.3% yoy in June on a single-month basis, despite a small improvement from -10.6% yoy in May (Exhibit 3), as unfavorable weather and slow government spending continued to weigh on activity. This takes year-to-date FAI growth to -5.4% yoy in June (vs. -4.1% yoy in May). By sector, year-on-year growth in infrastructure, property and manufacturing investment increased slightly to -9.4%, -24.2% and -2.8%, respectively, in June from -11.5%, -24.3% and -4.1% in May, while other investment (i.e., services and agriculture-related) growth fell to -16.0% yoy from -12.5% 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. Our proprietary investment tracker suggests real investment growth moderated to +3.6% yoy in Q2 (advance estimate; subject to further changes) from +4.1% yoy in Q1.

4. Nominal retail sales growth rebounded to +1.0% yoy in June from -0.6% yoy in May, with year-on-year growth in goods sales and restaurant sales revenue both improving, mainly on favorable base effects. Offline goods sales growth rose to -0.5% yoy in June from -2.4% yoy in May, and online goods sales growth increased to +3.9% yoy from +2.8% yoy. Restaurant sales revenue growth rose to +1.2% yoy in June f
May. Retail sales by enterprises above the designated size fell 2.0% yoy
compared with a 4.9% yoy decline in May; it remained well below headl
growth, pointing to continued underperformance by large retailers vers
Among major products, home appliance and electronic equipment sale
improved to -8.7% yoy and +16.5% yoy, respectively, in June from -15.6



+0.7% yoy in May, thanks to favorable base effects; automobile sales contraction was unchanged at -16.1% yoy. Gasoline and other oil products sales growth fell to -5.1% yoy in June from -3.2% yoy in May. Adjusting for price factors, we estimate gasoline and other oil product sales volume contracted by 21% yoy in June (vs. -23% yoy in April-May) amid a 21% yoy increase in domestic retail 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 rose by 0.6% mom sa non-annualized in June after seasonal adjustment, based on our estimates (vs. -0.2% mom sa non-annualized in May).

5. 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) – increased to 4.7% in June from 4.4% in May. The gap between the index and retail sales growth remained wide in recent months, indicating that services consumption continued to outpace goods consumption. In sequential terms, we estimate the Services Industry Output Index gained 0.6% mom sa non-annualized in June (vs. +0.5% mom sa non-annualized in May).

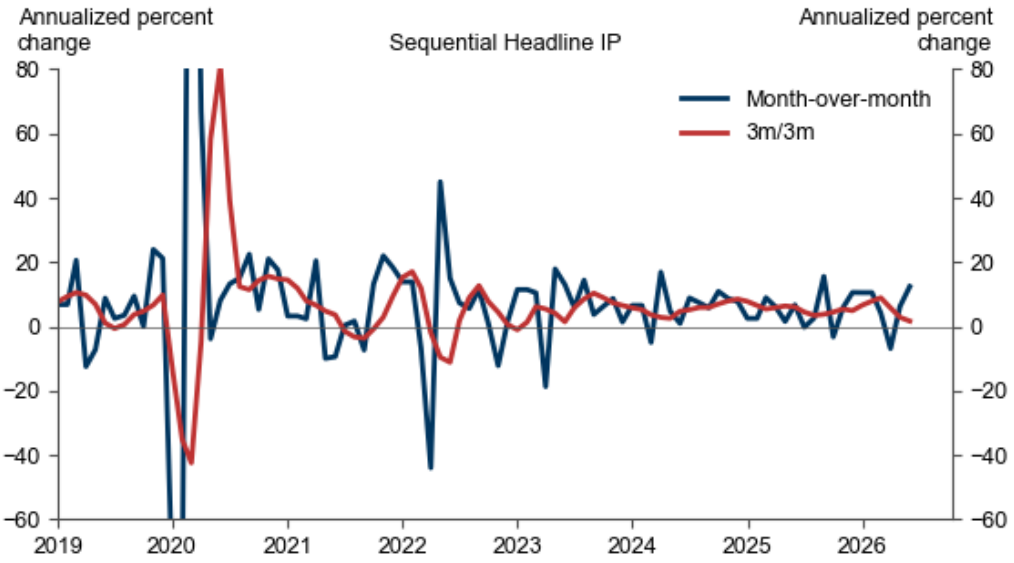
6. Property activity remained depressed in June despite recent green shoots in some large cities (Exhibit 4). Year-on-year growth in property sales registered -14.2% in volume (floor space) terms and -13.9% in value terms in June (vs. -13.1%/-9.5% in May). New homes under construction and completions growth fell to -12.5% yoy and -25.0% yoy, respectively, in June from -12.3% yoy and -19.9% yoy in May. New home starts growth slowed to -26.0% yoy in June from -24.6% yoy in May. NBS and private sector data both showed continued downward pressure on home prices, mainly in lower-tier cities.

