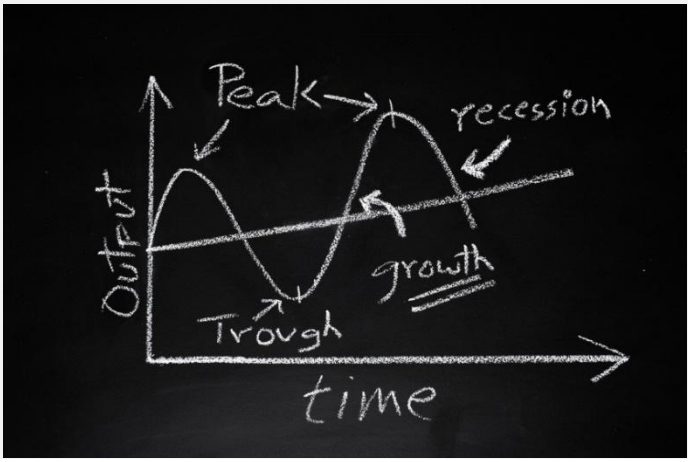
Creditreform Rating

Resilient Growth, Narrow Foundations



Creditreform Economic Briefs

07 August 2026

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Key Take-Aways

1. Global growth remained resilient in the first half of 2026, but the expansion rested on increasingly narrow foundations. In the United States, AI-related capital expenditure remained a key growth driver; in China, exports and technology-oriented manufacturing continued to outperform domestic demand; and in Europe, fiscal support and public investment offset weak private-sector activity. This concentration leaves the outlook vulnerable to geopolitical shocks, energy-market volatility and persistently restrictive financing conditions.

2. The US economy continued to expand in 2Q26, although growth slowed and became increasingly concentrated in technology-related investment and a limited number of service industries. Labor market conditions remained broadly supportive but continued to normalize, while elevated borrowing costs constrained household demand and investment outside the technology sector. We expect US GDP to grow by 2.3% in 2026. With inflation still elevated, the Federal Reserve is likely to maintain a cautious and data-dependent stance, keeping monetary policy restrictive in the near term.

3. After a solid start to the year, the UK economy lost momentum in 2Q26 as an imported energy shock intensified inflation risks just as domestic demand and labor market conditions weakened. Manufacturing benefited partly from front-loaded orders, whereas services provided a clearer indication of subdued underlying activity. We expect GDP growth of 1.0% in 2026 and 1.2% in 2027. Persistent services inflation and the risk of second-round effects have stalled the Bank of England's easing cycle, and the scope for further rate cuts is likely to remain limited.

4. China's recovery remained increasingly bifurcated. Strong exports, industrial policy and technology-related manufacturing continued to support activity, while weak consumer confidence, declining property investment and subdued retail demand constrained the domestic economy. We expect growth of 4.6% in 2026. The People's Bank of China is likely to maintain an accommodative but measured stance, with further support expected to remain targeted rather than broad-based.

5. The euro area performed better than expected in the first half of the year, but the recovery remained heterogeneous across member states and dependent on public spending, investment-related activity and inventory rebuilding. Private consumption, housing activity and household credit demand remained weak, while restrictive lending conditions limited the transmission of stronger headline growth to the broader economy. We expect euro area GDP to expand by 0.9% in 2026 and 1.4% in 2027. The threshold for further ECB easing has increased, and we expect policymakers to remain cautious until there is clearer evidence that energy-related inflation is not feeding into broader domestic price pressures.

6. Germany's economy remained on a moderate recovery path in 2Q26, supported by exports and an increasingly expansionary fiscal stance. However, private consumption, business investment and housing activity remained subdued, while the improvement in industrial orders had yet to translate into a broad-based increase in production. We expect GDP growth of 0.9% in 2026 and 1.1% in 2027. Defense and infrastructure spending should continue to stimulate economic activity. However, the key question for the medium-term outlook is whether the fiscal stimulus will ultimately encourage private investment.

1. World

United States: *Growth remained resilient but increasingly concentrated*

The US economy remained resilient in 2Q26 despite elevated policy uncertainty, higher tariffs and still restrictive financial conditions, although growth became increasingly dependent on a narrow set of drivers. Real GDP growth slowed to 1.5% q-o-q annualized in Q2 from 2.1% in Q1, reflecting a moderation in activity despite continued expansion. While headline indicators remained relatively robust, underlying momentum became less broad-based, with AI-related investment and a handful of service industries accounting for a growing share of economic growth.

Despite softer growth, the labor market continued to provide an important source of support. The unemployment rate remained contained, although labor force participation continued to decline during the quarter (Figure 1). At the same time, employment growth remained concentrated in healthcare and education, while hiring across much of the private sector continued to normalize.

