

Article | 15 July 2026

CHINA

China slowdown worse than expected on weak domestic demand

China's growth slowed to 4.3% year-on-year in the second quarter, the slowest quarterly pace since the pandemic. Though June saw better industrial production and retail sales, the investment slump worsened. Weak domestic demand also weighed on overall momentum. Growth remains within the target range, but pressure for policy support may be increasing



4.3% YoY

China's 2Q26 GDP growth

Worst since the pandemic

Lower than expected

GDP growth undershoots in 2Q as domestic slowdown finally shows in the data

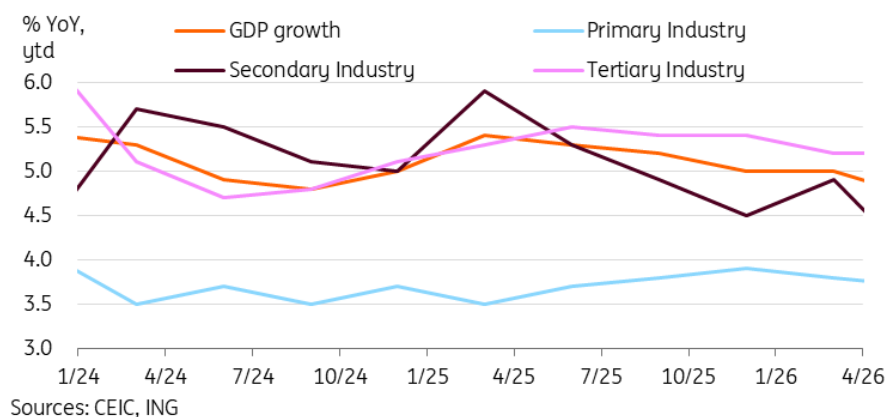
China's second quarter GDP saw a significant deceleration, down to 4.3% YoY from 5.0% in the

first quarter, weaker than forecasts (market: 4.5%, ING: 4.6%). This was the slowest growth in any quarter since the lockdown-impacted fourth quarter of 2022. Through the first half of the year, growth remains within the target range at 4.7% YoY.

The sharp weakening in monthly indicators, which was largely glossed over in the puzzling 5.0% YoY first-quarter GDP print, showed up far more clearly in the second-quarter release. Monthly indicators don't map cleanly into GDP, but the underlying pulse is unmistakably weak: fixed-asset investment has slipped deeper into negative YoY territory, retail sales are barely above zero, and net exports remain negative on a YoY basis — even with strong headline export growth — as a surge in imports overwhelms the trade balance. Inflation was also higher in the second quarter, reducing the data's support from the GDP deflator. We'll have to take a closer look at where the growth is coming from once the contribution to GDP data is released in the coming days. For now, the monthly data suggest a bleak picture all around.

The initial release shows that growth was strongest in the tertiary sector, which grew 5.2% YoY. Strong focus on building out quality services may have buoyed the GDP data, compared to relatively lacklustre growth in the primary (3.7%) and secondary (3.9%) industries.

Tertiary industry continued clear outperformance in 2Q26



June retail sales growth returns to positive territory

Retail sales rebounded to 1.0% YoY in June, up after May's surprise negative read of -0.6%. This beat market expectations (market: -0.1%, ING: -0.1%) essentially for flat growth. Retail sales managed just 1.3% YoY growth over the first half of the year. Services consumption, in contrast, performed better in the same time period, with 5.4% YoY growth in the first half. We expect consumption to continue to shift further toward services, but weak goods sales remain a cause for concern.

The breakdown of retail sales data offers some reason not to be too pessimistic. We see there are several categories which are clear outliers and dragging the overall data in June, and three stories drive these outliers.

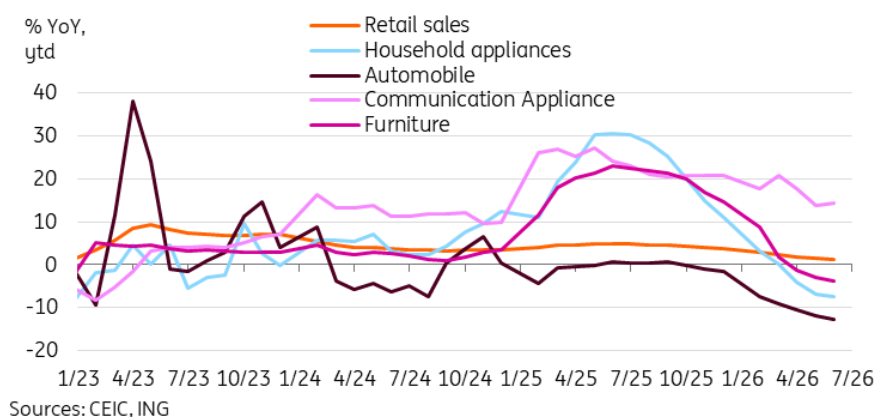
- The first story is the rise of China's electric vehicle sector. We see a sizeable drag from auto sales (-16.1%) after demand was front-loaded in previous years and the replacement demand hasn't come in yet, as well as petroleum (-5.1%) falling amid the transition to EVs
- The second story is such as the continued sluggishness of the property market, which is reflected in household appliances (-8.7%), and furniture (-6.6%), and building and decoration materials (-10.5%)
- The third story is the sharp drop in gold prices, which has caused the -3.4% YoY drop in gold and jewellery sales.