7. Regarding the labor market, both the nationwide and 31-city unemployment rates (not seasonally adjusted) inched down to 5.0% for June from 5.1% for May. After seasonal adjustment, we estimate that both the nationwide and 31-city unemployment rate edged down to 5.1% in June from 5.2% in May (Exhibit 5). However, the unemployment rate for migrant workers (without local Hukou) inched up to 4.9% in June from 4.8% in May 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 15.6% in May from 16.3% in April (vs. 14.5% in May 2025), but it may rebound in July-August on seasonal factors amid college graduation. We caution that this indicator may have underestimated the labor market stress that the 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.

8. Onboarding Q2 GDP outturns and NBS revisions to historical sequential growth estimates, we maintain our sequential growth forecast for coming quarters, which leads to a mechanical downward revision to our 2026 full-year real GDP growth forecast to 4.6% from 4.7% previously (Exhibit 6). We expect policymakers to step up their easing rhetoric in the July Politburo meeting and draw on remaining fiscal buffers quickly to stabilize investment and growth, although significant and broad-based stimulus appears less likely given exports still resilient and the full-year growth target of 4.5-5.0% still on track.

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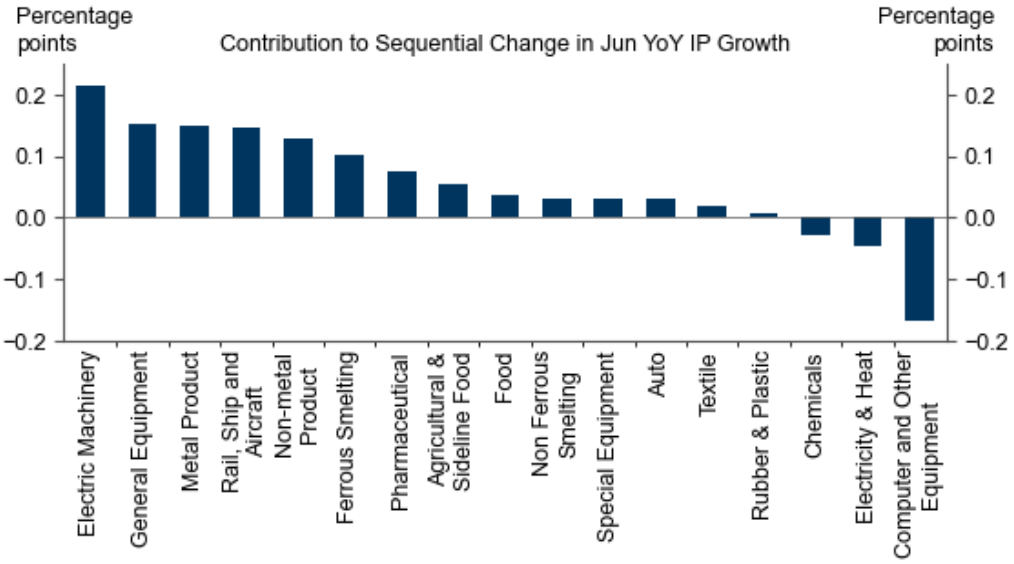
Exhibit 1: Industrial production rose in month-on-month terms in June after seasonal adjustment



Sequential IP growth numbers refer to GS estimates.