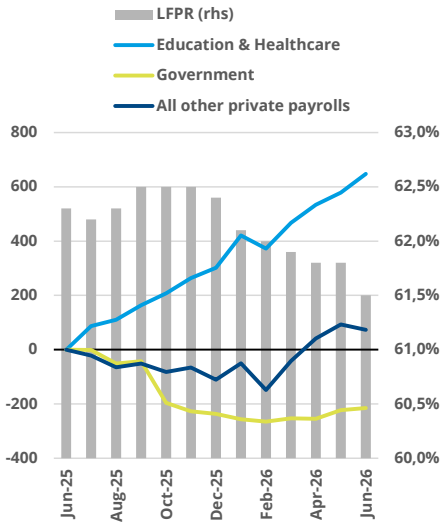
The uneven nature of the expansion was also evident in domestic demand. Retail sales strengthened during the quarter. Nevertheless, part of this increase reflected higher gasoline prices rather than a broad-based acceleration in discretionary spending. Consumer confidence weakened further in July as households remained cautious amid elevated borrowing costs and persistent uncertainty. Housing activity improved modestly, supported by a rebound in housing starts, although elevated mortgage rates continued to weigh on affordability and housing demand.

Business investment also remained uneven across sectors, as technology-related capital expenditure – particularly spending on data centers, advanced semiconductors and digital infrastructure – remained robust, supporting manufacturing activity and helping keep industrial production in expansionary territory (Figure 2). Outside technology-related sectors, however, investment remained comparatively weak.

Inflationary pressures remained elevated, prompting the Federal Reserve to maintain a cautious stance despite moderating growth. The Fed kept the federal funds target range unchanged at 4.25%–4.50%, reiterating its data-dependent approach while providing limited guidance on the timing of future rate cuts. Looking ahead, we expect US GDP growth of 2.3% in 2026, supported primarily by AI-driven investment and resilient household incomes, while elevated borrowing costs and policy uncertainty continue to weigh on broader domestic demand.

Figure 1: Job growth became increasingly concentrated in education and health services

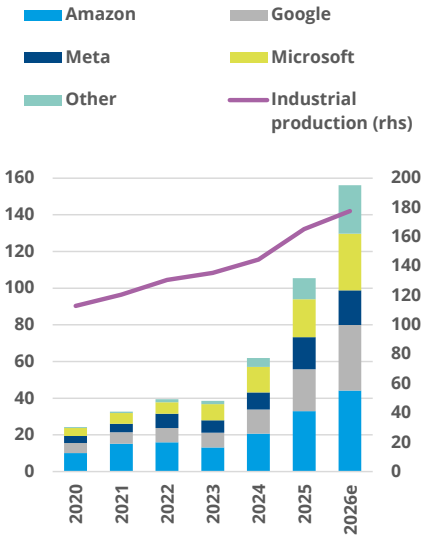
Labor force participation rate, in %; cumulative change in non-farm payrolls since June 2025, in thousands



Sources: Federal Reserve Bank of St. Louis, Creditreform Rating

Figure 2: Rising tech investment supported industrial activity

Capital expenditure by selected major technology firms, in USD billions; industrial production index, 2017=100



Sources: Board of Governors of the Federal Reserve System, Creditreform Rating

United Kingdom: *Imported energy shocks stall the easing cycle*

After a strong start to 2026, incoming economic indicators pointed to a loss of momentum as an imported energy shock, driven by escalating Middle East tensions, reignited inflation just as domestic demand softened. The economy became increasingly uneven, with headline indicators remaining relatively resilient while interest rate-sensitive sectors cooled noticeably. Headline resilience increasingly masked weakening underlying momentum, with manufacturing temporarily outperforming services in an unusual reversal of the UK's typical growth pattern.

The Purchasing Managers' Index (PMI) surveys captured this shift. Manufacturing rose to a quarterly average of 53.4 in 2Q26 from 51.5 in 1Q26, while services, the economy's dominant sector, slipped to 50.3, barely above the no-change mark and its weakest reading in over a year (Figure 3). This likely overstated the strength of underlying manufacturing demand, as much of the improvement reflected firms front-loading orders ahead of expected war-related price increases rather than more durable demand, leaving services as the clearer signal of weakening domestic momentum.

