Macro Note

China: Growth rebound in 3Q26 supported by stronger Sep activity

Monday, 19 October 2026

Ho Woei Chen, CFA
Economist
HoWoeichen@uobgroup.com

Global Economics & Markets Research

Explore insights
Access latest research & analysis

Explore

- China's real GDP growth recovered to 4.5% y/y in 3Q26 (Bloomberg est: 4.4%, UOB est: 4.3%) from 4.3% y/y in 2Q26. The better-than-expected outturn reflected a rebound in economic activity in Sep, following softer momentum during Jul and Aug.
- External demand continued to underpin growth, offsetting still-muted consumption and investment activity and highlighting widening economic imbalances. Overall, the economy expanded by 4.6% y/y in 9M26. **Factoring in the latest data, we raise our forecast for 2026 growth to 4.6% from 4.5%.** Looking ahead, the intensification of fiscal support and incremental monetary easing measures in Sep should help cushion downside risks and support growth momentum in 4Q26.
- To help achieve this year's growth objectives, China rolled out mortgage subsidies and targeted credit measures in late Sep. The PBOC lowered the Pledged Supplementary Lending (PSL) rate by 25 bps and broadened its scope, particularly for the "six networks" initiative. Given policymakers' preference for targeted policy support over broad-based monetary easing, we continue to expect the benchmark seven-day reverse repo rate to remain unchanged at 1.40% throughout 2026.

Growth strengthened in 3Q26, keeping official target of 4.5%-5.0% within reach

China's real GDP growth recovered to 4.5% y/y in 3Q26 (Bloomberg est: 4.4%, UOB est: 4.3%) from 4.3 y/y in 2Q26. On a q/q SA basis, growth accelerated to 1.2% from 0.9% in 2Q26. The better-than-expected outturn reflected a rebound in economic activity in Sep, following softer momentum during Jul and Aug.

Nominal GDP growth also edged higher to 6.0% y/y from 5.9% y/y in 2Q26, marking a second consecutive quarter in which nominal growth outpaced real GDP growth. Inflationary pressures have become more evident at the producer level, with PPI supported by elevated energy and raw material costs. However, pass-through to consumer prices was limited due to subdued domestic demand and persistent declines in food and accommodation costs.

External demand continued to underpin growth, offsetting still-muted consumption and investment activity and highlighting widening economic imbalances. **Overall, the economy expanded by 4.6% y/y in 9M26. Factoring in the latest data, we raise our forecast for 2026 growth to 4.6% from 4.5%.** Looking ahead, the intensification of fiscal support and incremental monetary easing measures in Sep should help cushion downside risks and support growth momentum in 4Q26.

Right By You

IP and retail sales strengthened while FAI contraction stabilised in Sep

Industrial production (IP) rose 5.5% y/y in Sep (Bloomberg est: 5.5%, Aug: 5.2%), the fastest pace in six months. IP also marked its 30th consecutive month of sequential growth at a robust 0.61% m/m in Sep from 0.54% m/m in Aug. Overall, IP grew 5.3% y/y in 9M26 with the strong global AI capex sustaining the positive outlook.

High-tech manufacturing growth remained robust at 15.3% y/y in Sep vs. 16.7% y/y in Aug, extending double-digit growth into the 10th straight month. This was supported by growth in communication equipment, computer & other electronic equipment manufacturing (+16.4% y/y). Other manufacturing industries such as special purpose equipment (+12.1%), general purpose machinery (+8.5%), railway, shipping, aerospace, and other transport equipment (+11.7%) and electrical machinery & equipment (+8.1%) stayed firm.

Retail sales growth saw a modest recovery to 1.1% y/y in Sep (Bloomberg est: 0.5%, Aug: 0.4%). Sales momentum turned positive, rising 0.35% m/m after contracting -0.16% in Aug. On a y/y basis, sales growth was led by communication equipment (+31.1%), cultural & office appliances (+7.9%), grain, oil & food products (+6.7%) and cosmetics (+5.4%), offset by sizable declines in automobile (-21.2%), gold & silver jewelry (-9.6%) and building materials (-9.2%). Restaurant & dining sales growth strengthened to 2.1% y/y in Sep from 1.1% y/y in Aug, the best showing in five months. Overall, retail sales were up a modest 1.1% y/y in 9M26. Anecdotal indicators point to soft consumer spending over the Golden Week holiday in early Oct, though the final tranche of the consumer goods trade-in program rollout is expected to partially offset this weakness in 4Q26.