Elsewhere, there are still pockets of optimism for consumption. Communications devices (16.5%), cultural and office supplies (12.7%), cosmetics (12.6%), and alcohol and tobacco (12.2%) all saw double-digit YoY growth on the month.

The larger backdrops to the weak consumption story are weak consumer confidence and the impact of China's trade-in policy shifting from tailwind to headwind after front-loading demand in previous years. We are now dealing with the blowback, with beneficiary categories such as autos, household appliances, and furniture particularly hit hard.

We're looking for consumption to be a primary policy target in the second half of the year. This could take the form of another wave of trade-in policy expansion, which may have diminishing returns, or policy support to boost services consumption.

Several key categories account for most of the consumption drag



Industrial production beats expectations amid strong external demand

Industrial production rose 5.3% YoY in June, up from 4.5% in May, and beating forecasts for a more modest recovery (market: 4.6%, ING: 4.7%). This solid read brings the first half industrial

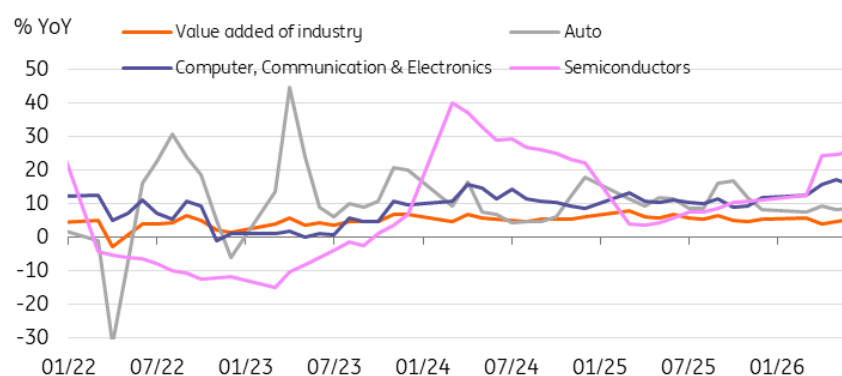
production growth to 5.4% YoY, where it has been one of the strongest domestic activity indicators.

Manufacturing growth rose 6.0% YoY, with hi-tech manufacturing in particular continuing to outperform at 14.1%. With China's strategic direction focusing on industrial modernisation, this trend of hi-tech manufacturing outperformance is likely to continue.

Looking at the outperforming categories, it's clear that external demand is the key factor behind these categories, with rail, ships, and aerospace (18.2%), autos (8.7%, despite the sharp drop in domestic sales), and the computers, communications, and electronic equipment (15.7%) categories all comfortably outperforming headline growth. Semiconductor production hit a 17-month high of 25.4% YoY amid the continued tech boom.

In contrast, underperformers included categories which traditionally supported domestic property and infrastructure investment, such as cement (-5.6%), glass (-5.3%), and steel (0.0%).

Industrial production has been heavily external demand driven



Sources: CEIC, ING

Fixed asset investment growth continues to crater

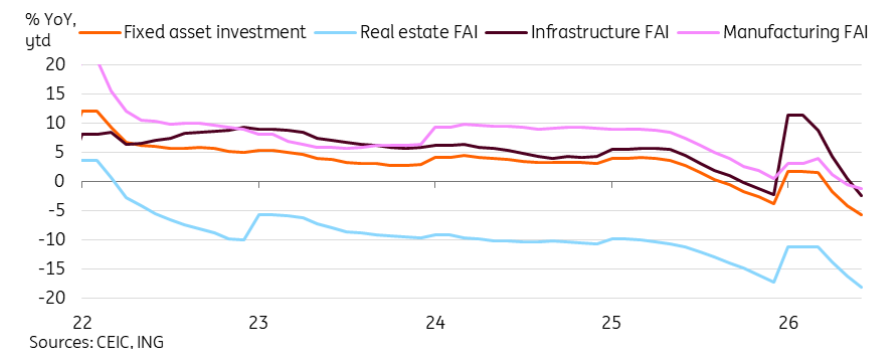
Fixed asset investment dropped to -5.7% YoY ytd over the first half of the year, down from -4.1% YoY ytd in May. The reading significantly undershot market expectations (market: -5.0%, ING: -5.2%) and marked the lowest level since May 2020.

Private sector investment fell to -8.5% YoY ytd, worsening from a -7.1% decline over the first five months. State-owned investment also fell further into contractionary territory, down to -2.3% YoY ytd from -0.4% in the first five months. This sends a clear signal that public sector investment is no longer acting as a stabilising force after a decent start to the year. Against a backdrop of elevated global uncertainty, both private and state-owned enterprises appear to be postponing capital expenditure plans, adding to an already weak investment environment.

