Goldman Sachs Research

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China: Q3 GDP slightly beat expectations on broad-based improvement in September activity

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Bottom line:

China's Q3 GDP slightly beat market expectations, thanks to a broad-based improvement in September economic activity — especially retail sales and services industry output. The imbalance between strong exports and weak domestic final demand remained significant. Industrial production (IP) growth accelerated further to 5.5% yoy in September from 5.2% yoy in August, led by faster output growth in chemicals and non-metal product manufacturing industries. On a single-month basis, the year-on-year contraction in fixed asset investment (FAI) narrowed to -7.2% in September from -10.8% in August, thanks to more favorable weather and a low base. Retail sales growth rebounded to +1.1% yoy in September from +0.4% yoy in August, mainly led by offline goods sales and restaurant sales revenue, as the earlier Mid-Autumn Festival may have shifted some consumption from October into September. The Services Industry Output Index, reported in real terms and closely correlated with tertiary GDP growth, rebounded to 4.8% yoy in September from 4.1% yoy in August. Following the stronger-than-expected Q3 GDP outturn, we nudge down our Q4 sequential growth forecast to 4.0% qoq annualized from 4.5% qoq annualized previously, but raise our 2026 full-year real GDP growth forecast slightly to 4.6% from 4.5%.

Asia-MAP scores:

GDP: 0 (5, 0)

Industrial production: 0 (5, 0)

Fixed asset investment: 0 (2, 0)

Retail sales: 0 (1, 0)

Key numbers:

GDP: +4.5% yoy in Q3 (GS forecast: +4.4% yoy; Bloomberg consensus: +4.4% yoy), +1.2% quarter-over-quarter sa non-annualized in Q3. Q2: +4.3% yoy, +0.9% quarter-over-quarter sa non-annualized.

Industrial production (IP): +5.5% yoy in September (GS: +5.8% yoy; consensus: +5.5% yoy), vs. +5.2% yoy in August. Note that sequential figures are highly sensitive to the specific seasonal adjustment methodology (NBS estimates: +0.6% mom sa non-annualized in September, vs. +0.5% mom sa non-annualized in August; GS estimates: +0.9% mom sa non-annualized in September, vs. +0.8% mom sa non-annualized in August).

Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

Fixed asset investment (FAI): -7.2% ytd yoy in September (GS: -7.3% ytd yoy; consensus: -7.3% ytd yoy), vs. -7.2% ytd yoy in August; September single-month growth by GS estimates: -7.2% yoy, vs. -10.8% yoy in August (sequential growth by GS estimates: +1.8% mom sa non-annualized in September, vs. +2.1% mom sa non-annualized in August).

Retail sales: +1.1% yoy in September (GS: +0.3% yoy; consensus: +0.5% yoy), vs. +0.4% yoy in August (sequential growth by GS estimates: +0.5% mom sa non-annualized in September, vs. 0% mom sa non-annualized in August).

Services industry output index: +4.8% yoy in September, vs. +4.1% yoy in August (sequential growth by GS estimates: +0.9% mom sa non-annualized in September, vs. +0.3% mom sa non-annualized in August).

Surveyed unemployment rates:

- Nationwide: 5.2% in September, vs. 5.3% in August.
- 31 major cities: 5.2% in September, vs. 5.3% in August.

Property-related activity data:

- Floor space sold: -20.5% yoy in September, vs. -14.7% yoy in August (value of sales: -20.0% yoy in September, vs. -12.1% yoy in August).
- Floor area under construction: -12.8% yoy in September, vs. -12.8% yoy in August.
- New home starts: -25.6% yoy in September, vs. -31.0% yoy in August.
- New home completions: -36.4% yoy in September, vs. -28.4% yoy in August.
- Real estate investment: -26.2% yoy in September, vs. -25.4% yoy in August.

