China Investment Dashboard: 2026Q3: Investment Growth Slowed Further on Fiscal Tightening and Property Weakness

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- **Investment momentum:** Headline FAI growth slowed further in Q3. Though we remain cautious that occasional NBS "statistical corrections" to previously over-reported data may have amplified recent FAI volatility, alternative measures confirm the continued investment slowdown amid further fiscal tightening and a deeper property downturn. Our proprietary investment tracker indicates that China's real investment growth edged down to 1.9% yoy in Q3 from 2.0% yoy in Q2, the slowest pace since Q4 2021. FAI growth divergences remained significant between SOEs and non-SOEs, more-developed coastal regions and less-developed inland regions, as well as high-tech and other industries. On AI-related investment, our internet research team projects that Chinese hyperscalers' nominal capex may continue to rise in coming years, though it remains well below US levels. However, data center live capacity points to a smaller US-China gap than hyperscaler capex suggests, reflecting differences in costs and government spending.
- **Fiscal stance:** Despite stronger easing signals from the July Politburo meeting, government bond issuance remained slow until September, and government spending growth continued to lag revenue growth. Amid falling land sales revenue, reduced policy bank support and tighter tax collection, China's augmented fiscal deficit (AFD) has narrowed significantly since April. Its 12-month moving average fell to 9.4% of GDP in September, the lowest since October 2015. Outstanding fiscal deposits at end-Q3 were RMB958bn (14%) above year-ago levels, a notably wider gap than at end-Q2. Our proprietary "fiscal spend-through ratio" also fell in Q3, indicating slower deployment of previously raised funds. Although headline real GDP growth improved to 4.9% qoq annualized in Q3 from 3.6% qoq annualized in Q2, underlying domestic momentum remained subdued. Indeed, fiscal policy continued to act as a headwind, with a negative fiscal impulse shaving an estimated 0.6pp off sequential annualized growth from Q2 to Q3. Since end-September, policymakers have introduced incremental easing measures, including an additional RMB550bn local government bond issuance quota, a 25bp cut to the pledged supplementary lending (PSL) rate, an increase in the PBOC relending quota, and the first-ever, albeit small-scale, mortgage interest subsidy program. These measures signal targeted, measured easing underway, mainly through fiscal and credit channels. In our view, they aim to reverse earlier tightening and secure this year's "4.5-5.0%" growth target, not launch a sustained, significant easing cycle.

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.

- **Property sector:** Most housing activity indicators have fallen well short of expectations this year, particularly land sales revenue, new home starts and property investment, despite early signs of home price stabilization in some large cities. The recently announced shift from presales to completed-home sales implies tighter developer funding and lower property investment over the next few years, potentially putting further pressure on these indicators. Incorporating year-to-date data and this policy change, we now estimate a 1.8pp property-sector drag on China's real GDP growth in 2026 (vs. our previous estimate of 1.5pp), slightly larger than 1.7pp in 2025. As the sector's GDP share shrinks, we expect the drag to narrow by around 0.5pp to 1.3pp in 2027 and largely fade by 2030. China's decline in new home starts has surpassed that during the US housing bust in the GFC, and its home price decline has also become larger than the average "large housing bust" based on global experience.
- **Fiscal and investment outlook:** After flagging downside risks for several months, we recently cut our 2026 augmented fiscal deficit (AFD) forecast to 10.0% of GDP from 11.5% previously (vs. 11.4% in 2025), reflecting year-to-date fiscal data and delayed easing. We also adjusted our 2027-2029 AFD forecasts to preserve the broad trajectory over the next few years. With stronger-than-expected Q3 GDP largely securing this year's growth target (GS 2026 full-year real GDP growth forecast: 4.6%), some proceeds from this year's government bond issuance may remain unspent until early next year. Fiscal policy would therefore remain tighter than last year and weigh on full-year growth, although the quarterly fiscal drag should ease modestly in Q4 versus Q3. The implementation of the RMB800bn new policy-based financial instrument (NPBFI) planned for this year began in early September, and funds deployment has been completed by end-October, with its pace similar to last year. Despite the widening supply-demand imbalance, recent policy communications indicate continued priority for high-tech sectors and investment, particularly the "Six Networks" projects, over consumption. However, tighter tax collection and limited incentives for local officials to launch large projects amid intensified anti-corruption efforts and local leadership reshuffles may continue to constrain policy transmission, in our view.

