Economic Indicators Analysis

15 July 2026

Strong Export Growth in 1H Paves the Way to Reach 2026 Target

Summary:

- The economy grew by 4.7% year-on-year (YoY) in 1H 2026, remaining on track to meet the 4.5%-5.0% GDP growth target.
- While traditional domestic sectors continue to struggle, export-related manufacturing is providing an important offset to subdued domestic demand.
- Structural growth drivers, including AI-related investment, and the global energy transition, are supporting industrial production and external demand for new economy sectors.

The Chinese Mainland's economic growth moderated in Q2 2026. GDP growth in Q2 2026 reached 4.3 % year-on-year (YoY) and 0.9 % quarter-on-quarter (QoQ), despite a high base of comparison. While traditional domestic-facing sectors remain under pressure, export-related manufacturing continues to provide an important cushion. Resilient external demand for electronics, power equipment, EVs, and other new economy related goods is supporting production, partially cushioning the drag from subdued domestic demand. New growth drivers including advanced manufacturing, digital economy, and modern services contributed over 40% to 1H economic growth, with this transition accelerating. Q2 2026 may represent a cyclical trough amid persistent headwinds. The June PMI data also point to early signs of stabilisation, suggesting that the economy remains broadly on track to achieve the Government's 2026 GDP growth target of 4.5%-5.0%.

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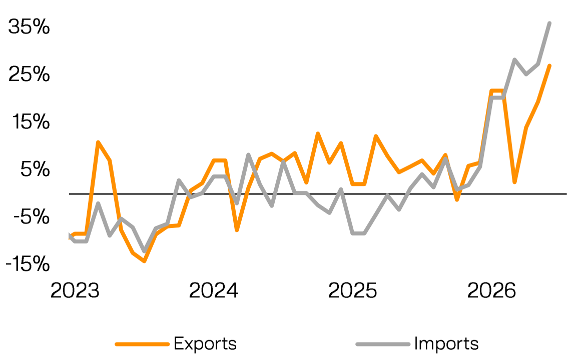
The Chinese Mainland's external trade strengthened in June, significantly beating expectations. Export growth for June accelerated to 27% YoY in USD terms, well above the 19% consensus, while import growth remained elevated at 36%. Robust global demand for AI hardware, green-energy related products, and sustained competitiveness in high-tech manufacturing catalyzed the export surge. Meanwhile, firm import momentum was supported by domestic innovation policies as well as higher global commodity prices. Consequently, the trade surplus widened further to USD 125.62 billion in June, compared to USD 113.84 billion a year ago and USD 105.43 billion in May.

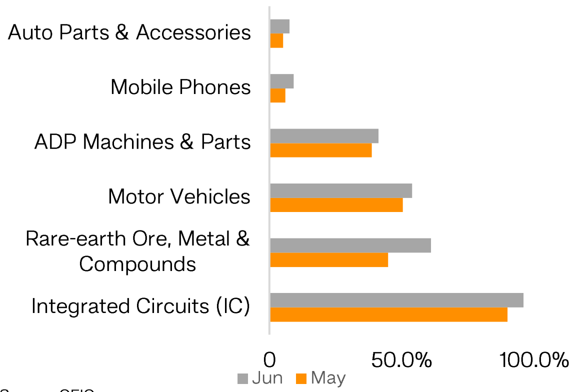
Semiconductor-related exports posted remarkable growth, heavily supported by global energy transition and the AI-driven global technology cycle. Integrated circuit (IC) exports remained a paramount driver, surging by 121.9% YoY in June compared with 110.9% YoY in May, despite a decline of 0.38% in volume. This sharp divergence underscores the outsized impact of surging global chip prices. Export growth of computers and related components also accelerated to 66.1% YoY in June. Alongside mobile phones (+27.5% YoY), overall high-tech exports grew by 52.2% YoY. Furthermore, auto exports accelerated to 69.6% YoY, rebounding strongly from May's 39.3% on the back of robust momentum in the electric vehicle segment. Within the automotive supply chain, China's enhanced domestic value-add propelled June exports of vehicle parts and accessories to a 19.01% YoY expansion, significantly up from 5.03% in May. In terms of green energy related products, exports of batteries and wind-power equipment increased by 37.6% and 35.6% YoY, respectively, while shipments of electric vehicles, electric locomotives and electric motorcycles rose 68.7%, 45.1% and 31.5%.

Total Exports & Impors Growth (YoY)



Source: CEIC

China Exports by Product YTD YoY



Source: CEIC

Trade momentum strengthened further across emerging trading partners. Exports to emerging markets remained solid, rising 14.2% YoY (from 11.6%). Within this cohort, exports to ASEAN (+24.3% YoY) and BRICS economies (+23.0% YoY) remained robust, underpinned by deepening integration in intermediate goods trade. Among other advanced economies, exports to the EU grew 18.5% YoY (from 7.6%), driven by surging demand for green-energy products, while export growth to Japan decelerated to 6.7% YoY (from 10.9% YoY). Exports to the US moderated sharply, growing 13.9% YoY in June (down from 35.4% in May). This deceleration largely reflects the normalisation of favourable base effects stemming from the April 2025 tariff escalation.

