18 Aug 2026

CMB International Global Markets | Macro Research | Economic Perspectives

China Economy

Policy support to remain moderate albeit with broad slowdown

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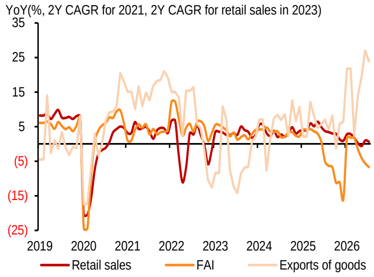
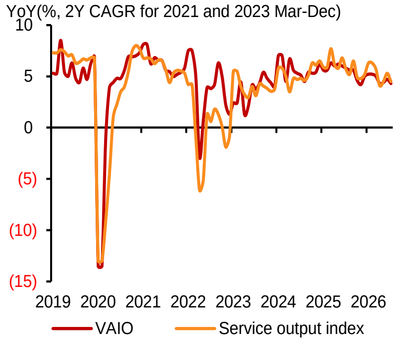
China's economy remained on a weak domestic-demand trajectory in July as retail sales, fixed investment and property all came in under market expectations and further weakened. Industrial momentum edged down while AI-related output remained robust. Consumer confidence remained depressed, while households' precautionary savings rate rose again. Together with the first-ever contraction in net household credit, this points to a further deterioration in household confidence and propensity to consume. Despite the moderation, policy support looks more like targeted stabilization than broad easing, as 2H26 GDP growth of around 4.3% would still be sufficient to meet the lower bound of the 4.5% full-year growth target. The latest State Council meeting broadly reinforced the Politburo's policy direction, calling for faster fiscal deployment, stabilization of investment in the "six major networks," and greater support for emerging industries, while signalling limited support for consumption and property. Equity performance is likely to remain highly polarized as sectors with greater earnings visibility including AI hardware and globally competitive exporting sectors should continue to outperform, while other domestic cyclicals are likely to remain subdued. We maintain our 2026 GDP growth forecast at 4.6%, with growth moderating from 4.7% in 1H26 to around 4.6% in 2H26.

- **Resilient tier-1 cities were insufficient to offset the broader softening of the property market.** Gross floor area (GFA) sold according to NBS further fell 11.8% YTD in July from 11.6% in June, while new starts and completed area further declined 24% and 23.2% YTD, indicating the property market remained deeply contracted. New housing sales dropped 13.3% YoY in the first half of Aug from -2.6% in July, while the recovery rate compared to 2018-2019 average declined to a historic low at 29.7%. GFA sold in tier-2 and -3 cities notably dropped 20% and 31% YoY while tier-1 cities further extended their rebound to 16.6% YoY, as wealth effect from the AI frenzy disproportionately benefited higher-income households and higher-tier cities. Second-hand transactions in 11 selected cities also moderated from 7.5% YoY in July to 2.1% in the first half of Aug. Tier-1 cities continued to see price rebounds but the momentum has moderated to 0% and 0.2% MoM in new and second-hand housing price, while lower-tier cities continued to dip. The softening momentum in Aug might indicate the weakening property market in 2H26, further eroding household wealth and local land revenue. We expect further support for urban village renewal investment, excess-inventory purchases, mortgage easing and transaction-fee reductions as fiscal spending picks up.

- **Consumption weakness reflects not only subsidy payback but also precautionary savings.** Retail sales grew 0.6% YoY in July, below market expectation at 1.3% and down from 1.0% in June, while YTD growth eased to 1.2%. Catering rose only 1.4%. Trade-in scheme eligible categories remained the major drag, as home-appliance sales fell 1.9%, furniture 8.8%, building materials 14.2% and autos 17.0%. Telecom equipment rose 20.4% as prices surged. Sales of clothing, beverage and food also saw moderation in July. Savings rate rose from 39.8% in 1H25 to 40.6% in 1H26 as households returned to the precautionary saving trend during Covid. Consumer confidence edged down to 89.4 in July. A durable recovery requires stronger service-sector job creation, credible property stabilization and income support with a high propensity to consume, rather than another round of temporary durable-goods subsidy.



Source: Wind, CMBIGM



Source: Wind, CMBIGM

- **Investment contraction became an even larger downside drag.** Urban fixed-asset investment fell 6.7% YTD in July, weaker than market expectations at -6.1% while monthly investment declined 12.8% YoY. Property, manufacturing and infrastructure investment contracted approximately 27.5%, 4.4% and 14.7% YoY in July while their YTD declines reached 19.2%, 1.7% and 4.1%. Manufacturing capex remained uneven, as investment in other transport equipment and computers/electronics rose 18.7% and 7.8% YTD, while autos, special equipment and chemical products manufacturing fell 5.3%, 9.2% and 7.4%. Strong technology-related output alongside weak aggregate manufacturing investment suggests that firms remain cautious about demand durability, profitability and excess capacity. Infrastructure weakness despite available policy financing also points to impaired fiscal transmission and project execution, instead of simply insufficient headline funding. Faster bond-funded spending may establish a floor in 2H26, but is unlikely to generate a conventional investment upcycle without improvement in local-government and property-sector balance sheets, in our view.