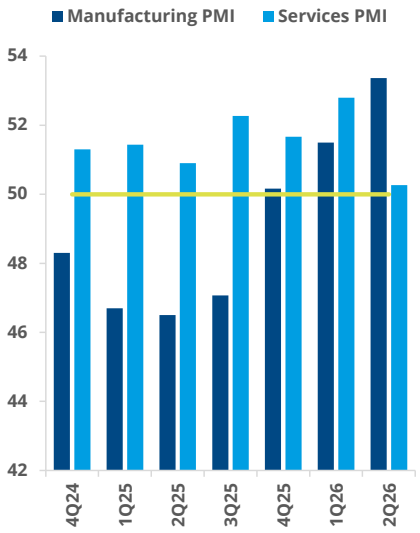
The labor market told a consistent story of gradual loosening. The unemployment rate has risen steadily from around 4.2% through 2024 to roughly 5.0% by early 2026, its highest level in several years (Figure 4). Softer hiring, falling payrolled employment and a rising claimant count all pointed to firms turning more cautious, even as pay growth remained marginally positive in real terms.

Inflation, however, proved stubbornly persistent. Headline CPI remained trapped between 2.6% and 2.8% throughout the quarter, supported by higher energy and fuel costs, while services inflation held firm at around 3.6%. This left the Bank of England (BoE) in an increasingly uncomfortable position. After delivering a series of rate cuts during 2024 and 2025, the Monetary Policy Committee (MPC) kept the bank rate unchanged at 3.75%. Yet the tone of policy discussions became noticeably more hawkish as policymakers increasingly focused on the risk that higher energy prices could trigger broader second-round effects through wages and inflation expectations. As a result, the Bank's easing cycle has stalled, and the scope for further policy easing has become considerably more limited.

Looking ahead, we expect the UK economy to grow by 1.0% in 2026 and 1.2% in 2027. While improving real incomes should continue to support household spending, persistent services inflation, restrictive financial conditions and a cautious BoE are likely to keep the recovery subdued. Growth should continue, but it is expected to remain shallow, uneven and vulnerable to further external shocks.

Figure 3: Services activity approached contraction as manufacturing momentum improved

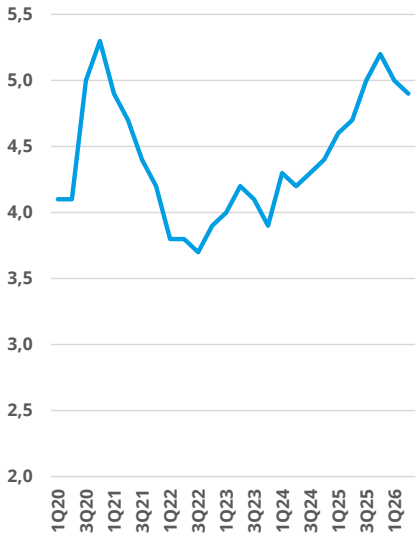
Purchasing Managers' Index (>50 = expansion, <50 = contraction)



Sources: S&P Global, Creditreform Rating

Figure 4: Unemployment remained elevated despite a recent decline

Quarterly unemployment rate, in %



Sources: Office for National Statistics, Creditreform Rating

China: *Export strength continues to mask weak domestic demand*

China's economy lost momentum in 2Q26, with real GDP growth easing to 4.3% y-o-y from 5.0% in 1Q26, while quarterly growth slowed to 0.9% from 1.3%. Although activity remained supported by external demand, industrial production and targeted policy support, the recovery became increasingly uneven. Growth was concentrated in export-oriented manufacturing, while household spending and the property sector continued to struggle, reinforcing the K-shaped nature of the recovery.

The external sector remained the principal growth engine during the quarter (Figure 5). Exports were 27% y-o-y higher in June 2026, lifting the trade surplus. Strong global demand for technology-related products, particularly AI-related hardware, semiconductors and digital infrastructure equipment, continued to support Chinese manufacturers amid the ongoing AI investment cycle. Industrial production accelerated to 4.6% y-o-y in 2Q26, underlining the resilience of export-driven manufacturing. Yet, the contraction in fixed-asset investment highlighted continued weakness in investment outside export-oriented industries.

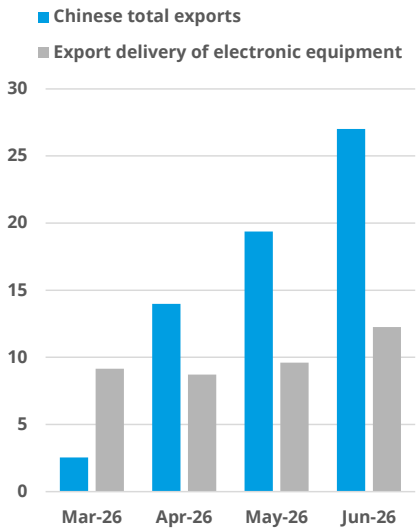
Despite strong external performance, domestic demand remained subdued. Retail sales increased by only 0.2% y-o-y in 2Q26, reflecting cautious consumer spending amid weak confidence and uncertain income prospects. At the same time, the property downturn remained a significant drag on activity, with house prices falling by 3.3% y-o-y and property investment continuing to contract sharply (Figure 6). Although the unemployment rate edged down to 5.1% in 2Q26, improving labor market conditions have yet to translate into a meaningful recovery in household confidence, as weakness in the housing market continued to weigh on consumer sentiment and spending decisions.

