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China Economics

On Track for 2026, Harder Test in 2027

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CITI'S TAKE

China's cyclical stabilization is playing out as we expected. GDP growth rebounded to 4.5% YoY in 26Q3, in line with our above-consensus forecast, while September data showed domestic demand running somewhat better than expected. With recent policy efforts still coming through, we maintain our GDP growth forecast at 4.6%YoY for both 26Q4E and 2026E. As growth stays on track to hit this year's target, we expect policymakers to focus on execution while shelving new stimulus. This near-term stabilization doesn't alleviate our concerns about 2027 and beyond, given: [1] an elevated household savings rate signaling weak consumer sentiment; [2] a potentially bigger property drag ahead, even as price signals turn more favorable; and [3] more early signs of new-economy peaking. A policy pivot could be inevitable, and we watch the year-end Politburo meeting and CEWC for the earliest hints (see: Approaching Inflection).

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

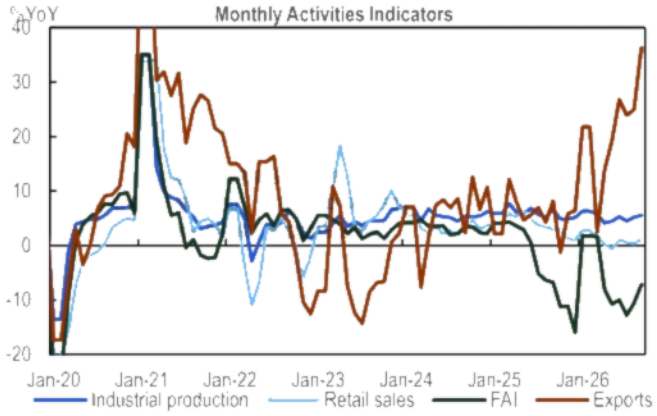
A cyclical stabilization we had anticipated is playing out. GDP growth picked up to 4.5%YoY in 26Q3 from 4.3%YoY in 26Q2, with sequential growth improving to 1.2%QoQ SA from 0.9% previously, per NBS. Nominal growth held steady at 6.0%YoY, the highest since 22Q1, as PPI hit a new high in September.

September numbers pointed to somewhat better-than-expected domestic demand. The supply side and the new economy remained supportive, unsurprisingly, with exports growth running at 36.3%YoY and industrial production at 5.5%YoY (Citi/Mkt: 5.2/5.5%YoY) – high-tech IP continued expanding at 15.3%YoY. We had argued that August could mark the cyclical bottom, and domestic demand indeed improved from September: retail sales rose to 1.1%YoY, the highest reading since April, and investment growth also appeared to have bottomed, with monthly FAI growth estimated at -7.2%YoY vs. -10.6%YoY in August.

We expect policymakers to stay in execution mode given the latest data. Cumulative growth reached 4.6% YoY in 26Q1-3, comfortably within this year's 4.5–5% target range. A 4.3% print in 26Q4 – aided by a low base from 25Q4 – would be enough to secure the full-year number, so new stimulus such as a rate cut or budget revision is off the table in our view. Despite September's stabilization, the long-awaited reversal of fiscal austerity has yet to materialize, as hinted by earlier credit and deposit data. Infrastructure investment – a more likely immediate fiscal beneficiary – stayed weak at -4.2%YoY Ytd vs. -4.0%YoY in Jan-Aug, but we expect the contraction to narrow as policy efforts come through. We maintain our GDP growth forecast at 4.6%YoY for both 26Q4E and 2026E, within the target range.

This cyclical stabilization doesn't alleviate our concerns about 2027 and beyond (see: Approaching Inflection). Consumer confidence remains weak, with the urban household savings rate elevated at 39.2% in 26Q1-3 vs. 36.2% in pre-pandemic 19Q1-3. Property prices showed further signs of stabilization, while contractions in investment and sales both widened in September; the shift toward completed-home sales could weigh further on activities into 2027. Despite currently robust readings, early signs of peaking in the new economy may be emerging – chip output growth eased to 18.4%YoY in September, a six-month low, while industrial robot output slowed to 18.9%YoY, the weakest reading this year. We see 2027 as a more challenging year for China, likely prompting an inevitable policy pivot. The year-end Politburo meeting and CEWC could offer the earliest signals, and we expect more expansionary macro policy, including 20bps of rate cuts and a RMB2tn expansion in the general government deficit in 2027E.

