17 Mar 2026

CMB International Global Markets | Equity Research | Economic Perspectives

China Economy

Off to a good start

China's economy started 2026 on a firmer footing, with stronger retail sales, FAI and industrial output on the back of CNY-related consumption, newly allocated fiscal funding and surging exports. On the other hand, property market continued to slump in both sales and price, and durable goods like auto saw sharp contraction. The sustainability remained in doubt, as exports strength may fade after the early-year surge, the property slump remains a major drag, and durable goods could soften due to demand overdraft. Rising energy prices may ease deflation by lifting upstream and input costs, but this is more cost-push than demand-driven and could squeeze downstream margins and household purchasing power. Overall, the rebound is likely to be supportive but not yet self-sustaining, leaving room for further policy easing later in the year. The slumping property sector is likely to remain a core focus of the easing package, likely combining monetary and fiscal measures, including further LPR cuts and interest payment subsidies. Direct inventory purchases by the CG remain under discussion among policymakers but are unlikely to materialize before 2H26. Looking forward, we expect a 50bp cut in RRR and a 10bp cut in LPR by the end of 2Q26. We expect full-year GDP growth rate may decline from 5% in 2025 to 4.6% in 2026.

- **Property sector further slumped in both sales and price.** The contraction of gross floor area (GFA) sold for commercial building contracted 13.5% YTD in 2M26 compared to -8.7% YTD in Dec 2025 according to NBS, while the residential sales further dropped to -15.9% YTD from -9.2% YTD. The new housing sales in first half of Mar continued to dip 12.8% YoY according to market data, while the recovery ratio of 30 major cities compared to 2018-2019 fell to 43.6%. Second-hand housing sales of 11 selective cities moderately rebounded during the Chinese New Year as its recovery ratio rose to 136% in Jan-Feb from 104% in Dec and its YoY decline narrowed to -4.4% from -27.4%. However, the sales softened again in early Mar as the YoY contraction expanded to -15.7% and recovery ratio fell back to below 100%. New and second-hand housing prices continued to decline in Jan across city tiers, while new-housing in teir-1 cities remained flat in Feb, possibly due to CNY seasonality. Listing price of second-hand properties continued to drop in Mar, pointing to further softening of real estate market. The weakening property market may further weigh on durable consumption and developers' cash flow pressure, prompting major policy easing in 1H26.
- **Retail sales recovered boosted by CNY-related consumption.** Retail sales growth rebounded from 2.2% in Dec 2025 to 4.8% YTD in 2M26, beating market consensus at 2.4%. CNY-related consumption remained strong, as catering, food, alcohol & tobacco product, clothing, gold, silver & jewellery surged to 4.8%, 10.2%, 6%, 19.1%, 10.4% and 13% in 2M26 from 2.2%, 3.9%, 1.7%, -2.9%, 0.6% and 5.9%. Home appliances, furniture and telecom equipment notably rebounded to 3.3%, 8.8% and 17.8% in 2M26 from -18.7%, -2.2% and 20.9% in Dec, as new round of trade-in subsidy funds have been allocated. Auto, on the other hand, further dropped 7.3% in 2M26 from -5% in Dec, due to the phasing out of purchase tax subsidy. Data from CPCA showed bigger drop in volume in Jan-Feb at -18.9% from -14% in Dec. Looking forward, we expect consumption growth to be flat in 2026 with a slowdown in retail sales of goods consumption growth yet a pick-up in service consumption. Retail sales may slow from 3.7% in 2025 to 3.4% in 2026 due to demand pull-forward.
- **FAI notably rebounded YTD.** The growth of FAI notably surged to 1.8% in 2M26, compared to -16% YoY in Dec and -3.8% in 2025, beating market expectations at -2.7%. Property investment narrowed its contraction from -36.5% in Dec and -17.2% in 2025 to -11.1% in 2M26. The housing market

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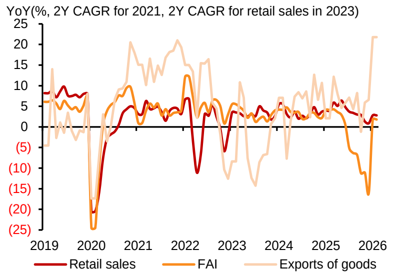
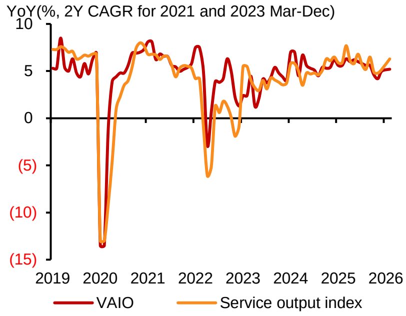


