China: July activity data broadly weakened and missed expectations, pointing to a soft start to Q3

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Bottom line:

China's July activity data weakened broadly from June and missed market expectations, pointing to a soft start to Q3 amid continued divergence between resilient exports and subdued domestic demand. Industrial production (IP) growth slowed to 4.5% yoy in July from 5.3% yoy in June, reflecting slower export growth and weaker output growth in ferrous metals smelting, power generation, and pharmaceuticals industries. In sequential terms, IP contracted 0.3% mom non-annualized in July (vs. +1.0% mom non-annualized in June), broadly consistent with last year's pattern of softer quarter-start momentum. Fixed asset investment (FAI) growth fell to -12.8% yoy in July from -9.3% yoy in June on a single-month basis despite a low base, as unfavorable weather and slow government spending continued to weigh on investment activity. Retail sales growth eased to +0.6% yoy from +1.0% yoy in June despite favorable base effects, mainly dragged down by goods sales. The Services Industry Output Index—which is reported in real terms and closely tracks tertiary GDP growth—also slowed to 4.3% yoy in July from 4.7% yoy in June. Together with our high-frequency trackers for the first half of August, the July activity data point to downside risk to our Q3 real GDP growth forecast of 4.6% yoy.

Asia-MAP scores:

Industrial production: -5 (5, -1)

Fixed asset investment: -4 (2, -2)

Retail sales: -1 (1, -1)

Key numbers:

Industrial production (IP): +4.5% yoy in July (GS forecast: +4.6% yoy; Bloomberg consensus: +5.0% yoy), vs. +5.3% yoy in June. Note sequential figures are highly sensitive to the specific seasonal adjustment methodology (NBS estimates: +0.1% mom sa non-annualized in July, vs. +0.8% mom sa non-annualized in June; GS estimates: -0.3% mom sa non-annualized in July, vs. +0.9% mom sa non-annualized in June).

Fixed asset investment (FAI): -6.7% ytd yoy in July (GS: -5.8% ytd yoy; consensus: -6.2% ytd yoy), vs. -5.7% ytd yoy in June; July single-month by GS estimates: -12.8% yoy, vs. -9.3% yoy in June (sequential growth by GS estimates: -6.0% mom sa non-annualized in July, vs. -1.3% mom sa non-annualized in June).

Retail sales: +0.6% yoy in July (GS: +1.5% yoy; consensus: +1.5% yoy), vs. +1.0% yoy in June (sequential growth by GS estimates: -0.4% mom sa non-annualized in July, vs.

+0.7% mom sa non-annualized in June).

Services industry output index: +4.3% yoy in July, vs. +4.7% yoy in June (sequential growth by GS estimates: +0.2% mom sa non-annualized in July, vs. +0.6% mom sa non-annualized in June).

Surveyed unemployment rates:

- Nationwide: 5.2% in July, vs. 5.0% in June.
- 31 major cities: 5.2% in July, vs. 5.0% in June.

Property-related activity data:

- Floor space sold: -13.5% yoy in July, vs. -14.2% yoy in June (value of sales: -8.8% yoy in July, vs. -13.9% yoy in June).
- Floor area under construction: -12.7% yoy in July, vs. -12.5% yoy in June.
- New home starts: -27.8% yoy in July, vs. -26.0% yoy in June.
- New home completions: -18.7% yoy in July, vs. -25.0% yoy in June.
- Real estate investment: -27.5% yoy in July, vs. -24.2% yoy in June.

Main points:

