China

Growth target secured, stimulus bar rises

Q3 GDP beat expectations, bringing the 2026 growth target within reach and prompting us to nudge our forecast to 4.6%. Export-led industrial strength continues to mask weak domestic demand. With the growth target largely secured, we see a higher bar for large-scale stimulus.

Economics
Yingke Zhou
+852 2903 2653
yingke.zhou@barclays.com
Barclays Bank, Hong Kong

Ying Zhang
+852 2903 2652
ying.zhang3@barclays.com
Barclays Bank, Hong Kong

Jian Chang
+852 2903 2654
jian.chang@barclays.com
Barclays Bank, Hong Kong

Q3 GDP uptick puts 2026 growth target within reach

China's Q3 GDP growth beat expectations, edging up to 4.5% y/y from 4.3% in Q2 (consensus: 4.4%; Barclays: 4.3%). YTD growth now stands at 4.6% y/y, putting the 4.5-5% full-year target within reach. Even if growth slows to 4.2% in Q4, China would still reach the lower bound of the target range. September activity data also showed a modest improvement in domestic demand, but activity remains very subdued by historical standards: retail sales growth rose to 1.1% y/y, while the contraction in FAI narrowed slightly to -7.2% y/y YTD, supported by infrastructure and manufacturing investment. Reflecting the better-than-expected Q3 GDP print, we nudge up our 2026 growth forecast to 4.6% from 4.5%, but maintain our 2027 forecast of 4.0%.

We think the modest improvement in GDP growth was largely driven by stronger industrial production, underpinned by continued export outperformance, particularly in AI-related and green-tech products. As we discussed in China AI Watch: More growth, less reflation, China's scale and supply-chain advantages position it to capture an outsized share of the global AI hardware cycle, with AI exports estimated to add 0.5pp to GDP growth in 2026. China is increasingly a manufacturing hub for the global AI buildout, spanning servers, semiconductors, AI-enabled electronics, cooling systems and batteries. AI-related products now account for 23% of total exports and more than half of China's export growth in 2026 YTD.

The divergence between resilient production and weak (domestic) demand remains striking. In contrast to the 4.5% GDP growth print and average IP growth of 5.1% in Q3, we estimate that the weighted average of key demand indicators, including retail sales, FAI and exports, deflated by core CPI, grew by just 0.6% y/y. In our view, the large gap between GDP growth and demand indicators reflects two factors: 1) China's GDP is measured from the production side; and 2) industrial and services production has remained considerably more resilient than underlying domestic demand.

We think the prolonged weakness in domestic demand reflects some structural factors. Consumption remains constrained by household deleveraging, property-driven wealth erosion, and a weak labour market. We expect retail sales growth to slow to around 1% this year from 3.7% in 2025. At the same time, investment is weighed down by the prolonged property downturn, retrenchment in capital expenditure across traditional industries, tighter local government finances, and weaker incentives for local officials to pursue aggressive infrastructure expansion.

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Large-scale stimulus is unlikely, watch year-end CEWC

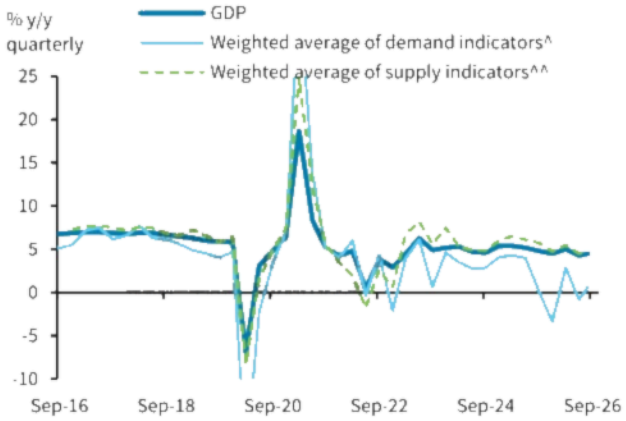
With the growth target largely secured, the likelihood of meaningful additional stimulus this year has declined, in our view. Policymakers are more likely to rely on existing measures through year-end, particularly following the modest policy support package announced in late September (see China Policy Watch: A nudge, not a game changer, 30 September 2026). Moreover, local governments remain under debt consolidation mandates, leading to de-facto fiscal contraction that offsets the central government's expansionary fiscal guidance. For context, land-sale revenue has fallen from 8% of GDP in 2020 to a projected 2% this year, implying a revenue shortfall equivalent to around 6% of GDP (see China Fiscal Watch: Holding fire on bigger stimulus, 16 September 2026).

