NOMURA

Global Markets Research
20 October 2026

Asia Insights

Economics - Asia ex-Japan

China: Sectoral breakdown of Q3 GDP

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The NBS released its supply-side breakdown of Q3 GDP. The moderate rebound in headline growth was primarily driven by the manufacturing and wholesale & retail sales sectors, while the financial sector slowed markedly on cooling stock markets and weakening credit demand. The manufacturing rebound was unsurprising, given the export boom and the easing of energy-supply disruptions. However, the pickup in growth in the wholesale & retail sales sector to a multi-month high of 5.6% y-o-y in Q3 should be viewed with caution, especially in view of the stagnant NBS monthly retail sales data and still-subdued CPI inflation. Following the release of Q3 GDP, we *raised* our Q4 and 2026 full-year growth forecasts to 4.8% y-o-y and 4.7%, respectively, from 4.5% and 4.5%. Amid lingering growth challenges, we maintain our below-consensus GDP growth forecast of 4.0% for 2027 (Consensus: 4.4%).

Manufacturing rebounded on strong exports and higher oil imports

Real GDP growth in the manufacturing sector rebounded to 5.9% y-o-y in Q3 from 4.8% in Q2, while in nominal terms, its growth advanced to 10.2% y-o-y in Q3, the highest since Q4 2021, and up from 8.8% in Q2. The export boom and easing energy supply disruptions were major factors behind the strength in the manufacturing sector. According to China Customs, export growth in RMB terms accelerated to 22.0% y-o-y in Q3 from 14.7% in Q2. Crude oil imports rebounded by 8.7% to 8.8m bpd in Q3 from 8.1m bpd in Q2, though it was still 26.3% below the 12.0m bpd in Q1. A modest recovery of crude oil imports has eased the disruptions to production activity in oil-related sectors.

The impact of the export boom on real growth might be smaller than it appears

Despite the surge in nominal export growth, we believe the impact of exports on real GDP growth, especially in the manufacturing sector, might not be substantially larger than in 2025, due to the surge chip prices and higher imports of chips and components thereof.

First, excluding the price effect, monthly average export volume growth was 10.1% y-o-y in the first eight months 2026 (latest data), only up slightly from 9.2% in 2025, even though export growth in RMB terms accelerated to 14.6% y-o-y ytd in August from 6.0% in 2025. Second, monthly average import volume growth rose to 6.1% y-o-y in the first eight months of 2026 from 0.7% in 2025. Because of weak domestic demand and contractions in oil import volume, higher import volume growth was likely mainly due to more imports of chips and chip-related components amid the global AI supercycle, which could cause challenges on estimating value-added output for the related manufacturing sectors.

The notable rebound in consumption appears perplexing

Real GDP growth in the wholesale & retail sales and hospitality & catering sectors rebounded markedly in Q3 to their highest readings in more than a year, rising to 5.6% y-o-y and 6.3%, respectively, from 3.3% and 5.8% in Q2. Likewise, their nominal growth increased notably to 6.4% y-o-y and 7.1%, respectively, in Q3 from 4.8% and 6.7% in Q2. In terms of their growth contribution, wholesale & retail sales contributed 0.24pp y-o-y to headline real GDP growth in Q3, which was even higher than the 0.18pp from the manufacturing sector.

These solid readings appear to run counter to the monthly nominal consumption and inflation data released by the NBS. Average monthly merchandise retail sales growth was only 0.6% y-o-y in Q3, albeit up from 0.0% in Q2. Catering retail sales growth increased only slightly to 1.5% y-o-y in Q3 from 1.3% in Q2. Retail sales growth of overall services slowed further to 5.0% y-o-y ytd in September from 5.3% in June from 5.5% in March. Retail sales of overall goods and services slowed to 2.6% y-o-y ytd in September from 2.7% in June. In fact, headline and core CPI inflation moderated to 0.7% y-o-y and 1.0%, respectively, in Q3 from 1.1% and 1.1% in Q2, still pointing to subdued consumer confidence.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

The financial sector slowed markedly amid cooling stock markets

Real growth in the financial services sector slowed notably to 4.1% y-o-y in Q3 from 6.9% in Q2. Nominal growth slowed more markedly to 4.8% y-o-y in Q3 from 8.9% in Q2. We believe both the cooling stock market and credit growth slowdown contributed to the slowdown.