- **Industrial output slowed but retained a pronounced technology and export tilt.** Value-added industrial output rose 4.5% YoY in July, weaker than market expectations at 4.9% and down from 5.3% in June. Manufacturing growth eased to 5.5%, while export delivery value slowed to 10.4% from 14.8%. Computers/electronics, transport equipment excluding autos, special equipment and general equipment grew 19.1%, 13.6%, 12.6% and 9.5%, respectively, while integrated-circuit and industrial-robot output rose 20.7% and 30.2%. Construction-linked sectors remained weak, with non-metallic minerals down 3.3%, chemicals down 1.2% and non-ferrous metals down 2.5%. Auto manufacturing rose 8.7% even as auto retail sales fell 17.0%, highlighting growing dependence on exports and inventories rather than domestic final demand. The divergence between surging customs exports and slower export delivery value also suggests that headline trade strength is not translating evenly across domestic producers. Industrial output should continue to outperform, but exposure to trade friction, excess capacity and weaker global demand is rising.

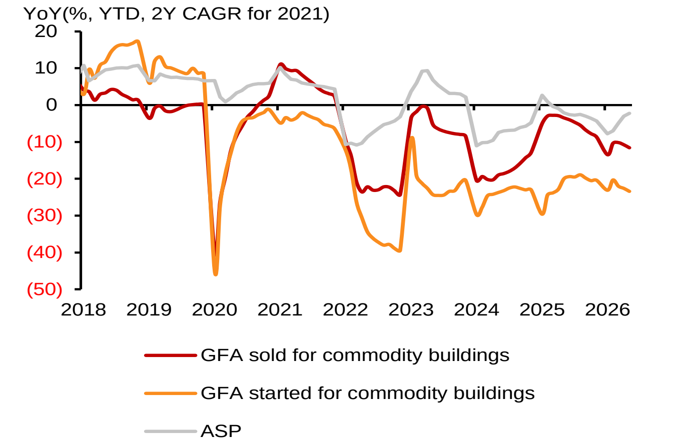
- **Policy support looks more like targeted stabilization than broad easing albeit with the pressure.** China's economy continued to lose momentum across consumption, property, fixed-asset investment and private-sector credit demand, while exports and manufacturing remained relatively resilient. The latest State Council meeting broadly reinforced the Politburo's policy direction, calling for faster fiscal deployment, stabilization of investment in the "six major networks," and greater support for emerging industries, while signaling only limited support for consumption and property. We therefore continue to expect a measured rather than forceful policy response despite mounting growth headwinds, as 2H26 GDP growth of around 4.3% would still be sufficient to meet the lower bound of the 4.5% full-year growth target. Against this backdrop, equity performance is likely to remain highly polarized. Sectors with greater earnings visibility, particularly AI hardware, and globally competitive innovative pharmaceuticals and new-energy equipment exporters should continue to outperform, while discretionary consumption, property-related sectors and other domestic cyclicals are likely to remain subdued. We maintain our 2026 GDP growth forecast at 4.6%, with growth moderating from 4.7% in 1H26 to around 4.6% in 2H26.

Figure 1: China's economic indicators

YoY(%)	2020-2021 CAGR	2022-2023 CAGR	2024	2025	3Q25	4Q25	1Q26	2Q26	June	July
GDP	5.3	4.1	5.0	5.0	4.8	4.5	5.0	4.3		
GDP Deflator	2.5	0.7	(0.8)	(1.0)	(1.0)	(0.6)	(0.1)	1.5		
VAIO	6.1	4.1	5.8	5.9	5.8	5.0	6.1	4.6	5.3	4.5
-Mining	2.9	4.8	3.1	5.6	5.5	5.4	5.7	1.3	(2.2)	(4.2)
-Manufacturing	6.6	4.0	6.1	6.4	6.4	5.1	6.0	4.8	6.0	5.5
-Public utility	6.6	4.6	5.3	2.3	2.1	3.5	3.5	6.8	7.4	5.0
Delivery value for exports	8.3	0.7	5.1	2.2	2.0	1.0	8.1	11.3	14.8	10.4
Service output index	6.3	3.9	5.2	5.5	5.7	4.6	5.0	4.5	4.7	4.3
Retail sales	4.0	3.4	3.5	3.7	3.4	1.7	2.3	0.2	1.0	0.6
Exports of goods	15.9	0.3	5.8	5.4	6.4	3.7	14.7	20.2	27.0	23.9
Imports of goods	13.7	(2.4)	1.0	0.3	4.7	3.7	23.4	29.5	36.0	27.5
Urban FAI (YTD)	3.9	4.0	3.2	(3.8)	(2.6)	1.8	(4.1)	(6.7)	(5.7)	(6.7)
-Property development	5.7	(9.8)	(10.6)	(17.2)	(15.9)	(11.1)	(16.2)	(19.2)	(18.0)	(19.2)
-Manufacturing	5.4	7.8	9.2	0.6	1.9	3.1	(0.4)	(1.7)	(1.2)	(1.7)
-Infrastructure	1.8	9.9	9.2	(1.5)	0.1	9.8	0.8	(4.1)	(2.4)	(4.1)
GFA sold for commodity building (YTD)	2.2	(16.8)	(12.9)	(8.7)	(7.8)	(13.5)	(10.8)	(11.8)	(11.6)	(11.8)
GFA started for commodity building (YTD)	(6.4)	(30.5)	(23.0)	(20.4)	(20.5)	(23.1)	(22.6)	(24.0)	(23.4)	(24.0)

