

China Economy

2026 growth target within reach; a harder test in 2027

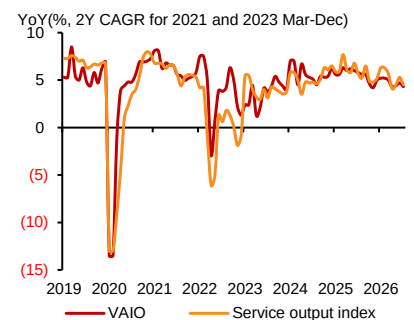
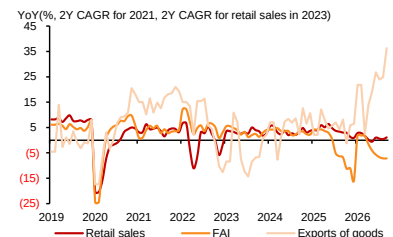
China's economy showed tentative signs of stabilization as real GDP growth recovered to 4.5% YoY in 3Q26 from 4.3% in 2Q26. September's modest pickup in consumption and narrowing investment contraction suggest that domestic activity is beginning to stabilize, supported by continued export strength and likely faster deployment of existing fiscal resources. However, the foundation for a broader recovery remains fragile in our view. Property activity continued to deteriorate, with the selective recovery in first-tier new-home sales yet to translate into a broad improvement in developers' cash flow. Meanwhile, households' high propensity to save reflects persistent caution in private confidence, which should continue to weigh on consumption and housing demand. Higher upstream prices have yet to translate into broad pricing power, leaving downstream firms exposed to rising costs and limiting the benefits of reflation. With GDP up 4.6% YoY in the first three quarters, growth of about 4.3% in 4Q26 would be sufficient to reach the annual target's 4.5% lower bound, reducing the urgency for broad additional stimulus within the year. We believe the harder test lies in 2027, when export growth may normalize while the transition in property financing and weak household confidence continue to constrain domestic demand. Sustaining growth will require policy support to strengthen household and developer cash flow alongside continued investment in strategic technologies. We maintain our 2026 GDP growth forecast at 4.6%, with growth moderating from 4.7% in 1H26 to around 4.6% in 2H26.

- **Growth stabilized, but the quality of reflation remained uneven.** Real GDP growth rose to 4.5% YoY in 3Q26, higher than market expectation at 4.4%, while sequential growth improved to 1.2% QoQ from 0.9%. Average monthly industrial growth increased to 5.1% from 4.6% in 2Q, while services production was broadly unchanged at 4.4% and retail sales improved to 0.7% from 0.2%. Nominal GDP growth edged up to 6.0%, with the GDP deflator positive at 1.4%. This improves the aggregate revenue environment, but September PPI inflation of 5.0% and industrial input-price inflation of 6.9%, against CPI inflation of 0.9%, suggest that cost pressure is rising faster than pricing power over final demand. Upstream producers may benefit while downstream firms face margin pressure. More durable reflation requires stronger household demand and broader income growth to absorb higher prices.
- **Property market showed selective stabilization while financing and construction weakened.** Gross floor area sold fell 13.2% YTD by September, versus -12.1% in August, while property investment fell 26.2%. New starts declined 24.9% YTD and developer funding fell 21.6%, confirming continued pressure on future construction, with rebounds in tier-1 cities alone yet to generate a broad recovery in developer cash flow. Price signals were less negative, as tier-1 existing-home prices rose 0.2% MoM, and nine of the 70 surveyed cities recorded gains, up from three in August. However, nationwide existing-home prices still fell 0.3%. As per market data from Wind, the recovery rate of new-home transactions tracking 30 cities compared to the corresponding 2018-2019 average dropped to 32% in Oct from 35.2% in Sep. Tier-1 cities moderated to 6.4% YoY in Oct from 10.7% while tier-2 and -3 cities further declined to 34.3% and 26.6% in Oct. Second-hand home sales saw better recovery, surging 25.3% YoY in 12 major cities. Separately, the transition toward completed new-home sales should reduce delivery risk but requires developers to finance more construction before collecting buyers' payments. With

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domestic loans to developers down 33.1% YTD, inadequate replacement financing could depress new starts further even as prices stabilize. This creates a risk that the construction and local-fiscal drags could persist into 2027. Support needs to combine project completion and viable inventory purchases with financing adapted to the new sales model.