Source: Wind, CMBIGM



Source: Wind, CMBIGM

remained over-supply while the advance payment and mortgage loans in funding source both declined by 22% and 42% in 2M26. Infrastructure investment rebounded to 9.8% in 2M26 from -16% in Dec and -1.5% in 2025, as newly allocated fiscal funding drove the surge in investment of public utility, water conservancy & public facility, and transportation. Manufacturing investment recovered to 3.1% in 2M26 from -10.6% in Dec and 0.6% in 2026. Looking forward, FAI growth may recover from -3.8% in 2025 to 2.5% in 2026 as policymakers vowed to stabilize investment with RMB800bn additional funding in new policy financing tools through policy banks to stabilize investment in 2026. FAI in property, infrastructure and manufacturing may rebound from -17%, -1.5% and 0.6% in 2025 to -8%, 2% and 3.5% in 2026, especially in AI-related investment including infrastructure of data center, energy and power, as well as the manufacturing of semiconductor, AI hardware and networking equipment.

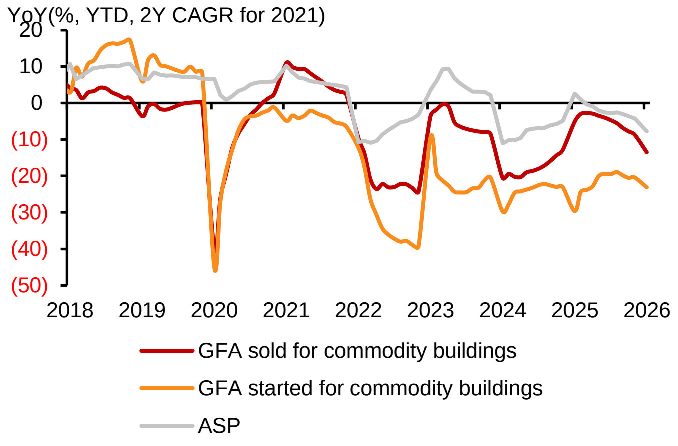
- **Industrial output edged up.** VAIO growth picked up to 6.3% in 2M26 from 5.2% in Dec and 5.9% in 2025, beating market consensus at 5.2%. Both mining and public utility edged up to 6.3% and 4.7% in 2M26 from 5.4% and 0.8% in Dec. VAIO of manufacturing accelerated to 6.5% from 5.7%, as delivery value for exports rebounded to 6.3% in 2M26 from 3.2% in Dec. Food, rubber & plastic products, metal products, transport equipment excluding auto and electrical equipment notably picked up while chemical products, auto and non-ferrous metal smelting & pressing slowed down. Growth of service output index edged up to 5.2% in 2M26 from 5% in Dec with robust growth of IT, software developing, transportation and dining & lodging. Looking forward, industrial output may decelerate due to the headwinds from exports, demand overdraft from trade-in subsidy and pressures from the anti-involution policy.
- **Off to a good start but sustainability remained in question.** The economy started 2026 with better-than-expected momentum, but the recovery is still not self-sustaining. Exports strength may fade after the early-year surge, the property slump remains a major drag, and durable goods could soften due to demand overdraft. Rising energy prices may temporarily ease deflation by lifting upstream and input costs, but this is more cost-push than demand-driven and could squeeze downstream margins and household purchasing power. Overall, the rebound is likely to be supportive but not yet self-sustaining, leaving room for further policy easing later in the year. Support for the struggling property sector is expected to form a core part of the easing package as property sector continued to slump, likely combining monetary and fiscal measures, including further LPR cuts and interest payment subsidies. Direct inventory purchases by the CG remain under discussion among policymakers but are unlikely to materialize before 2H26. Looking forward, we expect a 50bp cut in RRR and a 10bp cut in LPR by the end of 2Q26. We expect full-year GDP growth rate may decline from 5% in 2025 to 4.6% in 2026.

