15 Sep 2026 01:45:28 ET | 13 pages

China Economics

Looking Through the August Numbers to Focus on Policies and Geopolitics

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CITI'S TAKE

China's economic momentum remained soft in August while the K-shaped divergence deepened. The supply side outperformed. Industrial production beat expectations on tech and exports. Domestic demand disappointed again with unexpected slowdown in retail sales and continuous weak fixed asset investment. Despite the dull picture, we see limited pressure on headline growth and maintain our forecasts at 4.5%YoY for 26Q3E and 4.6%YoY for the whole year. September indicators are key to deciding whether the economy finds a bottom within this year. Markets could look through this set of indicators to focus on a packaged policy and geopolitical agenda ahead. We continue to see rising risks of no LPR cuts this year should fiscal push come through, and expect the US-China tariff "truce" to hold through the upcoming Presidential Summit.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

China's economic momentum remained soft in August with a deepening K-shape. The supply side beat expectations with industrial production picking up to 5.2%YoY (Citi/Mkt: 4.8%YoY, Prior: 4.5%YoY) thanks to resilient exports and the new economy. Domestic demand missed expectations again, with retail sales retreating to 0.4%YoY (Citi/Mkt: 1.0/0.8%YoY, Prior: 0.6%YoY). Contraction in fixed asset investment deepened to -7.2%YoY this Jan – Aug from -6.7%YoY in Jan – Jul, and its monthly rate stabilized at a low rate of -10.6%YoY per our estimate vs. -12.8%YoY in July despite improving base effect.

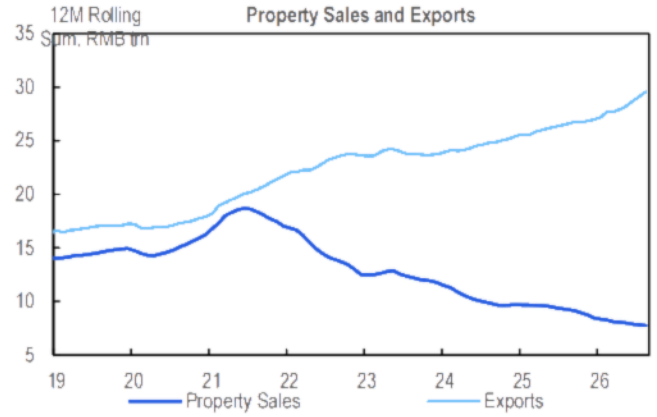
Pressure on headline growth could still be limited despite the dull picture. We maintain our growth forecast at 4.5%YoY for 26Q3E and continue to see full-year growth at 4.6%YoY.

- **For 26Q3 so far**, from the supply side, IP trailed at 4.9%YoY this Jul – Aug vs. 4.6%YoY in 26Q2, while the services sector was softer at 4.2%YoY vs. 4.5%YoY. The demand side picture hasn't improved much but it hasn't turned materially worse either – retail sales expanded 0.5%YoY this Jul-Aug vs. 0.2%YoY, while FAI growth fluctuated at a low rate of -11.7%YoY vs. -9.7%YoY in 26Q2.

- **September indicators** are key to deciding whether China's economy would find a bottom within the year. So far, trade activities have held up with ports' cargo volume accelerating to 3.4%YoY in the first two weeks vs. -6.1%YoY in August; government bond issuance is steady, and policy push on investment is gathering momentum with continuous policy guidance and the deployment of RMB800bn policy-financing tool. Property markets in high-tier cities are also showing more signs of stabilization as transactions pick up on renewed policy momentum in the summer (Xinhuanet, Sep 14th).

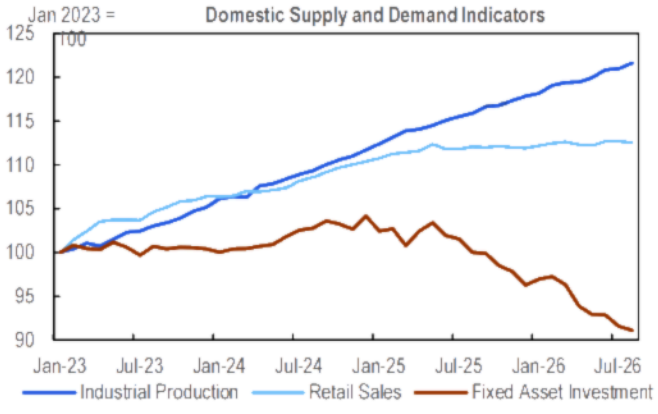
Markets could look through this set of numbers with subdued expectations to focus on a crowded policy and geopolitical agenda. The August numbers haven't really changed the policy calculation in our view. We continue to see rising risks of no LPR cuts this year once the data confirms a cyclical bottom amid fiscal push. Geopolitically, we expect the US-China tariff "truce" to hold through the upcoming Trump-Xi meeting, APEC and G20, even as managed decoupling continues structurally. Talking points for the summit could include geopolitical issues including the Middle East and Taiwan, and a crowded economic agenda could feature tariffs, China's purchases, investment, critical minerals, currency and AI.