- **Consumption improved, but holiday timing and prices flattered the rebound.** Retail sales rose 1.1% YoY in September from 0.4% in August, better than market expectations at 0.7%. Some improvement extended across staple and discretionary categories, but the earlier Mid-Autumn Festival shifted holiday demand into September from October last year, making it more useful to assess the two months together. Nominal price effects also mattered, as petroleum-related sales declines narrowed to -0.8% from -7.0%, while telecom equipment sales rose 31.1%, supported by higher electronics prices. These gains do not establish a broad recovery in purchase volumes. Autos remained the largest weakness, falling 21.2%, while appliances grew only 1.9% and furniture declined 3.0%, consistent with the demand payback after earlier subsidies and continuing housing weakness. Services remained more resilient, with service retail sales up 5.0% YTD. Nevertheless, national real per-capita income grew 4.4% in the first three quarters, versus only 2.7% growth in consumption expenditure. The implied urban savings rate reached 39.2%, compared with 38.3% a year earlier and 36.2% in the same period of 2019. Households therefore continue to hold back spending despite income growth. Employment security, social protection and housing confidence remain central to a durable recovery.
- **Investment stabilized at a depressed level, led by manufacturing.** Urban FAI fell 7.2% YTD in September, better than market expectations at -7.5% and unchanged from August. But the estimated monthly contraction narrowed to -7.2% from -10.6%, following a 12.8% decline in July. Manufacturing investment led the recovery, with its estimated monthly decline narrowing to -0.9% from -6.1%. Infrastructure investment also improved to an estimated monthly decline of -10.5% from -14.7%, although it remained deeply negative. Falling land-sale revenues and debt obligations still constrain local matching funds, while October's RMB550bn release of unused debt quota provides partial relief whose investment impact depends on disbursement and project readiness. Property investment deteriorated further, showing that the improvement was not uniform. Electronics investment accelerated to 9.6% YTD from 8.1% in August, whereas auto and special-equipment investment remained down 6.3% and 8.9%. Private investment fell 10.4% YTD, versus a 3.2% decline for state-controlled entities, indicating that stronger public execution has yet to restore private-sector risk appetite. We expect further stabilization as existing funds reach projects, but the breadth of the recovery will depend on local fiscal capacity, expected returns and clearer policy signals around production capacity.
- **Industrial strength persisted, although the technology impulse moderated.** Industrial output rose 5.5% YoY in September from 5.2% in August, inline with market expectations, while export delivery value accelerated to 17.0% from 11.1% and goods exports increased 36.3% in US-dollar terms. However, manufacturing growth edged down to 6.0% from 6.1%, with mining's rebound helping lift the headline. Within technology, integrated-circuit output growth slowed to 18.4% from 20.6%, and industrial-robot growth eased to 18.9% from 34.6%. Smartphone and microcomputer output continued to contract, by 26.6% and 17.0%, showing substantial divergence within electronics. At the same time, some traditional sectors improved, as cement's decline narrowed to -5.3% from -11.7%, and crude steel returned to slight growth of 0.1%. Better construction conditions and project execution may have helped. We would not call a technology-cycle peak on these readings, particularly when

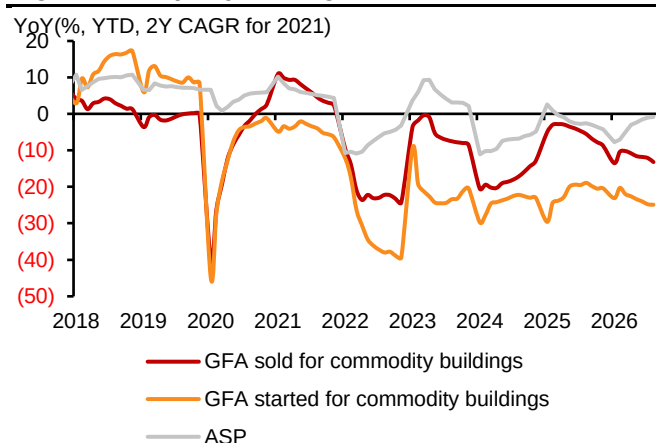
electronics investment is accelerating. The more important risk is the trade risk and tech products ban. A slowdown could weaken several sources of growth simultaneously, increasing the need for a stronger domestic-demand offset in 2027.

- **Policy should support the 2026 outcome while the case for rebalancing strengthens in 2027.** With the annual GDP growth target within reach, we expect policymakers to prioritize execution of existing budgets, bond proceeds and targeted measures. October's RMB550bn allocation of unused LG debt quota adds financing capacity to local governments, but the net demand impulse depends on how much reaches new activity after existing fiscal obligations are met. Releasing funds for ready projects can support growth more quickly than announcing projects with long preparation periods. We therefore expect modest further improvement in 4Q, aided by easier year-earlier comparisons, while allowing for volatility around quarter-end spending and holiday timing. Broad monetary easing is less urgent near term, although it should remain available if activity disappoints. The balance may change in 2027 if external growth normalizes before household and property demand recover. Further supply-side support alone would then struggle to sustain growth, strengthening the case for household-income support, social protection, local-fiscal repair and financing for the transition to completed-home sales. We will watch the year-end Politburo meeting and Central Economic Work Conference for changes in spending priorities. We retain 4.6% growth for 2026, with upside toward 4.7% if September's stabilization persists. We believe a stronger 2027 outlook requires convincing progress in household spending, property cash flow and fiscal execution.

