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China's Economy Grows at Weakest Pace Since 2022

China's gross domestic product expanded 4.3% in the second quarter, as a dismal domestic economy offset surging exports

By Katrina Northrop
Updated July 15, 2026 6:42 am ET

China's young people are struggling to find jobs. GO NAKAMURA/REUTERS

Quick Summary

- China's gross domestic product expanded 4.3% in the second quarter, marking its slowest economic growth since the end of 2022.

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China's growth slowed in the second quarter of the year to the weakest pace in more than three years, as surging exports buoyed by the artificial-intelligence boom failed to compensate for a struggling domestic economy and sluggish consumer spending.

China's gross domestic product expanded 4.3% in April to June from a year ago, according to official data released Wednesday, down from 5.0% in the first quarter of the year. This marks the slowest growth since the end of 2022, when the country was grappling with the economic fallout of the Covid-19 pandemic.

"China's weakening headline growth is an indicator of enormous underlying economic fragilities, which have stifled domestic demand and kept the economy heavily reliant on exports to sustain growth," said Eswar Prasad, an expert on China's economy at Cornell University and former head of the China division at the International Monetary Fund.

Earlier this week, Beijing reported that exports rose 27% from a year earlier in June, largely fueled by demand from the AI sector, with outbound shipments of semiconductors up more than 120%.

This week's data underscores the lopsided nature of the Chinese economy. Chinese exporters are booming in everything from chips to electric vehicles and industrial batteries. The country's tech companies are churning out winning AI models in a high-stakes race with the U.S.

But, at the same time, much of the domestic economy is a mess. A crash in the property sector has drained family savings and made many unwilling to spend. Young people increasingly struggle to find jobs. Deflation is eroding company profits.

"The exports performance is quite stellar," said Dan Wang, China director at Eurasia Group. "But it doesn't really trickle down to any of the domestic demand" because the largest export gains have been in industrial manufacturing, a highly automated and capital intensive sector. This means that Chinese consumers aren't reaping the benefits of the high-tech industry, she added, even as their spending is constrained due to the housing crash.

Economists have long urged Chinese authorities to introduce the deep reforms that would rebalance the world's second-largest economy by motivating consumer spending, cutting debt and reducing its outsize reliance on manufacturing. But Beijing has so far been reluctant to implement such bold changes.

Beijing's trade dominance is also having geopolitical consequences. The manufacturing machine is exacerbating economic tensions with China's trading partners like Europe, where leaders are increasingly airing concerns that the flood of Chinese exports is hurting local industries.

The May summit between President Trump and Chinese leader Xi Jinping stabilized relations after a painful tariff battle last year, but underlying economic frictions persist. In June, the U.S. proposed new tariffs on China of at least 10% over forced labor concerns.

Investment continued to contract this quarter. China's property investment declined 18% in the first half of the year compared with the same period in 2025, widening from a 16.2% decline in the first five months of the year. Meanwhile, fixed-asset investment declined 5.7% in the first half of the year, widening from the 4.1% fall in January to May.

Some pockets of the economy rebounded slightly. Retail sales, a key gauge of consumption, rose 1.0% from a year earlier in June, compared with a 0.6% decline in May. The contraction in May represented the first month of year-over-year declines in more than three years. Industrial output expanded 5.3% in June, compared with 4.5% the month before, largely thanks to China's soaring exports.

Employment has also shown gains, with the youth joblessness rate falling to 15.6% in May, down from 16.3% the month before, according to official data

The dismal data led Morgan Stanley and ANZ to cut their GDP growth forecasts for this year to 4.6%. But the numbers won't shift Beijing's long-term thinking, said Eurasia's Wang. The government has a growth target of 4.5% to 5.0% this year.

"Their plan is actually to tolerate slower growth this year," she said. This is evident in the official growth target for this year, which is the lowest set by China in decades.

Chinese officials are tempering expectations, Wang said, in part to tackle domestic issues like ballooning local government debt. Local officials have recently cut back on spending in an effort to address soaring debt levels.

Experts are watching a late July meeting of the Politburo, an important policymaking body, for signals about potential economic stimulus measures. Though some analysts expect infrastructure investment programs and efforts to boost consumption, many don't expect major support in the second half of the year.

This week, China released its first five-year plan targeting consumption, aiming to reach nearly $9 trillion in annual retail sales by 2030. But Tommy Xie, head of macro research at OCBC Bank in Singapore, said the goal isn't especially ambitious.

The Iran war hasn't had an impact on China as substantially as many other global economies. China effectively blunted the oil shock by importing far less oil and drawing on its reserves. A flourishing electric-car industry has also reduced the need for oil domestically. Meanwhile, the conflict in the Middle East has boosted demand for China's exports of green-tech products like solar panels.

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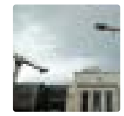

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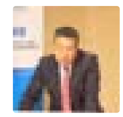

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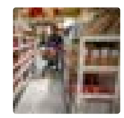

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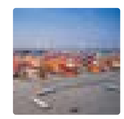

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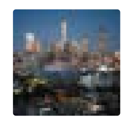

Beijing is receiving “unintended support” from the Iran war, said OCBC’s Xie, as countries across the world accelerate adoption of renewable energy.

—Xiao Xiao in Beijing contributed to this article.

Appeared in the July 16, 2026, print edition as ’China’s Malaise Continues As Economic Growth Slows’.

Katrina Northrop is a reporter for The Wall Street Journal covering the Chinese economy from Singapore. Previously, she was a China correspondent for the Washington Post and a staff writer at The Wire China, where she covered China’s global impact on business and technology.

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