Figure 1: China's economic indicators

'oY(%)	2020-2021 CAGR	2022-2023 CAGR	2024	2025	1Q25	2Q25	3Q25	4Q25	Dec	Jan-Feb
GDP	5.3	4.1	5.0	5.0	5.4	5.2	4.8	4.5		
GDP Deflator	2.5	0.7	(0.8)	(1.0)	(0.8)	(1.2)	(1.0)	(0.6)		
VAIO	6.1	4.1	5.8	5.9	6.5	6.2	5.8	5.0	5.2	6.3
-Mining	2.9	4.8	3.1	5.6	6.2	5.8	5.5	5.4	5.4	6.1
-Manufacturing	6.6	4.0	6.1	6.4	7.1	6.7	6.4	5.1	5.7	6.6
-Public utility	6.6	4.6	5.3	2.3	1.9	2.0	2.1	3.5	0.8	4.7
Delivery value for exports	8.3	0.7	5.1	2.2	6.5	2.0	2.0	1.0	3.2	6.3
Service output index	6.3	3.9	5.2	5.5	5.8	6.1	5.7	4.6	5.0	5.2
Retail sales	4.0	3.4	3.5	3.7	4.6	5.4	3.4	1.7	0.9	2.8
Exports of goods	15.9	0.3	5.8	5.5	5.6	6.1	6.5	3.8	6.6	39.6
Imports of goods	13.7	(2.4)	1.0	0.0	(6.9)	(0.8)	4.4	2.9	5.7	13.8
Urban FAI (YTD)	3.9	4.0	3.2	(3.8)	4.2	2.8	(0.5)	(3.8)	(3.8)	1.8
-Property development	5.7	(9.8)	(10.6)	(17.2)	(9.9)	(11.2)	(13.9)	(17.2)	(17.2)	(11.1)
-Manufacturing	5.4	7.8	9.2	0.6	9.1	7.5	4.0	0.6	0.6	3.1
-Infrastructure	1.8	9.9	9.2	(1.5)	11.5	8.9	3.3	(1.5)	(1.5)	9.8
GFA sold for commodity building (YTD)	2.2	(16.8)	(12.9)	(8.7)	(3.0)	(3.5)	(5.5)	(8.7)	(8.7)	(13.5)
GFA started for commodity building (YTD)	(6.4)	(30.5)	(23.0)	(20.4)	(24.4)	(20.0)	(18.9)	(20.4)	(20.4)	(23.1)

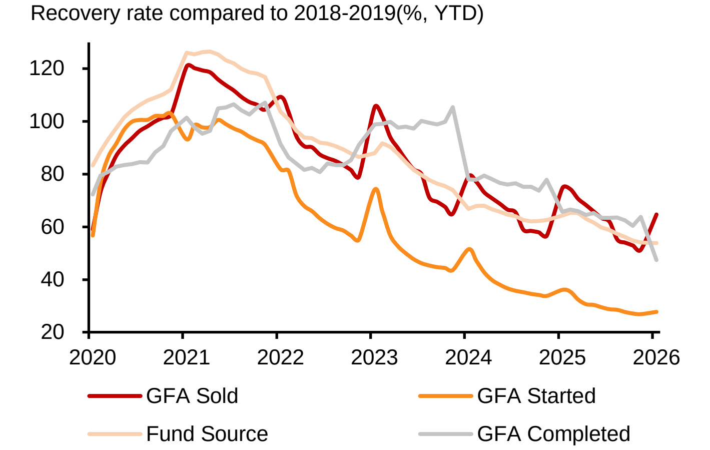
Source: Wind, CMBIGM estimates

Figure 2: Property sales growth



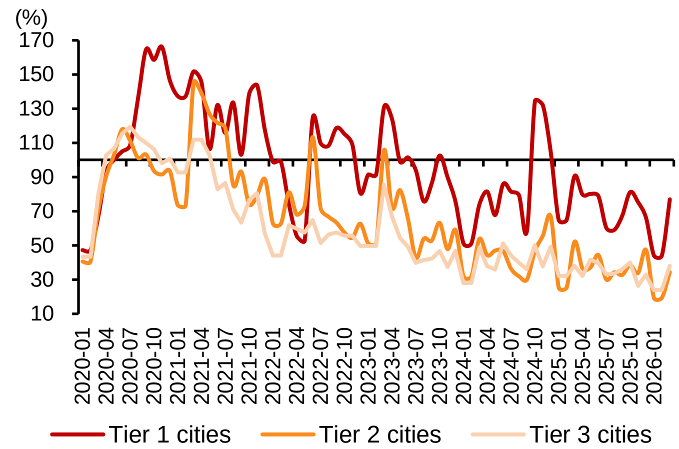
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019