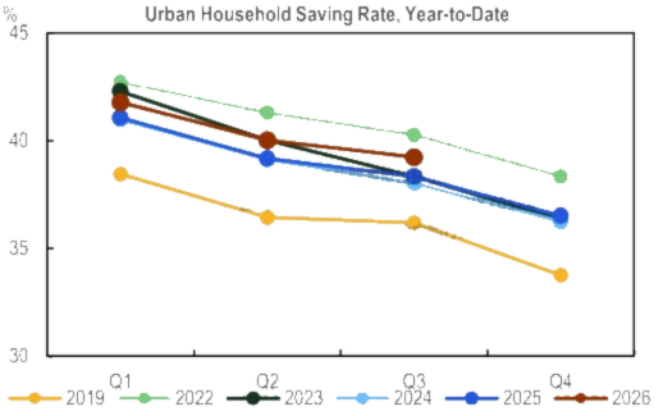
Figure 1. GDP growth rebounded as expected and September data confirmed further a cyclical stabilization



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Source: China Customs, NBS, Wind, Citi Research

Figure 2. We tend not to extrapolate the recovery in retail sales given elevated household saving rate



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Source: NBS, Wind, Citi Research

Readthrough Monthly Indicators

Monthly indicators confirmed the cyclical improvement we had anticipated from September. Supply-side and new-economy activity stayed resilient, while domestic demand came in somewhat better than expected.

Industrial production ended the quarter at 5.5%YoY (Citi/Mkt: 5.2/5.5%YoY, Prior: 5.5%YoY). The quarterly reading could have reached 5.1%YoY.

- **The new economy remained robust, though early signs of peaking may be emerging.** High-tech IP growth eased for a second straight month, slowing to 15.3%YoY in September from 16.9%YoY in July. Related output also showed signs of moderation despite staying elevated: IC output growth eased to 18.4%YoY, while industrial robot slowed to 18.9%YoY – its lowest reading this year and well below the 28.0%YoY pace seen in 2025.

- **The old economy improved as investment efforts likely started to come through.** Output grew 0.1%YoY for crude steel, the second positive reading this year. Contraction also narrowed to -5.3%YoY for cement, the smallest since mid-2025. Supply disruptions appear little changed in September: coal output contracted -6.8%YoY vs. -7.7%YoY in August, while related to the Mideast conflict, sulfuric acid output dropped -12.4%YoY vs. -15.5%YoY.

Retail sales rebounded more than expected, rising 1.1%YoY (Citi/Mkt: 0.6/0.5%YoY, Prior: 0.4%YoY). Retail services sales likely improved to 5.5%YoY from previously 4.2%YoY on a monthly basis per our estimate, with cumulative retail goods and services sales accelerating to 3.2%YoY in September from 1.8%YoY.

- **The drag from trade-in subsidized sales changed little.** We estimated the drag at -1.7ppts, expanding slightly from -1.5ppts in September. Auto sales remained sluggish at -21.2%YoY (vs. -18.5%YoY in Aug), while home appliances sales stayed soft at 1.9%YoY (vs. 2.3%). The AI inflation supported telecom equipment sales at 31.1%YoY (vs. 27.3%) and cultural & office goods at 7.9%YoY (vs. 5.8%).

- **Rising oil prices could have helped stabilize related sales.** Sales decline of energy & fuel products amid solid holiday travel narrowed to -0.8%YoY (vs. -

7.0%). A lower base boosted jewelry sales -9.6%YoY (vs. -17.5%) despite the decline in gold prices.

- **Stabilization in other categories was broad-based, likely reflecting this year's earlier Mid-Autumn Festival.** The MofCom earlier reported 6.1%YoY growth in sales of key retailers (MofCom, Sep 29th). Holiday-related sales stayed solid, with beverage up 5.0%YoY and tobacco & liquor up 13.8%YoY. Both staple and discretionary categories improved, with apparel and footwear sales rising 1.2%YoY (vs. -0.5%) and cosmetics up 5.4%YoY (vs. 4.9%).

We are cautious to extrapolate this retail sales stabilization, however. Soft per capita spending during the Golden Week didn't bode well for an extended recovery. Meanwhile, household saving rate remained elevated at 39.2% in 26Q1-3, 1ppts above the past three-year average and 3ppts above 19Q1-3. Household deleveraging continued with net repayment of bank loans over the same period.

