China Outlook

Little signs of a demand turnaround

The PMIs and high frequency data showed no signs of a quick turnaround in domestic demand, in contrast to strong exports. We think the boost from the latest housing supports to home sales is limited, given a weaker labor market, ongoing declines in home prices, and stretched household balance sheets

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PMI data pointed to weak recovery in August

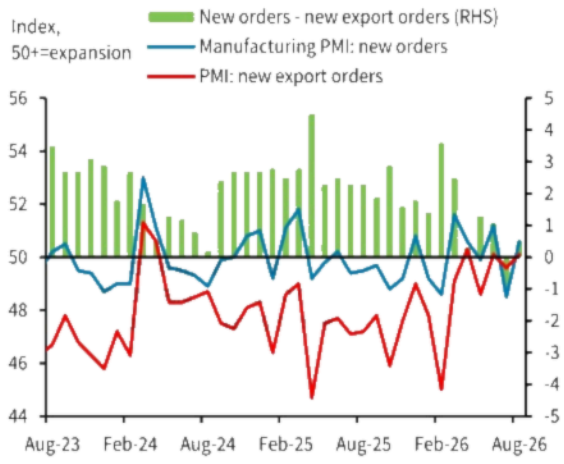
August PMIs showed some sequential improvement, but both manufacturing and non-manufacturing activity remained in contractionary territory, indicating continued softness across the economy. The headline manufacturing PMI edged up to 49.8 in August from 49.2 in July. On the positive side, new export orders improved noticeably, reinforcing our view that exports will remain a key growth engine and partially offset weak domestic demand. On the negative side, the employment sub-indices for both manufacturing and services deteriorated further, highlighting ongoing labor market pressures.

Moreover, while both new orders and new export orders returned to expansionary territory, the recovery remained uneven and was led primarily by high-tech industries. Traditional sectors, including chemicals and ferrous metals, continued to lag. Meanwhile, manufacturing price indicators strengthened, largely reflecting higher commodity prices. The widening gap between input and output prices also suggests renewed margin pressure on downstream manufacturers.

Beyond manufacturing, non-manufacturing activity remained weak. Services activity stayed at a multi-year low of 49.3, with wholesale and retail trade as well as capital market services remaining in contraction. The weak construction activity was in part negatively affected by extreme weather, including typhoons and flooding. That said, project preparation appears to be gaining traction following the July Politburo meeting, with project pipelines increasingly focused on the "Six Networks" initiative, laying the groundwork for a stronger infrastructure spending cycle in the months ahead.

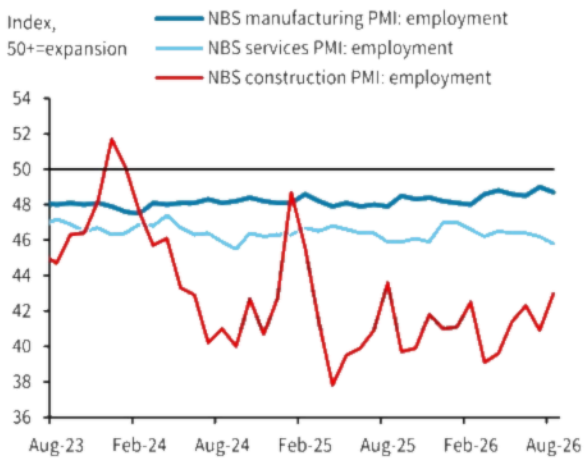
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FIGURE 1. **New (export) orders improved noticeably**



Source: Wind, Barclays Research

FIGURE 2. **The employment sub-indices remained in contractionary territory**



Source: Wind, Barclays Research

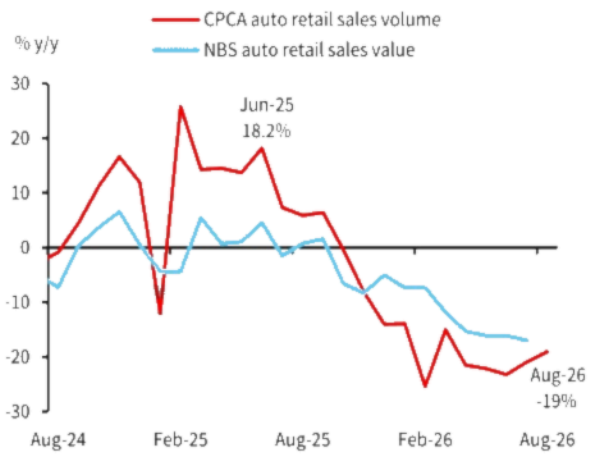
Hard high frequency data showed no signs of turnaround in domestic demand

Apart from soft survey data, hard high frequency data suggested that a turnaround in domestic demand has yet to be seen.

- On consumption, auto sales volume contracted 19% y/y in August, following a 21% decline in July. This marks the 10th consecutive monthly contraction. We think the double-digit contraction in auto sales reflected the payback from last year's stepped up trade-in program, and weakened labor market. It is worth noting that the unemployment rate for those aged 16-24 rose 3pp to 17.9% in July, marking the highest July reading since the NBS revised the series in December 2023.