In Sep, both the nationwide and 31-city **surveyed jobless rates** eased to 5.2% from 5.3% in Aug. Elevated youth unemployment rates remain a worrying sign for the labour market and underscore the weak consumption demand.

Urban fixed asset investment (FAI) fell by –7.2% y/y YTD in Sep (Bloomberg est: -7.3%, Aug: -7.2%), marginally outperforming expectations but remaining subdued. Investment weakness continued to be driven by the private sector, where investment contraction deepened to -10.4% y/y YTD from -10.1% in Aug, marking the steepest decline since 2020. In contrast, the decline in public sector investment narrowed slightly to -3.2% y/y YTD (Aug: -3.6%), suggesting fiscal support is beginning to gain traction.

By investment type, infrastructure investment (excluding utilities) remained in contraction at -4.2% y/y YTD from -4.0% previously while real estate investment deteriorated further to -20.6% y/y YTD (Bloomberg est.: -20.0%; Aug: -19.9%). Despite the weak headline picture, investment momentum showed tentative signs of stabilisation, with monthly FAI rising 0.07% m/m in Sep after six consecutive monthly declines (Aug: -0.55%). **Continued strength in investment related to electronics and transport equipment manufacturing, including railway, shipping and aerospace industries, helped offset weakness elsewhere. Looking ahead, public investment is likely to strengthen in 4Q26, particularly in projects related to China's "Six Networks" initiative and other strategic infrastructure sectors as fiscal support increases.**

Home prices' decline narrowed in Sep. The 70-cities new home prices fell by -0.14% m/m (Aug: -0.17%) and second-hand home prices fell by -0.26% m/m (Aug: -0.31%). Cumulatively in 9M26, prices for new homes and second-hand homes dropped -1.9% and -2.9% respectively, moderating from the annual declines of -3.1% and -6.2% in 2025. The recovery has continued to be slow and fragmented across cities and by

market segments. Recent mortgage subsidies may provide modest support with home prices likely to bottom out only in 2027-2028.

Total social financing (TSF) rose by CNY3.55 tn in Sep, exceeding Bloomberg's forecast of CNY3.34 tn. This was driven by a surge in government bond issuance to its highest level in 19 months, signaling fiscal boost for infrastructure investment to meet this year's growth target. However, outstanding TSF growth eased further to a record low of 7.1% y/y from 7.2% y/y in Aug, underscoring persistent weakness in overall credit expansion. At the same time, **new bank lending** rebounded seasonally to CNY1.29tn in Sep from CNY0.26 tn in Aug, with the improvement largely attributable to stronger corporate loans while household borrowing was flat. Since the pandemic, growth in household loans has consistently lagged deposit accumulation, reflecting elevated precautionary savings, ongoing property market weakness, subdued consumer confidence, and limited policy support aimed directly at stimulating household demand.

While policymakers have continued to direct credit towards strategic and higher value-added sectors, loan growth in these industries has been insufficient to offset weakness in traditional borrowing segments, particularly real estate and household credit. Recent mortgage subsidies and further cuts in the Pledged Supplementary Lending (PSL) rate are unlikely to materially lift credit demand or significantly revive property market activity.

Stimulus to stay incremental

To help achieve this year's growth objectives, China rolled out mortgage subsidies and targeted credit measures in late Sep. The PBOC lowered the PSL rate by 25 bps and broadened its scope, particularly for the "six networks" initiative. Fiscal support is also showing signs of gaining momentum, with provinces permitted to utilise CNY550bn of previously unused bond quotas.