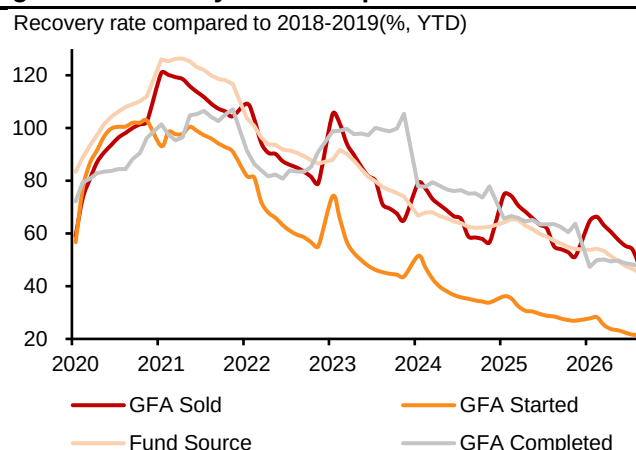
Figure 1: China's economic indicators

YoY(%)	2020-2021 CAGR	2022-2023 CAGR	2024	2025	4Q25	1Q26	2Q26	3Q26	Aug	Sep
GDP	5.3	4.1	5.0	5.0	4.5	5.0	4.3	4.5		
GDP Deflator	2.5	0.7	(0.8)	(1.0)	(0.6)	(0.1)	1.5	1.4		
VAIO	6.1	4.1	5.8	5.9	5.0	6.1	4.6	5.1	5.2	5.5
-Mining	2.9	4.8	3.1	5.6	5.4	5.7	1.3	(1.4)	(1.4)	1.3
-Manufacturing	6.6	4.0	6.1	6.4	5.1	6.0	4.8	5.9	6.1	6.0
-Public utility	6.6	4.6	5.3	2.3	3.5	3.5	6.8	5.2	4.9	5.6
Delivery value for exports	8.3	0.7	5.1	2.2	1.0	8.1	11.3	12.1	11.1	17.0
Service output index	6.3	3.9	5.2	5.5	4.6	5.0	4.5	4.4	4.1	4.8
Retail sales	4.0	3.4	3.5	3.7	1.7	2.3	0.2	0.7	0.4	1.1
Exports of goods	15.9	0.3	5.8	5.4	3.7	14.7	20.1	28.4	24.9	36.3
Imports of goods	13.7	(2.4)	1.0	0.3	3.7	23.6	29.4	29.0	28.3	31.0
Urban FAI (YTD)	3.9	4.0	3.2	(3.8)	(3.8)	1.7	(5.7)	(7.2)	(7.2)	(7.2)
-Property development	5.7	(9.8)	(10.6)	(17.2)	(17.2)	(11.2)	(18.0)	(20.6)	(19.9)	(20.6)
-Manufacturing	5.4	7.8	9.2	0.6	0.6	4.1	(1.2)	(2.1)	(2.3)	(2.1)
-Infrastructure	1.8	9.9	9.2	(1.5)	(1.5)	9.2	(2.4)	(6.1)	(5.4)	(6.1)
GFA sold for commodity building (YTD)	2.2	(16.8)	(12.9)	(8.7)	(8.7)	(10.4)	(11.6)	(13.2)	(12.1)	(13.2)
GFA started for commodity building (YTD)	(6.4)	(30.5)	(23.0)	(20.4)	(20.4)	(20.3)	(23.4)	(24.9)	(24.8)	(24.9)