Main points:

1. China's real GDP growth rose slightly to 4.5% yoy in Q3 from 4.3% yoy in Q2, marginally above market consensus and our forecast (both at 4.4% yoy), taking year-to-date growth to 4.6% yoy in Q3 from 4.7% yoy in Q2. In sequential terms, NBS estimated that real GDP growth increased to 1.2% qoq sa non-annualized in Q3 from 0.9% qoq sa non-annualized in Q2, also slightly above market consensus and our forecast (both at 1.0% qoq sa non-annualized). Nominal GDP growth edged up to 6.0% yoy in Q3 from 5.9% yoy in Q2 thanks to the improvement in real GDP growth, although the GDP deflator remained largely unchanged from Q2 at +1.5% yoy in Q3 based on our estimates.

2. Industrial production (IP) growth rose further to 5.5% yoy in September from 5.2% yoy in August amid stronger export growth. Sequentially, we estimate IP gained 0.9% mom non-annualized in September (vs. +0.8% mom non-annualized in August; Exhibit 1). By industry, the August-to-September acceleration in year-on-year IP growth was led by faster output growth in chemicals and non-metal product manufacturing industries, while slower output growth in electric machinery and automobile industries was a drag (Exhibit 2). Among major industrial products (which differ from the by-industry IP breakdown), crude steel and cement output growth increased to +0.1% yoy and -5.3% yoy, respectively, in September from -3.7% yoy and -11.7% yoy in August. Chemical fiber and sulfuric acid output growth rose to +0.4% yoy and -12.4% yoy, respectively, in

September from -3.2% yoy and -15.5% yoy in August, although the sustainability of the recovery remains questionable given protracted supply chain disruptions amid the Middle East conflict. By comparison, automobile output growth and power generation growth both slowed in September, to -5.7% yoy and -1.2% yoy, respectively, from -2.7% yoy and -0.8% yoy in August. Year-on-year growth in industrial robot output and metal cutting machine output slowed to 18.9% and 12.5%, respectively, in September from 34.6% and 14.1% in August, and the year-on-year contraction in smartphone output widened to -26.6% in September from -22.3% in August.

3. On a single-month basis, the year-on-year contraction in fixed asset investment (FAI) narrowed to -7.2% in September from -10.8% in August, thanks to more favorable weather and a low base (Exhibit 3). Sequentially, FAI gained 1.8% mom in September on a non-annualized basis, following a 2.1% mom increase in August, based on our estimates. This kept year-to-date FAI growth unchanged from August at -7.2% yoy in September. By sector, manufacturing and infrastructure investment growth rose to -1.0% yoy and -11.6% yoy, respectively, in September from -6.5% yoy and -16.8% yoy in August, while property investment growth weakened further to -26.2% yoy in September from -25.4% yoy in August despite a low base. Other (i.e., services and agriculture-related) investment growth increased to +3.7% yoy in September from +0.5% yoy in August due to base effects, as in sequential terms it showed notable contraction. Although we caution that occasional NBS "statistical corrections" of previously over-reported data may have amplified reported FAI volatility in recent quarters, the September improvement in FAI growth appeared broadly consistent with steel and cement output performance.

4. Nominal retail sales growth rebounded to +1.1% yoy in September from +0.4% yoy in August, above market consensus of +0.5% yoy. The improvement was mainly led by offline goods sales and restaurant sales revenue, where growth rose to +1.4% yoy and +2.1% yoy, respectively, in September from -0.3% yoy and +1.1% yoy in August, as the earlier Mid-Autumn Festival may have shifted some consumption from October into September. In contrast, online goods sales growth dipped to -0.1% yoy in September from +2.0% yoy in August. In sequential terms, we estimate retail sales value gained 0.5% mom non-annualized in September (vs. 0% mom sa non-annualized in August). Among major product categories, food and clothing sales growth rose to +6.7% yoy and +1.2% yoy, respectively in September from +4.0% yoy and -0.5% yoy in August. Communication appliance sales growth rose to +31.1% yoy in September from +27.3% yoy in August, while automobile and home appliance sales growth both weakened, to -21.2% yoy and +1.9% yoy, respectively, in September from -18.5% yoy and +2.3% yoy in August. Gasoline and other oil-product sales growth improved to -0.8% yoy in September from -7.0% yoy in August. Note that with the Mid-Autumn Festival falling on September 25-27 this year, travelers could combine the holiday with three days of annual leave for a 13-day break, supporting earlier departures and longer-haul trips, although elevated global oil prices remained a headwind. Adjusting for prices, we estimate gasoline and other oil-product sales volume contracted 14% yoy in September (vs. -8% yoy in August) amid a 13% yoy increase in domestic retail fuel p
the NBS began publishing a new series this year on retail sales value for
services, which rose 2.6% yoy in January-September, with services sales
yoy outpacing goods sales growth of 1.0% yoy.