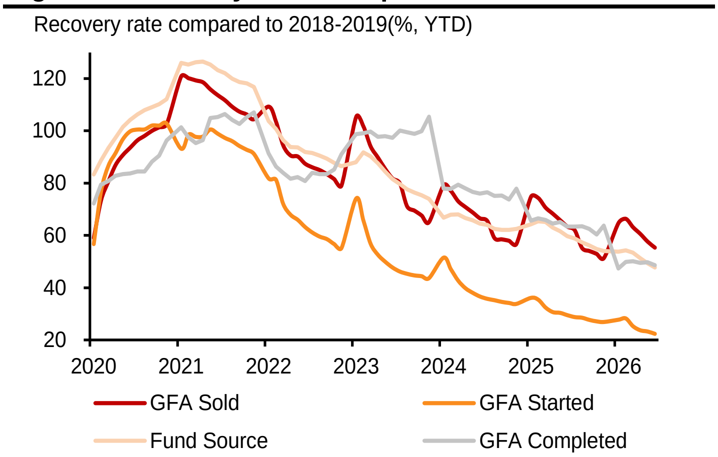
Source: Wind, CMBIGM

Figure 2: Property sales growth



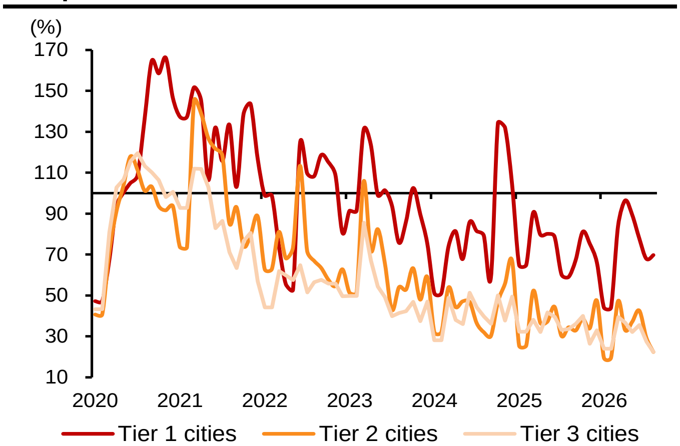
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019



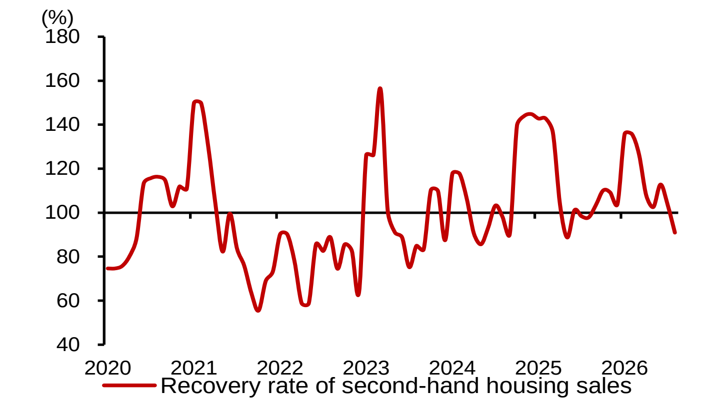
Source: Wind, CMBIGM

Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities



Source: Wind, CMBIGM

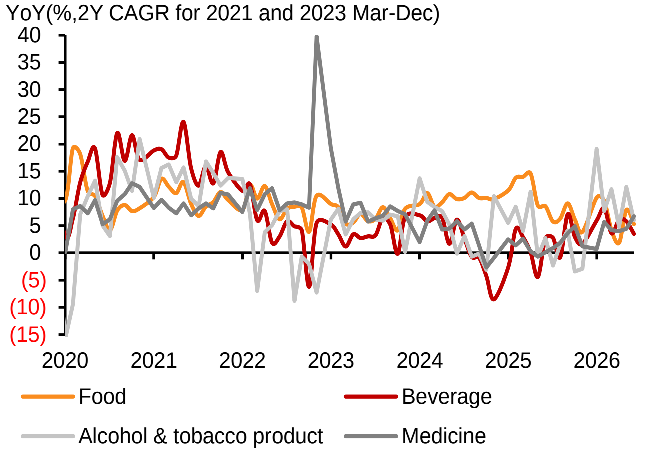
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities



Source: Wind, CMBIGM

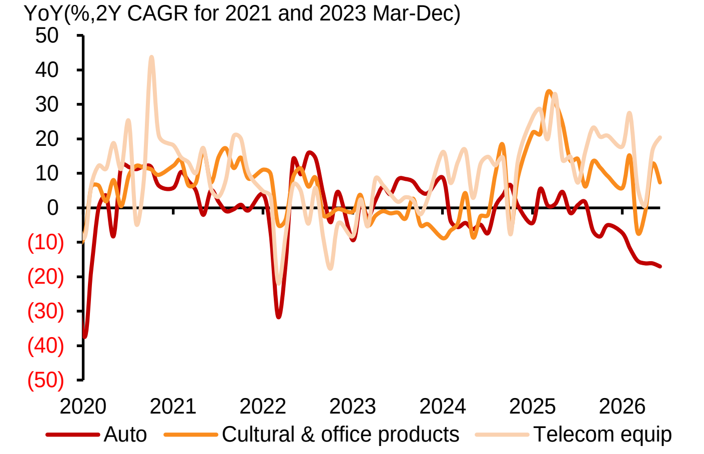
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples



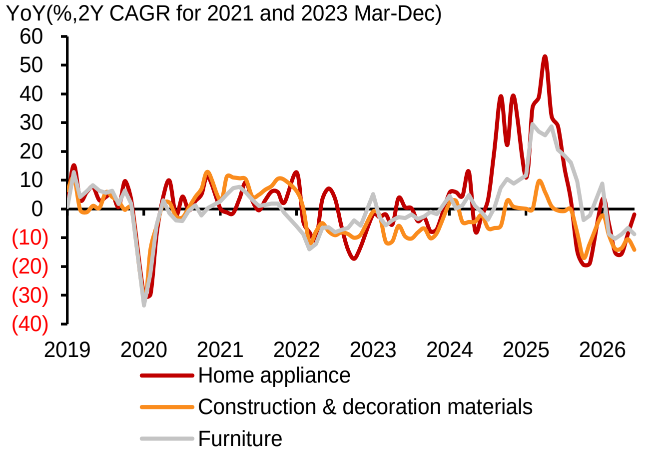
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics



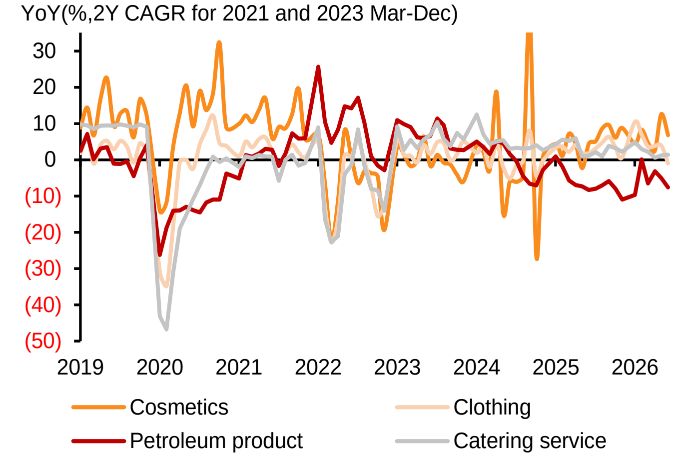
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales



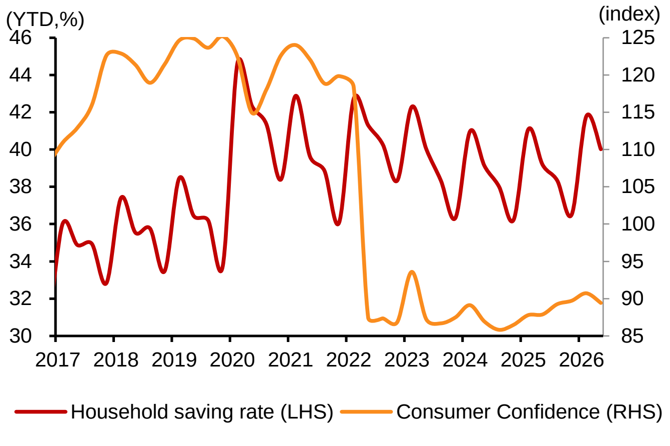
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities



