China: Better industrial production, sluggish investment, slower retail sales growth; lowering Q3 GDP forecast

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Bottom line:

China's August activity data were mixed, underscoring the economy's continued imbalance between strong supply and weak demand. Industrial production (IP) beat expectations, with growth accelerating to 5.2% yoy in August from 4.5% yoy in July amid stronger exports and faster output growth in the electric machinery, chemicals, and pharmaceuticals industries. By contrast, fixed asset investment (FAI) and retail sales missed expectations somewhat. FAI contracted 10.8% yoy in August on a single-month basis, although favorable base effects narrowed the decline from -12.8% yoy in July. Retail sales growth slowed to 0.4% yoy in August from 0.6% yoy in July, with both goods and restaurant sales growth weakening. The Services Industry Output Index, reported in real terms and closely correlated with tertiary GDP growth, eased to 4.1% yoy in August from 4.3% yoy in July. Labor market conditions also softened, as the unemployment rate rose by more than seasonal patterns would suggest. Reflecting weaker-than-expected quarter-to-date activity data, we lower our real GDP growth forecast for Q3 to 4.4% yoy (vs. 4.6% previously). This mechanically reduces our 2026 full-year real GDP forecast to 4.5% yoy (vs. 4.6% yoy previously).

Asia-MAP scores:

Industrial production: 0 (5, 0)

Fixed asset investment: 0 (2, 0)

Retail sales: 0 (1, 0)

Key numbers:

Industrial production (IP): +5.2% yoy in August (GS forecast: +4.6% yoy; Bloomberg consensus: +4.8% yoy), vs. +4.5% yoy in July. Note that sequential figures are highly sensitive to the specific seasonal adjustment methodology (NBS estimates: +0.5% mom sa non-annualized in August, vs. +0.1% mom sa non-annualized in July; GS estimates: +0.7% mom sa non-annualized in August, vs. -0.3% mom sa non-annualized in July).

Fixed asset investment (FAI): -7.2% ytd yoy in August (GS: -7.3% ytd yoy; consensus: -7.1% ytd yoy), vs. -6.7% ytd yoy in July; August single-month growth by GS estimates: -10.8% yoy, vs. -12.8% yoy in July (sequential growth by GS estimates: +0.5% mom sa non-annualized in August, vs. -6.1% mom sa non-annualized in July).

Retail sales: +0.4% yoy in August (GS: +0.4% yoy; consensus: +0.8% yoy), vs. +0.6% yoy in July (sequential growth by GS estimates: -0.1% mom sa non-annualized in

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August, vs. -0.4% mom sa non-annualized in July).

Services industry output index: +4.1% yoy in August, vs. +4.3% yoy in July (sequential growth by GS estimates: +0.3% mom sa non-annualized in August, vs. +0.2% mom sa non-annualized in July).

Surveyed unemployment rates:

- Nationwide: 5.3% in August, vs. 5.2% in July.
- 31 major cities: 5.3% in August, vs. 5.2% in July.

Property-related activity data:

- Floor space sold: -14.7% yoy in August, vs. -13.5% yoy in July (value of sales: -12.1% yoy in August, vs. -8.8% yoy in July).
- Floor area under construction: -12.8% yoy in August, vs. -12.7% yoy in July.
- New home starts: -31.0% yoy in August, vs. -27.8% yoy in July.
- New home completions: -28.4% yoy in August, vs. -18.7% yoy in July.
- Real estate investment: -25.4% yoy in August, vs. -27.5% yoy in July.

