Economic Indicators Analysis

17 August 2026

A Slow Start to 2H May Presage Additional Policy Support

Summary:

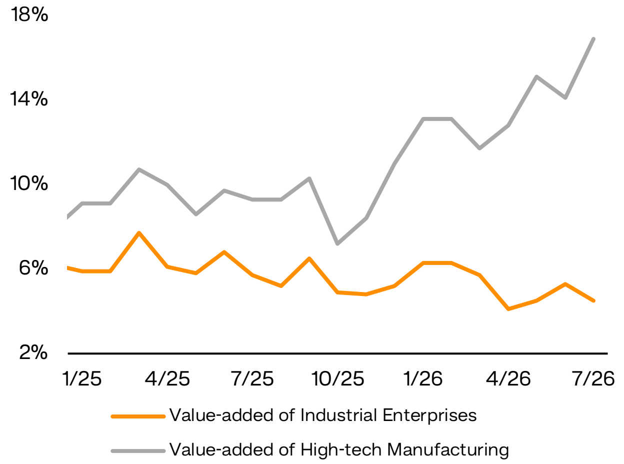
- July's major economic indicators fell short of market expectations, indicating continued softening growth momentum.
- High-tech manufacturing and retail sales of services continued to be structural bright spots, while the contraction of fixed asset investment widened further.
- Additional monetary and fiscal accommodation remains on the table if downside risks intensify.

The Chinese Mainland's economy got off to a slow start to 2H 2026. July's major economic indicators weakened and fell short of market expectations. The drag on economic activity during the month could be partly attributed to extreme weather conditions. Underpinned by solid exports, industrial production remained resilient. However, domestic consumption, investment and the property sector stayed sluggish. Structurally, the Chinese Mainland continues to transition toward a technology- and services-led economy, as ongoing solid expansion in high-tech and services sectors cushioned the softening of traditional sectors.

Advanced manufacturing sustained resilient industrial production growth. Industrial production growth moderated from 5.3% year-on-year (YoY) in June to 4.5% in July, with high-tech (+16.9%) outperforming. According to the National Bureau of Statistics, high-tech and digital product manufacturing collectively contributed to around half of industrial production growth in January-July. Specifically, the Chinese Mainland's growing manufacturing competitiveness in high-tech products has attracted external demand amid the global Supercycle for artificial intelligence (AI) related investment, as evidenced by solid growth in exports (23.9% YoY in July). On the domestic front, productivity upgrades in traditional industries and the rise of emerging technology industries in the Chinese Mainland have driven greater adoption of smart and digital machines. Notably, production of industrial robots surged by 30.2% YoY in July.

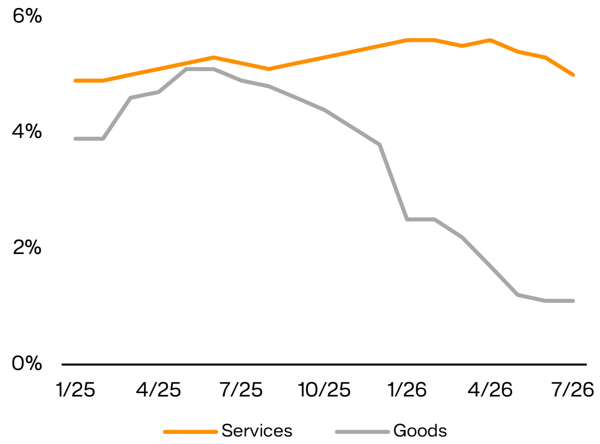
Retail sales growth moderated in July. Retail sales of goods and services grew by 2.6% YoY in January-July, down from 2.7% in 1H 2026. Specifically, retail sales of services continued to outperform, with a robust expansion of 5.0% YoY in January-July. Double-digit growth was recorded in retail sales in tourism, culture and leisure sectors. In comparison, retail sales of goods eased from 0.9% YoY in June to 0.5% in July. Among major components, consumption of basic necessities maintained modest growth, including grain, cooking oil and food (+5.3% YoY in July) and beverages (+3.5%). Concurrently, telecommunications equipment was a bright spot, with growth accelerating from 16.5% YoY in June to 20.4% in July. This reflected rising consumer demand for smart devices amid the upgrading of AI applications. Nevertheless, automobile sales continued to be the primary drag (-17.0% YoY in July), reflecting front-loaded demand in previous years supported by fiscal incentives.