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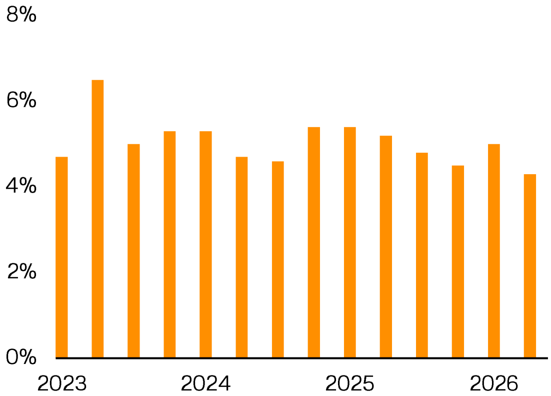
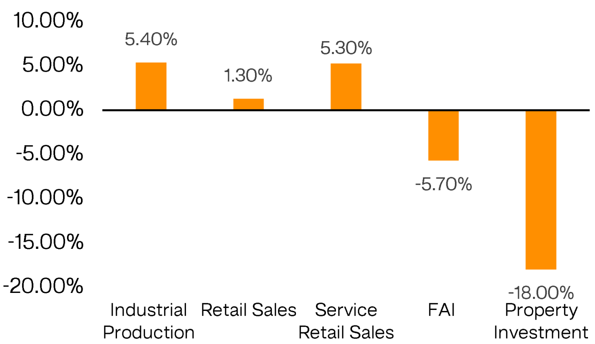
New productive forces have become the primary anchor of growth. Industrial production expanded by 5.3% YoY in Q1, up from 4.5% in May, propelled by strong growth in equipment manufacturing (+18%) and high-tech manufacturing (+15.7%). This strength enabled Chinese producers to further expand, even amid a challenging external environment. The new-economy industries continue to provide a key source of resilience, serving as crucial buffer for the economy. Notably, industrial robots grew 28.1% YoY in June (vs. 27.9% in May). Integrated circuit output grew 18.8%, albeit at a slower pace than in May (22.9%). New energy vehicle production rose 29.4% YoY from 17.8%, while nuclear and solar power generation increased 8.5% (vs. 5.0% in May) and 14.2% (vs. 12.1%), respectively.

Chinese Mainland GDP Growth (YoY)



Source: National Bureau of Statistics

1H2026 Major Macro-indicators (YTD YoY)



Source: CEIC

Domestic consumption showed tentative signs of stabilisation, driven by resilient services spending. Total retail sales of consumer goods returned to positive growth at 1.0% YoY in June 2026. While goods consumption saw modest gains, services retail sales outperformed with a 5.3% YoY expansion, with brisk growth in communication and information, tourism, culture, sports and leisure. The broader measure of goods and services retail sales, a more comprehensive gauge of consumption, expanded by 2.7%. This strength was echoed on the production side in the 1H, where leasing and business services (+11.9%) and ICT and software services (+10.7%) led growth in services output. Furthermore, real per capita disposable income grew by 4.2% YoY in 1H 2026, ensuring stable support for household purchasing power. As targeted policy initiatives shift toward fostering a modernised services sector in the digital economy, the broader recovery in consumer spending is expected to gather further momentum ahead.

Investment continues to struggle. Overall fixed-asset investment (FAI) remained sluggish at -5.7% YoY, with manufacturing investment turning negative at -1.2% YTD YoY and infrastructure investment growth slowing to 2.4% YTD YoY. While AI-related sectors such as telecommunications and IT services remained strong, investment momentum across traditional industries continued to soften. Property investment, as the primary drag on FAI, contracted by 18% YoY in the first six months.

Policy Outlook

Looking ahead, we expect proactive fiscal implementation to accelerate in 2H26, providing greater support for economic activity. The authorities are likely to step up the deployment of remaining government-bond quotas and quasi-fiscal policy bank financing tools, with still-unused policy capacity estimated at around RMB 2 trillion. Combined spending under the general public budget and government-managed fund budget fell year on year for a third consecutive month, pointing to meaningful scope for the fiscal impulse to strengthen through faster execution alone, even in the absence of additional policy easing. The implementation of the RMB 800 billion new policy financing facility could be a focus of July's Politburo meeting. Accelerated fiscal implementation, together with policy-supported investment in AI infrastructure, computing-power networks, ultra-high-voltage transmission, and new-type energy storage, should help cushion soft private investment and persistent property-sector headwinds.

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