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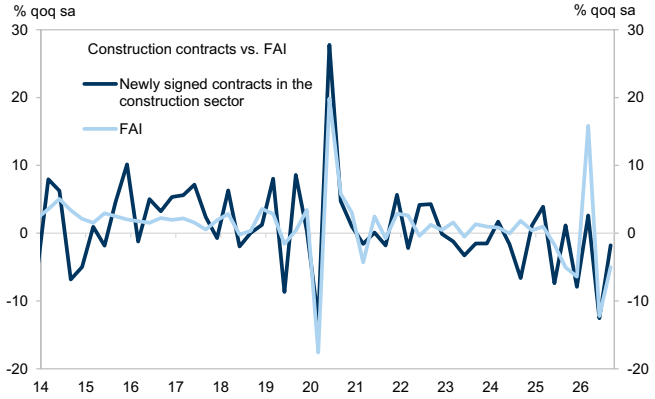
1. Investment momentum – A further slowdown in Q3

Exhibit 1: Our investment tracker pointed to a further slowdown in real investment growth in Q3 vs. Q2



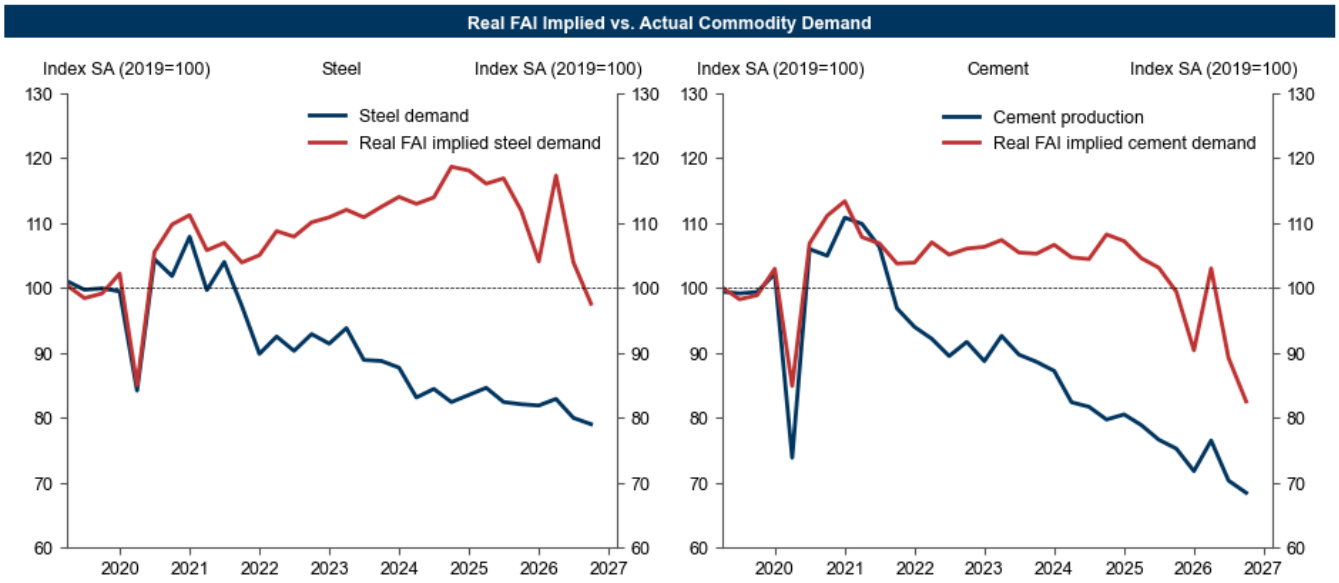
Source: Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 2: Sequential growth of newly signed construction contracts rebounded in Q3 but remained negative, broadly consistent with FAI growth



Source: NBS, Wind, Data compiled by Goldman Sachs Global Investment Research

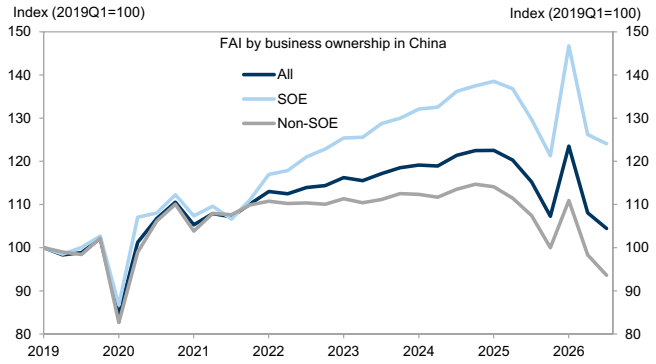
Exhibit 3: Steel and cement output both weakened in Q3, but their volatility was smaller than FAI-implied commodity demand in recent quarters



Real FAI-implied commodity demand is calculated by applying sector-specific multipliers—covering property, infrastructure, and manufacturing—to the value-added of each commodity. We use a construction-sector-specific index to adjust FAI to real terms.

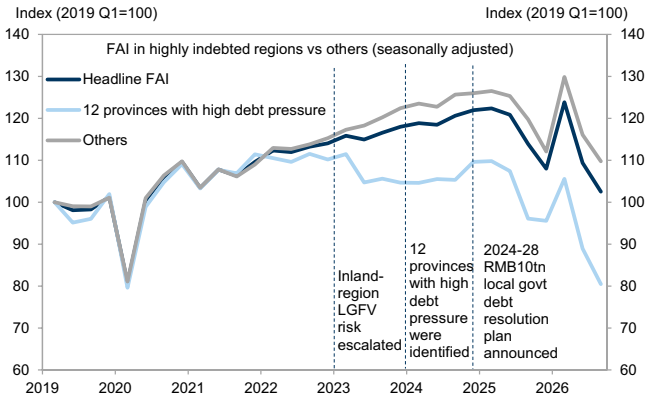
Source: CEIC, Mysteel, Goldman Sachs Global Investment Research