Domestic liquidity conditions remain accommodative, as reflected in the overnight repo rate falling below 1.30% since earlier this month. Continued liquidity injections via outright reverse repo and MLF operations have helped sustain ample funding conditions against a backdrop of soft credit demand. **Given policymakers' preference for targeted policy support over broad-based monetary easing, we continue to expect the benchmark seven-day reverse repo rate to remain unchanged at 1.40% throughout 2026.**

China's key macro data

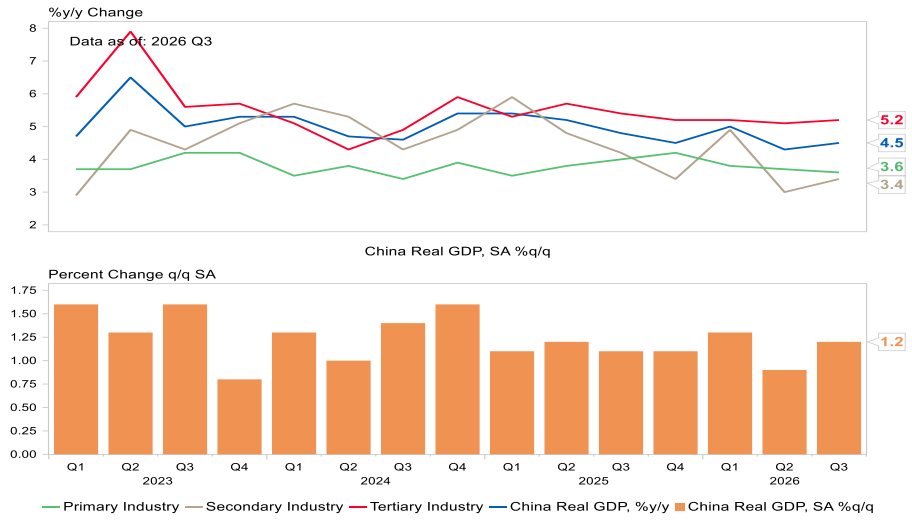
		2024	2025	1Q26			2Q26			3Q26		
Growth	Real GDP Growth %y/y	5.0	5.0	5.0			4.3			4.5		
	Real GDP Growth %q/q SA	-	-	1.3			0.9			1.2		
	%y/y change except noted	2024	2025	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
Industrial	Industrial Output	5.8	5.9	-	-	5.7	4.1	4.5	5.3	4.5	5.2	5.5
	CFLP Manufacturing PMI	50.1	50.1	49.3	49.0	50.4	50.3	50.0	50.3	49.2	49.8	50.1
	RatingDog China Manufacturing PMI	50.5	50.1	50.3	52.1	50.8	52.2	51.8	51.7	50.9	51.5	52.1
Investment/ Property	Urban Fixed Asset Investment YTD	3.2	-3.8	-	1.8	1.7	-1.6	-4.1	-5.7	-6.7	-7.2	-7.2
	Property Investment YTD	-10.6	-17.2	-11.1	-11.1	-11.2	-13.7	-16.2	-18.0	-19.2	-19.9	-20.6
	Residential Property sales YTD	-17.6	-13.0	-21.8	-21.8	-18.5	-15.7	-14.1	-13.7	-13.2	-13.1	-13.7
	New home prices % m/m	-5.9	-3.1	-0.37	-0.28	-0.21	-0.19	-0.20	-0.15	-0.18	-0.17	-0.14
	Used home prices % m/m	-8.4	-6.2	-0.54	-0.43	-0.24	-0.23	-0.26	-0.32	-0.29	-0.31	-0.26
Retail sales	Retail Sales	3.5	3.7	-	-	1.7	0.2	-0.6	1.0	0.6	0.4	1.1
Services	CFLP Non-Manufacturing PMI	52.2	50.2	49.4	49.5	50.1	49.4	50.1	50.2	49.0	49.0	50.2
	RatingDog China Services PMI	52.2	52.0	52.3	56.7	52.1	52.6	54.4	54.1	50.4	51.4	51.6
Trade	Exports (USD terms)	5.9	5.5	9.8	39.6	2.5	14.1	19.4	27.0	23.9	25.0	36.3
	Imports (USD terms)	1.1	0.0	25.9	13.8	27.8	25.3	27.4	36.0	27.5	28.2	31.0
	Trade Balance (USD bn)	$ 991.8	$ 1,180.2	$ 122.6	$ 91.0	$ 51.1	$ 84.8	$ 105.4	$ 125.6	$ 112.3	$ 119.1	$ 133.5
External bal	Current Account Balance (USD bn)	$ 462.3	$ 735.0	$ 87.5	$ 56.8	$ 43.4	$ 58.3	$ 66.8	$ 98.3	$ 91.2	$ 94.4	-
	Foreign Reserves (USD tn)	$ 3.20	$ 3.36	$ 3.40	$ 3.43	$ 3.34	$ 3.41	$ 3.44	$ 3.42	$ 3.42	$ 3.44	$ 3.40
Inflation	CPI	0.2	0.0	0.2	1.3	1.0	1.2	1.2	1.0	0.5	0.8	0.9
	PPI	-2.2	-2.6	-1.4	-0.9	0.5	2.8	3.9	4.1	3.5	3.8	5.0
Credit/ Money supply	New Loans (RMB bn chg)	¥ 18,090.0	¥ 16,270.0	¥ 4,710.0	¥ 900.0	¥ 2,990.0	-¥ 10.0	¥ 520.0	¥ 1,610.0	-¥ 340.0	¥ 60.0	¥ 1,080.0
	Aggregate Financing (RMB bn chg)	¥ 32,255.8	¥ 35,609.0	¥ 7,218.5	¥ 2,383.7	¥ 5,224.0	¥ 623.8	¥ 2,029.3	¥ 3,367.1	¥ 1,406.8	¥ 1,658.1	¥ 3,547.6
	Aggregate Financing (%y/y)	8.0	8.3	8.2	8.2	7.9	7.8	7.7	7.4	7.4	7.2	7.1
	M1	1.2	3.8	4.9	5.9	5.1	5.0	5.5	4.0	4.0	4.1	3.2
	M2	7.3	8.5	9.0	9.0	8.5	8.6	8.6	8.0	7.7	7.5	7.2
	7D reverse repo rate (%)	1.50	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Labour market	Urban survyed jobless rate (%)	5.1	5.1	5.2	5.3	5.4	5.2	5.1	5.0	5.2	5.3	5.2