What could trigger a bigger stimulus response? We think it would take a sharp, unexpected drop in exports or a significant external economic shock to prompt large-scale policy easing. Absent such shocks, we expect policymakers to stick to incremental fine-tuning, with support focused on strategic technology sectors and managing local-government liquidity risks rather than broad-based stimulus.

A further deterioration in youth employment could also raise the pressure to act, particularly if it begins to pose broader social-stability concerns. For now, however, China's unique family structure shaped by the one-child policy legacy may allow family financial support (backed by high savings among the parental generation) to partly cushion the impact on younger households, potentially delaying the policy response, although this buffer is unlikely to be sustainable.

Looking ahead, attention shifts to the year-end Central Economic Work Conference (CEWC) for signals on the 2027 policy outlook. We expect tech self-reliance to remain the top priority, with macro stability playing a supporting role and financing increasingly directed toward strategic technology sectors. This also implies less emphasis on headline GDP growth and greater tolerance for near-term growth fluctuations, rather than pursuing growth at all costs. However, we think a slowdown below 4% could test that tolerance and prompt stronger policy support next year.

FIGURE 1. **Demand indicators lag the supply-side ones by wide margins...**



Note: ^=0.55real retail sales+0.3real FAI+0.15real exports, deflated using core CPI; ^^=0.4IP+0.6*services production index
Source: Wind, Barclays Research

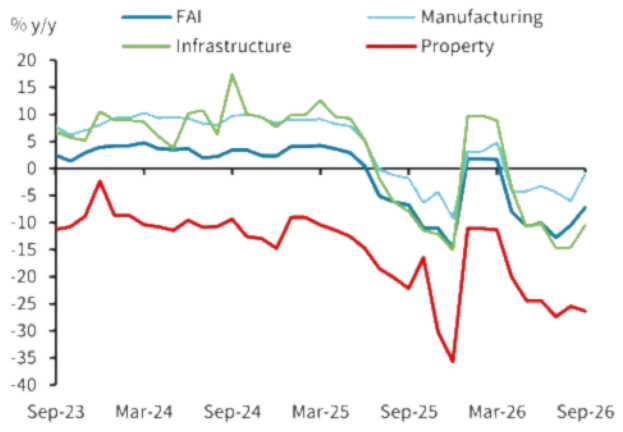
FIGURE 2. **...amid contracting credit impulse**



Note: China credit impulse is Barclays alternative measure

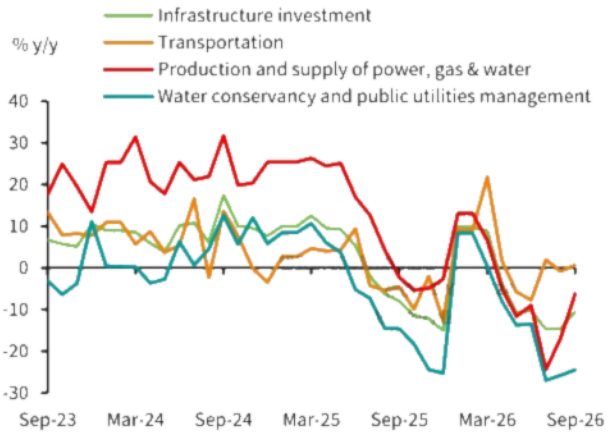
Source: Wind, Barclays Research

FIGURE 3. **FAI continued to drop, while the pace moderated on infrastructure and manufacturing**