Exhibit 4: FAI by non-SOEs showed a larger sequential decline in Q3 than SOEs



Source: CEIC, Goldman Sachs Global Investment Research

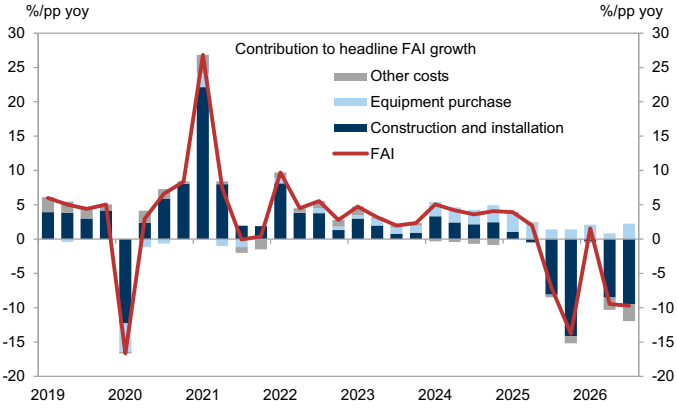
Exhibit 5: FAI divergence between less developed inland provinces and coastal regions has been significant since 2023



The 12 provinces with high debt pressure include Guizhou, Tianjin, Yunnan, Inner Mongolia, Liaoning, Jilin, Chongqing, Guangxi, Heilongjiang, Gansu, Ningxia, and Qinghai, as listed in the "Document #47".

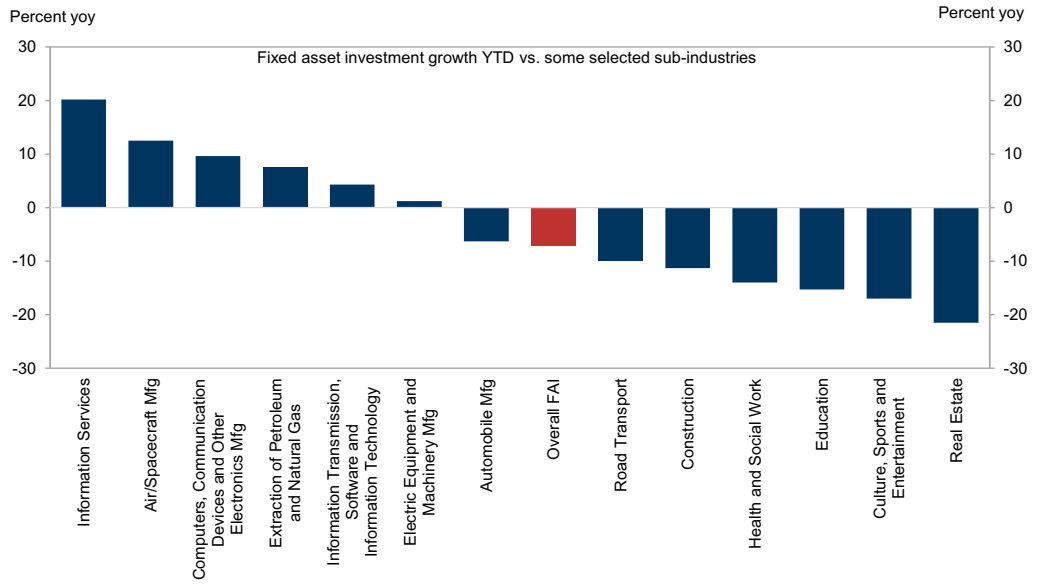
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 6: The significant year-on-year FAI contraction was led by construction and installation in recent quarters, while the contribution from equipment purchases remained positive



Source: Wind, Goldman Sachs Global Investment Research

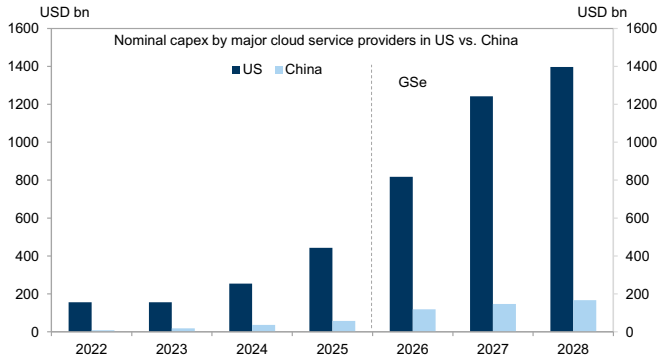
Exhibit 7: High-tech related investment growth has outperformed other investment growth so far this year



Our estimates for infrastructure investment are based on GS definition, which includes not only the three sectors under the NBS classification (i.e., transport, storage & postal service; water conservancy & environmental protection; and electricity, gas & water production and supply), but also four more industries that provide public goods mainly by the government sector (e.g., scientific research & polytechnic service; education; healthcare, social security & welfare; and culture, sport & entertainment). YTD refers to January-September 2026, the latest data available.