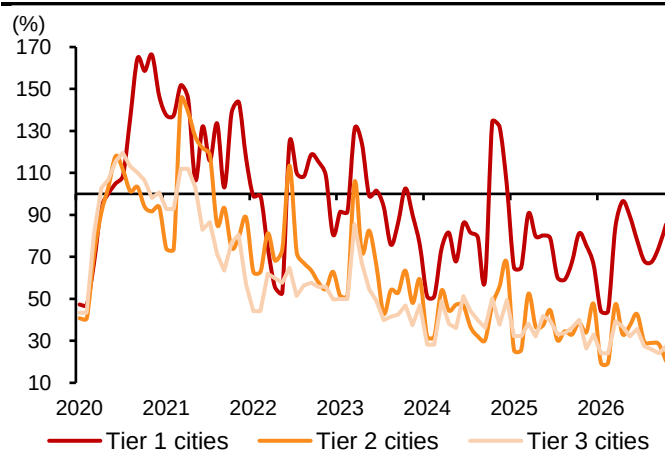
Source: Wind, CMBIGM

Figure 2: Property sales growth

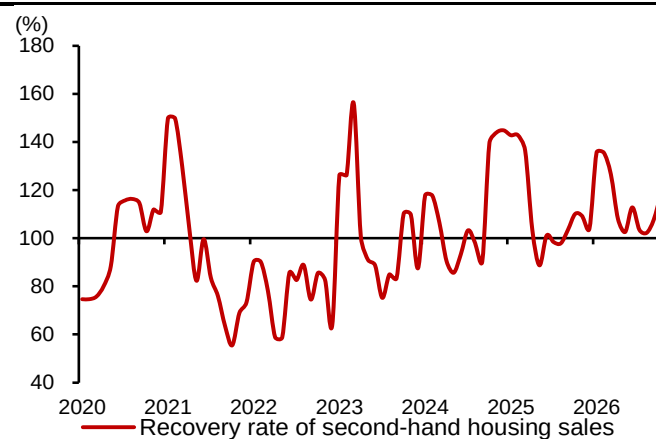
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019

Source: Wind, CMBIGM

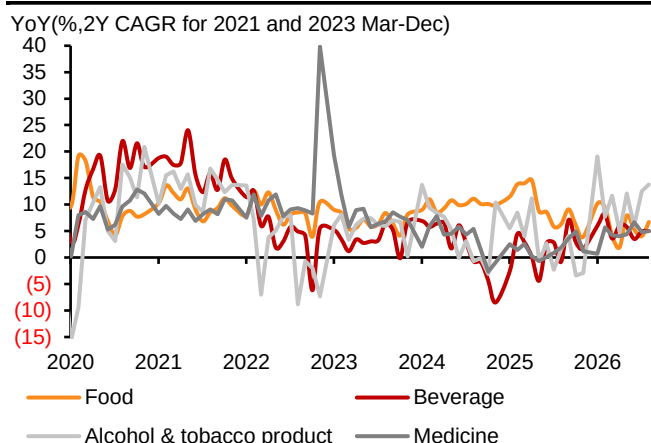
Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities

Source: Wind, CMBIGM

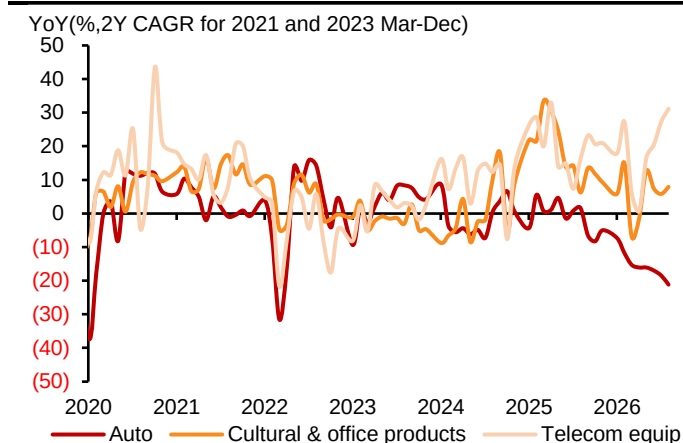
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities

Source: Wind, CMBIGM

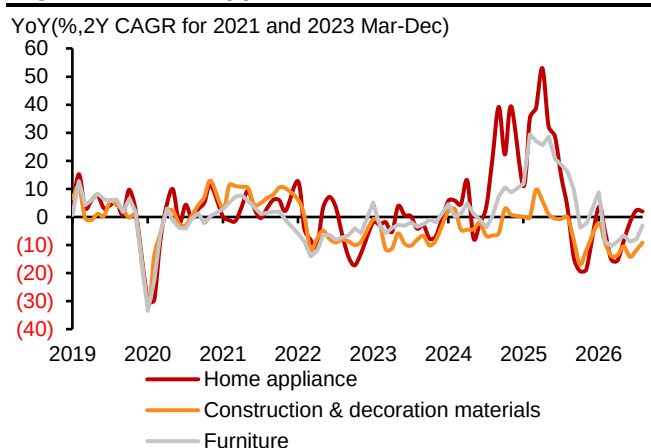
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples

