Economics

Economic Activity

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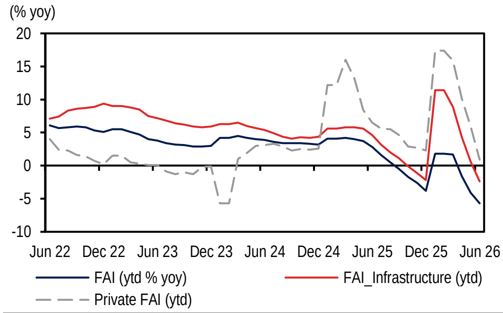
2Q26 Growth Slows To 4.3% yoy; June Data Mixed

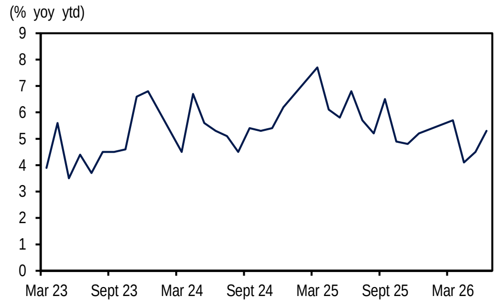
- China's 2Q26 real GDP growth slowed to 4.3% yoy (-0.7ppt qoq), bringing 1H26 growth to 4.7% yoy. Quarterly FAI contracted 9.7% yoy while quarterly retail sales growth slowed to 0.2% yoy, both marking sharp reversals from 1Q26.
- June data was mixed: Industrial production growth rose to 5.3% yoy (+0.8ppt mom) and retail sales rebounded to 1.0% yoy, both beating consensus. However, FAI ytd growth fell further to -5.7% yoy (-1.6ppt mom), dragged by property FAI ytd (-18.0% yoy) as the decline deepened. The unemployment rate improved to 5.0% (-0.1ppt mom).
- With the government focused on accelerated project implementation rather than increasing fiscal impulse, further support is likely to remain targeted; attention turns to the July Politburo meeting. We keep our 2026 real GDP forecast unchanged at 4.2% yoy, cut FAI growth forecast to 2.0% yoy, compensated by stronger export/import growth of 10.0%/11.0% yoy respectively.

Fixed Asset Investment Growth



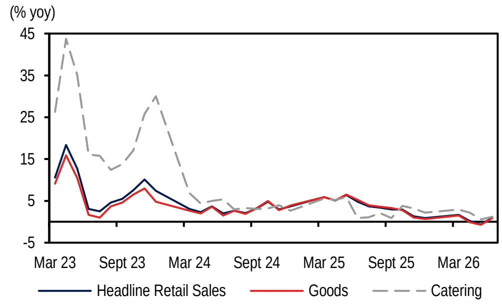
Source: NBS, CEIC, UOB Kay Hian

Industrial Production Growth



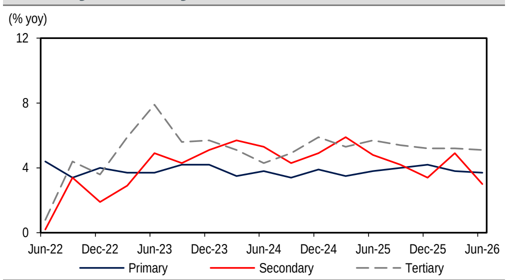
Source: NBS, CEIC, UOB Kay Hian

Retail Sales By Merchandise



Source: NBS, CEIC, UOB Kay Hian

GDP By Industry



Source: NBS, CEIC, UOB Kay Hian

What's New

Economic Activity Data (Monthly)

(yoy % chg)	Jun 26	Consensus	May 26
FAI YTD	-5.7	-5.0	-4.1
FAI*	-13.7	-	-14.1
Property FAI YTD	-18.0	-16.8	-16.2
Industrial Production	5.3	4.6	4.5
Surveyed Unemployment Rate (%)	5.0	5.1	5.1
Retail Sales	1.0	-0.1	-0.6

** UOB Kay Hian estimates*
Source: NBS, CEIC, UOB Kay Hian

Economic Activity Data (Quarterly)

(yoy % chg)	2Q26	1Q26	4Q25	3Q25	2Q25
GDP	4.3	5.0	4.5	4.8	5.4
FAI*	-9.7	1.7	-13.7	-10.4	1.4
IP*	4.7	6.1	5.0	5.6	6.1
Retail Sales*	0.2	2.4	1.3	3.0	6.2

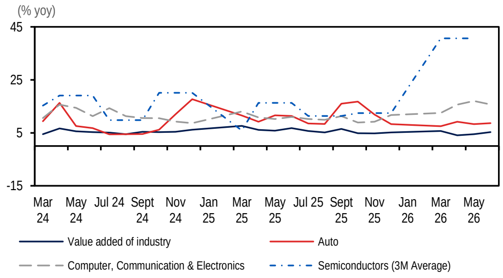
** UOB Kay Hian estimates*
Source: NBS, CEIC, UOB Kay Hian

