



China Economic Quarterly Q1 2026



In Brief

China Economy Update: Key Takeaways

- China met its 2025 growth target, underscoring its role as a source of certainty and stability in a volatile global environment, even as momentum softened toward year-end. Services and external demand played an increasingly important role in supporting growth, highlighting a continued shift in the growth mix.
- High-tech and advanced manufacturing investment remained a bright spot, continuing to support economic upgrading. Overall investment moderated in the second half, however, as the property downturn deepened.
- Consumption recovery was supported earlier in the year by trade-in programmes that boosted goods spending, while services outperformed, pointing to continued shifts in household spending patterns. However, the recovery remained uneven as the effects of policy support faded toward year-end.
- Government bonds and direct financing played a larger role in supporting aggregate social financing, even as overall credit demand remained soft despite ample liquidity.
- Export diversification and higher-value shipments helped sustain trade growth, while FDI remained more resilient in services and high-tech segments despite weaker aggregate inflows.



China Economic Outlook 2026

- China's 2026 outlook points to slower but more reform-driven growth. The new target range suggests policymakers are willing to accept softer headline growth in order to advance structural adjustment, while reinforcing China's role as a source of relative certainty in a volatile global environment.
- Policy settings appear deliberately calibrated to preserve headroom. Rather than front-loading stimulus, policymakers are retaining flexibility to scale up support as external and domestic conditions evolve.
- Policy is shifting from short-term consumption support to a structural approach centred on "investing in people". Strengthening education, healthcare, and social security is intended to rebuild household confidence and aligns with the recent "Export to China" campaign.
- Private and foreign capital are likely to play a larger role in the next phase of growth. This is supported by stronger policy backing for strategic sectors, expanded direct financing, and targeted tools — including guarantee and risk-sharing mechanisms — to ease financing constraints and mobilise private investment.
- Structural reform will increasingly shape the outlook. Building a unified national market will help unlock more effective investment in strategic industries.