5. Year-on-year growth in the Services Industry Output Index—which is



terms and closely tracks tertiary GDP growth, accounting for 58% of China's economy in 2025—rebounded to 4.8% in September from 4.1% in August. Sequentially, we estimate the index gained 0.9% mom sa non-annualized in September (vs. +0.3% mom sa non-annualized in August).

6. Property activity remained sluggish in September (Exhibit 4). Property sales fell 20.5% yoy in volume (floor space) terms and 20.0% yoy in value terms in September (vs. -14.7%/-12.1% yoy in August). New home starts, new home completions, and floor space under construction declined by 25.6% yoy, 36.4% yoy, and 12.8% yoy, respectively, in September (vs. -31.0% yoy, -28.4% yoy, and -12.8% yoy in August). NBS and private-sector data indicate early signs of home-price stabilization in some large cities, while most lower-tier cities remain under downward pressure.

7. Labor market conditions were broadly stable in September. The official (unadjusted) nationwide and 31-city unemployment rates both edged down to 5.2% in September from 5.3% in August. On a seasonally adjusted basis, we estimate that the nationwide rate was unchanged at 5.2% after rounding, while the 31-city rate inched up to 5.2% from 5.1% in August (Exhibit 5). The seasonally adjusted unemployment rate for migrant workers with local Hukou remained flat at 5.1% in September. Following the NBS definition change in January 2024, which excludes students in school, youth unemployment data have been released about three days after the broader labor market statistics. The latest data show that the unemployment rate for those aged 16-24 rose to 18.9% in August from 17.9% in July, matching the prior peak registered in August 2025. Although the youth unemployment rate may follow seasonal patterns and decline in coming months, we caution that the revised definition may have understated labor market stress among the younger generation, given weak domestic demand and potential pressure from AI adoption on entry-level white-collar jobs.

8. Incorporating the stronger-than-expected Q3 GDP outturn, we nudge down our Q4 sequential growth forecast to 4.0% qoq annualized from 4.5% qoq annualized previously, while leaving subsequent quarters unchanged (Exhibit 6). After rounding, this raises our 2026 full-year real GDP growth forecast slightly to 4.6%, just above the lower bound of this year's 4.5-5.0% growth target. Our baseline implies year-on-year real GDP growth will remain flat at 4.5% in Q4. We view the modest easing since end-September as an effort to reverse earlier tightening and secure this year's growth target, rather than the start of a sustained, significant easing cycle. Given the delayed policy easing this year, some of the growth impulse may spill into early next year.

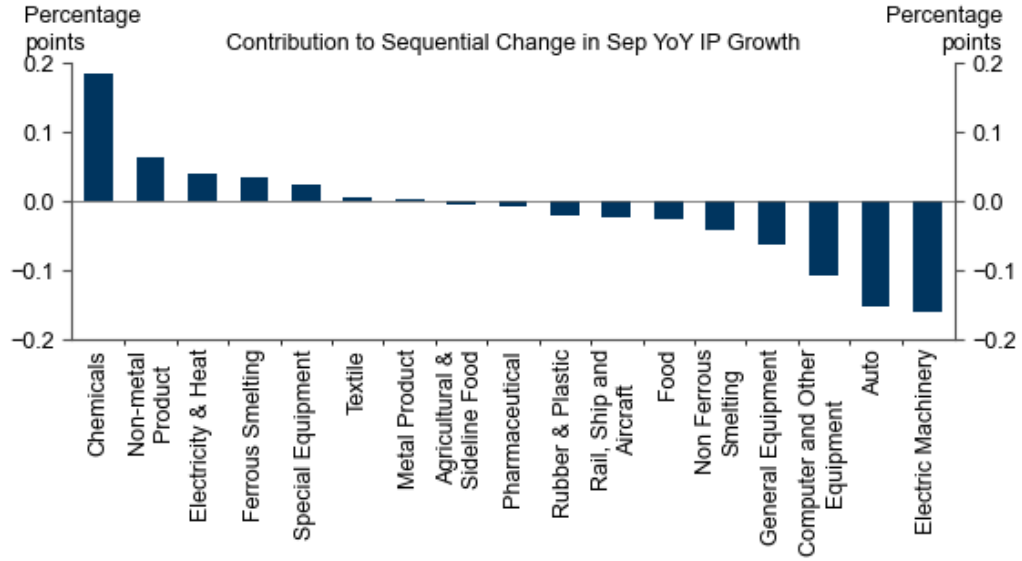
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Exhibit 1: Year-on-year growth in industrial production and services industry output both improved in September