Source: CEIC, Wind, Goldman Sachs Global Investment Research

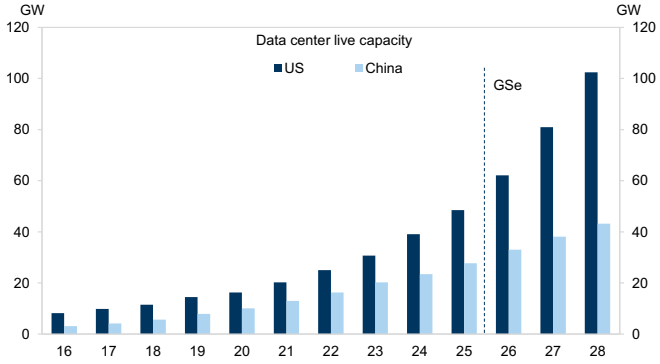
Exhibit 8: Chinese hyperscalers nominal capex may continue to increase in coming years, though it remains meaningfully below the US level



GSe refers to the projections by GS China and US internet research team.

Source: Company data, Goldman Sachs Global Investment Research, Bloomberg

Exhibit 9: Data center live capacity data pointed to a smaller gap between the US and China

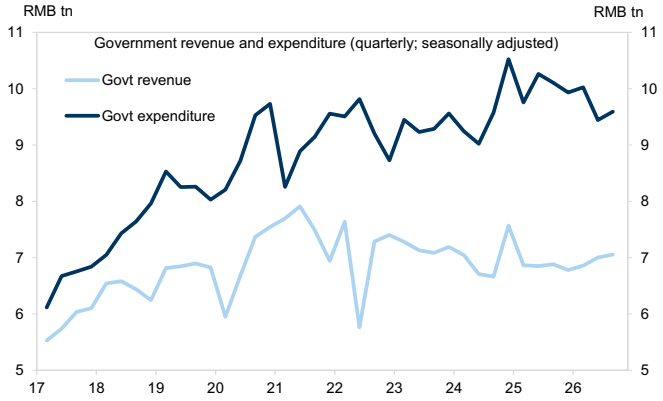


GSe refers to the projections by GS China and US internet research team.

Source: CAICT, MIIT, 451 Research, Goldman Sachs Global Investment Research

2. Fiscal stance – Fiscal impulse turned more negative in Q3

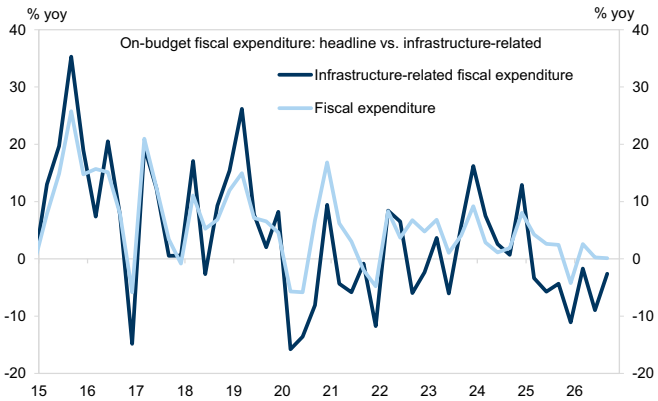
Exhibit 10: Government revenue continued to increase so far this year, while expenditure appeared to have trended down since early 2025 despite an uptick in Q3 2026



Government revenue and expenditure cover both the general public budget and the government-managed fund budget.

Source: Wind, Goldman Sachs Global Investment Research

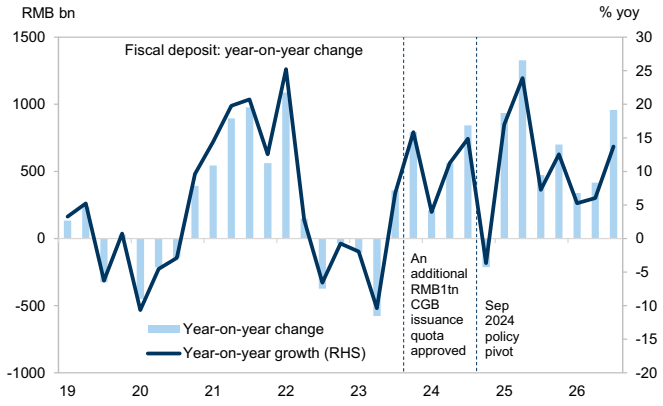
Exhibit 11: Fiscal expenditure growth remained tepid in Q3, with infrastructure-related spending still contracting in year-on-year terms



We define infrastructure-related fiscal spending as on-budget fiscal spending on energy saving & environment protection, agriculture & water conservancy, transportation, and urban & rural community affairs.