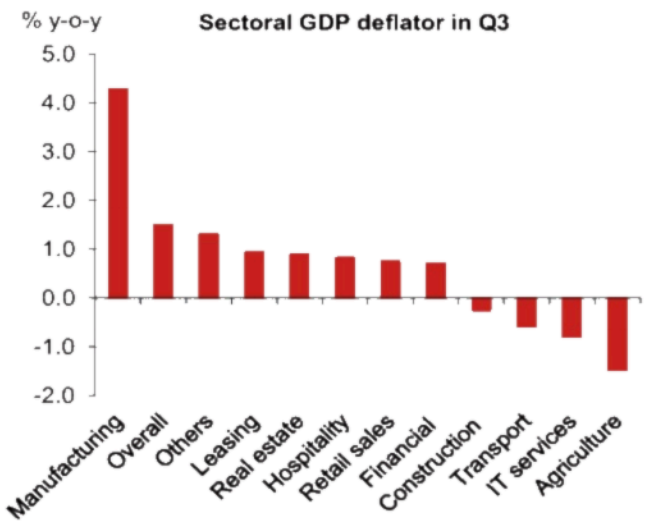
- On stock trading, daily average stock trading volume fell to RMB2.3trn in Q3 from RMB2.9trn in Q2 (Figure 1), with its year-on-year growth slumping to 6.9% from 132.3%. The ratio of quarterly stock trading volumes over quarterly GDP fell to 3.9x in Q3 from 4.8x in Q2. The drop in stock trading activity coincided with lackluster stock market performance, with the Wind All-A index down 13.3% in Q3, following a 12.8% gain in Q2.
- On credit growth, growth in outstanding RMB loans dropped to 4.8% y-o-y at end-Q3 from 5.2% at end-Q2, while growth in outstanding aggregate financing (AF) also slowed to a new low of 7.1% at end-Q3 from 7.4% at end-Q2.
- On bank profitability, according to the latest data from the National Financial Regulatory Administration (NFRA), the weighted average NIM of commercial banks remained low in Q2 (latest data available), though it edged up to 1.41% from 1.40% in Q1. We expect bank profitability to remain under pressure in Q3 2026.

Fig. 1: Cooling stock trading activity



Note: The trading volume refers to combined turnover on both Shanghai and Shenzhen bourses.
Source: Wind, Nomura Global Economics.

Fig. 2: GDP deflator by sector



Source: NBS, Wind, Nomura Global Economics.

The contraction in the property and construction sectors continued to deepen

Real GDP growth in the construction sector worsened to -4.4% y-o-y in Q3 from -4.1% in Q2, while growth in the property sector declined to -0.4% from -0.2%. As property-related construction activity comprises part of the construction sector, we combine the construction and property sectors to assess the impact of the property fallout. Specifically, their combined real growth worsened to -2.5% y-o-y in Q3 from -2.3% in Q2.

Nevertheless, we believe the actual deterioration might be much more acute than the GDP numbers suggest. According to monthly data from the NBS, new home sales (by floor space), new home starts and new home completions worsened to -16.8% y-o-y, -27.9% and -28.8%, respectively, in Q3 from -12.7%, -25.7% and -21.9% in Q2. Output volume growth of crude steel and cement fell to -2.4% y-o-y and -9.5%, respectively, in Q3 from -1.7% and -8.2% in Q2.

In nominal terms, combined GDP growth of the construction and property sectors was -2.2% y-o-y in Q3, which compares with -2.3% in Q2. By contrast, FAI growth of infrastructure and property investment worsened to -13.0% y-o-y and -26.4%, respectively, in Q3 from -8.6% and -23.0% in Q2. This stark difference again calls into question the

quality of the investment data.

Continued inconsistency between gross capital formation and FAI data

The NBS also released data on expenditure components of GDP in terms of their year-to-date contributions to real GDP growth, which suggest continued discrepancies in investment data. The contribution of gross capital formation fell to 1.3pp y-o-y ytd in Q3 from 1.7pp in Q2 (2025: 0.8pp), while we believe the actual contribution could be lower.