Source: CEIC, Bloomberg, National Bureau of Statistics; UOB Global Economics & Markets Research estimates. All data for individual months except noted

Right By You

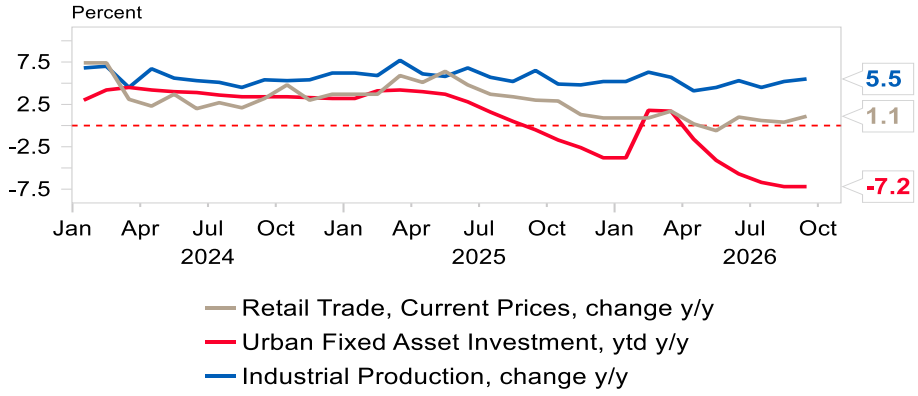
Growth rebound in 3Q26 led by tertiary and secondary industries