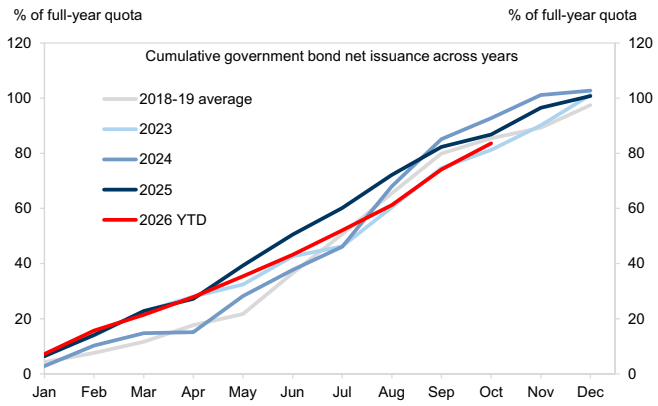
Source: Wind, Goldman Sachs Global Investment Research

Exhibit 12: The outstanding fiscal deposit amount was RMB958bn (or 14%) above the year-ago level at end-Q3, notably wider than the gap seen at end-Q2



Source: CEIC, Goldman Sachs Global Investment Research

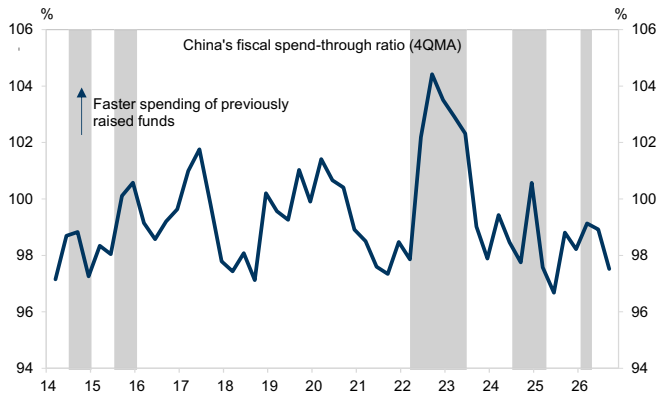
Exhibit 13: Government bond issuance began to catch up with its historical run-rate in recent months



For our run-rate estimates, the denominator is the full-year quota approved in the budget report at the March "Two Sessions." It excludes extra-budget bond issuance quotas approved later in the year and local government special-purpose refinancing bonds issued for debt resolution.

Source: MOF, Wind, Goldman Sachs Global Investment Research

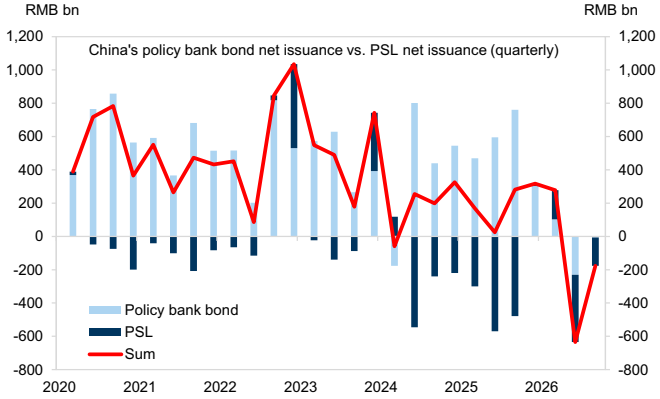
Exhibit 14: China's fiscal "spend-through" ratio declined in Q3, indicating slower spending of previously raised funds



Shaded areas refer to periods when China's year-to-date real GDP growth was equal to or below the full-year growth target. Note that the Chinese government didn't set a national growth target for 2020.

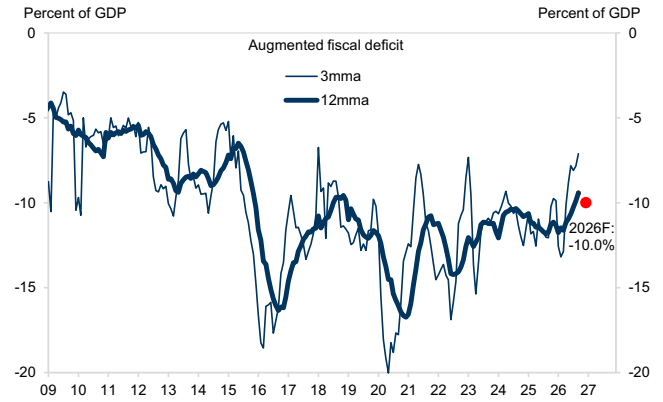
Source: MOF, Wind, CEIC, Goldman Sachs Global Investment Research

Exhibit 15: Policy bank support continued to contract in Q3, but by a smaller magnitude than in Q2



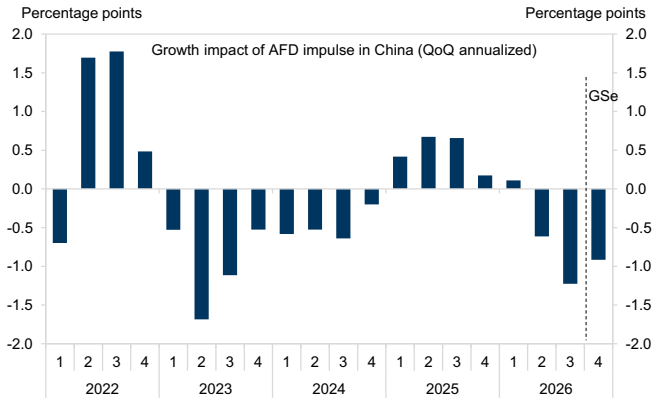
Source: Wind, CEIC, Goldman Sachs Global Investment Research