Main points:

1. Industrial production (IP) growth rebounded to 5.2% yoy in August from 4.5% yoy in July amid stronger export growth. Sequentially, we estimate IP gained 0.7% mom non-annualized in August (vs. -0.3% mom non-annualized in July; Exhibit 1). By industry, the July-to-August acceleration in year-on-year IP growth was led by faster output growth in the electric machinery, chemicals, and pharmaceuticals manufacturing industries, more than offsetting slower output growth in computer and other equipment industries (Exhibit 2). Among major industrial products (which differ from by-industry IP breakdown), year-on-year growth in industrial robot output and metal cutting machine output rose to 34.6% and 14.1%, respectively, in August from 30.2% and 4.0% in July, while smartphone output growth remained sluggish at -22.3% yoy in August (vs. -22.9% yoy in July). Crude steel and cement output growth also stayed subdued at -3.7% yoy and -11.7% yoy, respectively, in August (vs. -3.6% yoy and -11.6% yoy in July). Year-on-year growth in power generation and automobile output both weakened in August, to -0.8% and -2.7%, respectively, from -0.1% and -0.1% in July. Chemical fiber and sulfuric acid output growth declined to -3.2% yoy and -15.5% yoy, respectively, in August from -1.7% yoy and -14.0% yoy in July, reflecting lingering supply chain disruptions related to the Middle East conflict.

2. Fixed asset investment (FAI) remained weak, contracting 10.8% yoy in August on a single-month basis, although favorable base effects narrowed the decline from -12.8% yoy in July (Exhibit 3). Sequentially, FAI rose 0.5% mom in August on a non-annualized basis, following a sharp 6.1% contraction in July. This brought year-to-date FAI growth to -7.2% yoy in August from -6.7% yoy in July. By sector, infrastructure and manufacturing investment growth declined to -16.8% yoy and -6.5% yoy, respectively, in August from -16.4% yoy and -4.4% yoy in July, property investment growth remained depressed at -25.4% yoy in August despite an improvement from -27.5% yoy in July, while other (i.e., services and agriculture-related) investment growth rebounded to +0.5% yoy from -15.3% yoy. Although we caution that occasional NBS "statistical

corrections" of previously over-reported data may have amplified reported FAI volatility in recent quarters, the August year-on-year FAI contraction appeared broadly consistent with steel and cement output performance.

3. Nominal retail sales growth eased to +0.4% yoy in August from +0.6% yoy in July, missing market consensus for an improvement. Online goods sales growth slowed to +2.0% yoy in August from +3.3% yoy in July, while offline goods sales growth remained subdued at -0.3% yoy (vs. -0.6% yoy in July). Restaurant sales revenue growth moderated to +1.1% yoy in August from +1.4% yoy in July. In sequential terms, we estimate August retail sales value remained largely flat from July after seasonal adjustment (-0.1% mom sa non-annualized in August, vs. -0.4% mom sa non-annualized in July). Among major product categories, the year-on-year automobile sales contraction widened to -18.5% yoy in August from -17.0% yoy in July, while home appliance and electronic equipment sales growth rose to +2.3% yoy and +27.3% yoy in August, respectively, from -1.9% yoy and +20.4% yoy in July, thanks to a low base. Gasoline and other oil-product sales growth remained weak at -7.0% yoy in August (vs. -7.6% yoy in July). Adjusting for prices, we estimate gasoline and other oil-product sales volume declined 8% yoy in August (vs. -9% yoy in July) amid a 10% yoy increase in domestic retail fuel prices. Jewelry and cosmetics sales growth slowed to -17.5% yoy and +4.9% yoy, respectively, in August from -10.1% yoy and +6.8% yoy in July. Separately, the NBS began publishing a new series this year on retail sales value for goods and services, which rose 2.5% yoy in January-August, with services sales growth of 4.9% yoy outpacing goods sales growth of 1.0% yoy.

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—eased further to 4.1% in August from 4.3% in July. Sequentially, we estimate the index increased by 0.3% mom sa non-annualized in August (vs. +0.2% mom sa non-annualized in July).