Inflationary pressures remained relatively contained in 2Q26. Consumer price inflation averaged 1.1% y-o-y, up slightly from 0.8% in 1Q26, while producer price inflation accelerated to 4.6% from 2.5%, driven primarily by higher commodity and energy costs. Against this backdrop, the People's Bank of China maintained an accommodative but measured policy stance, keeping the 1-year Loan Prime Rate unchanged at 3.0% while retaining scope for further targeted policy support should domestic demand weaken further.

Looking ahead, we expect China's economy to grow by 4.6% in 2026 before moderating to 4.1% in 2027. While exports, industrial policy support and technology-related manufacturing should continue to underpin activity, growth is expected to remain increasingly bifurcated, with export-oriented industries continuing to outperform domestic demand-sensitive sectors amid persistent property-market weakness.

Figure 5: Export growth accelerated, led by electronic equipment

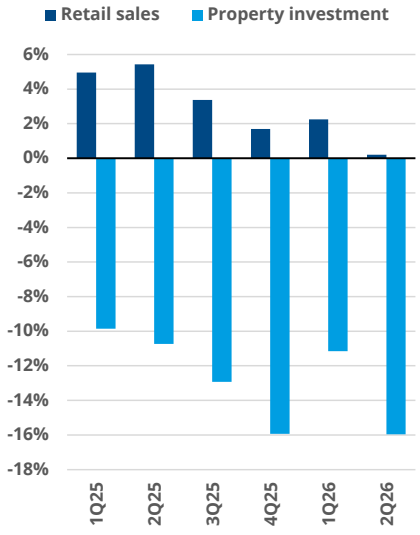
Monthly y-o-y changes, in %



Sources: General Administration of Customs, National Bureau of Statistics of China, Creditreform Rating

Figure 6: Weak retail demand persisted alongside the property downturn

Retail sales and property investment, y-o-y changes, in %



Sources: National Bureau of Statistics of China, Creditreform Rating

2. Euro area

Public investment supports growth as private demand lags

The euro area economy delivered a stronger-than-expected performance in 2Q26, with real GDP expanding by 0.4% q-o-q following a flat Q1. This marked the strongest pace of growth in five quarters and was comfortably above consensus expectations. The result suggests that the euro area has absorbed recent energy-market pressures better than anticipated. Even so, the stronger headline performance warrants a cautious interpretation, as the recovery remains uneven across member states and has yet to broaden into a sustained recovery in private demand.

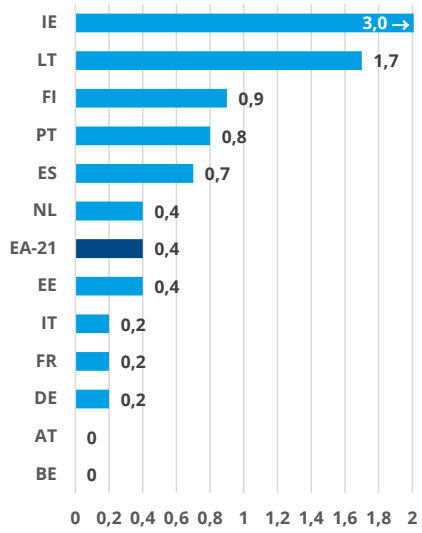
Available national accounts data for the second quarter point to a heterogeneous regional picture (Figure 7). Lithuania recorded a strong expansion, while Ireland remained an outlier due to volatility related to multinational enterprises. Spain continued to lead growth among the major economies, while Germany, Italy and France also displayed moderately positive quarterly growth. In contrast, real GDP growth stagnated in Austria and Belgium.

The composition of growth also suggests that the recovery has yet to broaden meaningfully. Available indicators point to public spending on defense and infrastructure, together with inventory rebuilding, as the main sources of momentum, while private consumption and housing activity remained weak. The divergence is particularly visible within industry. Capital goods production continued to expand, supported by defense and energy-related orders as well as external demand, whereas output of consumer durables remained soft (Figure 8), consistent with households deferring larger purchases. Capacity utilization rose to 78.6% in 2Q26, its highest level in more than two years, but remained below its historical average of 80.3%, indicating that spare capacity has yet to be fully absorbed.