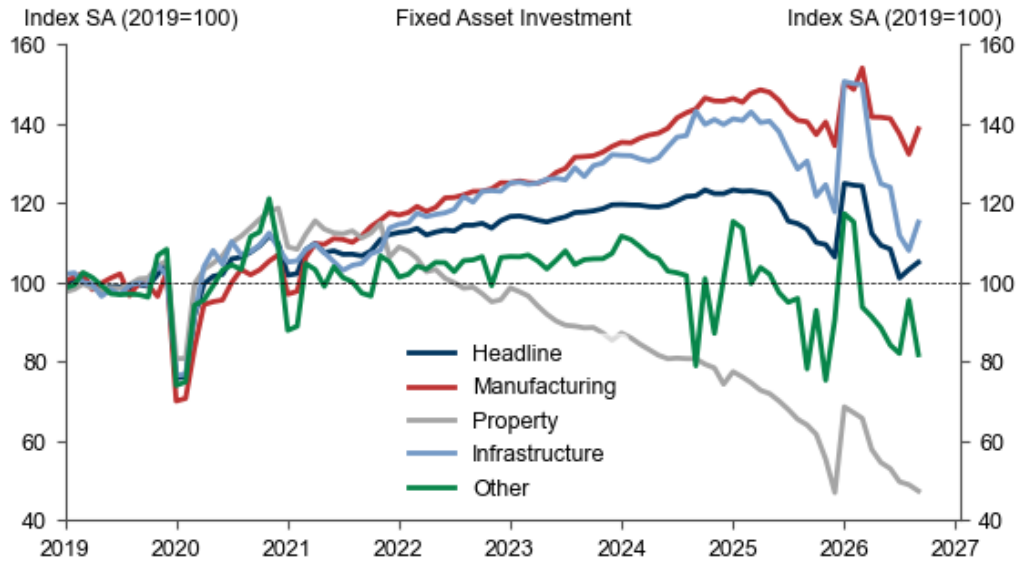
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 2: The August-to-September acceleration in year-on-year IP growth was led by faster output growth in chemicals and non-metal product manufacturing industries



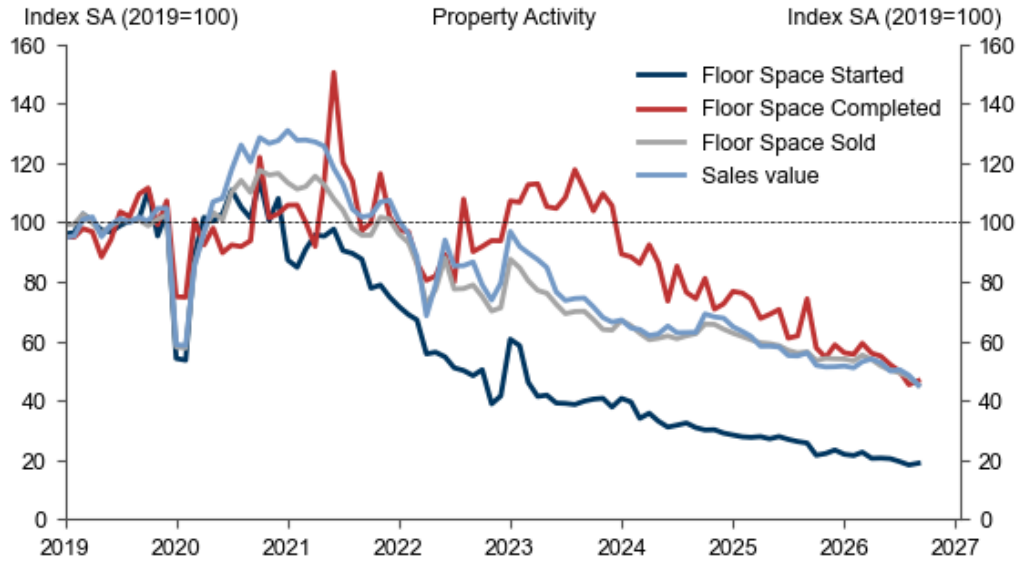
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 3: FAI growth improved slightly in September, led by manufacturing and infrastructure investment