5. Property activity remained sluggish in August despite recent green shoots in some large cities (Exhibit 4). Property sales fell 14.7% yoy in volume (floor space) terms and 12.1% yoy in value terms in August (vs. -13.5%/-8.8% yoy in July). New home starts, new home completions, and floor space under construction fell 31.0% yoy, 28.4% yoy, and 12.8% yoy, respectively, in August, versus year-on-year declines of 27.8%, 18.7%, and 12.7% in July. NBS and private-sector data suggest nationwide home prices remain under downward pressure, even as some large cities show early signs of price stabilization.

6. Labor market conditions softened in August. The nationwide and 31-city unemployment rates (not seasonally adjusted) both increased to 5.3% from 5.2% in July. On a seasonally adjusted basis, we estimate that the nationwide unemployment rate increased to 5.2% in August from 5.1% in July, while the 31-city metric was roughly unchanged at 5.1% (Exhibit 5). The seasonally adjusted unemployment rate for migrant workers with local Hukou also rose to 5.2% from 5.0%. Following the NBS definition change in January 2024, which excludes students in school, youth unem have been released about three days after the broader labor market sta data show that the unemployment rate for those aged 16-24 rebounde July from 14.9% in June, broadly in line with 17.8% in July 2025, and lik August owing to seasonal patterns around college graduation. We cauti revised definition may understate labor market stress among the young

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given weak domestic demand and potential pressure from AI adoption on entry-level white-collar jobs.

7. Although activity indicators have often rebounded in quarter-end months such as September in recent years, and our tracking suggests government bond issuance has accelerated in recent weeks, weaker-than-expected July activity data, mixed August data, and our high-frequency trackers for the first half of September still suggest that Q3 real GDP growth may remain below 4.5% yoy, after 4.3% in Q2. Given renewed risks from the Middle East conflict, the potential near-term growth drag from recent property policies accelerating the shift to a completed-home sales model, and delayed policy easing this year, we lower our Q3 sequential growth forecast to 4.0% qoq annualized from 5.0% qoq annualized previously, while maintaining our forecasts for subsequent quarters (Exhibit 6). This lowers our year-over-year growth forecasts for Q3 and Q4 by 0.2pp each to 4.4% yoy (for both quarters), and our 2026/27 full-year forecasts by 0.1pp to 4.5%/4.6%. Recent signals from the State Council, MOF, and NDRC have raised market expectations for additional stimulus later this year if growth slows further and the 4.5-5.0% full-year growth target comes under pressure.

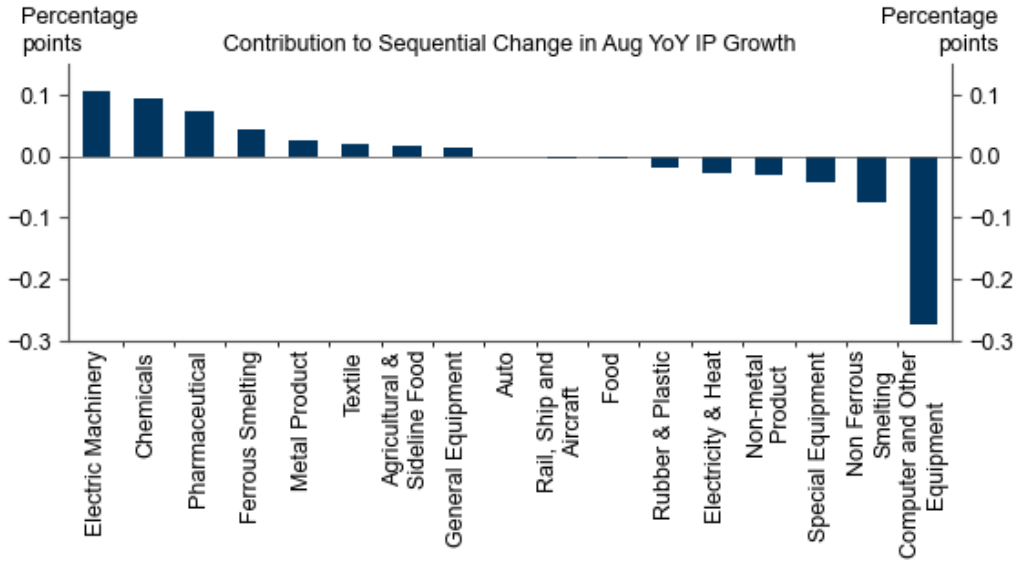
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Exhibit 1: Year-on-year growth in industrial production rebounded in August, while services industry output growth slowed