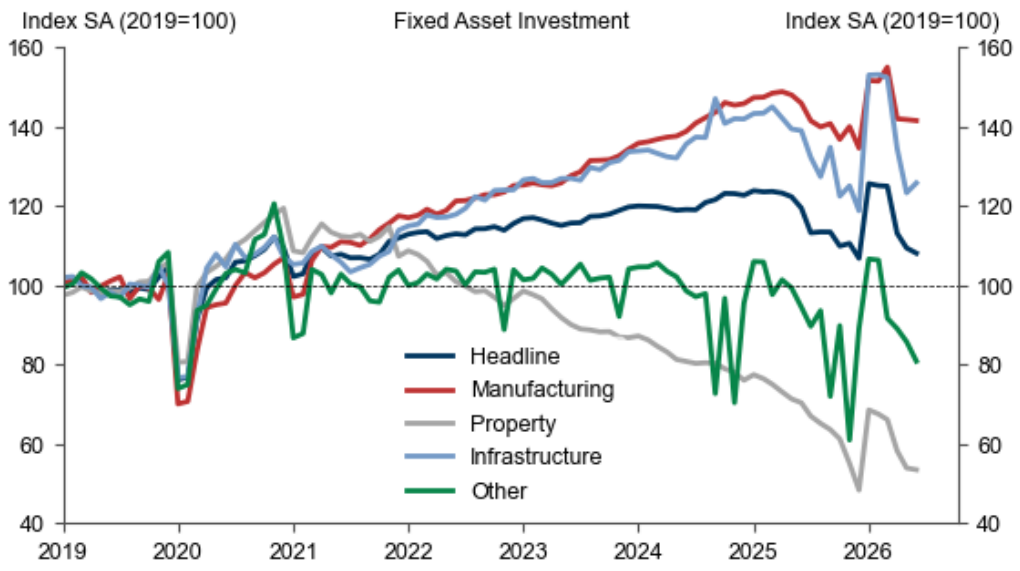
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 2: May-to-June acceleration in year-on-year IP growth was led by electric machinery, general equipment and metal product industries



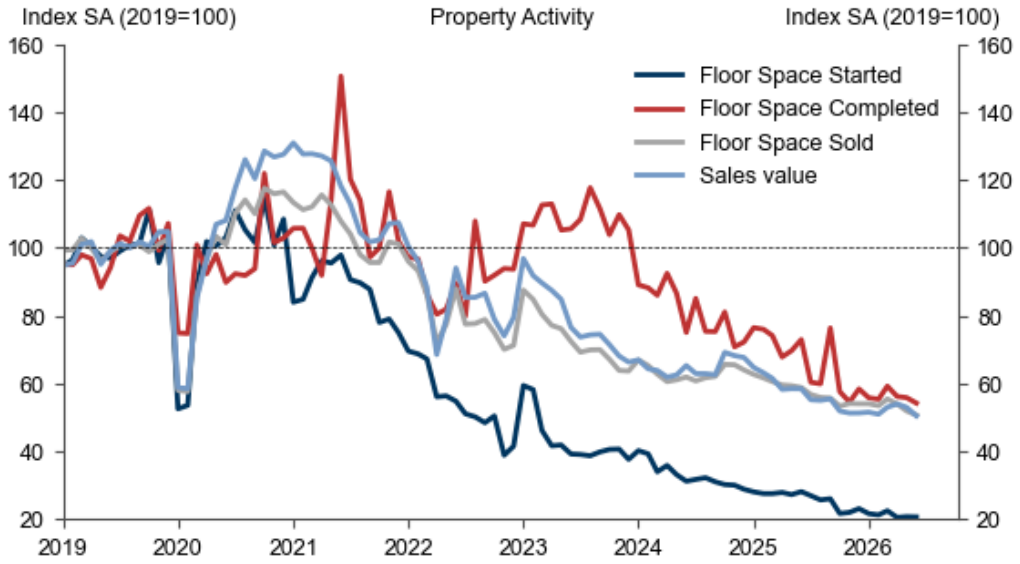
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 3: FAI growth remained subdued in June