Source: Macrobond, UOB Global Economics & Markets Research



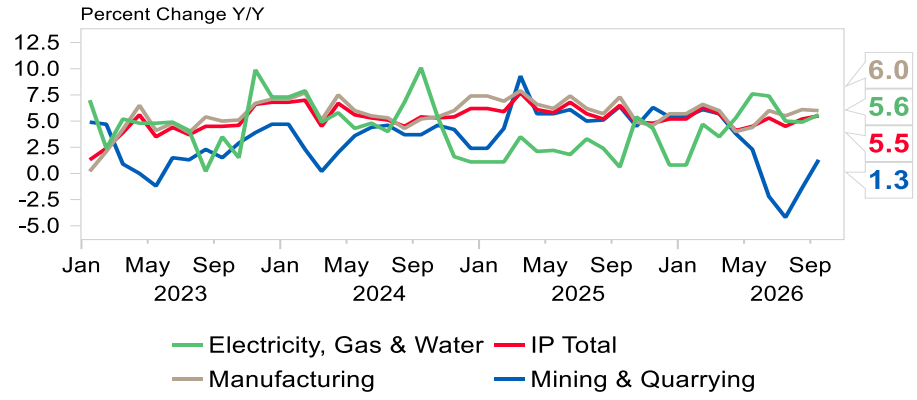
Industrial production remained a bright spot amid weakness in retail sales and FAI

Source: Macrobond, UOB Global Economics & Markets Research



Industrial value add by segments

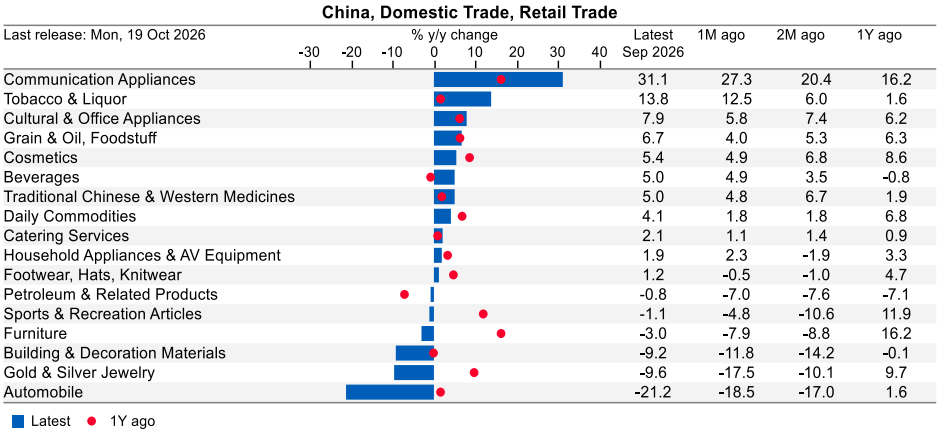
Source: Macrobond, UOB Global Economics & Markets Research