Exhibit 16: China's augmented fiscal deficit (AFD) narrowed further in Q3, while we expect it to widen modestly in Q4



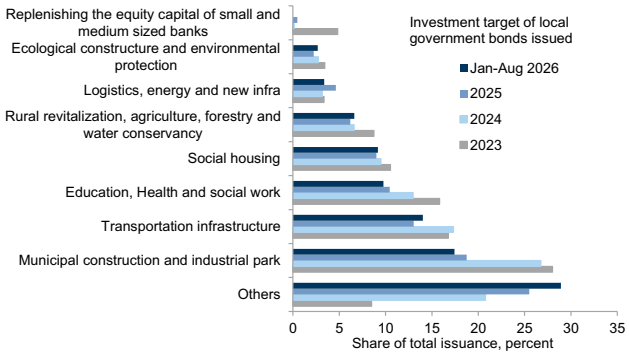
Source: Wind, CEIC, Goldman Sachs Global Investment Research

Exhibit 17: Fiscal impulse turned more negative in Q3, but we expect the growth drag to lesson modestly in Q4



Source: Goldman Sachs Global Investment Research

Exhibit 18: A larger share of local government bond (LGB) proceeds may have been spent on debt resolution so far this year, compared to previous years



"Others" in 2024-26 may include local government repayment for corporate arrears and delayed salaries to civil servants.

Source: MOF, Goldman Sachs Global Investment Research

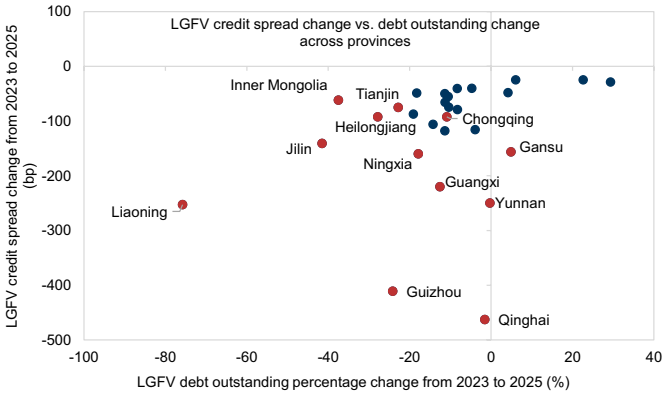
Exhibit 19: Our anti-corruption intensity proxy eased somewhat in Q3, in line with seasonal patterns



Note: The proxy represents the number of government officials announced as under investigation each quarter. National level is deputy ministerial level and above; local level is any level but in practice mostly deputy bureau level and above.

Source: CCDI, Goldman Sachs Global Investment Research

Exhibit 20: The RMB10tn local government debt resolution plan launched in late 2024 has lowered LGFV debt outstanding and narrowed credit spread more significantly in inland provinces with high debt pressure than other regions



Red dots refer to 12 provinces identified by the central government as regions with high debt pressure. We focus on the change from 2023 to 2025 to gauge the cumulative impact since the start of the 2024-28 local government debt resolution.

Source: Wind, Goldman Sachs Global Investment Research

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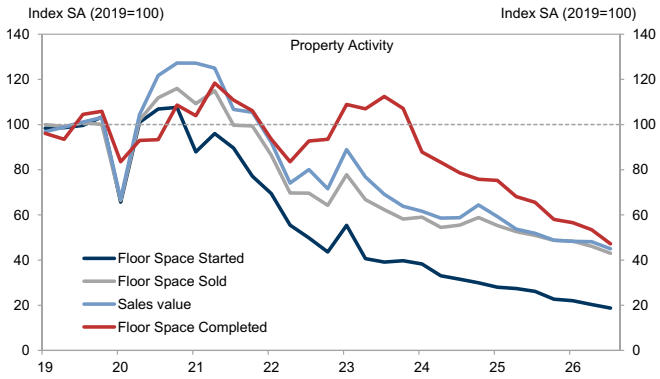
3. Property sector – A deeper and more protracted construction downturn despite early signs of local home price stabilization in some large cities