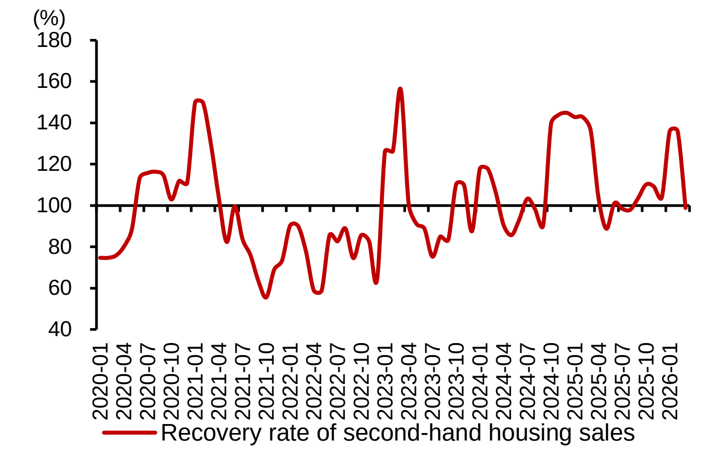
Source: Wind, CMBIGM

Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities



Source: Wind, CMBIGM

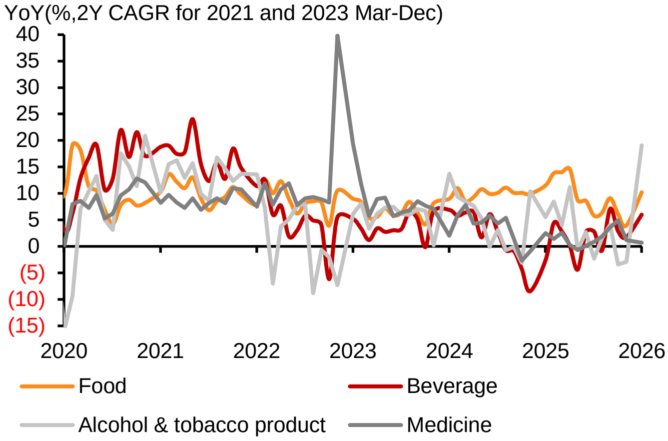
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities



Source: Wind, CMBIGM

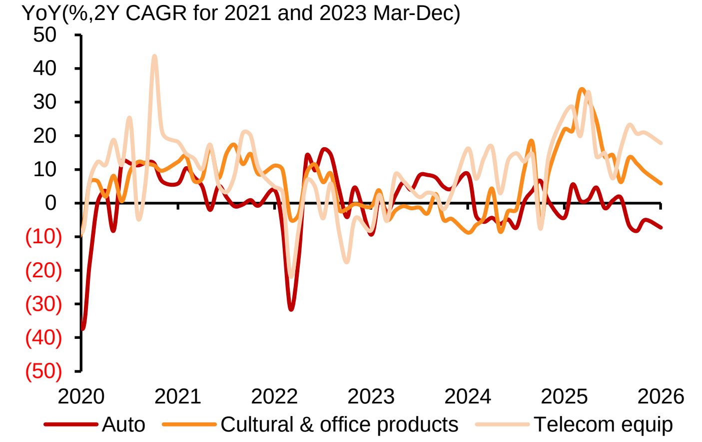
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples



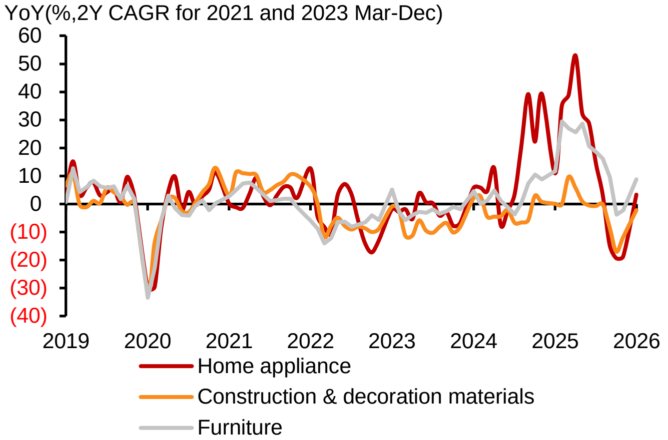
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics



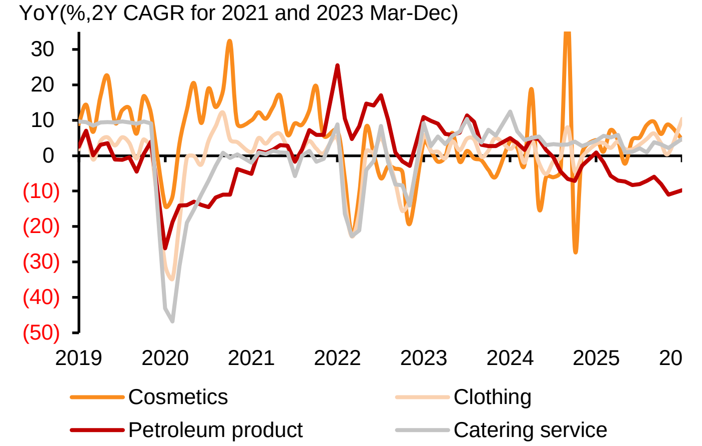
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales