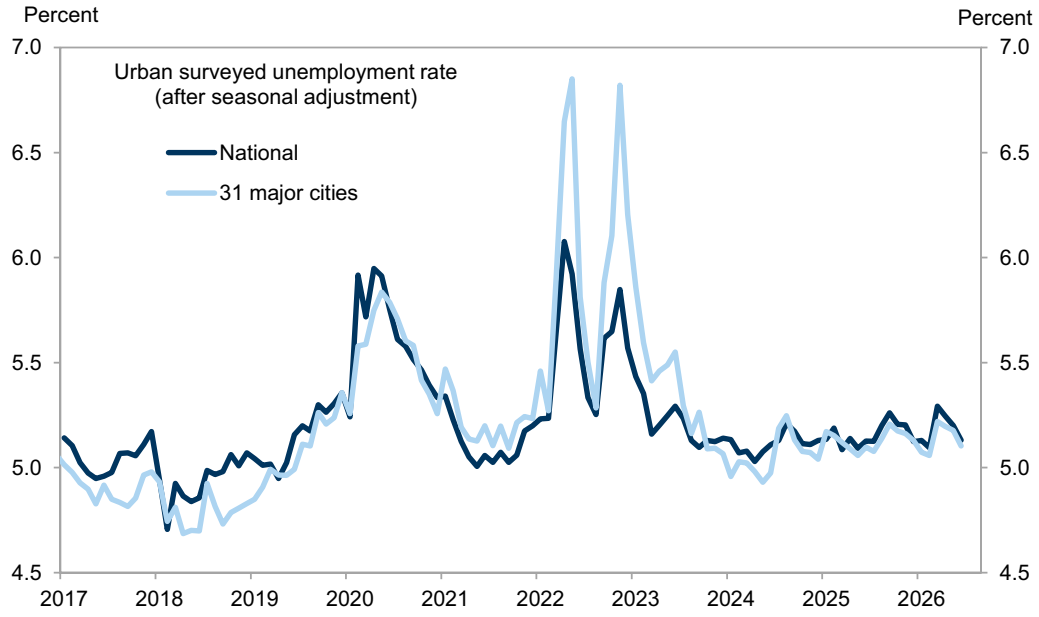
Source: CEIC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 4: Most property activity indicators remained depressed in June



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

Exhibit 5: After seasonal adjustment, both the nationwide and 31-city unemployment rate inched down in June



Source: NBS, Wind, Goldman Sachs Global Investment Research

Exhibit 6: Onboarding Q2 outturns, our 2026 full-year real GDP growth forecast has been mechanically lowered to 4.6% from 4.7% previously

China real GDP growth forecast					
		New YoY%	Previous YoY%	**New QoQ%, SAAR**	Previous QoQ%, SAAR
2023		**5.4**	5.4		
2024		**5.0**	5.0		
2025		**5.0**	5.0		
2026		**4.6**	4.7		
2027		**4.7**	4.7		
2025	Q1	**5.4**	5.4	**4.5**	4.5
	Q2	**5.2**	5.2	**4.9**	4.5
	Q3	**4.8**	4.8	**4.5**	4.5
	Q4	**4.5**	4.5	**4.5**	4.9
2026	Q1	**5.0**	5.0	**5.3**	5.3
	Q2	**4.3**	4.5	**3.6**	3.5
	Q3	**4.6**	4.7	**5.0**	5.0
	Q4	**4.6**	4.6	**4.5**	4.5

Source: NBS, Goldman Sachs Global Investment Research

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