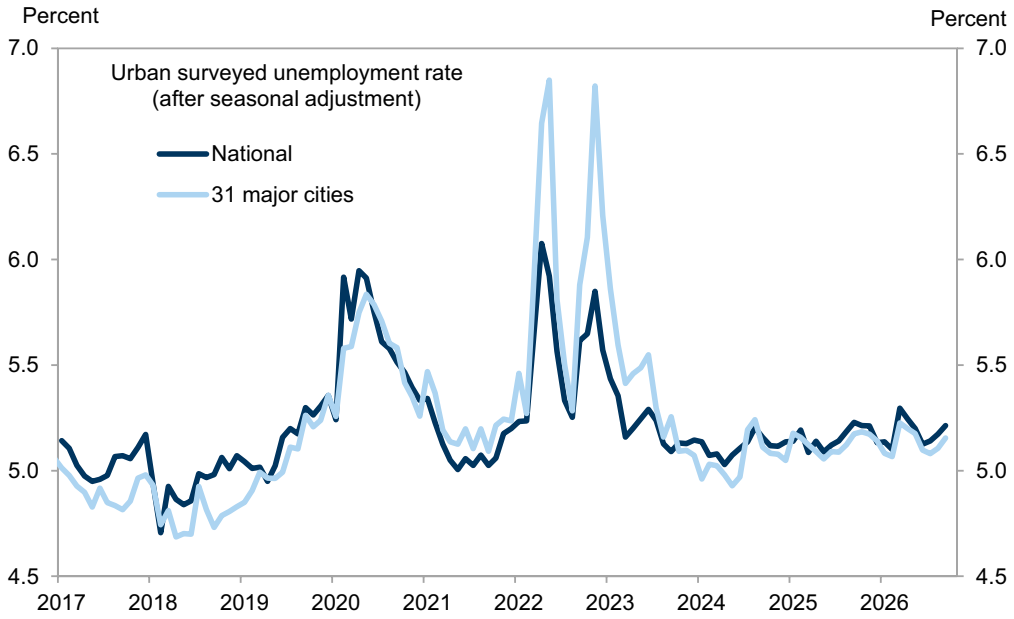
Source: CEIC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 4: Most property activity indicators remained subdued in September



Source: CEIC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 5: Labor market conditions remained broadly stable in September



Source: NBS, Wind, Goldman Sachs Global Investment Research

Exhibit 6: Onboarding stronger-than-expected Q3 GDP outturns, we slightly raised our 2026 full-year real GDP growth forecast to 4.6%

China real GDP growth forecast					
		New YoY%	Previous YoY%	**New QoQ%, SAAR**	Previous QoQ%, SAAR
2023		**5.4**	5.4		
2024		**5.0**	5.0		
2025		**5.0**	5.0		
2026		**4.6**	4.5		
2027		**4.6**	4.6		
2025	Q1	**5.4**	5.4	**4.5**	4.5
	Q2	**5.2**	5.2	**4.9**	4.9
	Q3	**4.8**	4.8	**4.5**	4.5
	Q4	**4.5**	4.5	**4.5**	4.5
2026	Q1	**5.0**	5.0	**5.3**	5.3
	Q2	**4.3**	4.3	**3.6**	3.6
	Q3	**4.5**	4.4	**4.9**	4.0
	Q4	**4.5**	4.4	**4.0**	4.5

Source: NBS, Goldman Sachs Global Investment Research

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