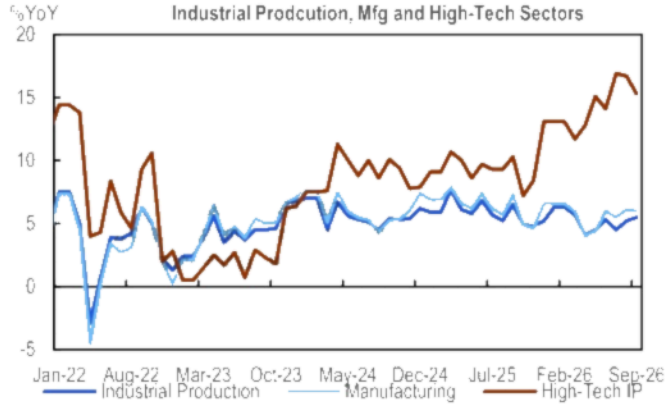
Investment stabilization has started to play out. Cumulative FAI growth held at -7.2%YoY Ytd (Citi/Mkt: -7.2/-7.3%YoY Ytd). The monthly reading picked up to -7.2%YoY – a second consecutive monthly improvement from -12.8%YoY in July – driven mostly by capex rather than a long-awaited reversal of fiscal austerity.

- **Manufacturing investment** picked up to -2.1%YoY Ytd from the earlier -2.3%YoY Ytd, and we estimate the monthly rate at -0.9%YoY, the highest since April. The improvement was mostly driven by machinery, with our estimates of monthly capex in general equipment mfg up 2.3%YoY in September (vs. -2.5%YoY in August), rail & other transportation equipment 12.5%YoY (vs. 0.6%Y) and machinery 3.5%YoY (vs. -3.1%). The new economy continued to lead, with telecom equipment capex reaching 19.2%YoY and 9.6%YoY Ytd, a new high in this upcycle.

- **Infrastructure investment** has yet to stage a decisive turnaround. NBS data showed a deepening contraction to -4.2% YoY Ytd from -4.0%YoY Ytd in August, and our estimate based on Wind's classification suggests the monthly contraction stayed in the high-single digits. This is unsurprising, following earlier credit and deposit data – a reversal of fiscal austerity has yet to materialize.

- **For the property sector**, price signals turned more positive. 9 cities reported a sequential pickup in second-hand prices, up from 3 in August. Price momentum strengthened in Tier-1 cities post the latest round of easing. Activity indicators, however, remained in deeper contraction: property investment fell an estimated -26.2%YoY in September (vs. -25.4%YoY in Aug) per our estimate, sales volume declined -20.4%YoY (vs. -14.7%), and sales value weakened to -20.0%YoY (vs. -12.1%YoY). The sector could pose a bigger drag on the economy as China moves toward national completed-home sales, even as price signals turn more favorable.

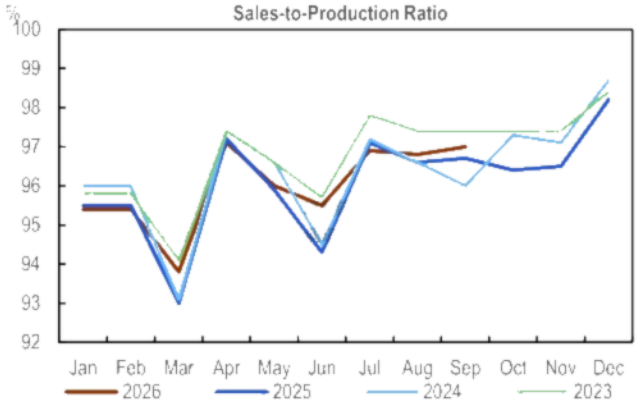
Figure 3. Industrial production growth and major sectors



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Source: NBS, Wind, Citi Research

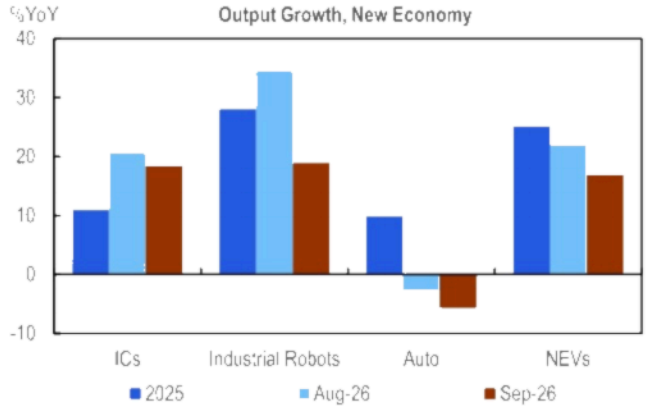
Figure 4. Sales-to-production ratio by month



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Source: NBS, Wind, Citi Research