1. Industrial production (IP) growth slowed to 4.5% yoy in July from 5.3% yoy in June, reflecting slower export growth and a deeper year-on-year contraction in steel production and demand. Sequentially, we estimate IP contracted 0.3% mom non-annualized in July (vs. +0.9% mom non-annualized in June; Exhibit 1), consistent with last year's pattern of softer sequential IP growth at the start of each quarter. By industry, the June-to-July deceleration in year-on-year IP growth was led by slower output growth in ferrous metals smelting, power generation, and pharmaceuticals manufacturing industries, more than offsetting faster output growth in computer & other equipment, and electric machinery industries (Exhibit 2). Among major industrial products (different from by-industry IP breakdown), crude steel and cement output growth fell to -3.6% yoy and -11.6% yoy, respectively, in July, from +0.4% yoy and -5.6% yoy in June, and power generation growth also slowed to -0.1% yoy from +2.0% yoy. Smartphone output growth weakened to -22.9% yoy in July from -13.6% yoy in June, while growth in industrial robot output and automobile output rose slightly to +30.2% yoy and -0.1% yoy, respectively, from +28.1% yoy and -0.2% yoy. Chemical fiber and sulfuric acid output growth remained weak at -1.7% yoy and -14.0% yoy, respectively, in July (vs. -3.8% yoy and -10.0% yoy in June), amid lingering supply chain disruptions related to the Middle East conflict.

2. Fixed asset investment (FAI) growth fell to -12.8% yoy in July from -9.3% yoy in June on a single-month basis (Exhibit 3) despite a low base. Sequentially, FAI declined sharply by 6.0% mom non-annualized in July (vs. -1.3% mom non-annualized in June), as unfavorable weather conditions and slow government spending contin
investment activity. This brought year-to-date FAI growth to -6.7% yoy
yoy in June). By sector, infrastructure investment growth based on GS d
to -39.0% yoy in July from -9.4% yoy in June, while other investment (i.
agriculture-related) growth rebounded to +33.6% yoy from -16.1% yoy
combined year-on-year FAI growth in these two sectors slowed in July

-11.1% in June), the sharp divergence suggests possible statistical issues, either related to definition changes or underlying data quality. Manufacturing and property investment growth also softened, to -4.4% yoy and -27.5% yoy, respectively, from -2.8% yoy and -24.2% yoy in June. Although we caution that occasional NBS "statistical corrections" of previously over-reported data may have amplified reported FAI volatility in recent quarters, the July year-on-year FAI contraction appeared broadly consistent with steel and cement output performance.

3. Nominal retail sales growth slowed to +0.6% yoy in July from +1.0% yoy in June despite a low base, missing market expectations for an improvement and dragged down by goods sales. Online and offline goods sales growth slowed to +3.3% yoy and -0.6% yoy, respectively, in July from +3.9% and -0.5% in June, while restaurant sales revenue growth edged up to +1.4% yoy from +1.2%. Sequentially, we estimate retail sales value declined 0.4% mom sa non-annualized in July after seasonal adjustment (vs. +0.7% mom sa non-annualized in June). Among major product categories, the automobile sales contraction widened to -17.0% yoy in July from -16.1% yoy in June, and year-on-year growth in food and clothing sales slowed to +5.3% and -1.0%, respectively, from +7.9% and +3.9%. Gasoline and other oil-product sales growth weakened further to -7.6% yoy from -5.1% in June. Adjusting for prices, we estimate gasoline and other oil-product sales volume declined 9% yoy in July (vs. -21% yoy in June) amid a 2% yoy increase in domestic retail fuel prices. By contrast, home appliance and electronic equipment sales growth improved to -1.9% yoy and +20.4% yoy, respectively, from -8.7% and +16.5% in June, supported by favorable base effects. Separately, the NBS began publishing a new series this year on retail sales value for goods and services, which rose 2.6% yoy in January-July, with services sales growth of 5.0% outpacing goods sales growth of 1.1%.

4. Year-on-year growth in the Services Industry Output Index—which is reported in real terms and closely tracks tertiary GDP growth, accounting for 58% of China's economy in 2025—slowed to 4.3% in July from 4.7% in June. Sequentially, we estimate the index rose 0.2% mom sa non-annualized in July (vs. +0.6% mom sa non-annualized in June).

5. Property activity remained sluggish in July despite recent green shoots in some large cities (Exhibit 4). Property sales fell 13.5% yoy in volume (floor space) terms and 8.8% yoy in value terms in July (vs. -14.2%/-13.9% in June). Growth in new home starts and floor space under construction weakened to -27.8% yoy and -12.7% yoy, respectively, in July from -26.0% and -12.5% in June. New home completions remained soft at -18.7% yoy in July, though less negative than -25.0% yoy in June. NBS and private-sector data suggest nationwide home prices remain under downward pressure, even as some large cities show early signs of stabilization.