Right By You

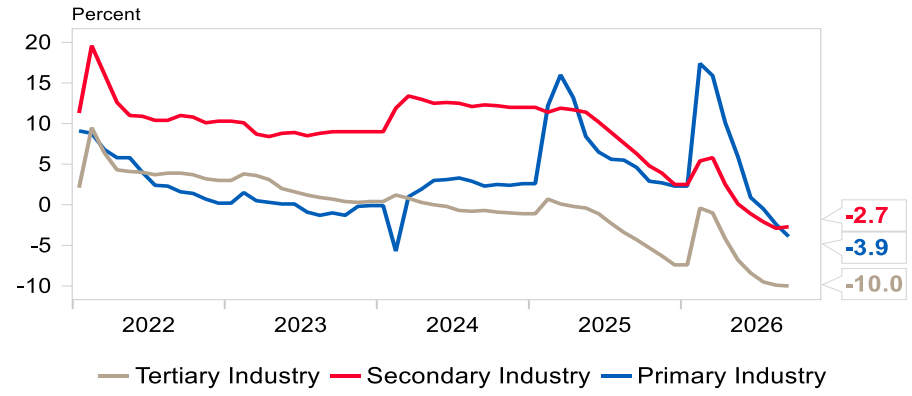
Retail sales by goods and services

Source: Macrobond, UOB Global Economics & Markets Research



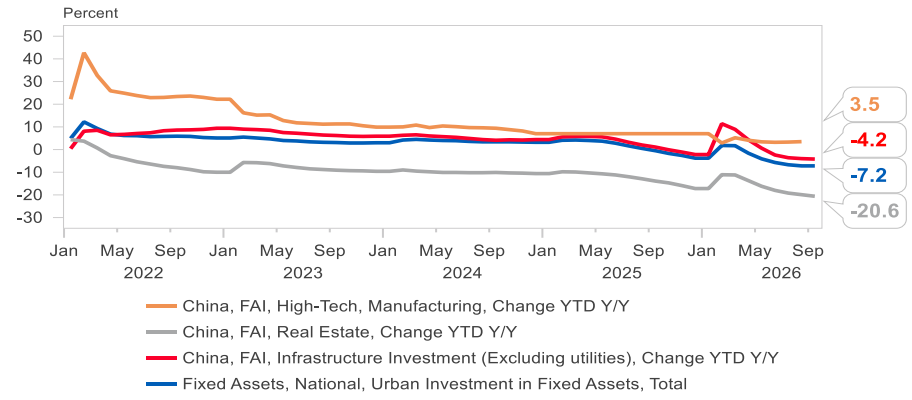
Urban fixed asset investment, change YTD y/y

Source: Macrobond, UOB Global Economics & Markets Research



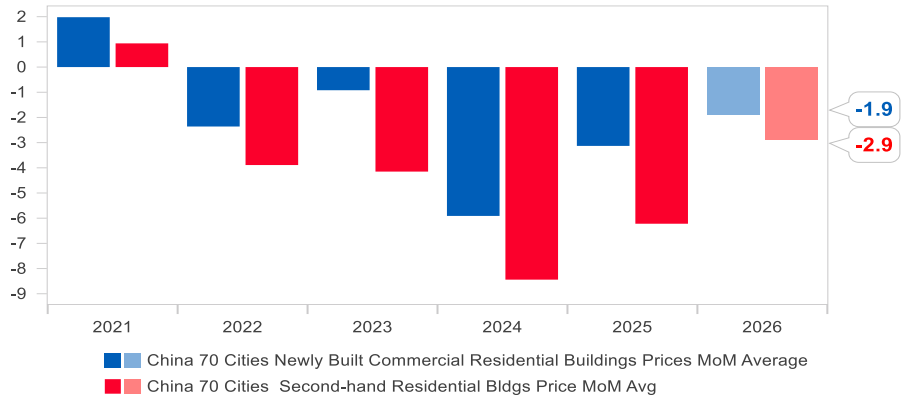
Investment in real estate and infrastructure contracted in 9M26

Source: Macrobond, UOB Global Economics & Markets Research



China home prices decline moderated in 9M26

Source: Macrobond, UOB Global Economics & Markets Research



New total social financing recorded a seasonal pickup in Sep

Source: Macrobond, UOB Global Economics & Markets Research

China, Social Financing, CNY

Last update: Sep 2026	Monthly New Increase CNY, trillion (-0.5 0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0)	Latest billion	1 month ago billion	1 year ago billion
China, Social Financing, Total		3,548	1,658	3,530
In Flow, Issuance of Government Bonds		1,536	1,010	1,189
In Flow, Loans in Local Currency (RMB)		1,273	55	1,608
In Flow, Undiscounted Bankers' Acceptances		215	38	323
In Flow, Entrusted Loans		80	23	28
Equity Issuance (By Non-financial Enterprises)		66	64	50
In Flow, Loans in Foreign Currencies		35	41	-13
In Flow, Corporate Bonds		-39	271	14
In Flow, Trust Loans		-48	-23	6