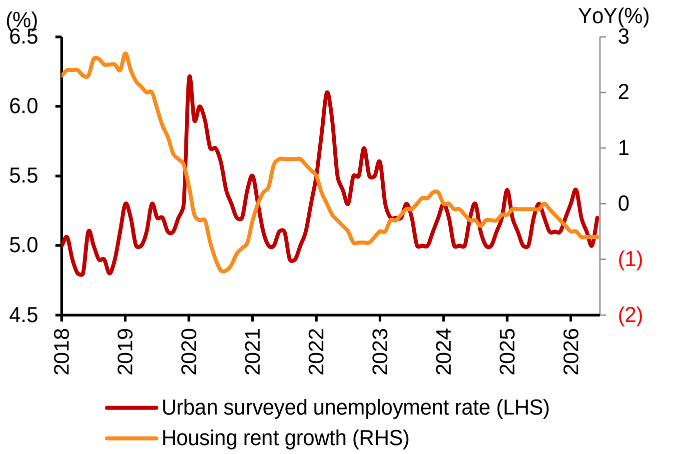
Source: Wind, CMBIGM

Figure 10: Consumer confidence



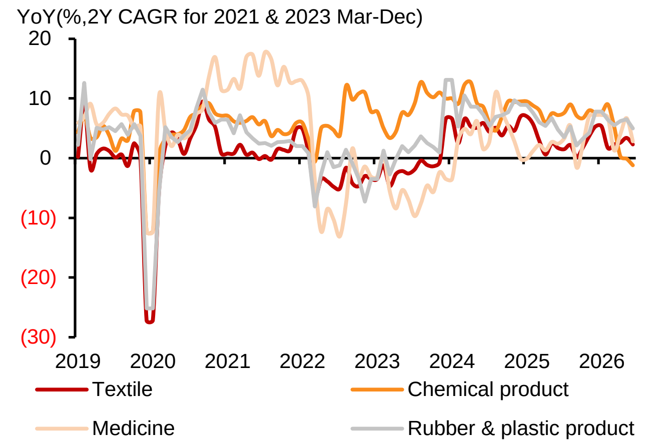
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent



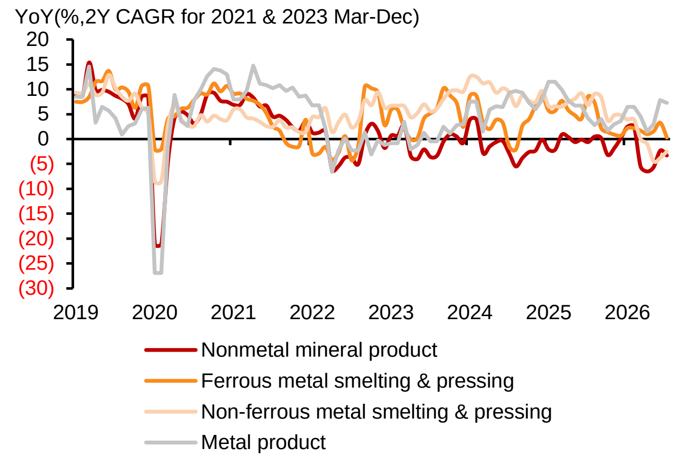
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products