6. Labor market indicators were broadly stable and in line with seasonal patterns in July. The nationwide and 31-city unemployment rates, both not seasonally adjusted, edged up to 5.2% in July from 5.0% in June. On a seasonally adjusted basis, we estimate both rates were unchanged from June at 5.1% (Exhibit 5). The unemployment rate for migrant workers without local Hukou also remained flat at 4.8% after seasonal adjustment. Following the NBS definition change in January 2024, which excludes students in school, youth unemployment data have been released about three days later than the broader labor market statistics. The latest available data show the unemployment rate for those aged 16-24 fell to 14.9% in June from 15.6% in May (vs. 14.5% in June 2025), though it should rebound in July-August on seasonal factors around college graduation. We caution that, because of the definition change, this indicator may understate

labor-market stress facing the younger generation, amid weak domestic demand and potential pressure from AI adoption on entry-level white-collar jobs.

7. July activity data and our high-frequency tracker for the first half of August suggest a soft start to Q3 — unfavorable weather conditions (e.g., recent Typhoon Dolphin) and the ongoing global energy shock continue to weigh on activity, while government spending has yet to pick up meaningfully despite stronger easing signals from the July Politburo meeting. Against this backdrop, we see downside risk to our Q3 real GDP growth forecast of 4.6% yoy (vs. 4.3% yoy in Q2). We continue to expect the government to accelerate the pace of bond issuance and proceeds spending in coming months, speed up implementation of the new policy-based financial instrument, and keep the door open to additional easing later this year if growth slows further and the full-year growth target of “4.5-5.0%” comes under pressure.

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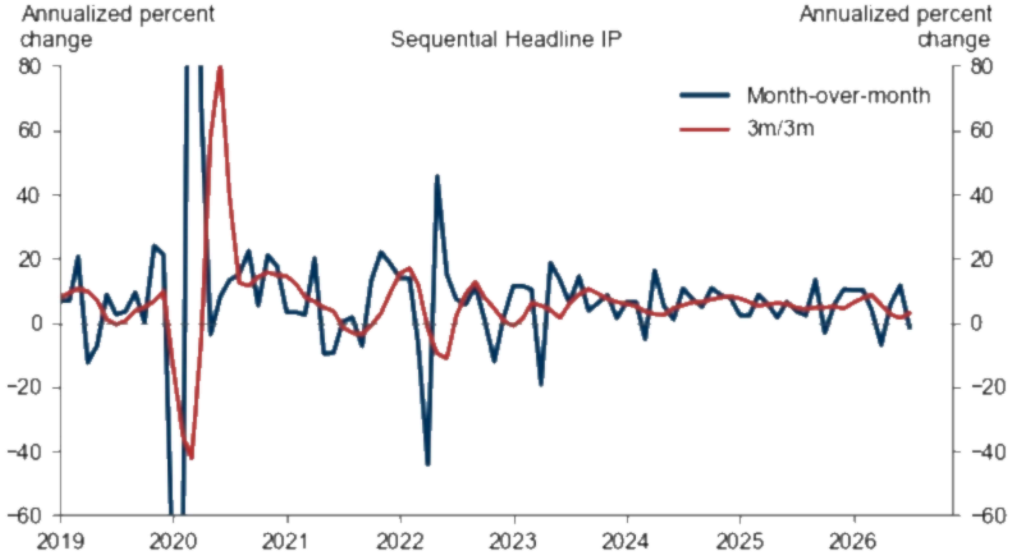
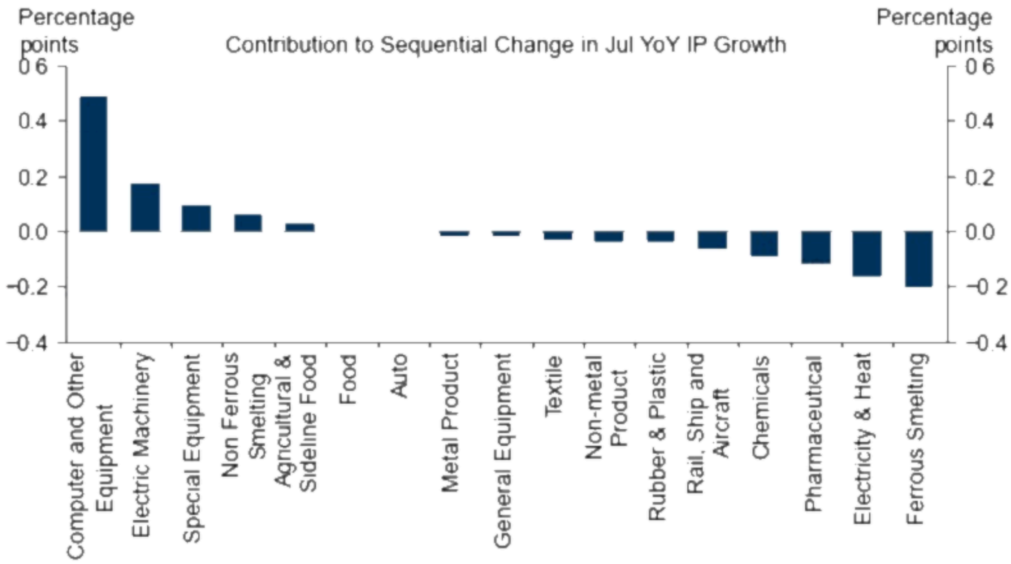
Exhibit 1: Industrial production contracted in month-on-month terms in July after seasonal adjustment