By industry, the divergence remains extreme. Sectors related to external demand and industrial upgrading continued to attract investment, including rail, ships, and aerospace (24.7%), textiles (9.4%), and computer and electronics manufacturing (6.5%). High-tech investment continued to grow at 4.6% YoY ytd. However, these bright spots were the exception. Manufacturing investment overall was soft at -1.2% YoY ytd, and would've looked even worse if not for strong investment in rail, ships, and aerospace at 24.7% YoY ytd. Infrastructure investment fell into negative territory, down to -2.4% YoY ytd, after managing positive growth over the first five months of the year. Many other categories, especially in the tertiary sector, saw double-digit year-on-year declines in investment.

The persistent lack of investment appetite continues to feed through to subdued credit demand, driving banks to park yet more funds in government bonds. Accelerating project approvals, special local government bonds, and more fiscal transfers look increasingly necessary to help stabilise the sharp deceleration of investment. The FAI data has been increasingly out of sync with the gross fixed capital formation data and overall GDP. It's worth watching to see if this is again the case when the detailed data is released in the coming days.

Broad spread weakness of investment raises pressure for increased fiscal support



Mixed signals in the 70-city property price data

China's National Bureau of Statistics released its 70-city sample of property prices for June. New home prices fell by -0.15% month-on-month, while used home prices dipped by -0.32%. This was a mixed bag: the new home price decline was the smallest monthly drop since April 2025, while used home prices saw the steepest decline in the past 4 months.

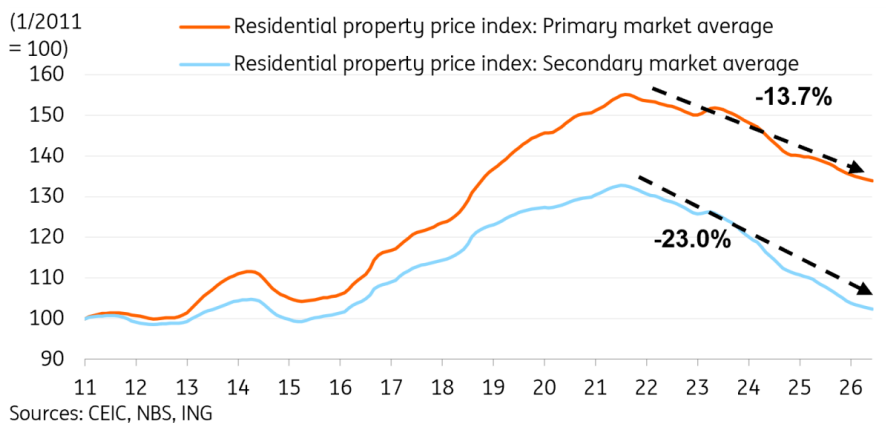
The city-level breakdown showed that 21 of 70 cities saw new home prices stabilise or pick up in June, improving from the 18 in May. However, only 10 of 70 cities saw secondary market prices pick up in June, down from 13 in May. We have argued that secondary market prices are more important, given the impact on household balance sheets.

The key silver lining is that tier 1 and 2 cities continued to show signs of stabilisation. Tier 1

cities Beijing, Shanghai, Shenzhen, Guangzhou all saw secondary market prices rise in June in a positive sign for household wealth. If we do end up confirming a trough, this could be a catalyst for gradual sentiment recovery.

Property investment, already down -18.0% YoY ytd, will remain a major drag on growth for some time, as inventories remain high and prices have yet to really confirm a bottom.

Property prices still seeking a trough even as tier 1 cities stabilise



Rising expectations for policy support to firm up second half growth

The sharp slowdown of growth will likely prompt policymakers to take a more proactive approach in the coming months. Markets have been looking ahead to the Politburo meeting later this month as a likely window to signal more policy support.

On the fiscal side, we expect modest fiscal easing, likely aimed at supporting consumption and accelerating existing approvals for local government special bond issuance and infrastructure projects. Central government bond issuance and fiscal transfers could be ramped up, but the scale might leave market participants underwhelmed. With growth still within range in 1H26, it's unlikely there is any sense of emergency that would warrant a bazooka-style stimulus package with massive fiscal expansion.

On the monetary side, low but positive inflation shouldn't impede further People's Bank of China easing if it is deemed necessary. Policymakers have made efforts to maintain ample liquidity, and we expect there is a solid chance we will see a rate cut within the quarter.

Overall, we expect China to be able to hit its full-year growth target of 4.5-5.0%. As things stand, risks to our 4.7% YoY full-year GDP forecast look balanced to the downside. It's uncertain how long it will take to announce and roll out policy support to arrest the downward

momentum. Without support, we're likely to see growth continue to grind lower. However, as we are in the first year of the 15th Five-Year period, it's likely that policymakers would prefer not to come in at the low end of this band, thereby raising the stakes for the upcoming Politburo meeting.

Author

Lynn Song

Chief Economist, Greater China

lynn.song@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.