Exhibit 21: The pace of property easing has slowed meaningfully since end-2024



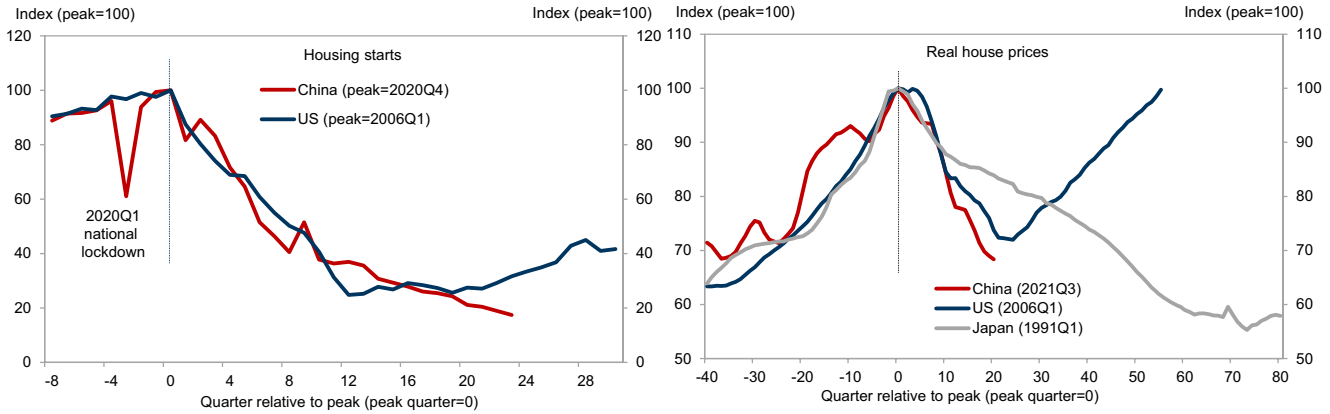
Source: Goldman Sachs Global Investment Research

Exhibit 22: Some property activity indicators continued to decline in Q3



Source: Goldman Sachs Global Investment Research, Haver Analytics

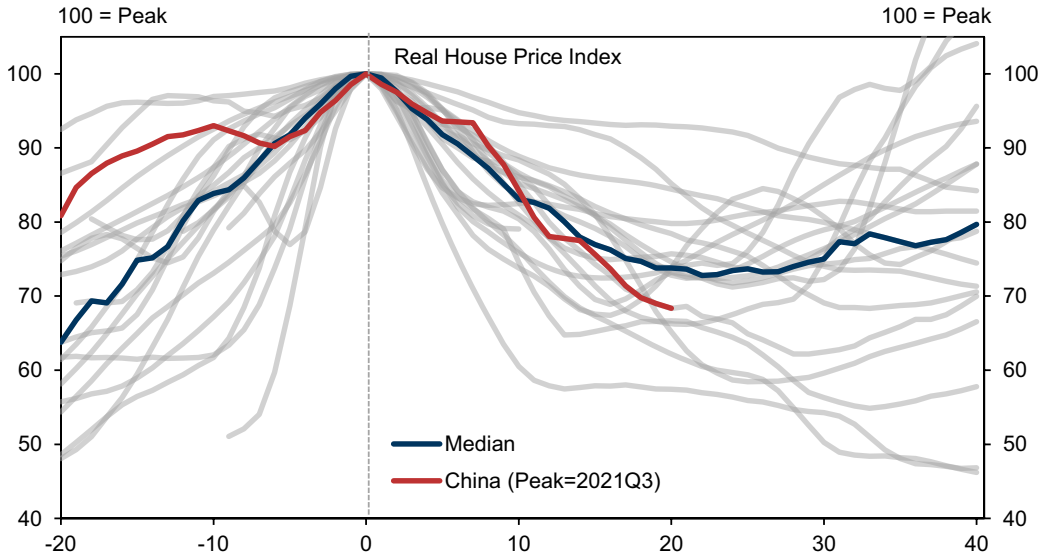
Exhibit 23: The magnitude of declines in China's new home starts and home prices from their 2020-21 peaks has exceeded the US housing bust during the GFC



We used a simple average of the Centaline 6-city and NBS 70-city secondary market prices as an input to measure China's real house prices.

Source: Centaline, NBS, Haver Analytics, Goldman Sachs Global Investment Research

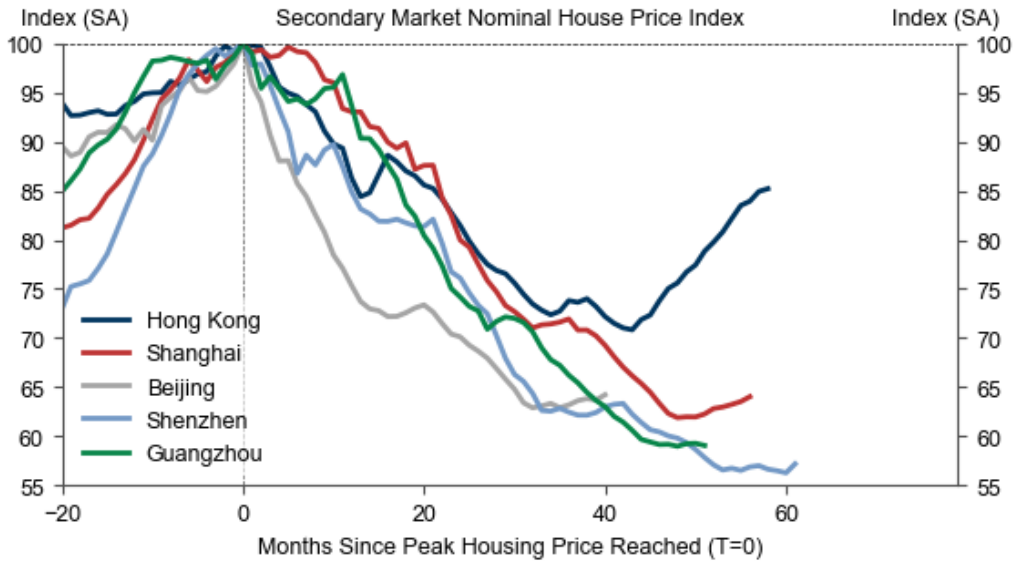
Exhibit 24: China's real house price has declined by more than 30% from its mid-2021 peak, larger than a typical "large housing bust" based on global experience