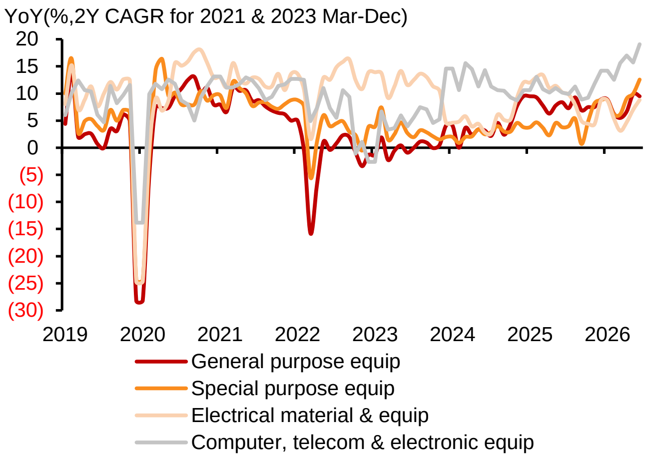
Source: Wind, CMBIGM

Figure 13: VAIO in mineral & metal products



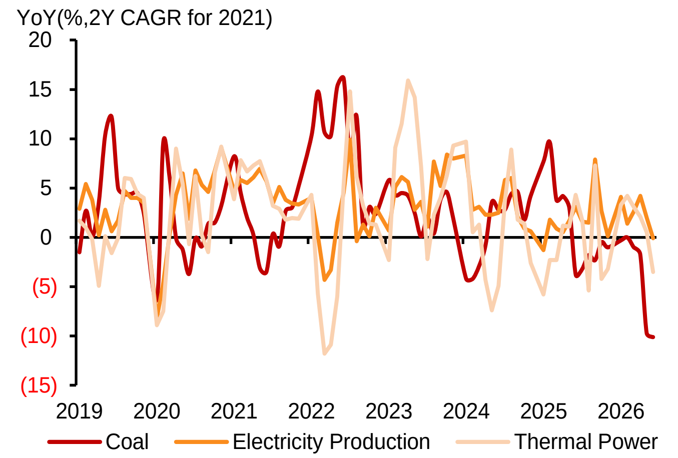
Source: Wind, CMBIGM

Figure 14: VAIO in equipment



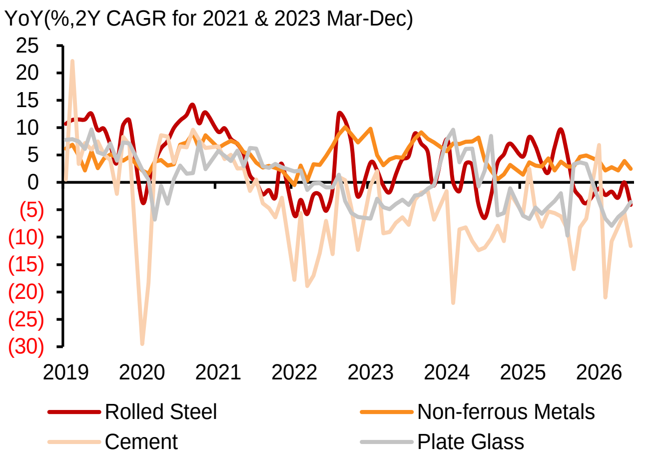
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity