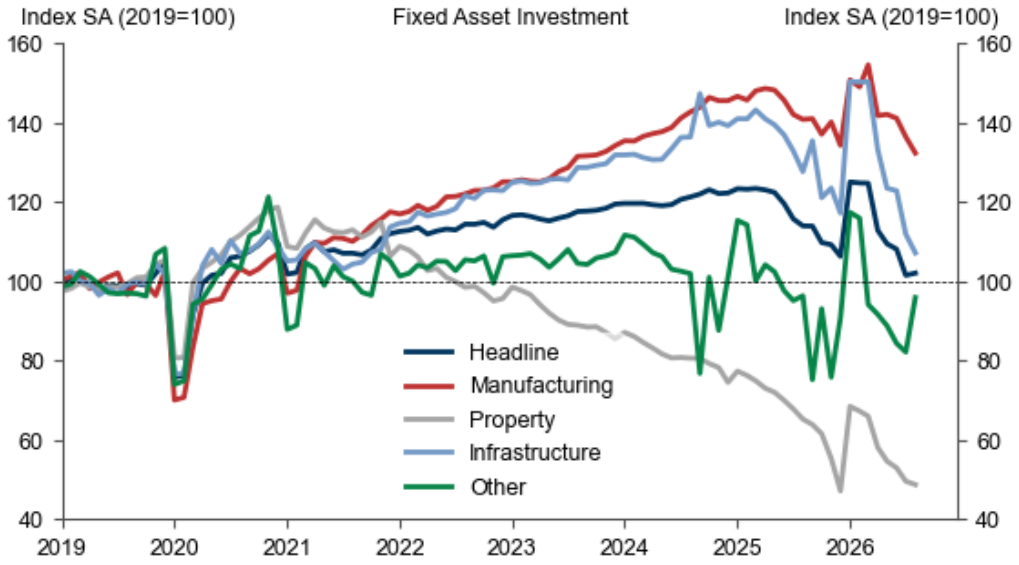
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 2: The July-to-August acceleration in year-on-year IP growth was led by faster output growth in the electric machinery, chemicals, and pharmaceuticals industries



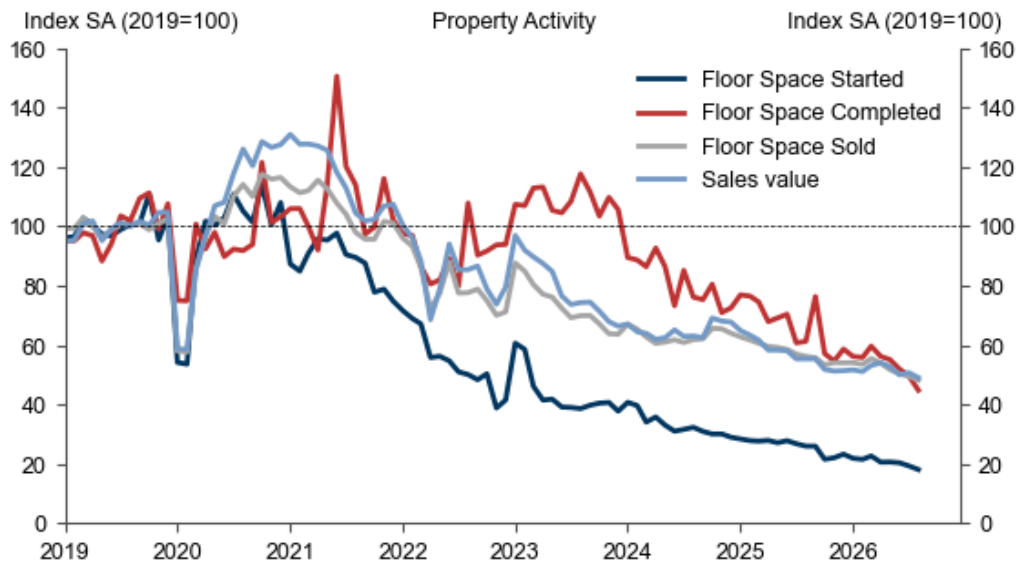
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 3: FAI growth remained weak in August