Latest ● 1 month ago ▲ 1Y ago

Stronger corporate borrowing offset flat household loans in Sep

Source: Macrobond, UOB Global Economics & Markets Research

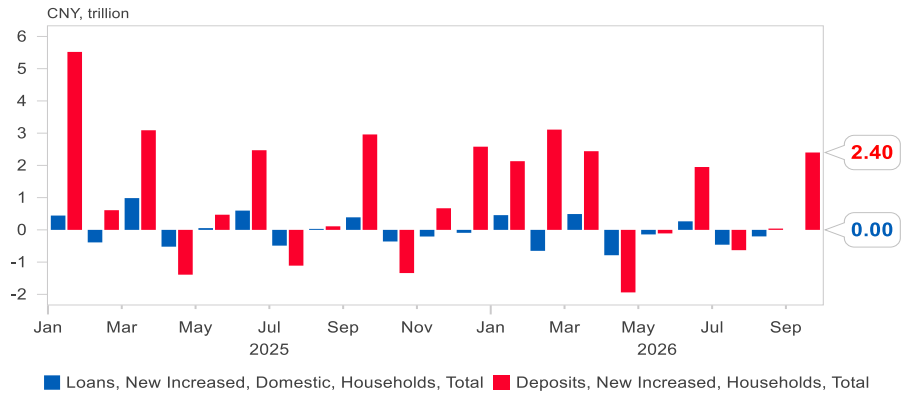
China: Local Currency Loans, Monthly New Increase

Last update: Sep 2026	Monthly New Increase CNY, trillion (-0.5 0.0 0.5 1.0 1.5)	Latest billion	1m ago billion	1y ago billion
Corporates, Total		1,290	260	1,220
New Increased, Total		1,080	60	1,290
Corporates, Medium & Long-Term Loans		890	320	910
Corporates, Short-Term Loans & Bill Financing, Short-Term Loans		460	-160	710
Households, Medium & Long-Term Loans		87	-82	250
Households, Total		0	-203	389
Corporates, Short-Term Loans & Bill Financing, Bill Financing		-50	100	-403
Households, Short-Term Loans		-90	-122	142
Non-Banking Financial Institutions (FIs), Total		-149	-44	-235

Latest ▲ 1 month ago ▲ I year ago

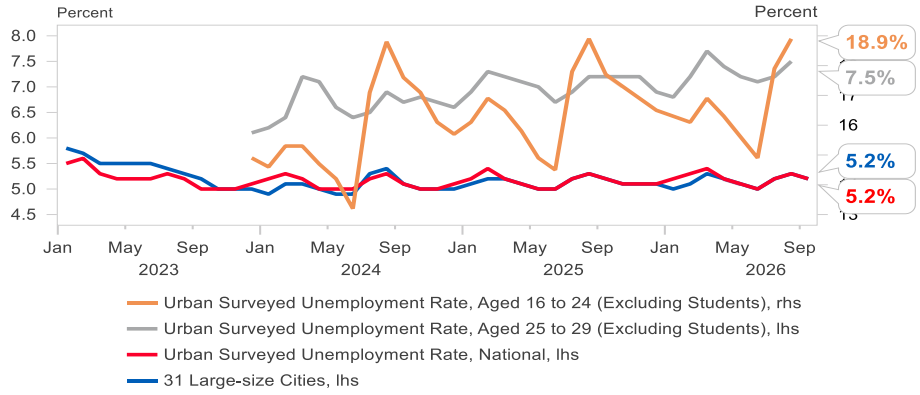
Consumer caution drives deleveraging

Source: Macrobond, UOB Global Economics & Markets Research



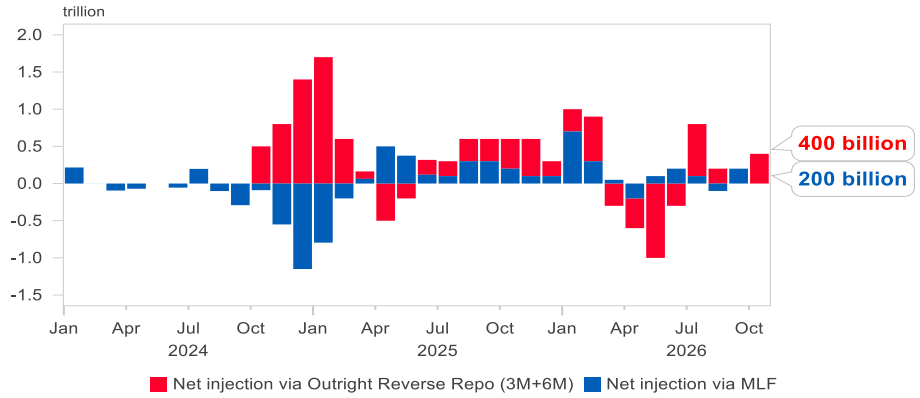
Unemployment rates eased in Sep but high youth unemployment remained a concern