Figure 1. China's economy remained in a deepening K-shaped structure



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Source: China Customs, NBS, Wind, Citi Research

Figure 2. The imbalance between domestic supply and demand widened further in August



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Source: NBS, Wind, Citi Research

Readthrough Monthly Indicators

Monthly indicators came in mixed in August, with the K-shaped divergence deepening. The supply side showed stronger resilience thanks to the new economy and exports, while domestic demand remained soft with little sign of picking up.

Industrial production improved to 5.2%YoY (Citi/Mkt: 4.8%YoY, Prior: 5.3%YoY). The new economy remained strong for another month.

- **AI supercycle continued amid equity market volatilities.** High-tech IP rose 16.7%YoY, still the second highest reading within the year. Output growth stayed resilient for ICs at 20.6%YoY (vs. 20.7%YoY), industrial robots at 34.6%YoY (vs. 30.2%YoY), the highest rate since mid-2025, and NEVs at 21.9%YoY (vs. 29.9%YoY). Exports delivery improved to 11.1%YoY from previously 10.4%YoY, and improving cargo volume into September suggests further upside should weather impact fade.

- **Supply disruptions likely extended in August.** Power generation stayed negative at -0.8%YoY (vs-0.1%YoY). Contraction in coal output continued at -7.7%YoY (vs. -10.1%YoY), while output of sulfuric acid dropped -15.5%YoY (vs. -14.0%YoY).

- **The IId economy showed no sign of improvement.** Crude steel output dropped -3.7%YoY (vs. -3.6%YoY) and cement output contracted -11.7%YoY (vs. -11.6%YoY).

Retail sales dipped to 0.4%YoY contrary to market expectations of small improvement (Citi/Mkt: 1.0/0.8%YoY, Prior: 0.6%YoY). Cumulative retail sales of goods and services softened to 2.5%YoY this Jan-Aug from previously 2.6%YoY Ytd, and we estimate that the monthly rate has dropped to 1.8%YoY from 2.0%YoY. The performance is mixed across categories amid sluggish consumer confidence.

- **Drag from trade-in subsidized sales changed little.** We estimate the drag to stay unchanged at -1.5ppts compared with July. Auto sales stayed sluggish at -18.5%YoY (vs. -17.0%YoY), while telecom equipment sales benefited from price hikes, accelerating to 27.3%YoY (vs. 20.4%YoY).

- **Staples continued to outperform discretionary amid slowdown in overall momentum**. For discretionary sales, apparel & footwear stayed negative at -0.5%YoY. So did sport & recreation at -4.8%YoY. Global prices also weighed on sales - improving gold prices sent jewelry sales lower to -17.5%YoY (vs. -10.1%YoY), the second lowest reading within the year.

- **Holiday related items improved in August.** Beverage sales rose to 4.9%YoY (vs. 3.5%YoY), while we estimate single month retail services sales to have improved to 4.2%YoY vs. previously 3.3%YoY, supported by items other than restaurants' revenue – the latter dipped to 1.1%YoY from 1.4%YoY in July.

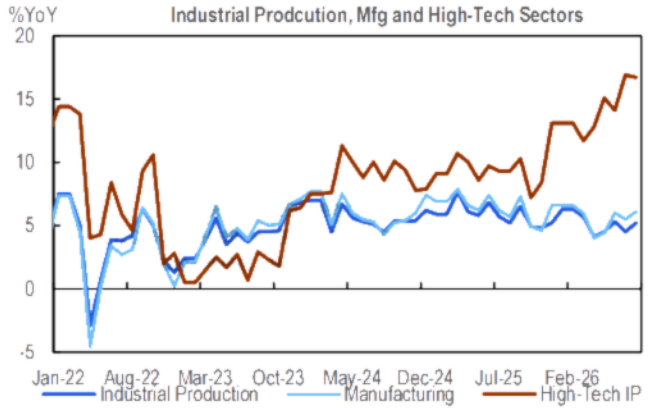
Investment contraction deepened. Cumulative FAI growth dropped further to -7.2%YoY Ytd (Citi/Mkt: -6.6%/-7.2%YoY Ytd). The monthly reading stabilized at a low rate of -10.6%YoY per our estimate vs. -12.8%YoY in July despite improving base. The picture changed little across major categories.