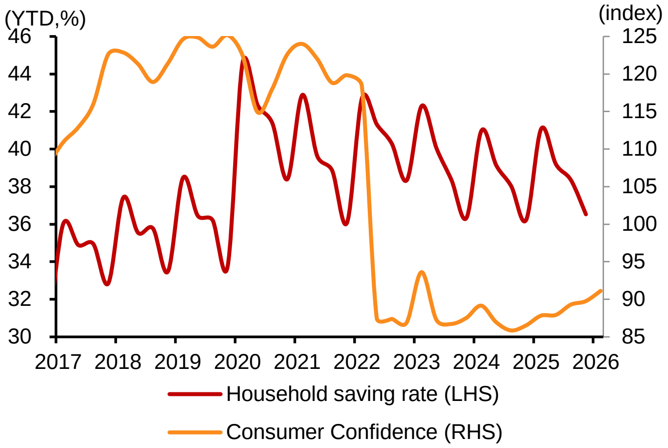
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities



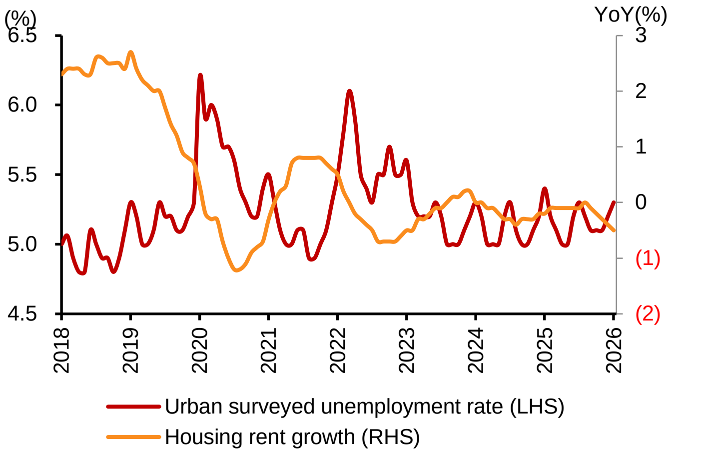
Source: Wind, CMBIGM

Figure 10: Consumer confidence



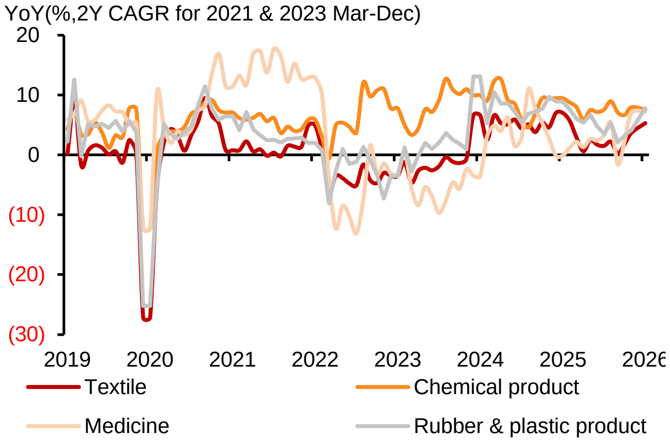
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent



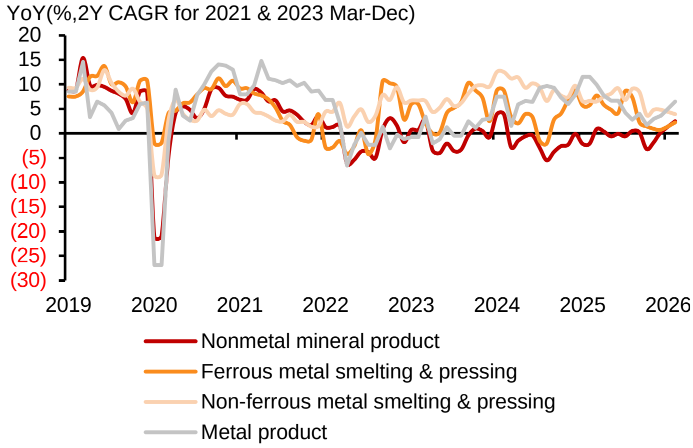
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products



