China's Export Engine Powers on as Consumers Pull Back

Key Takeaways:

- China's economy remains resilient, supported by exports and high-technology manufacturing, but growth slowed from 5.0% in the first quarter of 2026 to 4.3% in the second as domestic momentum weakened.
- Household spending remains subdued as falling property prices, softer labor-market conditions, and uncertainty over income and wealth continue to weigh on consumer confidence.
- The prolonged property downturn is spreading across the wider economy, weighing on private investment, construction-related industries, and local-government finances, even as high-technology sectors continue to expand.
- For Thailand and ASEAN, China's export strength presents both challenges and opportunities. Lower-priced goods and stronger competition can pressure local producers, while affordable industrial inputs and rising Chinese investment can strengthen regional production networks.

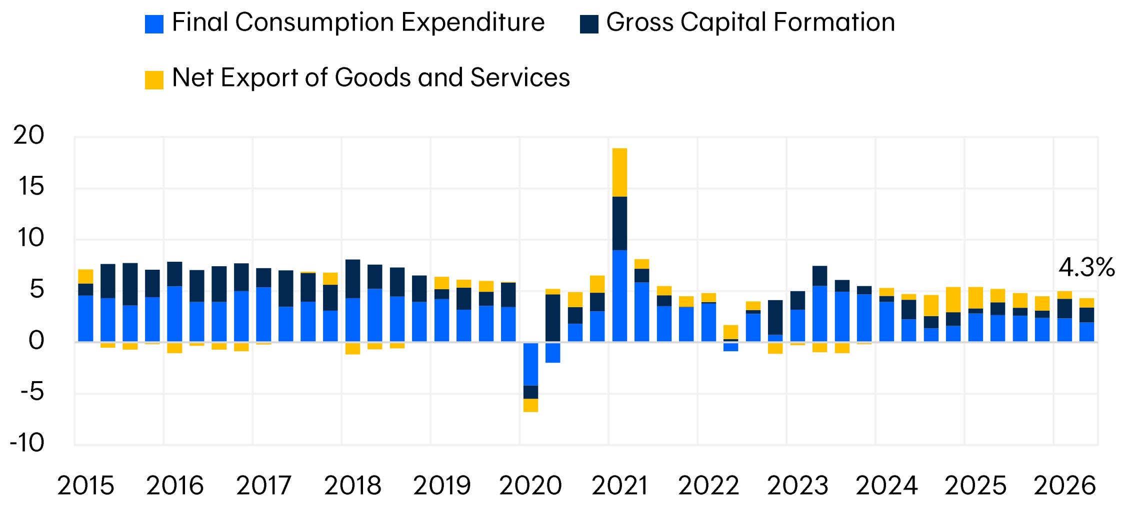
An Increasingly Uneven Economy

China entered the second half of 2026 with two sharply contrasting economic stories unfolding at once. Its factories continue to supply global markets with products ranging from electronics to clean-energy equipment, while Chinese consumers are becoming more cautious and private businesses are pulling back from investment.

The country's exporters remain formidable, benefiting from strong global demand for products linked to artificial intelligence (AI), electronics, and advanced manufacturing. Chinese companies are also expanding their manufacturing presence across Asia, reinforcing China's position at the center of regional production networks even as trade barriers reshape global commerce.

Conditions at home tell a different story. With the property market still struggling and confidence yet to fully recover, households remain reluctant to spend and private businesses are hesitant to invest.

Contribution to GDP Growth (%)



Source: National Bureau of Statistics of China.

According to the National Bureau of Statistics of China, GDP growth slowed from 5.0% year-on-year in the first quarter of 2026 to 4.3% in the second, bringing the first-half growth to 4.7%.

China's economy has not stalled, nor has its industrial strength disappeared. What has changed is the composition of growth. Production and exports remain relatively strong, while household spending and private investment struggle to keep pace.

Households Keep Their Wallets Closed

The clearest sign of strain can be seen in consumer spending. Retail sales rose by only 0.6% year-on-year in July, bringing growth during the first seven months of the year to just 1.2%. The weakness was particularly visible in big-ticket purchases, with automobile sales falling by 17.0%. Excluding automobiles, retail sales rose by a stronger 2.5%.

Part of the slowdown reflects a high base in 2025, when government subsidies under the consumer-goods trade-in program encouraged households to replace cars, appliances, and electronics. The incentives may also have brought forward some purchases, leading to less demand this year.

More importantly, consumer confidence remains weak. Housing remains one of the most important stores of wealth for Chinese families, and the prolonged property correction has left many households feeling less financially secure.

This creates a difficult cycle. When households are uncertain about future income, employment, or asset values, they have greater reason to save and postpone discretionary purchases. Weaker consumption then reduces business revenue, discourages investment and hiring, and gives households even more reason to remain cautious.

Property Slump Spreads to Investment

China's property adjustment remains central to this story. Investment in real-estate development fell by 19.2% year-on-year during the first seven months of 2026, while the value of new commercial-property sales declined by 13.1%. The weakness has also spread beyond housing. Overall fixed-asset investment contracted by 6.7%, while private investment fell even more sharply, according to the National Bureau of Statistics of China.

This matters because the property sector is closely connected to a much wider economic ecosystem, encompassing construction, steel, cement, furniture, household appliances, and local-government revenue. A prolonged housing downturn therefore affects not only developers and homebuyers but also suppliers, manufacturers, service providers, and local investment.

The industrial picture, however, is more mixed. Industrial production continued to expand in July, although at a slower pace than in June, while high-technology industries remained relatively resilient. The contrast reinforces a broader pattern running through China's economy: strength in exports and advanced manufacturing is helping to offset weakness in property and private investment, but it has not been enough to generate a broad-based recovery.

The Export Engine and Its Regional Consequences

Exports remain the strongest pillar of China's economy. Demand linked to AI infrastructure, electronics, machinery, and new-energy products has helped factories offset weaker domestic orders. However, sustained export strength, combined with subdued consumption at home, also means that a greater share of Chinese production is being directed overseas.

For Thailand and other ASEAN economies, the consequences will be mixed. Lower-priced Chinese consumer goods may intensify competition, hurting local manufacturers, particularly small and medium-sized enterprises with limited room to reduce costs. Chinese exporters may also compete more aggressively with ASEAN producers in major markets such as Europe and the United States.

At the same time, affordable Chinese machinery, components, and intermediate goods can lower production costs and support new investment. Chinese companies are also relocating more manufacturing capacity to Southeast Asia as supply chains adjust to trade barriers. According to the Bank for International Settlements, Chinese foreign direct investment in ASEAN more than tripled between 2017 and 2024.

The Next Challenge: Turning Production into Spending

Chinese policymakers are trying to address the imbalance. At a meeting in July, the country's leadership placed greater emphasis on stimulating domestic demand, supporting livelihoods, and integrating technological innovation with industrial development. More fiscal support and measures to encourage consumption may follow.

However, subsidies alone are not enough. A durable recovery in household spending will require stronger confidence in income, employment, housing, and social protection.

China has already demonstrated an extraordinary ability to manufacture, invest, and export at scale. The harder task now is to rebalance an economic model that has long been better at producing goods than generating household demand. Its future growth may therefore depend less on how much its factories can produce, and more on whether Chinese households feel confident enough to spend.

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