- **Infrastructure investment** stayed soft in August. The NBS reported cumulative growth at -4.0%YoY this Jan-Aug, deepening from -3.6%YoY in Jan-Jul. AI-related new economy infrastructure investment stayed buoyant at 28.4%YoY Ytd, but it was not enough to offset weakness in old infrastructure.

- **Manufacturing investment** slowed to -2.3%YoY Ytd, and we estimate the monthly rate to have dropped further to -6.1%YoY from previously -4.4%YoY. AI-related telecom equipment mfg FAI stayed resilient at 10.3%YoY in August and 8.1%YoY Ytd. Healthcare FAI also improved to 2.0%YoY despite still staying weak at -8.3%YoY Ytd.

- **The property sector remained mostly lackluster.** Activity indicators remained in deep contraction, with our estimates for single month readings at -25.4%YoY (vs. -27.5%YoY) for investment, -14.7%YoY (vs. -13.5%YoY) for sales in floor space and -12.1%YoY (vs. -8.8%YoY) for sales value. Price momentum softened further in the secondary market, with now only 3 cities reporting a sequential increase and the momentum in Tier-1 cities down to 0.1%MoM. The August readings may not have captured the latest impact from local housing easing, which could have helped housing sales and housing reform towards national completed units sales. Tentative property stabilization in top-tier cities remains a key thing to watch.

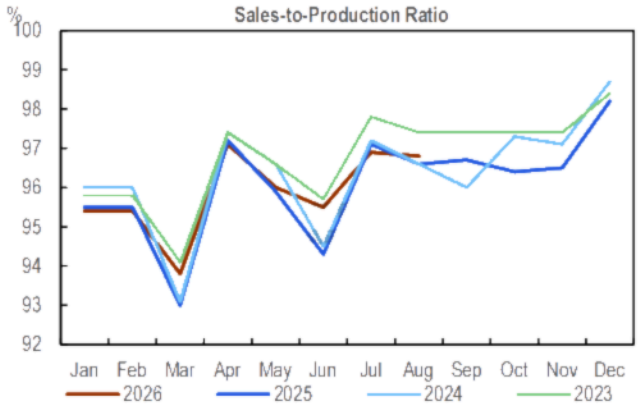
Figure 3. Industrial production growth and major sectors



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Source: NBS, Wind, Citi Research

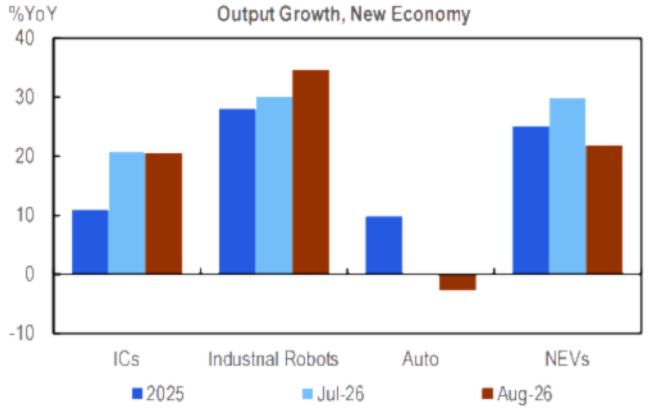
Figure 4. Sales-to-production ratio by month



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Source: NBS, Wind, Citi Research

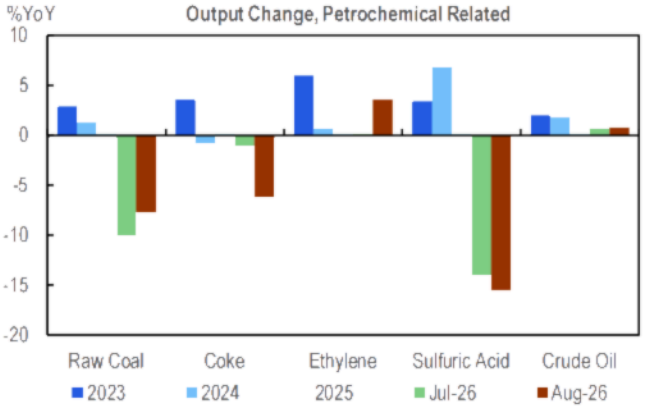
Figure 5. Output growth of new-economy items