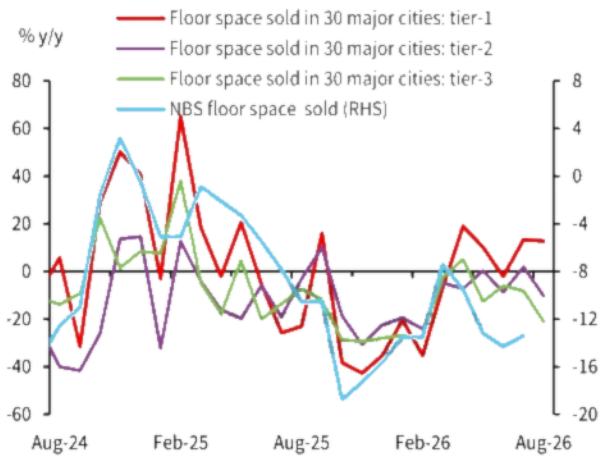
- On housing sector, new property sales in 30 major cities fell by 6.3% y/y in August, reversing the 2.8% uptick in July. The deterioration was broad-based in lower-tier cities, where the decline in tier-3 cities widened to -21% from -8% in July, while sales in tier-2 cities dropped by 11% compared with a 2% gain previously. Tier-1 cities maintained a 12% expansion, though moderating from 13% in July.

FIGURE 3. **Auto sales extended double-digit declines to 10 months**



Source: Wind, Barclays Research

FIGURE 4. **New property sales fell in lower tier cities**



Source: Wind, Barclays Research

Incremental housing and consumption policies introduced

China unveiled a slew of property easing measures over the past week to support ongoing property market reforms and help stabilize housing demand. These measures, mostly announced on 28 August, covered both housing sales and the property financing framework.

Most notably[1], on the demand side, authorities extended the maximum mortgage term for individual home loans from 30 to 40 years; On the supply side, 1) policymakers accelerated the shift from the traditional pre-sale model toward completed-home sales to reduce delivery risks and rebuild homebuyer confidence; 2) Meanwhile, supervision of pre-sale funds was strengthened, with down payments and mortgage proceeds required to be held in project-specific supervised accounts and deferral of mortgage proceeds until completion registration; and 3) Authorities also extended financing support for developers, including longer development loan tenors for both pre-sale and completed-home projects, while the CSRC pledged support for equity and bond fundraising to facilitate the sector's transition.

We think the boost to home sales is likely to be limited, given weak income expectations, ongoing declines in home prices, and stretched household balance sheets. On property investment, as noted by our property analyst, higher pre-sale thresholds, delayed cash collection, and tighter escrow requirements are likely to increase developers' funding needs and weigh on project returns. We think this could add further pressure to the already weak property investment. We therefore continue to view the property sector as a key drag on growth, with property investment projected to contract by 20% in 2026 after averaging a 12% annual decline during 2022-24.

Consumption blueprint targets structural upgrades

On consumption, China's Ministry of Commerce, together with six other ministries, released a joint guideline on 31 August to expand and upgrade goods consumption[2]. The document reinforces the policy focus on boosting consumption. In particular, the guideline targets retail sales of consumer goods reaching around CNY60trn (USD8.4trn) by 2030 and outlines four broad priorities: promoting durable goods consumption, upgrading everyday consumer goods, supporting specialty products, and fostering demand for higher-end produc
include green, smart, and health-related consumption, along with measures

[1] "China Ramps Up Credit Support in Overhaul of Property Market (1)", Bloomberg, 28 August 202
[2] "China unveils measures to expand, upgrade consumer goods consumption", the State Council

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supporting demand for autos, smart home appliances, AI-related products, domestic brands, and products for the elderly and children.

We think such pro-consumption policy is mainly a medium-term consumption blueprint rather than a near-term stimulus package, following the release of China's first five-year plan dedicated to boosting consumption in July[3]. There is no mention of large-scale direct cash subsidies. We remain cautious about the prospect of a quick or sustained rebound in consumption, given the deteriorating labor market, ongoing household deleveraging, and the significant negative wealth effect from continued declines in home prices.

Next week, trade and inflation data are in focus.

- **Trade (8 September):** We forecast export growth to accelerate to 28.0% y/y from 23.9%, supported by continued strength in AI- and high-tech-related shipments, despite ongoing weather-related disruptions. Import growth is likely to rise to 33.0% y/y from 27.6%. As a leading indicator, China's imports from Korea accelerated further to 119.3% y/y from 96.2% in July, pointing to sustained demand for tech-related goods. Robust export growth should keep China's trade surplus at a sizeable level.