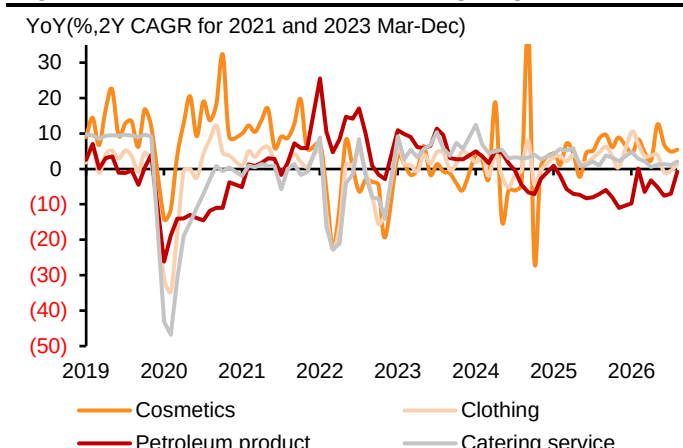
Source: Wind, CMBIGM

Figure 7: Retail sales of autos & electronics

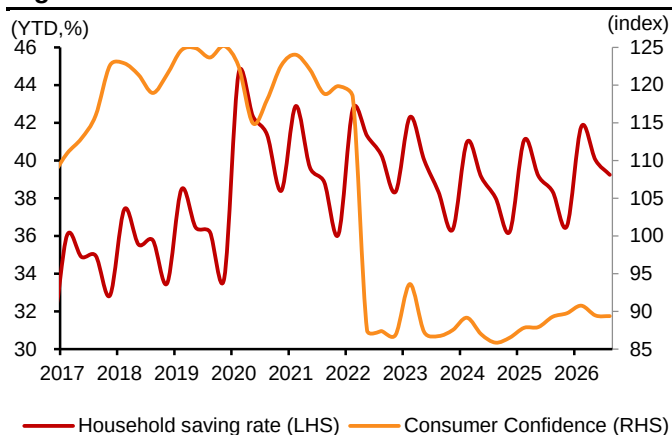
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales

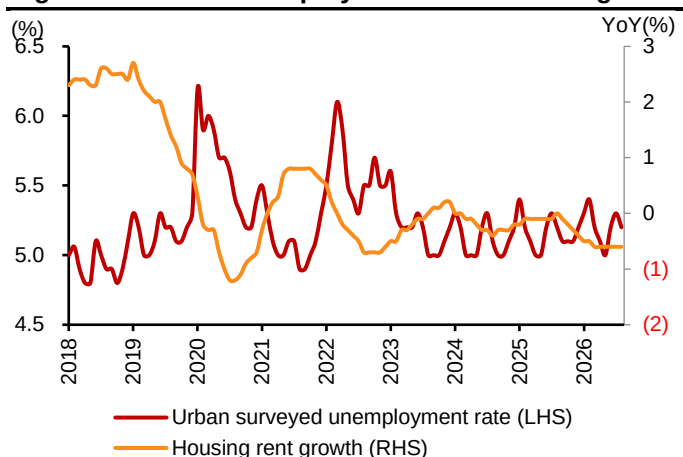
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities

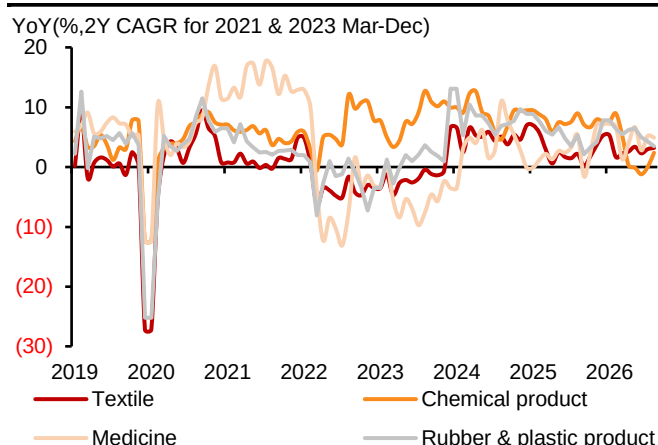
Source: Wind, CMBIGM

Figure 10: Consumer confidence

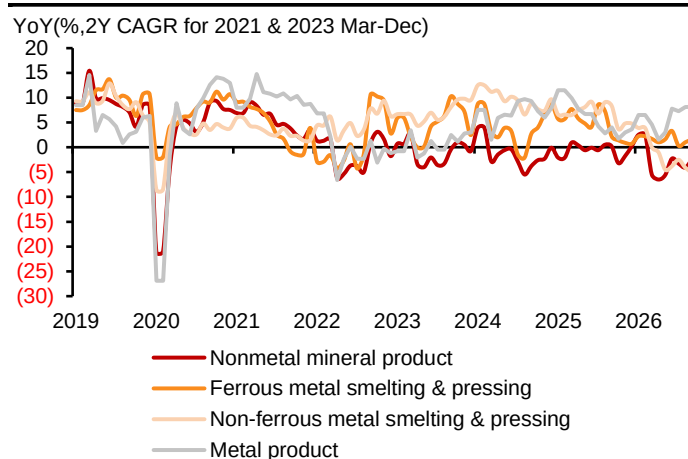
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent