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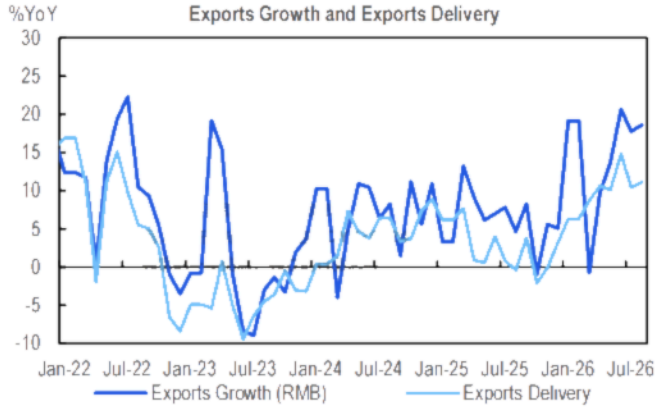
Figure 6. Output growth petrochemical related products



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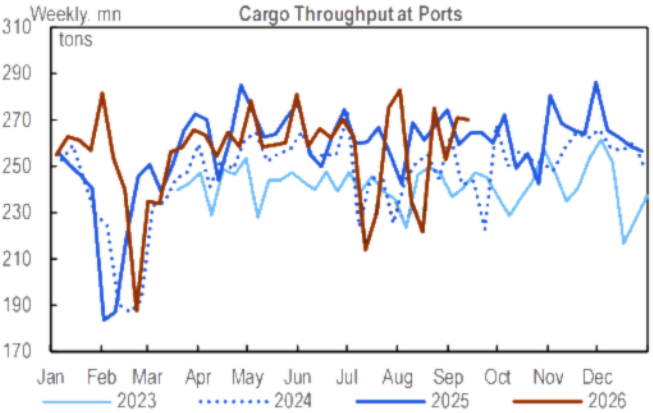
Figure 7. Exports growth and exports delivery growth



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Source: NBS, Wind, Citi Research

Figure 8. Cargo throughput at ports



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Source: MoT, Wind, Citi Research

Figure 9. Retail goods and services sales growth by major categories

(%YoY)		2024	2025	26Q1	26Q2	Jul 2026	Aug 2026
Retail Sales		**3.5**	**3.7**	**2.4**	**0.2**	**0.6**	**0.4**
Trade-in Subsidies	Auto	-0.5	-1.5	-9.0	-15.9	-17.0	-18.5
	Home Appliances	12.3	11.0	0.0	-12.7	-1.9	2.3
	Telecom Equipment	9.9	20.9	20.8	8.3	20.4	27.3
	Furniture	3.6	14.6	-5.2	-8.3	-8.8	-7.9
	Cultural & Office	-0.3	17.3	9.3	2.8	7.4	5.8
Holiday Economy	Beverage	2.1	1.0	6.7	5.2	3.5	4.9
	Tobacco & Liquor	5.7	2.7	16.0	9.5	6.0	12.5
Global Prices	Energy & Fuel	0.3	-5.7	-6.4	-4.9	-7.6	-7.0
	Jewelry	-3.1	12.8	12.6	-11.3	-10.1	-17.5
Staples	Grains & Food	9.9	9.3	10.0	4.7	5.3	4.0
	Daily Necessities	3.0	6.3	5.9	3.0	1.8	1.8
Other Discretionary	Apparel & Footwear	0.3	3.2	9.3	3.8	-1.0	-0.5
	Sport & Recreation	11.1	15.7	1.9	-5.9	-10.6	-4.8
	Cosmetics	-1.1	5.1	5.9	6.6	6.8	4.9
	Home Decoration	-2.0	-2.7	-4.7	-12.6	-14.2	-11.8
Retail Services Sales		**6.2**	**5.5**			**3.3**	**4.2**
	Restaurant's Revenue	**5.3**	**3.2**	**4.2**	**1.3**	**1.4**	**1.1**
	Others					**3.7**	**5.0**

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Source: NBS, Wind, Citi Research

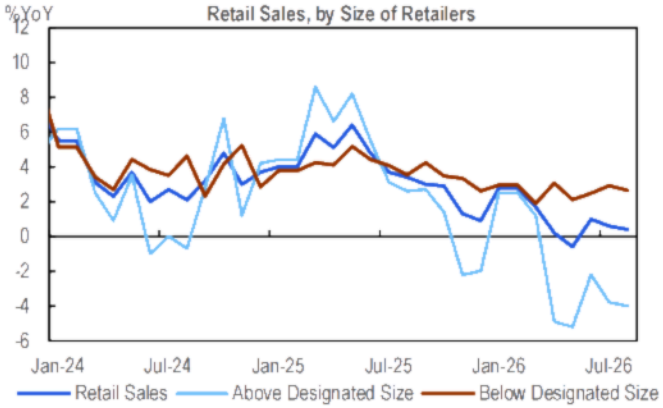
Figure 10. Retail sales, goods and restaurants' revenue