The benchmark illustrates 21 large housing booms/busts across 15 economies around the world since the 1960s.

Source: OECD, Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 25: Hong Kong property prices have rebounded by around 20% since mid-2025, while home prices in some Mainland China Tier-1 cities have begun to show early signs of stabilization



Peak month refers to November 2021 for Hong Kong, May 2023 for Beijing, January 2022 for Shanghai, June 2022 for Guangzhou and August 2021 for Shenzhen, based on Centaline secondary home price data.

Source: Wind, Data compiled by Goldman Sachs Global Investment Research, Centaline

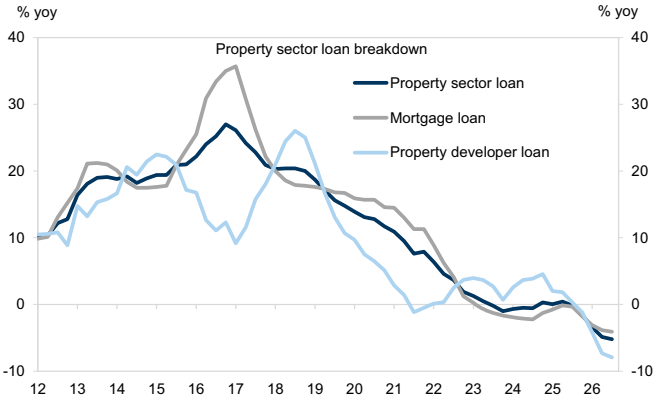
Exhibit 26: Most property activity indicators have contacted by 60-90% from 2020-21 peaks as of end-Q3 2026, led by new home starts and land sales revenue



All metrics other than Wind home sales volume and Centaline secondary home prices are for national total.

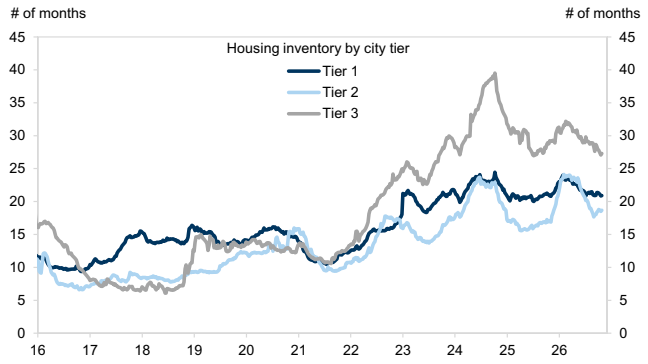
Source: NBS, Centaline, Wind, Data compiled by Goldman Sachs Global Investment Research

Exhibit 27: Year-on-year contraction in bank lending to the property sector widened further in Q3



Source: PBOC, Wind, Data compiled by Goldman Sachs Global Investment Research

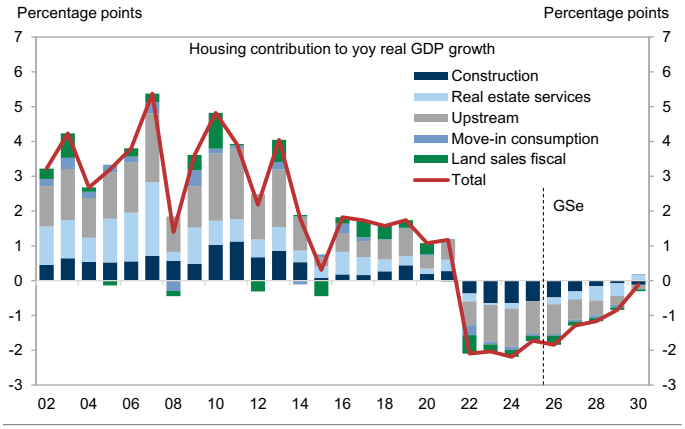
Exhibit 28: Housing destocking stalled in Tier-1 and Tier-2 cities in recent months, on the back of weak new home sales



Housing inventory is estimated as housing inventory levels divided by the number of 12-month moving average new home sales.

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

Exhibit 29: We now expect the property sector to subtract 1.8pp from China's real GDP growth in 2026, but this drag should narrow to 1.3pp in 2027



Source: Goldman Sachs Global Investment Research

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The author would like to thank Samson Yau, an intern on the Asia Economics team, for his contribution to this report.

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