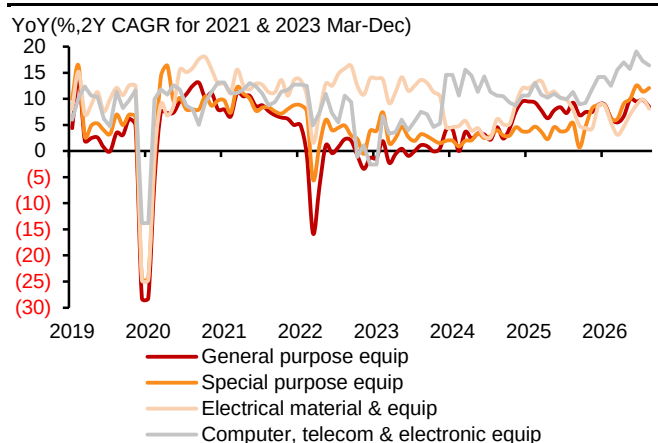
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products

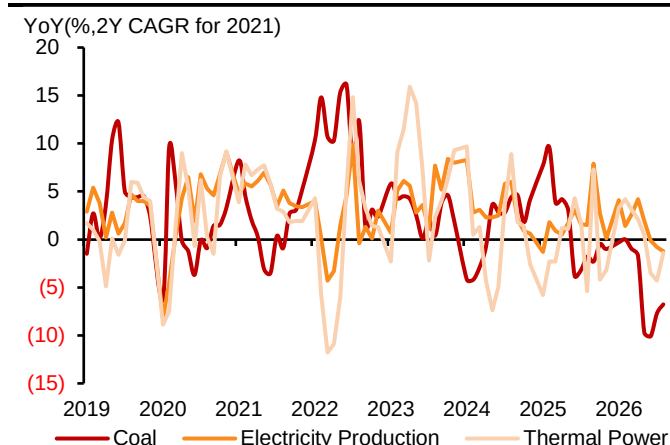
Source: Wind, CMBIGM

Figure 13: VAIO in mineral & metal products

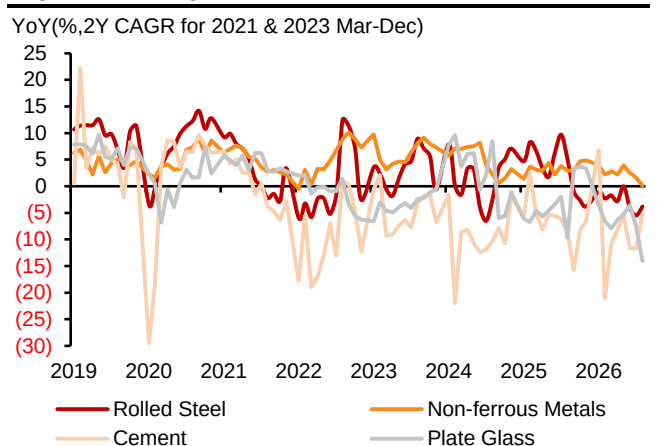
Source: Wind, CMBIGM

Figure 14: VAIO in equipment

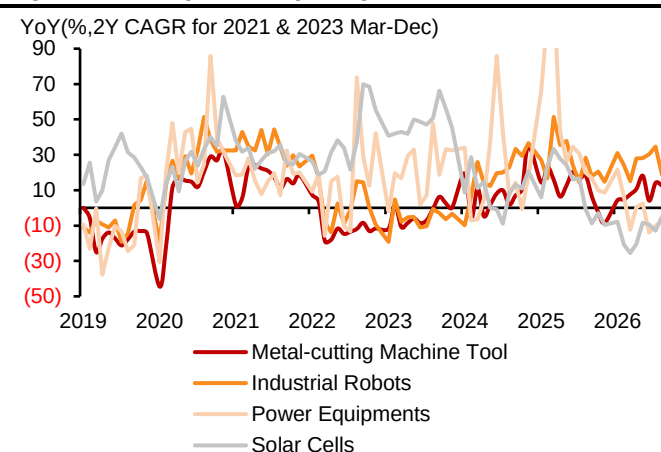
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity

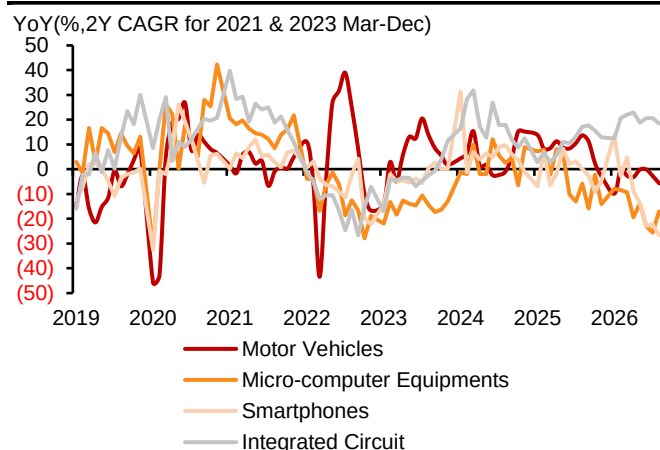
Source: Wind, CMBIGM

Figure 16: Output in steel & construction materials

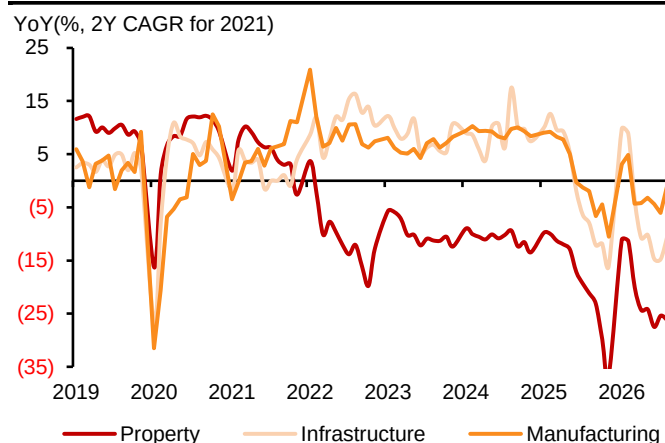
Source: Wind, CMBIGM

Figure 17: Output in capital goods

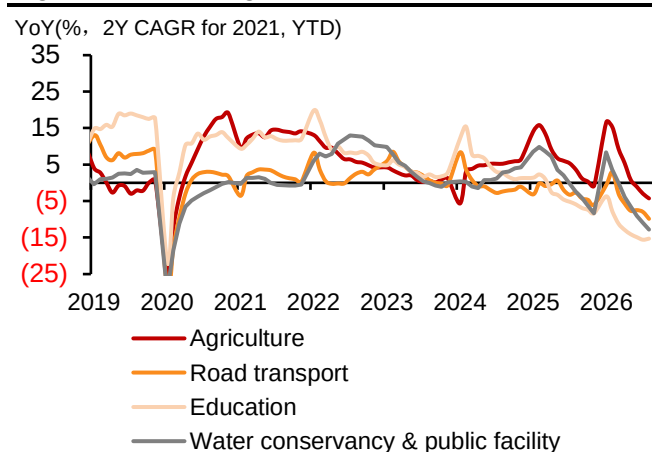
Source: Wind, CMBIGM

Figure 18: Output in auto, computer & smartphone

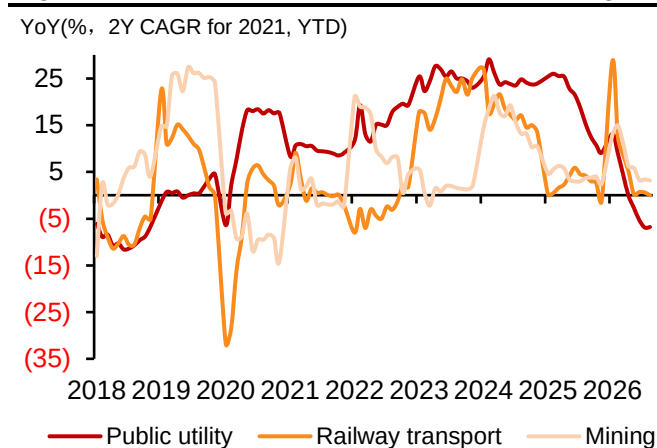
Source: Wind, CMBIGM

Figure 19: FAI by sector

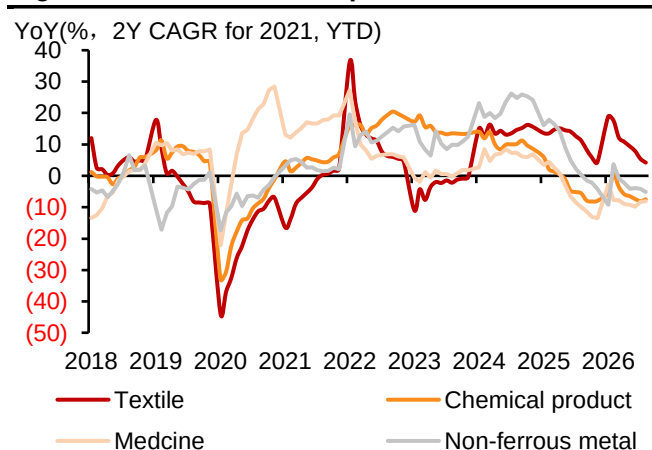
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure

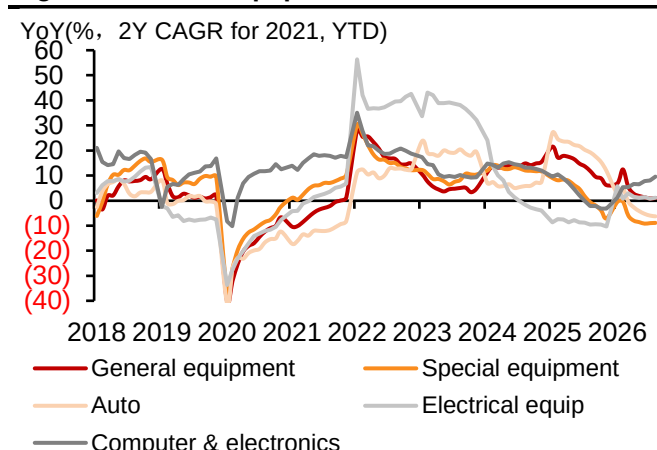
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining

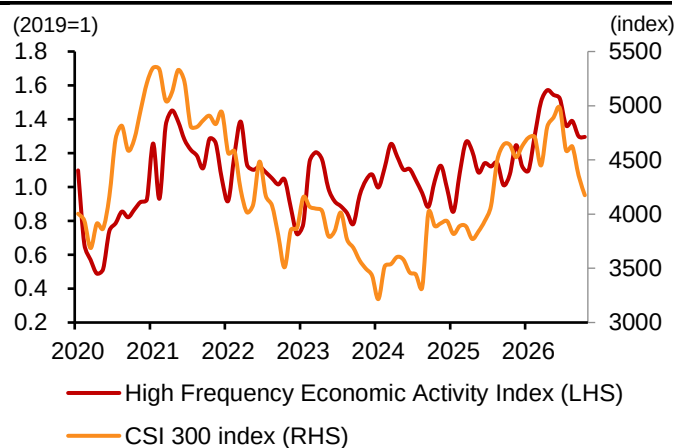
Source: Wind, CMBIGM

Figure 22: FAI in chemical products

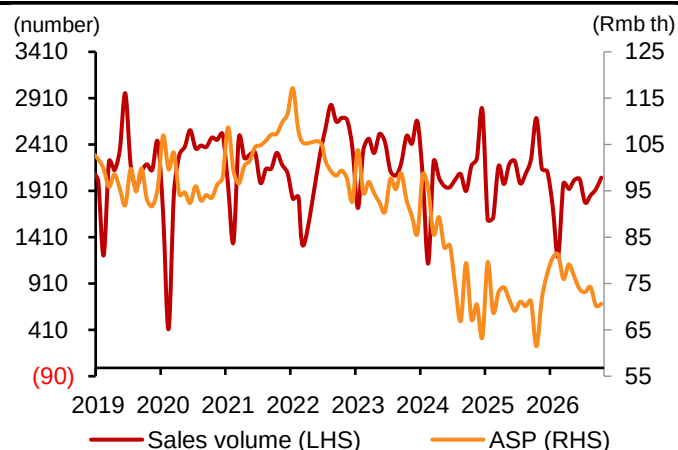
Source: Wind, CMBIGM

Figure 23: FAI in equipment

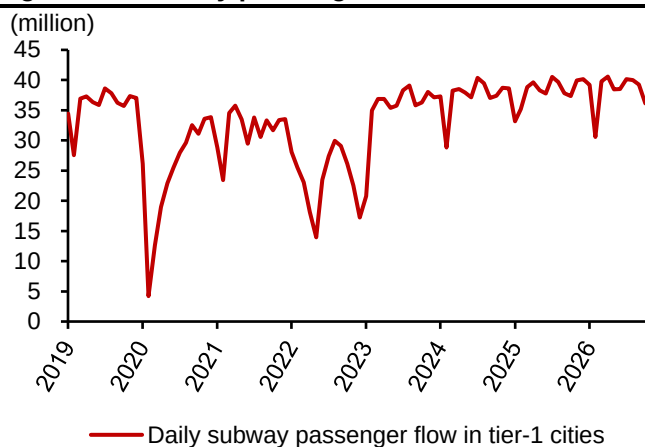
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index

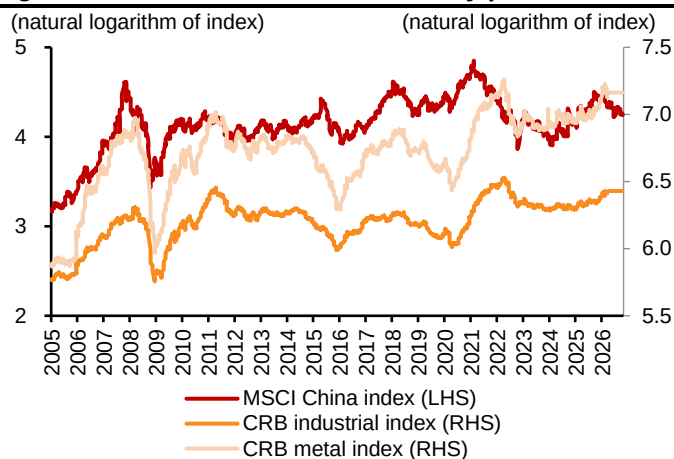
Source: Wind, CMBIGM

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

Source: Wind, CMBIGM

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