First, fixed asset investment (FAI) growth worsened to -7.2% y-o-y in the first three quarters from -3.8% in 2025. Second, adjusting the price effect, real FAI could be even more negative, if we take into account PPI inflation, which jumped to 2.3% y-o-y in the first three quarters from -2.6% in 2025. In this regard, the contribution to real GDP growth of 1.3pp from gross capital formation appears inconsistent with the FAI data.

The logistics sector remained strong on booming exports

Real growth in the transport, storage and postal sector increased further to 5.9% y-o-y in Q3 from 5.1% in Q2, likely due to strong demand from booming exports. However, in nominal terms, its growth slowed notably to 5.3% y-o-y in Q3 from 7.3% in Q2, due mainly to lower fuel prices. Domestic gasoline prices fell by 8.8% q-o-q in Q3, with its year-on-year change dropping to 9.4% in Q3 from 21.7% in Q2. The recent oil price spikes, especially in October, might push up nominal growth again in Q4.

Growth rates across IT- and leasing-related services remain high

Among all the sub-sectors, growth in IT- and leasing-related services remained the two highest. Growth in IT-related services slowed to a new low of 9.8% y-o-y in Q3 from 10.8% in Q2, while growth in leasing-related services increased to 12.9% from 11.6%. The pattern is similar in nominal terms. Growth in IT-related services slowed to 9.0% y-o-y in Q3 from 10.5% in Q2, while growth in leasing-related services increased to 13.8% from 12.6%.

The positive GDP deflator was mainly driven by manufacturing

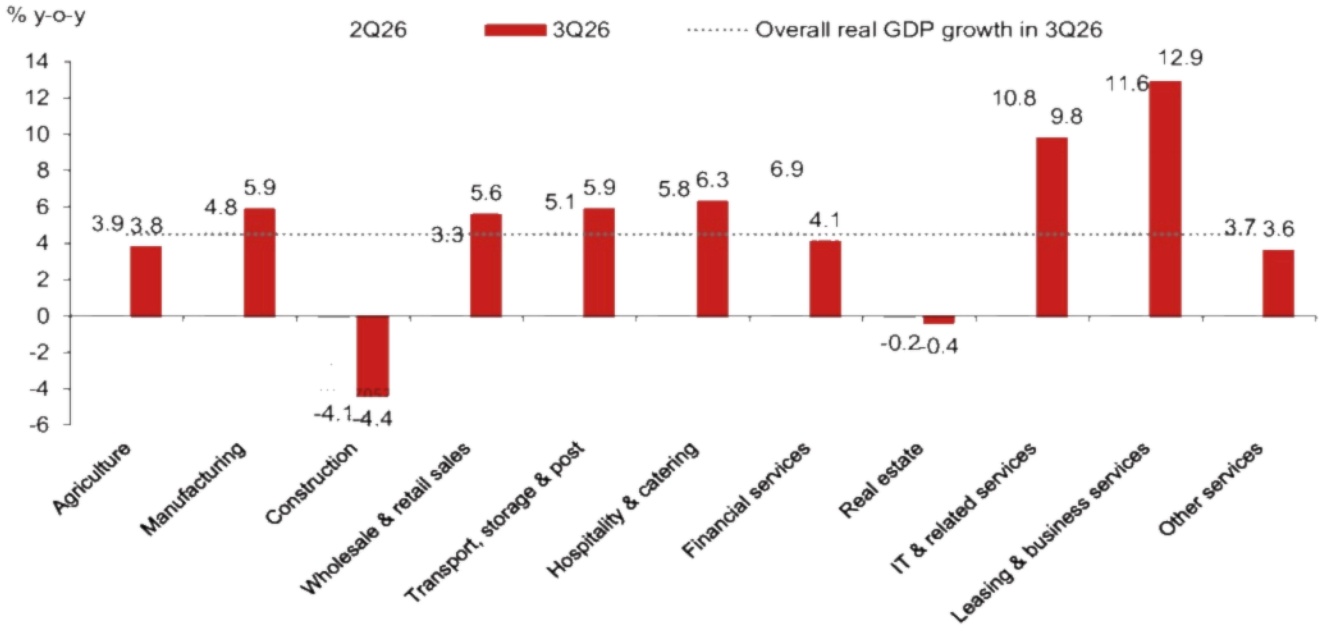
The overall GDP deflator rose 1.5% y-o-y in Q3, little changed from 1.6% in Q2 (Figure 2), largely in line with our view. In our *preview*, we wrote that "we expect the GDP deflator to remain steady in Q3, similar to the 1.6% y-o-y reading in Q2".