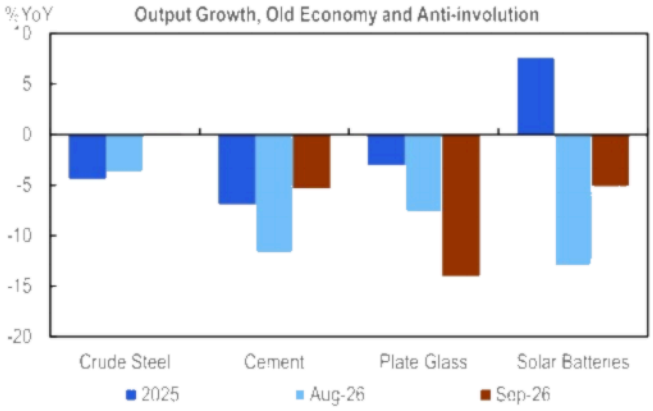
Figure 5. Output growth of new-economy items



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Source: NBS, Wind, Citi Research

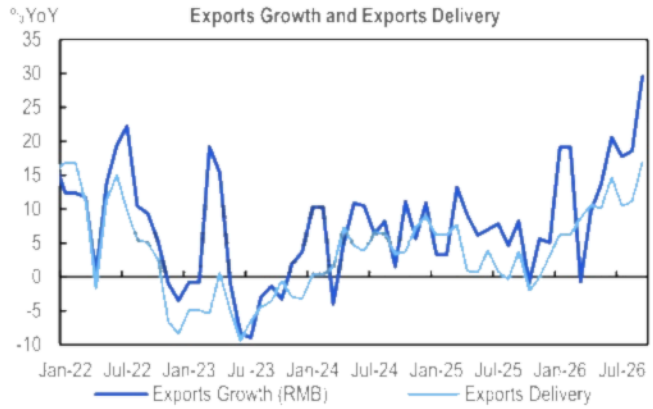
Figure 6. Output growth of old-economy items



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Source: NBS, Wind, Citi Research

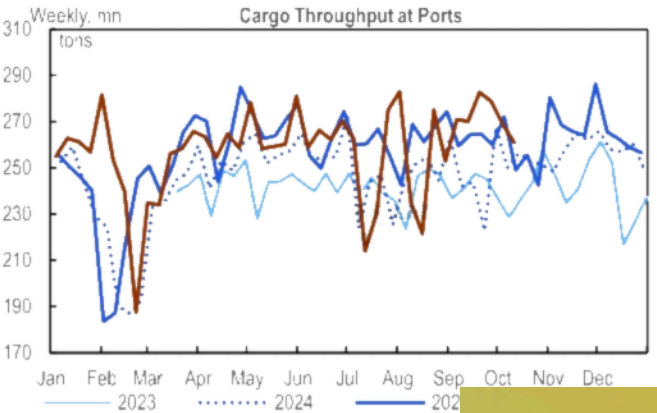
Figure 7. Exports growth and exports delivery growth



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Source: NBS, Wind, Citi Research

Figure 8. Cargo throughput at ports



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Source: MoT, Wind, Citi Research

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Figure 9. Retail goods and services sales growth by major categories

(%YoY)		2024	2025	26Q2	26Q2	Aug 26	Sep 2026
Retail Sales		**3.5**	**3.7**	**0.2**	**0.7**	**0.4**	**1.1**
Trade-in Subsidies	Auto	-0.5	-1.5	-15.9	-19.0	-18.5	-21.2
	Home Appliances	12.3	11.0	-12.7	0.7	2.3	1.9
	Telecom Equipment	9.9	20.9	8.3	26.6	27.3	31.1
	Furniture	3.6	14.6	-8.3	-6.7	-7.9	-3.0
	Cultural & Office	-0.3	17.3	2.8	7.0	5.8	7.9
Holiday Economy	Beverage	2.1	1.0	5.2	4.5	4.9	5.0
	Tobacco & Liquor	5.7	2.7	9.5	11.2	12.5	13.8
Global Prices	Energy & Fuel	0.3	-5.7	-4.9	-5.1	-7.0	-0.8
	Jewelry	-3.1	12.8	-11.3	-12.7	-17.5	-9.6
Staples	Grains & Food	9.9	9.3	4.7	5.4	4.0	6.7
	Daily Necessities	3.0	6.3	3.0	2.6	1.8	4.1
Other Discretionary	Apparel & Footwear	0.3	3.2	3.8	0.0	-0.5	1.2
	Sport & Recreation	11.1	15.7	-5.9	-5.5	-4.8	-1.1
	Cosmetics	-1.1	5.1	6.6	5.6	4.9	5.4
	Home Decoration	-2.0	-2.7	-12.6	-11.7	-11.8	-9.2
Retail Services Sales		**6.2**	**5.5**			**4.2**	**5.5**
	Restaurant's Revenue	**5.3**	**3.2**	**1.3**	**1.5**	**1.1**	**2.1**
	Others					**5.0**	**5.9**