Construction, the euro area's most interest rate-sensitive major sector, remained the weakest segment, with the PMI at 42.8 in June. This investment-led pattern is also reflected in the ECB's medium-term projections, which expect investment to play an increasingly important role in the expansion. However, the increasing importance of investment in the ECB's projections goes beyond current fiscal support and assumes a gradual recovery in private-sector capital formation. Between 2026 and 2028, investment is projected to account for almost 40% of euro area growth, well above its historical contribution of around one-quarter, representing more than 150 billion euros in additional cumulative investment. For this investment-led outlook to materialize, however, the recovery will need to broaden beyond public spending and inventory accumulation, with stronger support from private demand and private-sector investment.

Figure 7: Growth remained uneven across euro area economies in 2Q26

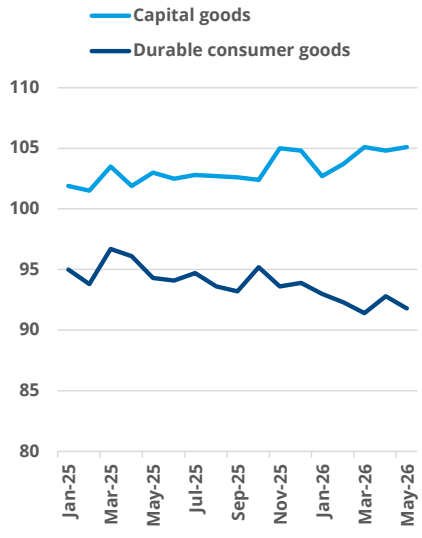
Quarter-on-quarter real GDP growth in selected euro area economies, in %



Sources: Eurostat, Creditreform Rating

Figure 8: Capital goods outperformed durable consumer goods

Production of capital goods and durable consumer goods, index 2021=100



Sources: Eurostat, Creditreform Rating

Credit conditions suggest that the euro area's recovery has yet to broaden beyond its current investment-led foundation. Lending to non-financial corporations continued to expand, largely in line with stronger capital goods production and public investment, while household lending remained comparatively subdued (Figure 9). The ECB's recent Bank Lending Survey underscored this divergence, with credit standards tightening across corporate, housing and consumer loans. Corporate borrowing was driven largely by inventories and working capital rather than fixed investment, reinforcing the economy's narrow investment-led growth pattern.

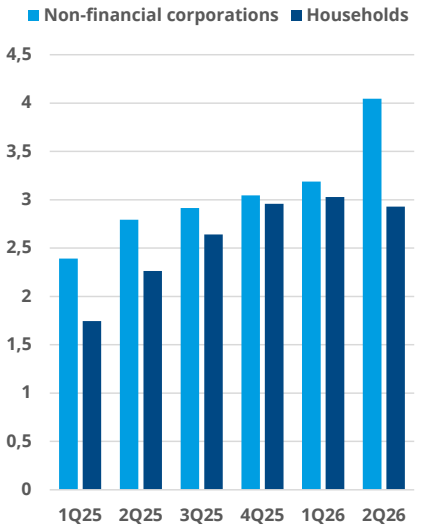
Meanwhile, the weakness in household borrowing reflects the broader lack of momentum in consumer demand. The ECB wage tracker showed only modest negotiated wage growth in 2Q26, while household real income per capita remained broadly flat (Figure 10), limiting gains in purchasing power. Although wage growth is expected to strengthen gradually over the coming quarters, the household saving rate remains elevated, suggesting consumers continue to favor precautionary savings over discretionary spending. With unemployment still close to historic lows, labor market conditions remain supportive, although not yet enough to trigger a broad-based recovery in consumption.

The subdued state of domestic demand is also reflected in the inflation backdrop, where price pressures continue to be driven primarily by external energy developments rather than underlying domestic demand. Against this background, the ECB left the deposit facility rate unchanged at 2.00% in July, reaffirming its data-dependent and meeting-by-meeting approach. Policymakers acknowledged the stronger growth backdrop but emphasized that the risk of broader second-round effects continues to warrant close monitoring. Headline inflation eased temporarily as Middle East tensions briefly subsided, but renewed geopolitical strains quickly pushed energy prices higher again. Europe's increasing reliance on LNG imports and below-average gas inventories leave the region structurally exposed to renewed energy-market volatility.

Looking ahead, we believe the threshold for further policy easing has increased, and we expect the ECB to remain cautious until there is clearer evidence that energy-related price pressures are not feeding into broader domestic inflation. We revise our euro area growth forecast to 0.9% in 2026 and 1.4% in 2027. While the first half of the year improved the near-term outlook, it has not materially changed the medium-term picture, as the recovery remains dependent on investment and public spending rather than broad-based private demand. Restrictive financing conditions, elevated energy-market uncertainty and still-weak private demand are therefore expected to keep the expansion gradual and uneven over the coming quarters.