Source: Macrobond, UOB Global Economics & Markets Research



Net liquidity injection/withdrawal via MLF & Outright Reverse Repo (Last: MTD Oct 2026)

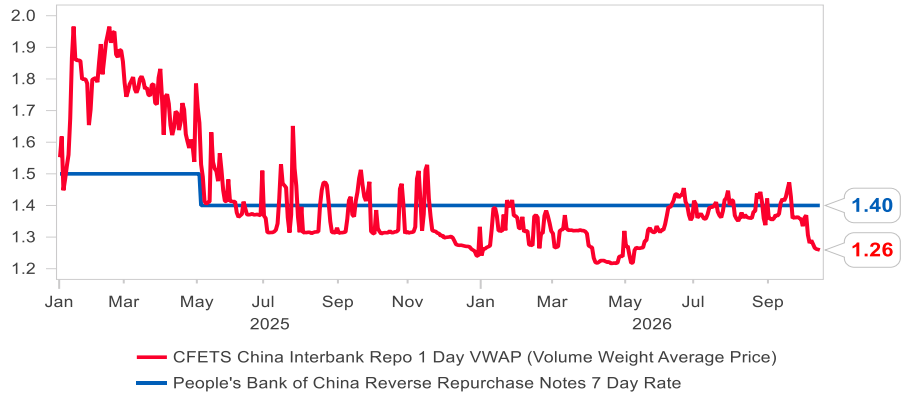
Source: Macrobond, UOB Global Economics & Markets Research



Right By You

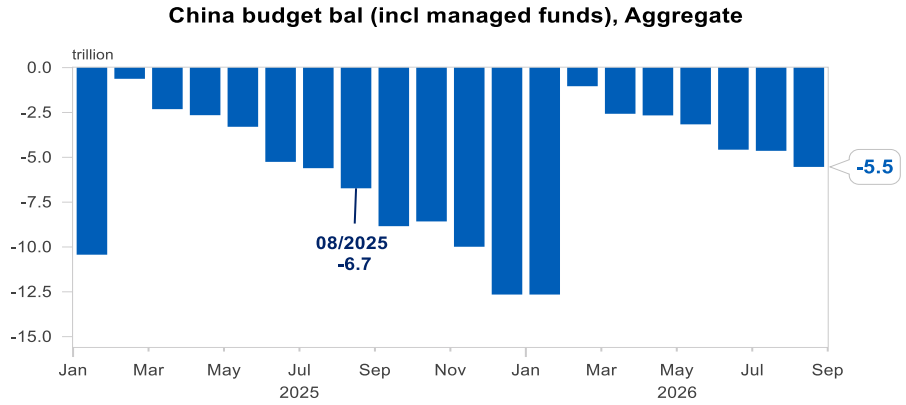
Overnight repo rate fell below 1.3% amid flush liquidity and weak credit demand

Source: Bloomberg, UOB Global Economics & Markets Research



Fiscal policy has been less expansionary YTD, contributing to the growth slowdown

Source: Macrobond, UOB Global Economics & Markets Research



Movements of LPR on fixing dates (changes, in bps)

	Aug 19	Sep 19	Nov 19	Feb 20	Apr 20	Dec 21	Jan 22	May 22	Aug 22	Jun 23	Aug 23	Feb 24	Jul 24	Oct 24	May 25
1Y LPR	-6	-5	-5	-10	-20	-5	-10	0	-5	-10	-10	0	-10	-25	-10
5Y & above LPR	0	0	-5	-5	-10	0	-5	-15	-15	-10	0	-25	-10	-25	-10

Source: Global Economics & Markets Research

Our forecast

%	as of 19 Oct	4Q26	1Q27	2Q27	3Q27
7D Reverse Repo	1.40%	1.40%	1.40%	1.40%	1.40%
1Y LPR	3.00%	3.00%	3.00%	3.00%	3.00%
5Y LPR	3.50%	3.50%	3.50%	3.50%	3.50%

Source: Global Economics & Markets Research

Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.