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Source: NBS, Wind, Citi Research

Figure 10. Retail sales, goods and restaurants' revenue



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Source: NBS, Wind, Citi Research

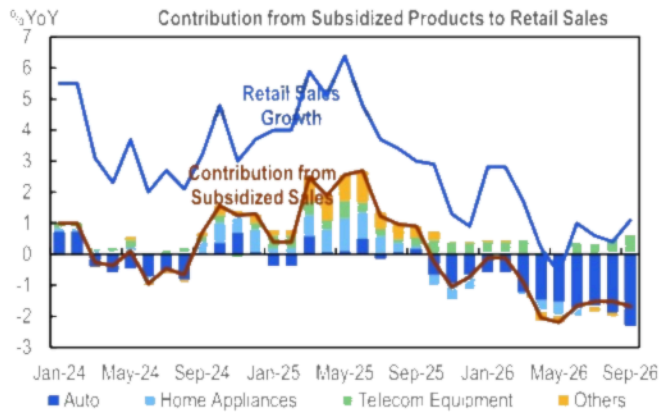
Figure 11. Retail sales, by size of retailers



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Source: NBS, Wind, Citi Research

Figure 12. Contribution from trade-in related items



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Figure 13. Contribution from austerity rule related items



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Source: NBS, Wind, Citi Research

Figure 14. Second-hand property prices



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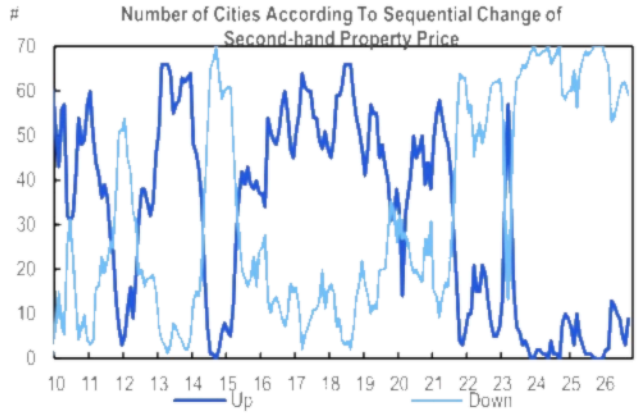
Figure 15. New home prices



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Source: NBS, Wind, Citi Research

Figure 16. Counts of cities by change in second-hand prices



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Source: NBS, Wind, Citi Research

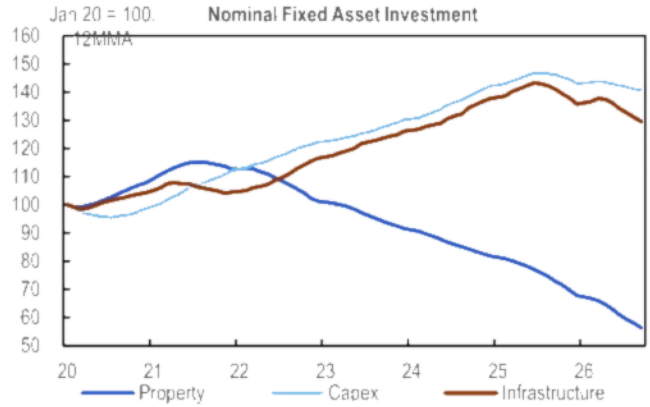
Figure 17. Second-hand home sales in Shanghai



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Source: Shanghai housing office, Wind, Citi Research

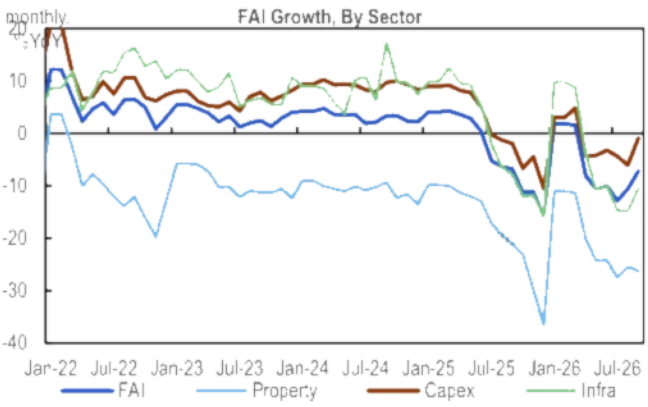
Figure 18. Fixed asset investment indices



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Source: NBS, Wind, Citi Research

Figure 19. Growth of FAI growth by major sectors



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