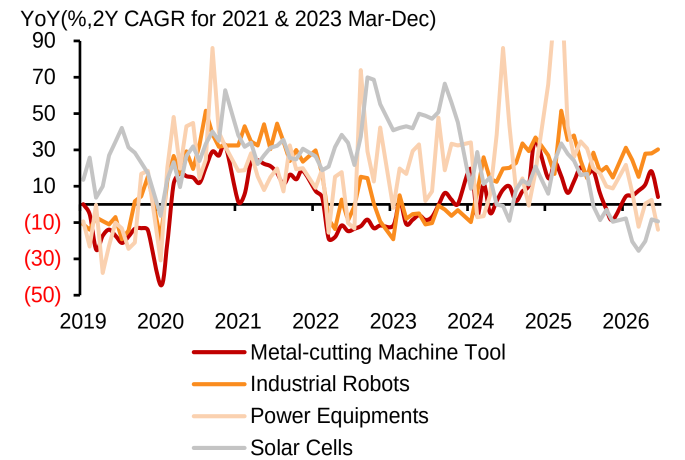
Source: Wind, CMBIGM

Figure 16: Output in steel & construction materials



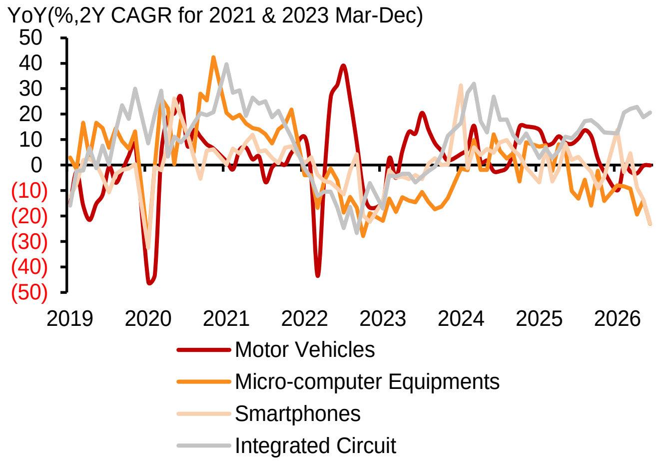
Source: Wind, CMBIGM

Figure 17: Output in capital goods



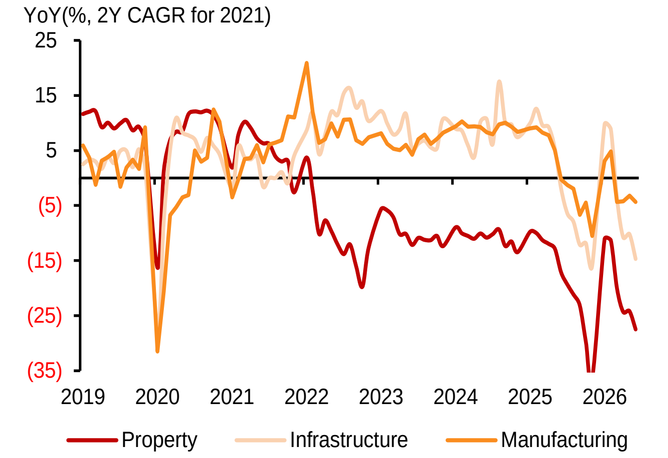
Source: Wind, CMBIGM

Figure 18: Output in autos, computers & smartphones



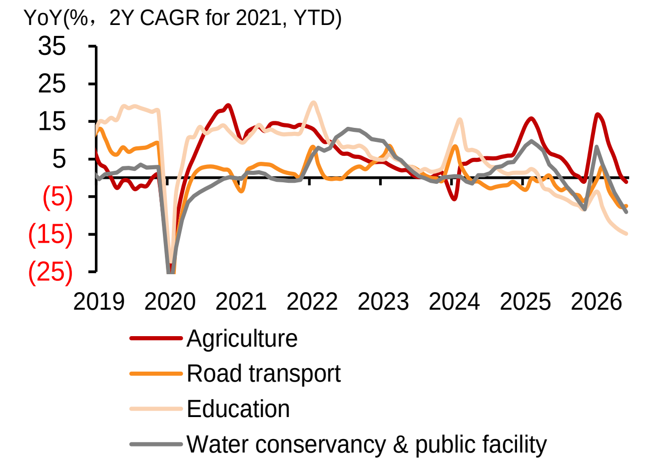
Source: Wind, CMBIGM

Figure 19: FAI by sector



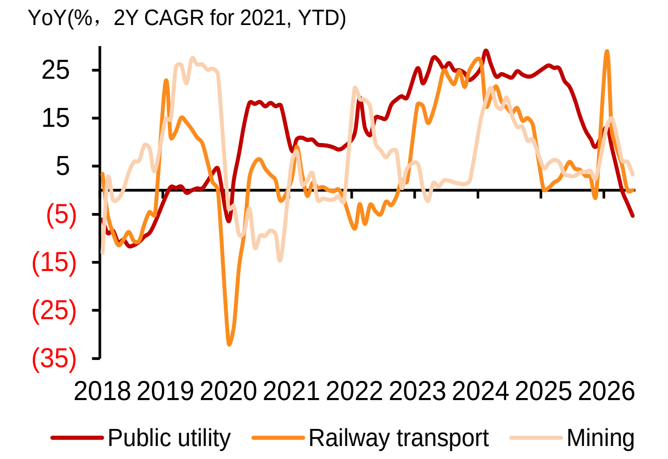
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure



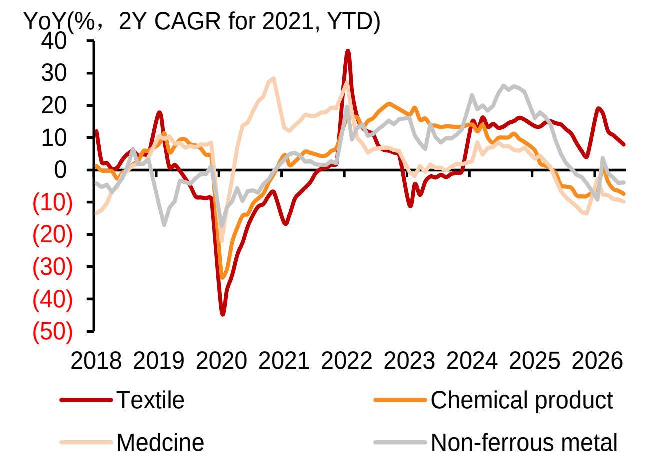
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining



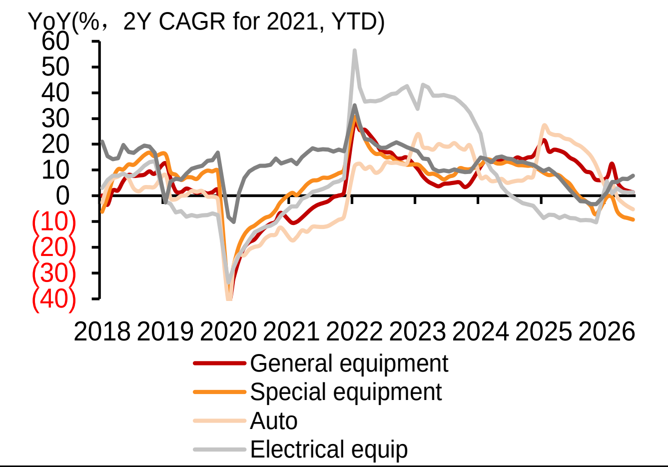
Source: Wind, CMBIGM

Figure 22: FAI in chemical products



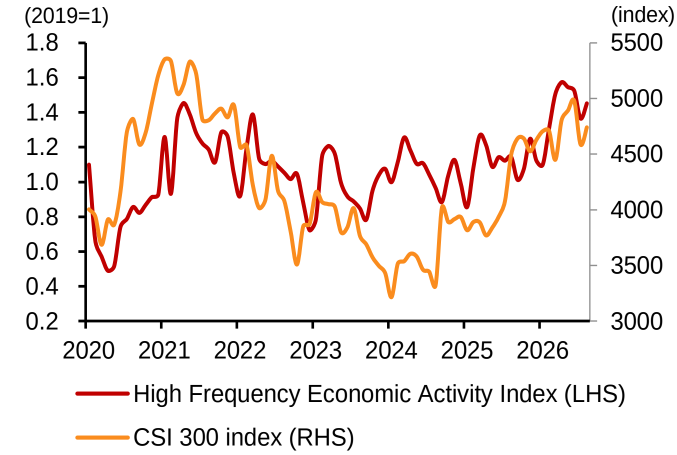
Source: Wind, CMBIGM

Figure 23: FAI in equipment



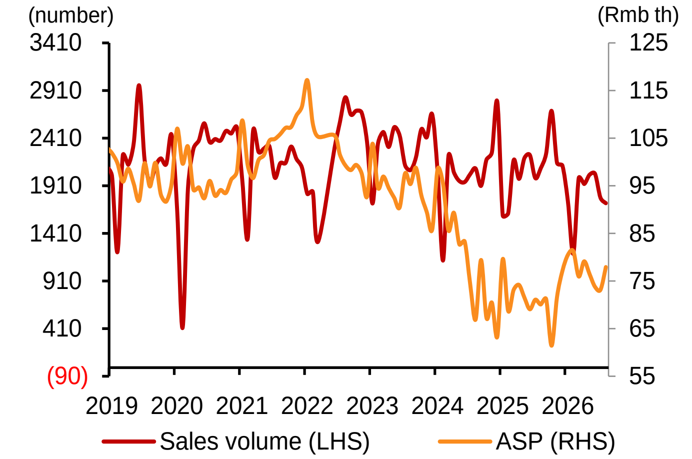
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index



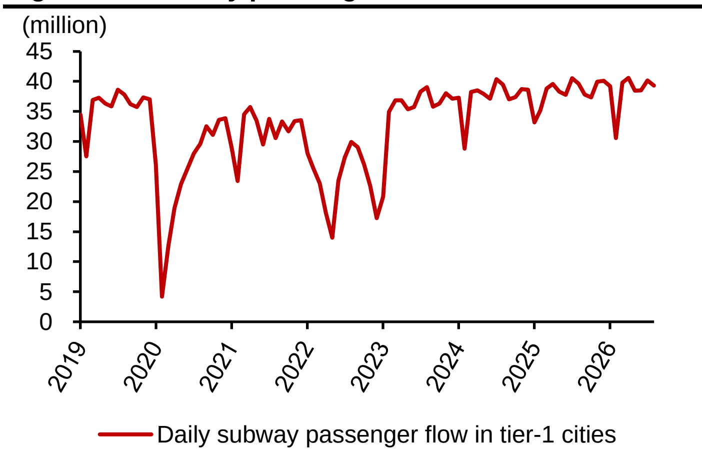
Source: Wind, CMBIGM

Figure 25: Used vehicle sales in Shanghai market



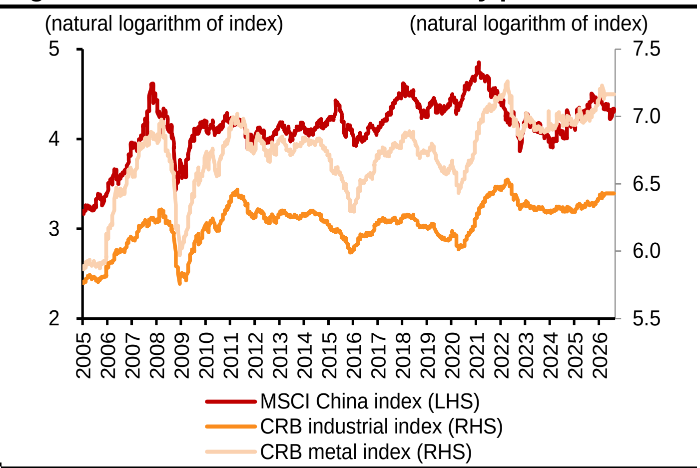
Source: Wind, CMBIGM

Figure 26: Subway passenger flow in tier-1 cities



Source: Wind, CMBIGM

Figure 27: MSCI China and commodity prices



Source: Wind, CMBIGM

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