Figure 9: Household loan growth remained subdued

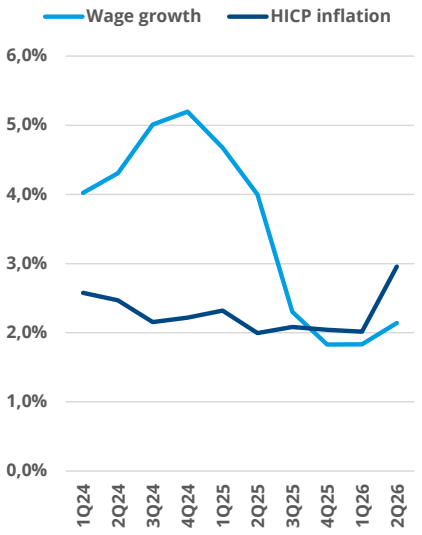
Loans to non-financial corporations and households, annual growth, in %



Sources: Eurosystem, Creditreform Rating

Figure 10: Inflation outpaced wage growth in 2Q26

Negotiated wages and headline HICP inflation, y-o-y changes in %



Sources: Eurosystem, Creditreform Rating

3. Germany

Germany's recovery gains momentum but remains fiscally driven

Germany's economy remained on a recovery path in 2Q26, although growth continued to be narrowly based. Real GDP expanded by 0.2% q-o-q following a stronger-than-expected increase of 0.4% in Q1. On an annual basis, growth accelerated further to 0.9% y-o-y, marking the strongest expansion since 2022 (Figure 11). The resilience of economic activity exceeded market expectations and was supported primarily by stronger exports and an increasingly expansionary fiscal stance, while household consumption and private investment remained subdued. Even so, the recovery continued to rely on external demand and fiscal support rather than a broad-based strengthening in private domestic demand.

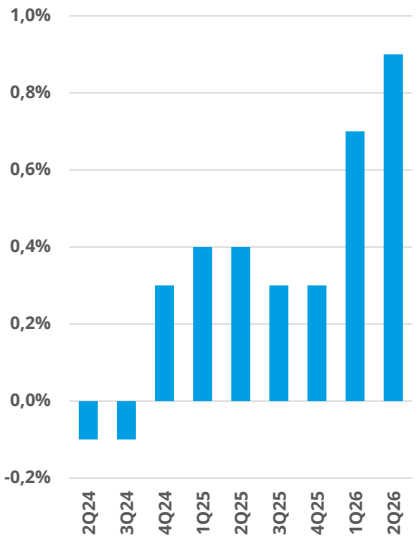
Amid the temporary easing of tensions in the Middle East, inflationary pressures remained relatively contained during the second quarter, as lower energy prices reduced pressure on headline inflation. HICP inflation eased to 2.3% y-o-y in June, its lowest level of the year, reflecting a gradual moderation in underlying price dynamics. Core inflation edged down to 2.4% y-o-y, suggesting domestic price pressures remained relatively subdued. The moderation in underlying inflation was also consistent with limited cost pass-through, as producer price inflation rose sharply but remained comparatively contained (Figure 12).

This divergence indicates that higher costs were only partially transmitted to downstream prices, helping to contain broader inflationary pressures. Taken together, these developments point to a domestic economy that remained soft despite improving headline growth. Preliminary July data support this assessment. Although headline inflation picked up again, the increase largely reflected higher energy prices, while underlying domestic price pressures remained comparatively contained.

External demand was an important pillar supporting economic activity during 2Q26. Export performance strengthened, supported primarily by demand from markets outside the EU. By contrast, trade with EU member states remained comparatively weak, reflecting softer economic conditions across parts of the region. Import demand also remained restrained, consistent with weak consumption and investment trends. Net exports therefore continued to support growth, although the broader recovery increasingly depended on fiscal expansion as domestic demand remained subdued.

Figure 11: Annual GDP growth strengthened markedly in the first half of 2026

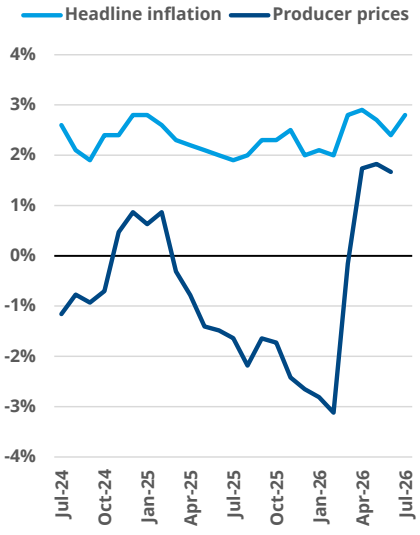
Real GDP growth, y-o-y change in %



Sources: Federal Statistical Office, Creditreform Rating

Figure 12: Producer price inflation jumped but remained relatively contained

Y-o-y change in headline HICP inflation and producer prices of industrial products, in %