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Source: NBS, Wind, Citi Research

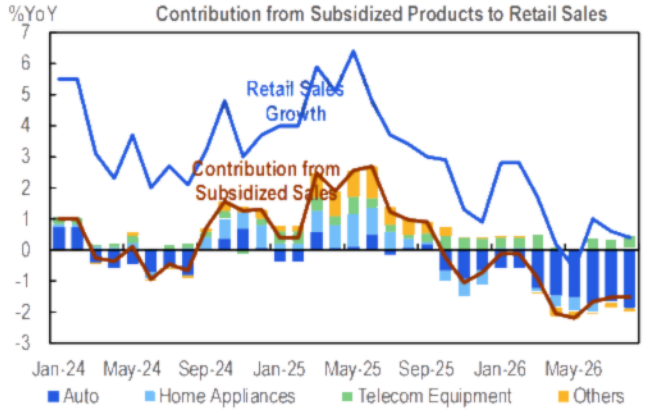
Figure 11. Retail sales, by size of retailers



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Source: NBS, Wind, Citi Research

Figure 12. Contribution from trade-in related items



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Figure 13. Contribution from austerity rule related items



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Figure 14. Second-hand property prices



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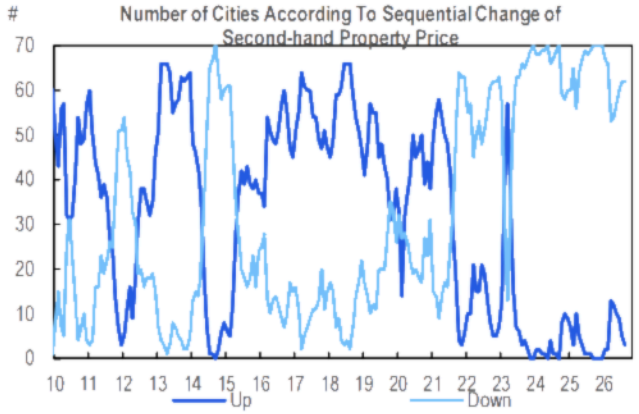
Figure 15. New home prices



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Source: NBS, Wind, Citi Research

Figure 16. Counts of cities by change in second-hand prices



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Source: NBS, Wind, Citi Research

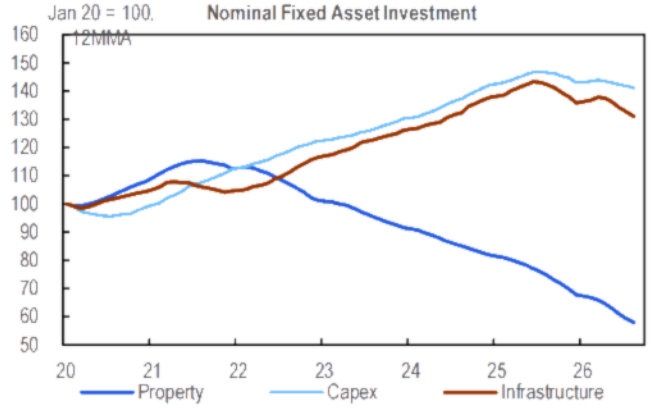
Figure 17. Second-hand home sales in Shanghai



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Source: Shanghai housing office, Wind, Citi Research

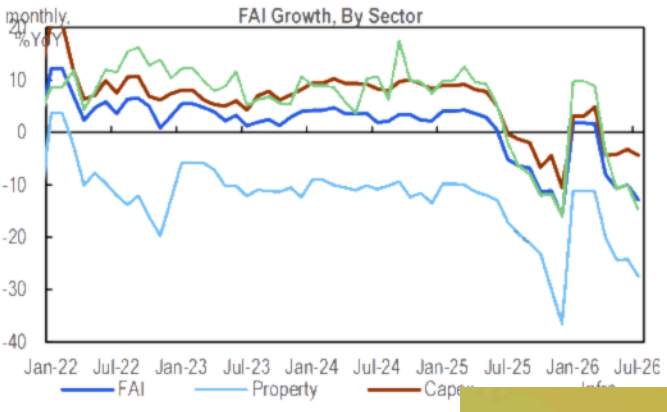
Figure 18. Fixed asset investment indices



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Source: NBS, Wind, Citi Research

Figure 19. Growth of FAI growth by major sectors



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Source: NBS, Wind, Citi Research

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