Industrial Production (YoY)



Source: National Bureau of Statistics

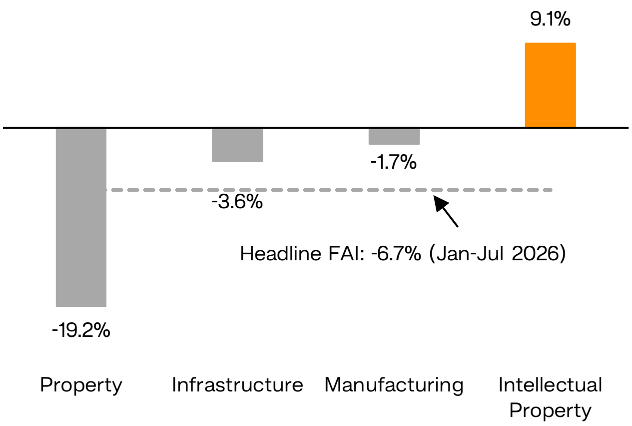
Retail Sales (YTD YoY)



Source: National Bureau of Statistics

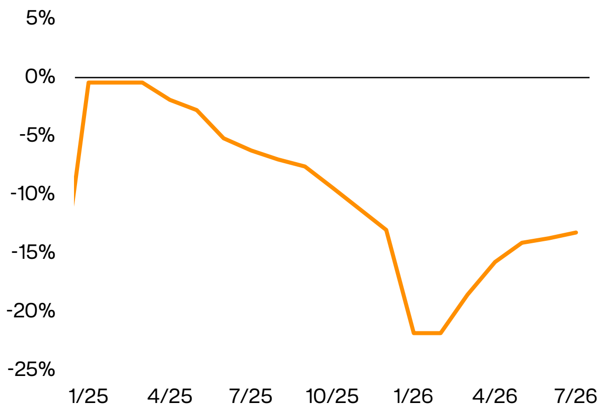
Investment remained in deep contraction. The YoY decline in fixed asset investment (FAI) widened from 5.7% in 1H to 6.7% in January-July, as extreme weather conditions caused construction delays. Manufacturing, infrastructure and property FAI deteriorated further to YoY declines of 1.7%, 3.6% and 19.2% in January-July, respectively. In contrast, investment in intellectual property expanded solidly by 9.1% YoY in January-July, reflecting strong investment demand for R&D and computing-related products. As of June 2026, the issuance of special bonds reached 47% of annual quota, which indicates ample room for fiscal policy implementation to support public investment, particularly for the "Six Networks", namely water supply networks, modernised power grids, computing infrastructure, next-generation communications, underground conduit systems and advanced logistics.

Fixed Asset Investment (Jan-Jul YoY)



Source: National Bureau of Statistics

Sales Value of Private Residential Property (YTD YoY)



Source: National Bureau of Statistics

Nationwide property market remains pressured despite stabilisation in 1st-tier cities. The sales value of newly built residential buildings contracted by 13.2% YoY in January-July, slightly improving from a 13.7% YoY decline in 1H. However, the stabilisation of home prices remained confined to tier-1 cities, while the property markets in lower-tier cities continued to deteriorate. Home prices in tier-2 and tier-3 cities declined by 0.1% and 0.3% month-on-month in July, respectively. In early August, Beijing relaxed its home purchase policy again, including lowering eligibility thresholds for non-locally registered households buying homes in core districts and raising the housing provident fund loan limit.

Stronger policy support remains on the table if downward pressure intensifies. As the domestic imbalances remain significant, the authorities are likely to take a more proactive approach in boosting domestic consumption and investment. The Politburo meeting in July called for greater counter-cyclical macro-policies, including accelerated fiscal spending and deployment of bonds proceeds, and timely adjustments to monetary policy. There remains the possibility of further cuts to key policy rates by around 10 basis points (bps) and to the required reserve ratio by 25-50 bps, thereby supporting lower financing costs and ensuring ample liquidity.

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