Sources: Eurostat, Federal Statistical Office, Creditreform Rating

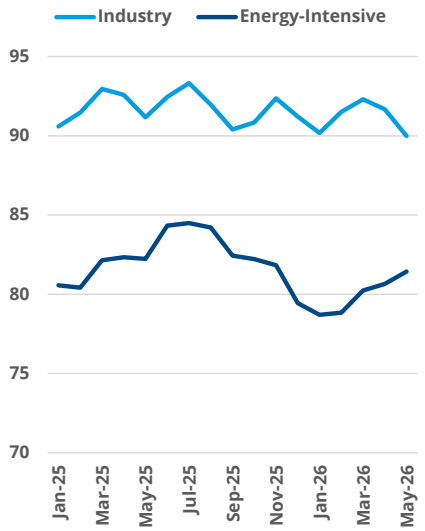
Manufacturing showed tentative signs of stabilization during 2Q26. Manufacturing sentiment thus remained marginally in expansion throughout the quarter, with the Manufacturing PMI standing at 50.3 in June, while services remained in contraction. Order intake improved after a weak start to the year, although gains were narrowly concentrated. Much of the increase reflected defense-related demand, particularly for transport equipment, including military vehicles, ships and aircraft, supported by several large contracts. Capacity utilization rose to 78.4% in 2Q26 from 77.7% in the previous quarter but remained well below its long-run average of around 83%, suggesting that spare capacity remains considerable despite the recent improvement in order inflows.

Industrial output has yet to confirm the improvement. Production fell by around 2% in 2Q26 and remained well below its 2021 level (Figure 13), indicating that stronger order books have yet to translate into higher factory output. The sectoral composition of production also shifted noticeably. Energy-intensive industries, including chemicals, metals, paper and glass, recorded positive year-on-year growth after bottoming out at the end of 2025 and were the only major industrial segment to expand during the quarter. That said, output in these industries remained substantially below pre-energy-crisis levels. As a result, the recovery continues to be concentrated in the sectors most affected by the energy shock rather than reflecting a broad-based improvement across manufacturing. Structural challenges also persisted, with employment in energy-intensive industries continuing to trend lower since 2022. Although the 3.8 billion euro industrial electricity support scheme approved in April is expected to improve cost competitiveness, elevated energy costs continue to weigh on Germany's position relative to major international peers.

With private demand subdued and the industrial recovery uneven, public spending plays an increasingly important role in supporting domestic activity. On the NATO definition, core defense expenditure is estimated at 124.7 billion euros in 2026, equivalent to 2.7% of GDP (Figure 14). Fiscal support is set to strengthen further under the government's draft 2027 budget, which raises federal expenditure by 5.9% to 555.4 billion euros, with the defense spending ratio projected to reach the NATO benchmark of 3.5% of GDP by 2029. The Bundesbank estimates that additional defense and infrastructure spending could add a cumulative 1.3 percentage points to growth through 2028. Whether this fiscal impulse will crowd in broader private investment remains uncertain. For the time being, public expenditure is likely to remain a key driver of domestic growth.

Figure 13: Energy-intensive output rebounded in 1H26

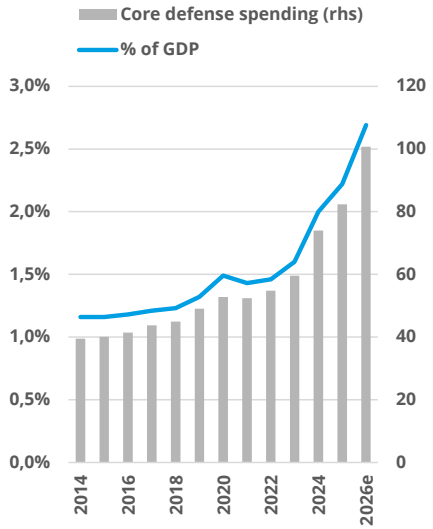
Industrial production and output in energy-intensive industries, index 2021=100, six-month moving average



Sources: Federal Statistical Office, Creditreform Rating

Figure 14: Core defense spending increased sharply after 2022

Core defense spending, in % of GDP and EUR billions



Sources: NATO, Creditreform Rating

The impact of higher public spending is becoming increasingly visible in construction activity. Civil engineering turnover stood around 21% above its 2021 level in May, supported by investment in rail, bridges, digital infrastructure and defense-related projects, while housing construction remained around 28% below its 2021 level (Figure 15). Order activity points to further momentum, particularly in public construction and civil engineering. That said, project delivery has yet to fully keep pace with the growing pipeline of work.