Sequential IP growth numbers refer to GS estimates.

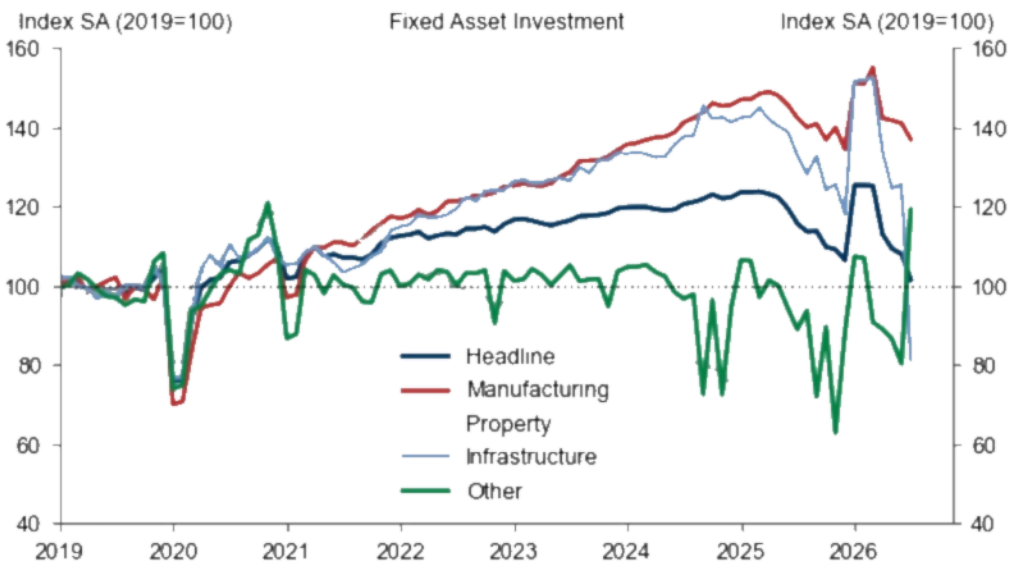
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 2: June-to-July deceleration in year-on-year IP growth was led by weaker output growth in ferrous metals smelting, power generation, and pharmaceuticals industries