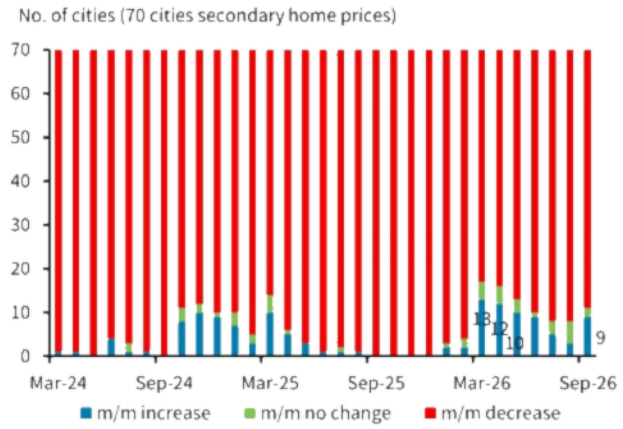
Source: Wind, Barclays Research

FIGURE 4. **Transport and power-related infrastructure picked up**



Source: Wind, Barclays Research

FIGURE 5. **85% cities saw a fall in secondary home prices, while home prices in major cities stabilised**



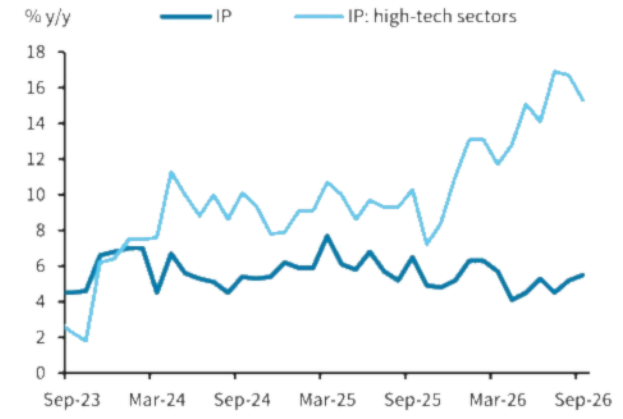
Source: Wind, Barclays Research

FIGURE 6. **Property sales weakened further**



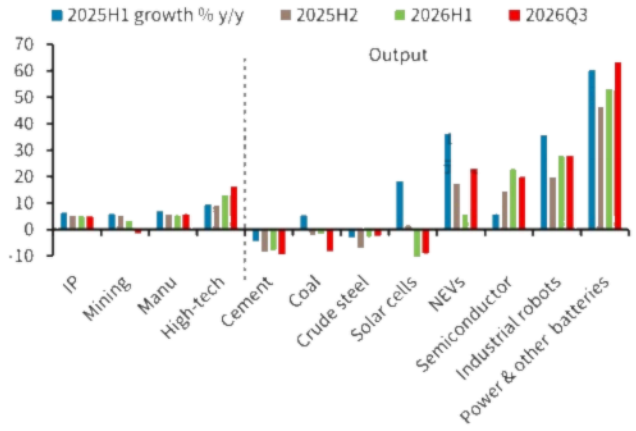
Source: Wind, Barclays Research

FIGURE 7. **High tech IP growth outperformed headline IP**



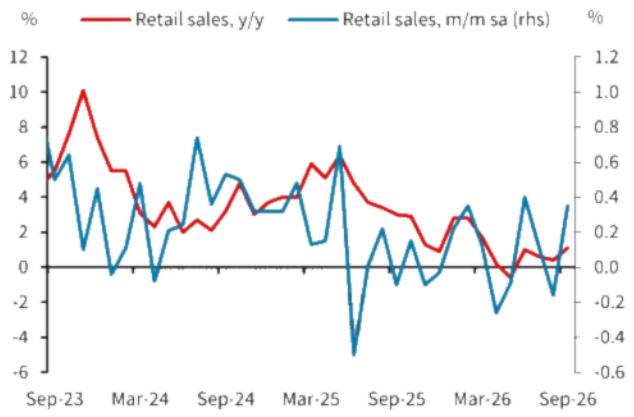
Source: Wind, Barclays Research

FIGURE 8. **Industrial output by sector**



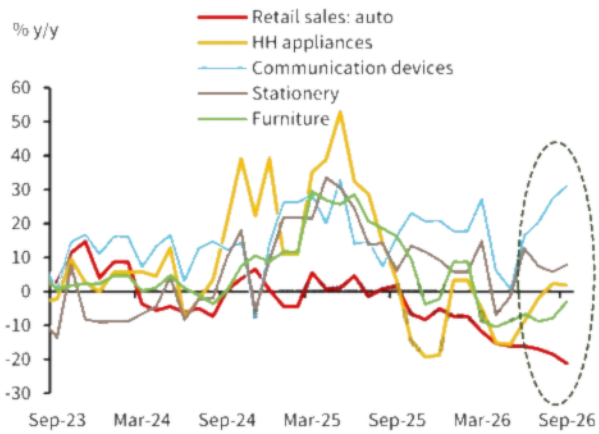
Source: Wind, Barclays Research

FIGURE 9. **Retail sales improved although remained soft**



Source: Wind, Barclays Research

FIGURE 10. **Trade-in goods sales were mixed**



Source: Wind, Barclays Research

Details of September activity data

- **Retail sales** growth improved from August, although the pace remained soft at 1.1% y/y in September. Goods consumption continued to lag, with goods retail sales rising 1% y/y after 0.3% in August, while catering sales growth picked up to 2.1% from 1.1%.

  Performance across trade-in-supported categories remained mixed in September. Sales of communication devices accelerated to 31.1% y/y from 27.3%, while household appliance sales increased by 1.9%, moderating slightly from 2.3% in August. The fourth and final tranche of the CNY250bn consumer trade-in programme was allocated by end-September, completing this year's funding rollout. Spending on daily necessities remained relatively resilient, with growth in stationery and office supplies improving to 7.9% from 5.8%. In contrast, auto sales remained a notable drag at -21.2% y/y, extending their prolonged decline. Property-related consumption also stayed weak, with furniture and construction materials sales continuing to contract despite some improvement from August. Discretionary spending remained subdued, as jewellery sales posted further declines of -9.6% (Aug: -17.5%) while cosmetics sales growth rose.

- **FAI** remained weak in September, with year-to-date growth holding at -7.2%y/y YTD, unchanged from the drop in January-August. On a monthly basis, the pace of contraction eased to -7.2%y/y from -10.5% in August, suggesting a modest stabilization in investment activity. While manufacturing, infrastructure and property investment all remained in contraction, manufacturing (Sep: -1%, Aug: -6%) and infrastructure investment (Sep: -10.5%, Aug: -14.6%) showed tentative signs of improvement. By ownership, SoE investment contracted -0.7% y/y, while private-sector investment remained deeply negative at -12.4%, underscoring continued weakness in business confidence and investment demand.