The sectoral breakdown data suggest positive deflators were reported for the manufacturing (4.3% y-o-y), leasing services (0.9%), real estate (0.9%), hospitality & catering (0.8%), wholesale & retail sales (0.8%) and financial services (0.7%) sectors, while negative deflators were recorded for the agriculture (-1.5%), IT services (-0.8%), and transport, storage & post (-0.6%) and construction (-0.3%) sectors.

The positive GDP deflator was mainly driven by external forces, especially higher prices of oil and chips, rather than domestic demand. The deflator for manufacturing remained much higher than for other sectors. Compared with Q2, the deflator for manufacturing was higher in Q3, while for most other sectors, deflators were lower, suggesting that the price increases are highly concentrated.

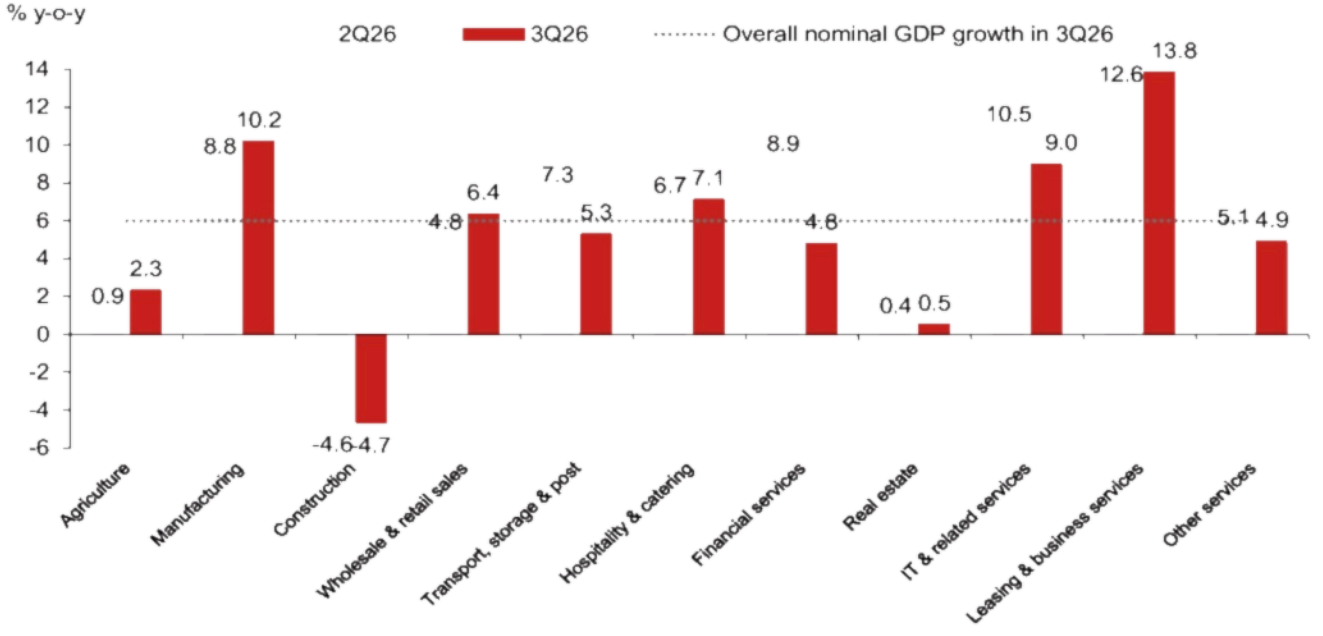


Fig. 3: Sectoral growth breakdown: real GDP



Note: The "other services" sector includes seven industries: scientific research & technical services; water, environment & public facility services; household services, repairs & other services; education; medical care & social work; culture, sports & recreation; and public management, social security & social organization.
Source: Wind, Nomura Global Economics.

Fig. 4: Sectoral growth breakdown: nominal GDP



Source: Wind, Nomura Global Economics.