NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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China: half-year economic update

MARKET INTELLIGENCE REPORT

Report

China's economy grew 4.7 percent in the first half of 2026, within the range of the country's 4.5 to 5 percent growth target for 2026. However, growth slowed to 4.3 percent in Q2 reflecting some structural shifts in China's economy and a divide between a strong export sector and relatively weak domestic demand.

Inflationary pressures have increased in 2026, with consumer prices rising 1 percent year-on-year in June, while producer prices rose 4.1 percent, marking a sharp reversal after a prolonged period of deflationary pressure. The increase in upstream prices partly reflects the higher energy and commodity costs associated with disruption to trade and energy flows through the Strait of Hormuz.

Consumption growth in China remains subdued, with retail sales – a commonly used proxy for household consumption – increasing by 1.3 percent year on year in the first half of 2026. Experts point to the easing of consumer facing subsidies and the continuing drag from China's property market (which is impacting consumer confidence) as contributing factors. Beverage sales and online food sales stood out as bright spots, growing at 6 percent and 17 percent respectively.

On 13 July, China's State Council released a new plan to boost consumption. The plan set a goal of raising total retail sales of consumer goods to around RMB60 trillion (roughly NZ$15 trillion) by 2030, projecting 3.7 percent annual increases out to 2030. As well as identifying priority sectors such as tourism and sports, the plan acknowledges the role of China's improving social security system to reassure consumers and decrease China's high rate of precautionary savings.

China's fixed-asset investment fell 5.7 percent year on year in the first half of 2026, led by an 18 percent decline in property investment. Infrastructure and manufacturing investment also fell by 2.4 and 1.2 percent respectively. High-tech manufacturing remains a bright spot with investment in integrated-circuit and lithium-ion battery manufacturing growing at 8.8 and 24 percent respectively. The strong performance of these sectors is consistent with the Chinese Government's focus on 'high quality development'.

China's exports continue to perform strongly, increasingly driven by AI demand. Cost increases for mature node semiconductors and memory chips have been a key driver. China's exports of memory Chips have increased in value by 139 percent whereas quantities have only increased by 19 percent, highlighting the role of price increases in this export surge. China also has significant capacity in other parts of the AI supply chain, such as optical fibre manufacturing.

An extensive pipeline of further IPOs by mainland businesses in Hong Kong is expected in the second half of 2026. This includes more AI technology, semiconductors, new energy, and consumer electronics. The recent listing of memory chip maker CXMT on the Shanghai exchange – which closed up 466 percent on its first day – demonstrated the demand from retail and institutional investors to partake in China's AI boom.

·For New Zealand, it is not just China's economic growth that matters to us but the shape of that growth. New Zealand's exports to China are generally sold to relatively prosperous households in the form of consumer goods. Higher household incomes and greater economic security will ultimately flow through to whether Chinese consumers are willing to pay a premium for New Zealand meat, dairy or travel. The performance of China's property sector also influences demand for forestry products and other commodities.

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