  Infrastructure investment remained subdued in September, but the pace of decline narrowed to -10.5% y/y from -14.6% in August. The improvement was broad-based, with transport investment (Sep: 0.7%, Aug: -0.8%) stabilizing and declines in the production and supply of power, gas and water (Sep: -6.2%, Aug: -16.8%) and water conservancy and public utilities management (Sep: -24.4%, Aug: -25.8%) moderating. This was consistent with a gradual rebound in construction activity, as reflected in the construction PMI's return to expansionary territory and modest month-on-month increases in cement and steel manufacturing prices. Nevertheless, infrastructure spending remained weak overall and has yet to show a sustained recovery.

Property investment remained under pressure in September, with the pace of decline accelerating to -26.3% y/y from -25.5% in August. Weakness remained broad-based across major property indicators, with floor space sold falling 20.7%, the largest drop since May 2024. Property completions softened, falling -36.4% versus -28.4%, reflecting ongoing challenges faced by developers. Meanwhile, housing starts (Sep: -25.6%, Aug: -30.9%) and floorspace under construction (Sep: -12.8%, Aug: -27.3%) both continued to contract, although at a slower pace. Housing prices of new and secondary homes improved slightly compared to August, but the price gains were led by tier-1 and tier-2 cities, while tier-3 cities continued to see home prices declines. Similarly, 9 out of the 70 cities monitored by the NBS showed prices increases in secondary homes, up from 3. While some indicators showed signs of stabilization, the sector has yet to exhibit a broad-based recovery.

- **Industrial production** growth rose to 5.5% y/y in September from 5.2% in August, supported by continued strength in technology-related and export-oriented manufacturing. Production of AI-related, electronics and equipment manufacturing products remained robust, benefiting from the global AI investment cycle and resilient external demand, In particular, high-tech IP increasing by 15.3% in September, continued to outpace headline IP growth. In the first three quarters of this year, output of 3D printing equipment, lithium-ion batteries and industrial robots increased 62.5%, 39.5% and 29.1% y/y, respectively. In contrast, more domestically oriented sectors continued to underperform, with production of steel and cement continuing falling, highlighting the uneven nature of the recovery.