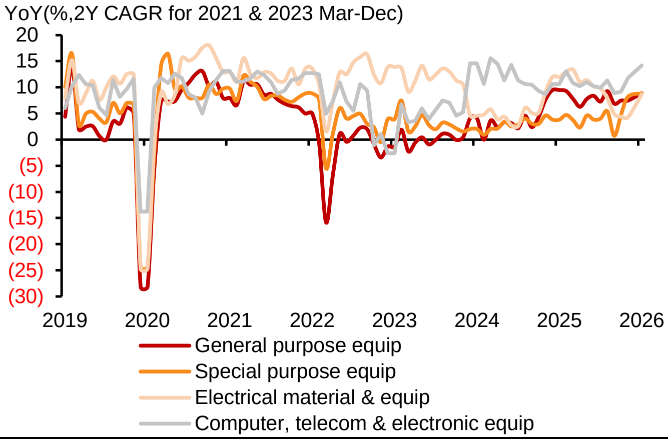
Source: Wind, CMBIGM

Figure 13:VAIO in mineral & metal products



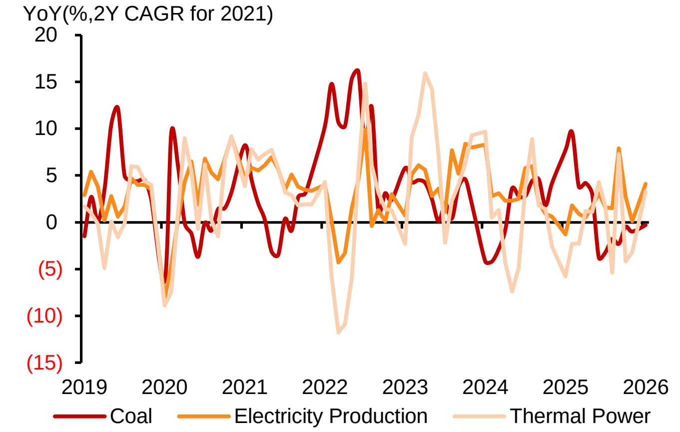
Source: Wind, CMBIGM

Figure 14: VAIO in equipment



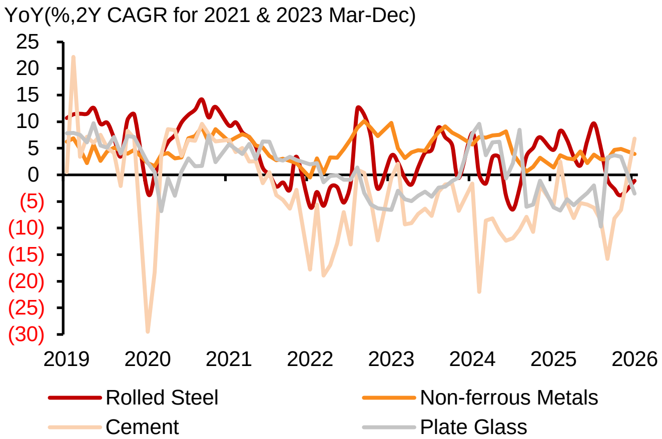
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity



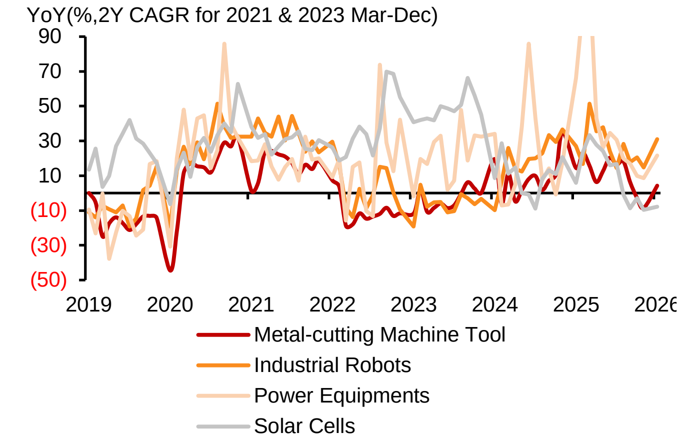
Source: Wind, CMBIGM

Figure 16: Output in steel & construction material



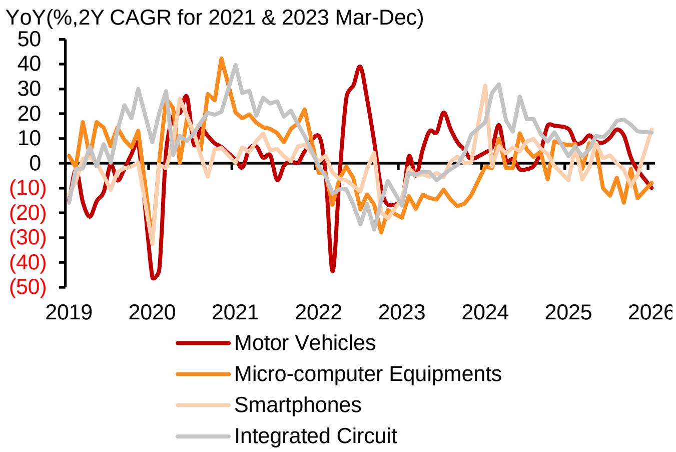
Source: Wind, CMBIGM

Figure 17: Output in capital goods



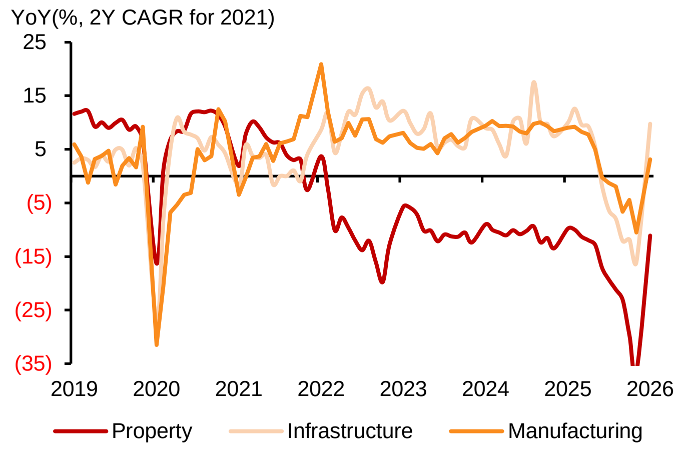
Source: Wind, CMBIGM

Figure 18:Output in auto, computer & smartphone



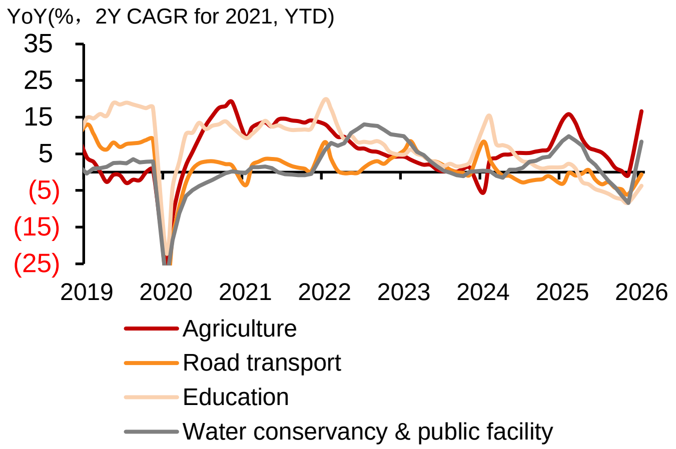
Source: Wind, CMBIGM

Figure 19: FAI by sector



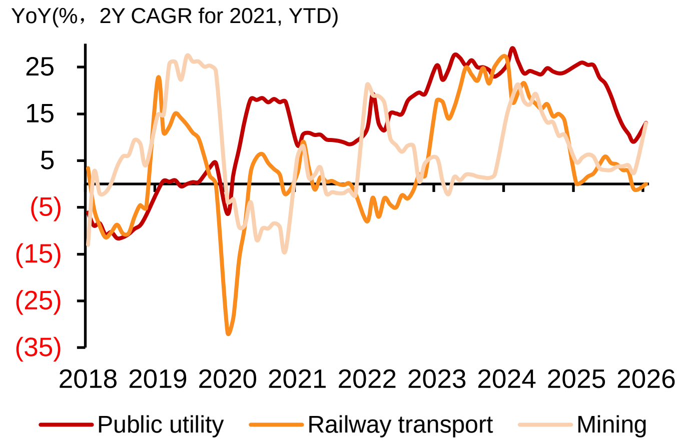
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure



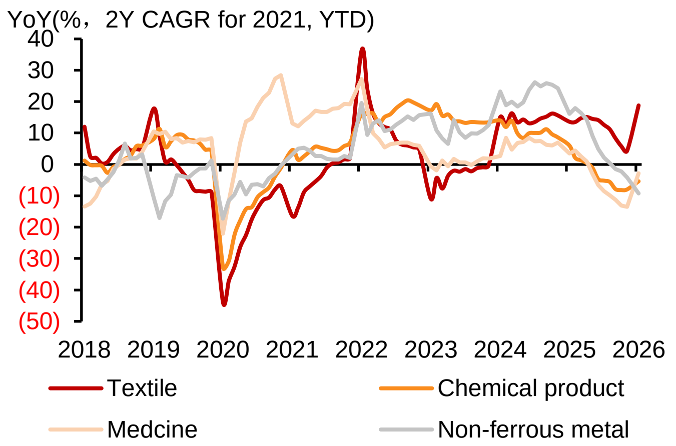
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining



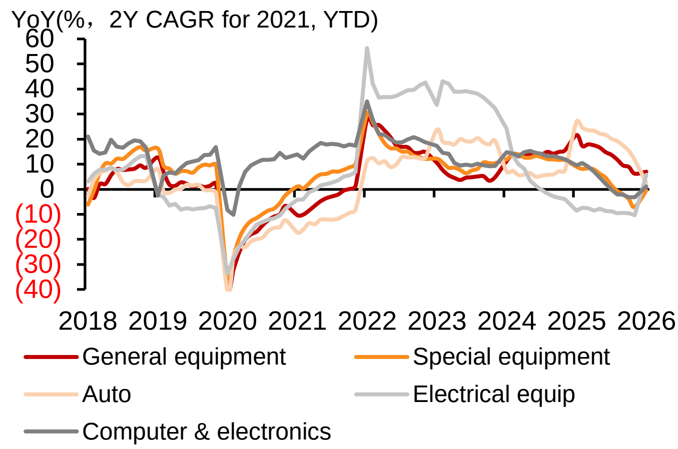
Source: Wind, CMBIGM

Figure 22: FAI in chemical products



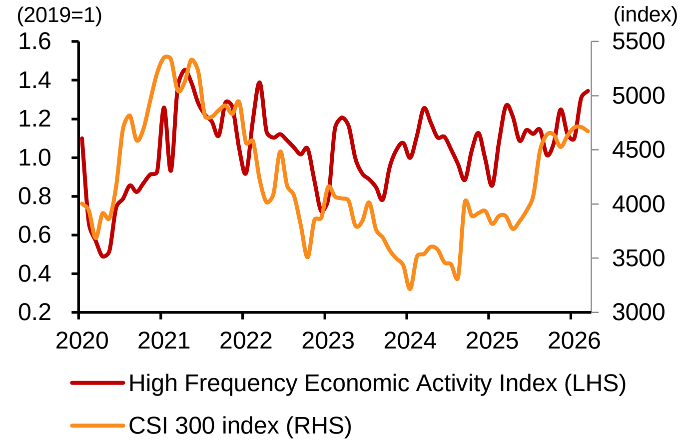
Source: Wind, CMBIGM

Figure 23: FAI in equipment



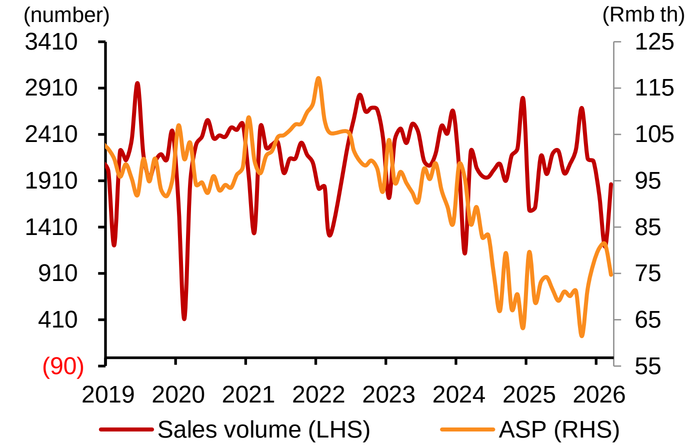
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index



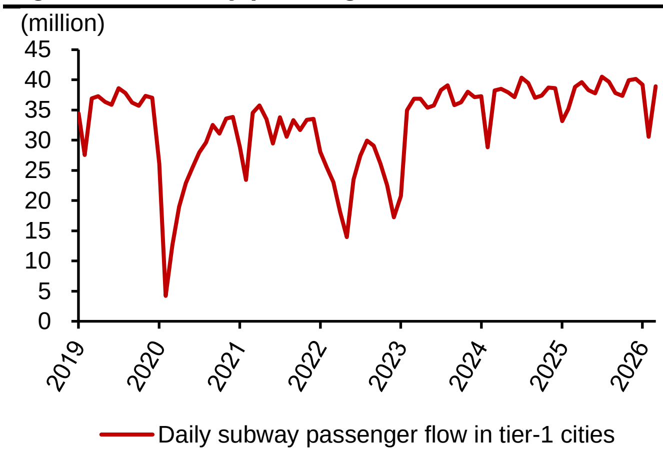
Source: Wind, CMBIGM

Figure 25: Used vehicle sales in Shanghai market



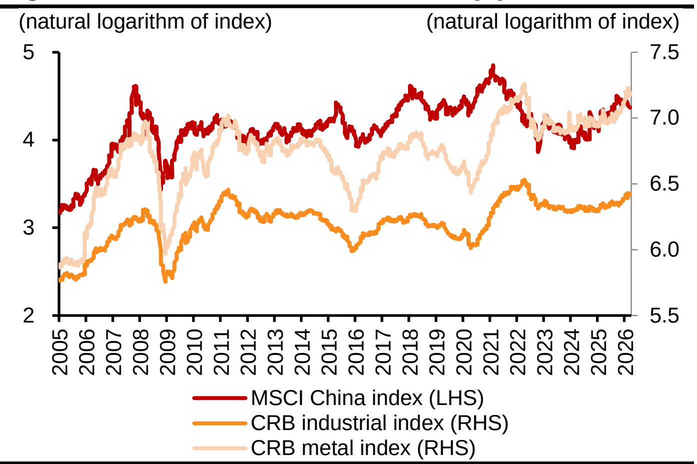
Source: Wind, CMBIGM

Figure 26: Subway passenger flow in tier-1 cities



Source: Wind, CMBIGM

Figure 27: MSCI China and commodity prices



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