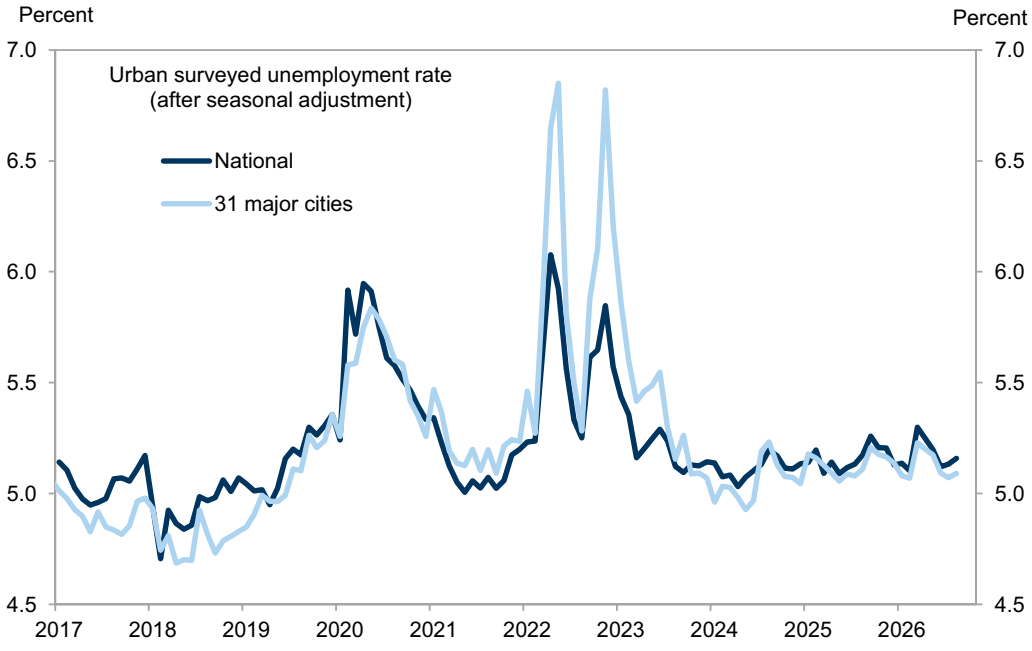
Source: CEIC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 4: Most property activity indicators remained sluggish in August



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

Exhibit 5: After seasonal adjustment, the nationwide umemployment rate increased in August, while the 31-city metric was largely flat



Source: NBS, Wind, Goldman Sachs Global Investment Research

Exhibit 6: We lower our real GDP growth forecasts for Q3 and full-year 2026 to 4.4% yoy and 4.5% yoy, respectively

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		**4.5**	4.6		
2027		**4.6**	4.7		
2025	Q1	**5.4**	5.4	**4.5**	4.5
	Q2	**5.2**	5.2	**4.9**	4.9
	Q3	**4.8**	4.8	**4.5**	4.5
	Q4	**4.5**	4.5	**4.5**	4.5
2026	Q1	**5.0**	5.0	**5.3**	5.3
	Q2	**4.3**	4.3	**3.6**	3.6
	Q3	**4.4**	4.6	**4.0**	5.0
	Q4	**4.4**	4.6	**4.5**	4.5

Source: NBS, Goldman Sachs Global Investment Research

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