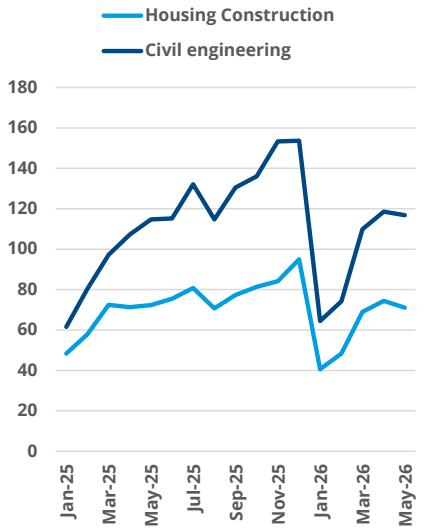
The private sector has yet to show a meaningful recovery. Banks continued to tighten lending standards for both businesses and households, while credit demand softened further. Capital formation contracted again in 2Q26, and demand for housing loans declined for the first time since 2023. Signs of strain remained visible across the corporate sector, with the corporate default rate reaching 1.93% at the end of the first half of 2026. Labor market developments also point to adjustment rather than expansion. Employment continued to decline in manufacturing and construction, while gains in services remained insufficient to offset these losses. As a result, the unemployment rate rose to 3.9% in June.

Sentiment continued to diverge between firms and households during 2Q26. Business confidence improved, supported by expectations of higher public spending and the government's reform agenda. Household sentiment, however, remained subdued despite easing inflation (Figure 16). Retail sales also remained weak following several months of disappointing performance, suggesting that private consumption has yet to recover meaningfully. While businesses increasingly appear to be positioning for the opportunities created by fiscal expansion, households remain constrained by weak income growth, elevated living costs and a softer labor market.

Looking ahead, we expect Germany's economy to grow by 0.9% in 2026 and 1.1% in 2027. Fiscal expansion, particularly through defense and infrastructure spending, should continue to support activity over the forecast horizon. Whether higher public spending ultimately crowds in private investment and consumption remains the key question for the medium-term outlook. In the near term, risks remain tilted to the downside, including renewed energy price pressures and exceptionally low Rhine water levels, which could increase transport costs and disrupt industrial supply chains. Overall, the recovery is therefore expected to remain gradual rather than broad-based.

Figure 15: Civil engineering outperformed residential construction

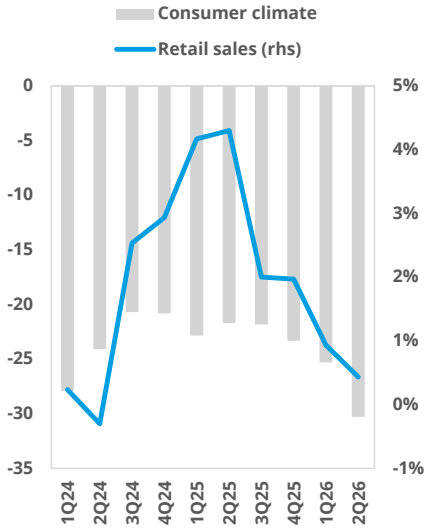
Turnover in construction activities, index 2021=100



Sources: Federal Statistical Office, Creditreform Rating

Figure 16: Consumer confidence deteriorated as retail sales growth slowed

GfK consumer climate index; y-o-y change in retail sales, in %



Sources: Federal Statistical Office, GfK NIM, Creditreform Rating

Figure 17: Creditreform Rating growth forecasts for 2026 and 2027

Real GDP growth, annual change in %; Creditreform Rating forecasts for European economies, IMF forecasts for World, US and China

	2010-19	2022	2023	2024	2025	2026e	2027e
World	3.7	3.5	3.3	3.3	3.3	3.0	3.4
Euro area	1.4	3.5	0.4	0.9	1.2	0.9	1.4
Germany	2.0	1.8	-0.2	-0.2	0.4	0.9	1.1
France	1.4	2.6	0.9	1.1	1.2	0.6	0.9
Italy	0.3	4.0	0.9	0.7	0.8	0.8	0.7
Spain	1.1	5.8	2.5	3.2	2.6	2.7	2.6
UK	2.0	4.3	0.1	1.1	1.0	1.0	1.2
US	2.4	1.9	2.5	2.8	2.0	2.3	2.2
China	7.7	3.1	5.4	5.0	4.4	4.6	4.1

Sources: Creditreform Rating, IMF

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