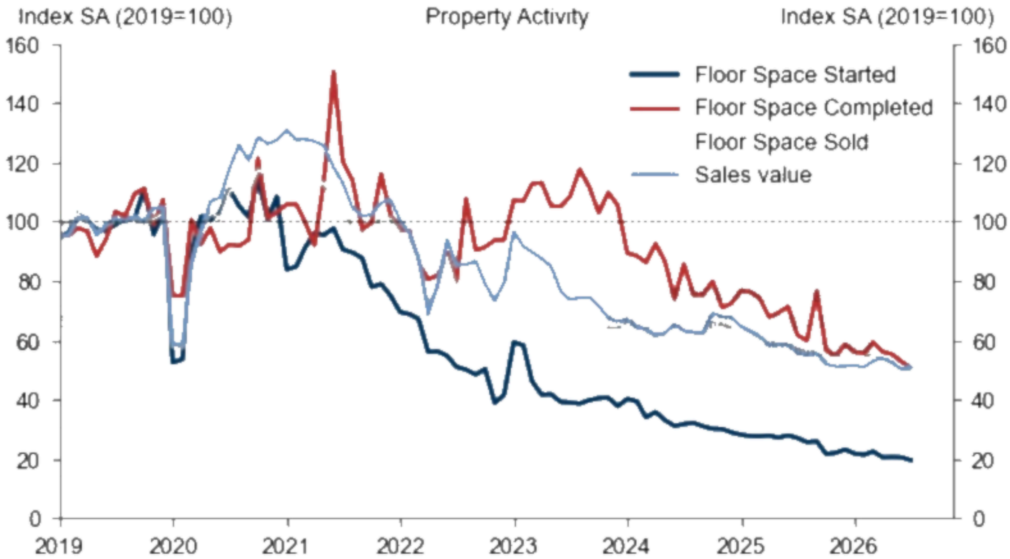
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 3: FAI growth weakened in July



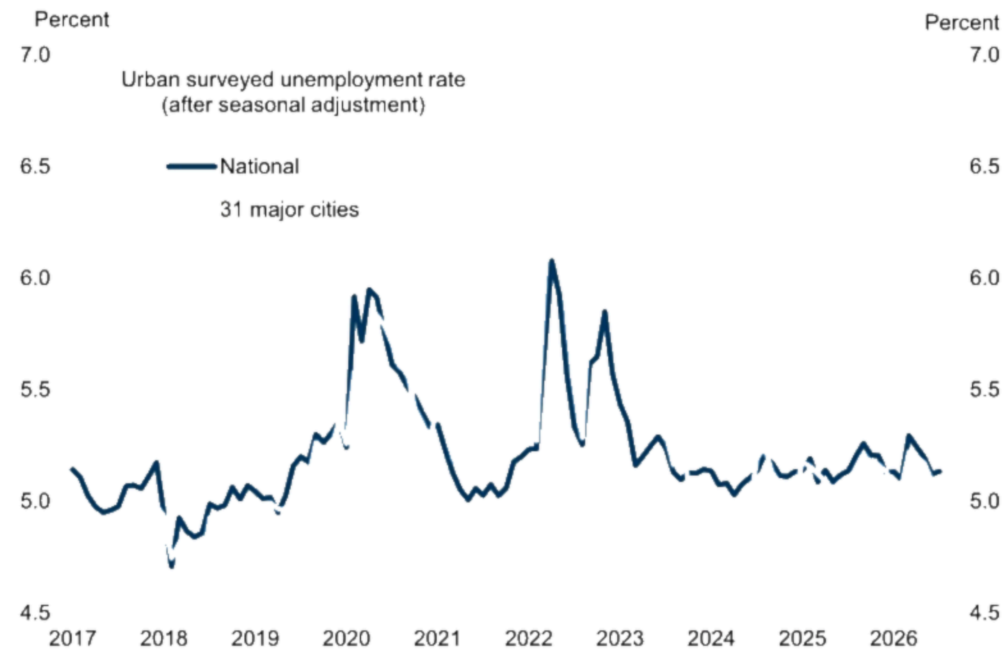
Source: CEIC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 4: Most property activity indicators remained sluggish in July



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

Exhibit 5: After seasonal adjustment, both the nationwide and 31-city unemployment rate stayed largely flat in July



Source: NBS, Wind, Goldman Sachs Global Investment Research

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