- **Inflation (9 September)**: We expect CPI inflation to increase to 0.9% y/y from 0.5%, supported by a more favorable base effect and a moderation in pork price declines, although pork prices are likely to remain in double-digit contraction for the 15th consecutive month. We forecast PPI inflation to rise to 3.9% y/y from 3.5%, driven by base effects as well as firmer energy and non-ferrous metal prices.

- **Credit (9-15 September):** We expect credit stock to be at CNY465.4trn, indicating y/y growth falling to a new record low of 7.3% y/y in August from 7.4% previously, with strong government bond issuance only partly offsetting weak credit demand from the household and corporate sectors.

[3] "China elevates consumption to strategic priority with first dedicated five-year plan", the State Council, 14 July 2026

CHINA DATA REVIEW & PREVIEW

Jian Chang, Barclays Bank, Hong Kong | Yingke Zhou, Barclays Bank, Hong Kong | Ying Zhang, Barclays Bank, Hong Kong

Review of last week's data releases

Main indicators	Period	Previous	Barclays	Actual	Comments
China: NBS manufacturing PMI, index	Aug	49.2	49.8	49.8	Weaknesses persist despite some improvement
China: NBS non-manufacturing PMI, index	Aug	49.0	49.5	49.0	
China: RatingDog manufacturing PMI, index	Aug	50.9	51.0	51.5	

Preview of upcoming data

Monday, 07 September	Period	Prev 2	Prev 1	Latest	Forecast	Consensus
- China: Foreign reserves, USD bn	Aug	3442.2	3416.3	3418.8	3425.0	3427.5

China: We expect China's foreign exchange reserves to increase modestly, to USD3425bn, mainly reflecting valuation gains of the euro and pound against the US dollar.

Tuesday, 08 September	Period	Prev 2	Prev 1	Latest	Forecast	Consensus
- China: Trade balance, USD bn	Aug	105.2	125.5	112.3	129.7	120.0
- China: Exports, % y/y	Aug	19.4	27.0	23.9	28.0	27.3
- China: Imports, % y/y	Aug	27.3	35.8	27.6	33.0	32.0

China: We forecast export growth will accelerate to 28.0% y/y from 23.9%, supported by continued strength in AI- and high-tech-related shipments, despite ongoing weather-related disruptions. Import growth is likely to rise to 33.0% y/y. As a leading indicator, China's imports from Korea accelerated to 119.3% y/y from 96.2% in July, pointing to sustained demand for tech-related goods. Robust export growth should keep China's trade surplus at a sizeable level.

Wednesday, 09 September	Period	Prev 2	Prev 1	Latest	Forecast	Consensus
- China: M2 growth, % y/y (to 15/09)	Aug	8.6	8.0	7.7	7.7	7.6
- China: Aggregate financing stock, CNY trn (to 15/09)	Aug	458.8	462.1	463.3	465.4	-
- China: New loans, CNY bn (to 15/09)	Aug	520.0	1610.0	-340.0	400.0	-
09:30 China: PPI, % y/y	Aug	3.9	4.1	3.5	3.9	3.6
09:30 China: CPI, % y/y	Aug	1.2	1.0	0.5	0.9	0.9

China: We expect the credit stock to be at CNY465.4trn, indicating a growth of 7.3% y/y in August, with strong government bond issuance only partly offsetting weak credit demand from the household and corporate sectors. We expect CPI inflation to increase to 0.9% y/y from 0.5%, supported by a more favorable base effect and a moderation of the decline in pork prices, although pork prices are likely to remain in a double-digit contraction for a 15th consecutive month. We forecast PPI inflation will rise to 3.9% y/y from 3.5%, driven by base effects, and firmer energy and nonferrous metal prices.

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	Q1	Q2	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E	2025	2026E	2027E
Real GDP (% y/y)	5.4	5.2	4.8	4.5	5.0	4.3	4.3	4.4	4.0	4.1	4.1	4.1	5.0	4.5	4.0
Real GDP (% q/q saar)	4.3	5.0	4.2	4.6	5.6	3.1	4.1	4.9	5.3	2.0	4.1	4.9	...	...	...
Real GDP (% y/y YTD)	5.4	5.3	5.2	5.0	5.0	4.7	4.5	4.5	4.0	4.0	4.0	4.0	...	...	...
Real GDP per capita (% y/y)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Consumption (pp)	2.7	2.7	2.7	2.6	2.3	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.6	2.0	2.0
Investment (pp)	0.3	0.8	0.8	0.8	1.9	1.7	1.3	1.2	1.0	1.0	1.0	1.0	0.8	1.2	1.0
Net exports (pp)	2.4	1.9	1.7	1.6	0.8	0.8	1.2	1.3	1.0	1.0	1.0	1.0	1.6	1.3	1.0
Industrial production (% y/y)	6.5	6.2	5.8	5.0	6.1	4.6	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	5.9	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	0.6	0.9	1.1	0.6	0.4	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	5.0	5.1	5.1	5.2	5.1	5.2	5.1	5.1	5.1	5.1
Current account (% GDP)	3.8	2.7	4.0	4.5	3.8	3.7	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	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40

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