- **China's 2Q26 real GDP growth slowed to 4.3% yoy,** down from 1Q26's 5.0% yoy and below 2Q25's 5.4% yoy, bringing 1H26 growth to 4.7% yoy. By industry, the tertiary sector posted a 5.2% yoy (flat qoq) growth, while the secondary sector grew 3.9% yoy (-1.0ppt qoq) and the primary sector rose 3.7% yoy (-0.1ppt qoq), with the secondary sector accounting for most of the slowdown. The deceleration reverses the stabilisation seen in 1Q26, with quarterly FAI contracting 9.7% yoy and quarterly retail sales growth slowing to 0.2% yoy, both sharp reversals from 1Q26's 1.7% yoy and 2.4% yoy respectively.
- **Industrial production growth rose to 5.3% yoy in June (+0.8ppt mom),** beating Bloomberg's consensus estimate of 4.6% yoy and marking the strongest reading in 2Q26. In June, 29 out of 41 major sectors maintained yoy growth in output value (vs 28 in May). The improvement remained narrowly sourced from new quality productive forces: Hi-tech manufacturing grew

14.1% yoy, with output of industrial robots (+28.1% yoy) and new energy vehicles (+29.4% yoy) leading, even as overall automobile output slipped 0.2% yoy. In contrast, commodity-related output remained weak, with negative growth of crude oil processing volume of -17.7% yoy, raw coal of -10.0% yoy and sulfuric acid of -9.7% yoy. Overall, 2Q26 IP (industrial production) growth of 4.7% yoy slowed from 1Q26's 6.1% yoy.

- **June's retail sales growth rebounded to 1.0% yoy,** up from May's -0.6% yoy and above Bloomberg's consensus estimate of -0.1% yoy. By consumer type, catering revenue grew 1.2% yoy (1.6ppt mom), while retail sales of goods recovered to +0.9% yoy (0.6ppt mom). Among goods, communication equipment (+16.5% yoy), cultural and office supplies (+12.7% yoy) and cosmetics (+12.6% yoy) led the improvement, whereas automobiles (-16.1% yoy) and building and decoration materials (-10.5% yoy) remained the key drags. Even so, quarterly retail sales growth of 0.2% yoy in 2Q26 was well below 1Q26's 2.4% yoy, suggesting the June rebound has yet to signal a durable recovery in consumption.
- **FAI ytd growth fell further to -5.7% yoy in June (-1.6ppt mom),** below Bloomberg's consensus estimate of -5.0% yoy and extending the downward trend. The deterioration was again driven by property FAI ytd, which deepened to -18.0% yoy (-1.8ppt mom), missing consensus of -16.8% yoy and hitting fresh multi-year lows, with the tertiary industry being the worst-hit segment (-8.4% yoy). Quarterly FAI contracted 9.7% yoy in 2Q26, a sharp reversal from 1Q26's 1.7% yoy growth, suggesting that the fiscal front-loading seen at the start of the year has faded.
- **On a positive note, the surveyed unemployment rate improved to 5.0% in June (-0.1ppt mom),** below Bloomberg's consensus of 5.1%. Overall, June's data was mixed, but the 2Q26 GDP print confirms a slowing momentum. The government remains focused on accelerated project implementation rather than increasing fiscal impulse; attention turns to the July Politburo meeting.
- **We keep our 2026 real GDP forecast unchanged at 4.2% yoy,** and cut FAI forecast to 2.0% yoy, compensated by increasing export and import growth of 10.0% yoy and 11.0% yoy, respectively.

Industrial Production By Sectors



Source: NBS, CEIC, UOB Kay Hian

Economic Forecast

	2025	------------ 2026 Forecast ------------		------------ 2027 Forecast ------------	
	Actual	UOBKH	UOBKH	UOBKH	UOBKH
Real GDP(% yoy)	5.0	4.2	4.6	4.2	4.4
Fixed Asset Investment (% yoy)	(1.4)	2.0	2.0	3.5	3.1
Industrial Production (% yoy)	5.9	5.5	5.3	4.5	4.7
Retail Sales (% yoy)	3.8	3.5	2.5	5.0	4.1
Fiscal Balance (% of GDP)*	(5.1)	(5.0)	(5.5)	(5.5)	(5.5)
M2 (% yoy)*	8.0	7.0	8.0	7.0	7.6
Outstanding Bank Loans (% yoy)	6.4	6.0	n.a.	6.0	n.a.
Total Social Financing (% yoy)	8.3	7.0	n.a.	6.5	n.a.
10-Yr Treasury Bond Yield (%)	1.85	1.65	1.77	1.80	1.76
CPI (% yoy)	0.1	1.5	1.2	1.0	1.2
PPI (% yoy)	(2.6)	4.0	2.0	3.0	0.9
Export (US$, % yoy)	5.2	10.0	7.6	3.0	4.0
Import (US$, % yoy)	(0.1)	11.0	10.3	2.0	2.8
Exchange Rate (Rmb/US$)	6.99	6.70	6.72	6.53	6.60

** UOB Kay Hian estimates*
Note: Using Bloomberg consensus
Source: Bloomberg, CEIC, UOB Kay Hian