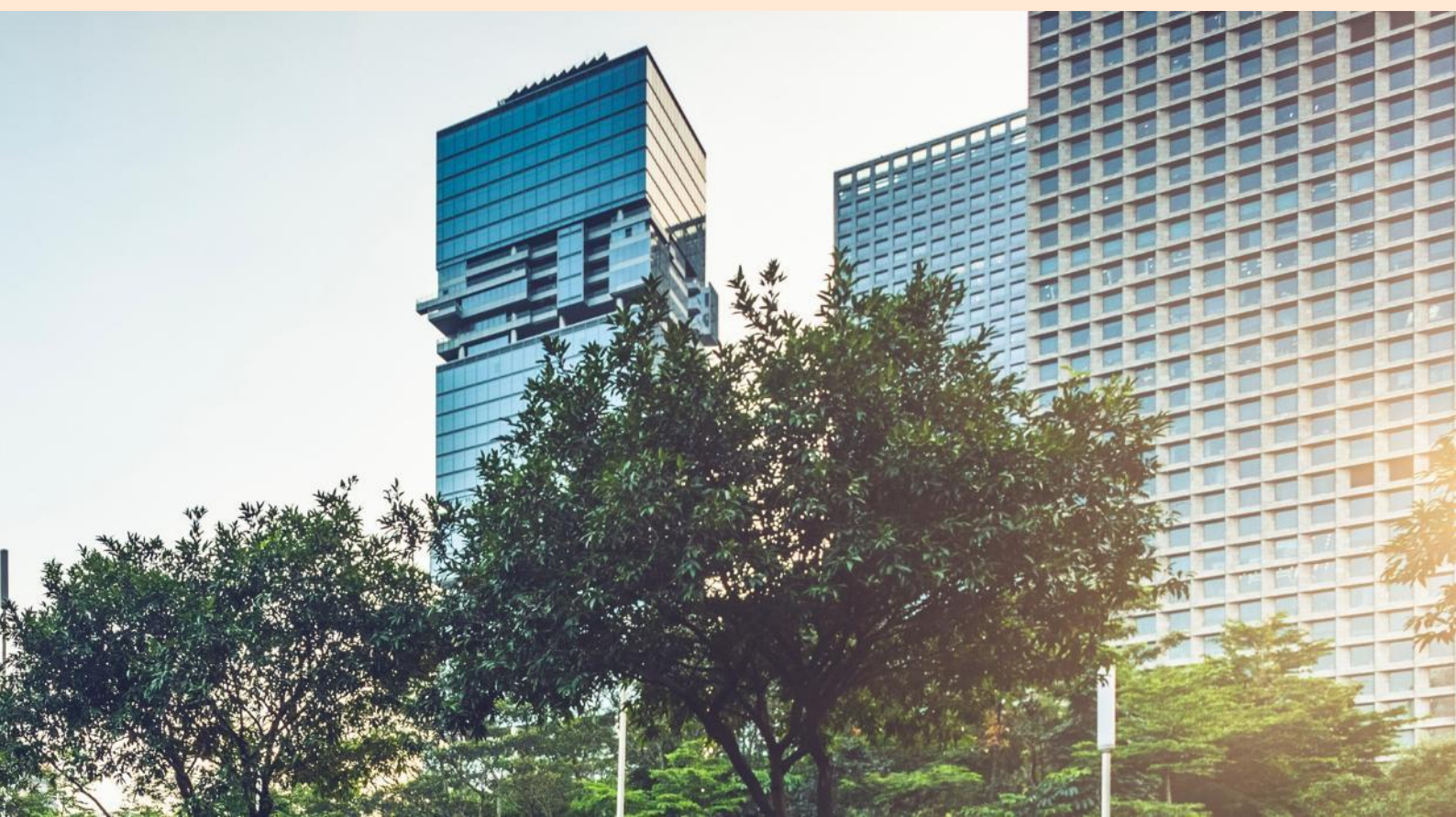




Table of contents

Key Takeaways from the 2025 Economic Data	05
China's Economic Momentum: A Snapshot	08
China Consumption Outlook: Navigating Transition, Unlocking Opportunity	19



01

Key Takeaways From China's
2025 Economic Data:
Stabilisation Amid Uneven
Rebalancing

China's economy met its official 2025 growth target, expanding by 5% to reach a record RMB 140 trillion, although momentum moderated to 4.5% year-on-year by year-end. Even as growth softened, meeting the annual target reinforced China's role as a source of certainty and stability in a volatile global environment. The composition of growth continued to shift, with services outpacing goods in both retail sales growth and GDP contribution, pointing to a gradual structural rebalancing in the growth model.

Industrial output and exports remained key growth drivers. Exporters continued to diversify into ASEAN and EU markets to offset declining shipments to the US, while rising exports of higher-value products — including equipment, automobiles and industrial robots — underscored China's upgrading along the value chain. Notably, industrial robot exports exceeded imports for the first time, making China a net exporter in this segment.

Consumption dynamics remained uneven. Government trade-in programmes supported sales of communications equipment, household appliances and furniture earlier in the year, but their impact tapered in the fourth quarter, with retail sales growth slowing to 0.9% year-on-year in December, the weakest pace since the post-Covid recovery. Services consumption continued to outperform goods, with spending increasingly shifting towards experience-based categories such as travel, sports, recreation and cinema. Services accounted for 46.1% of per capita consumption expenditure, suggesting an ongoing shift in household spending patterns.



Investment remained constrained, with fixed-asset investment declining by 3.8% in 2025 — the first annual contraction since records began in 1996 — largely reflecting the drag from property investment. Capital appears to be gradually reallocating towards advanced manufacturing and high-technology sectors, supported by policy initiatives on equipment renewal that boosted machinery and equipment investment. Nevertheless, private investment remained subdued amid persistent factory-gate deflation, with producer prices in negative territory despite tentative signs of stabilisation in core CPI.

Credit data echoed the caution observed in both consumption and investment activity. New bank lending fell to a seven-year low of RMB 16.27 trillion in 2025 despite ample system liquidity, as households continued to prioritise precautionary savings amid falling house prices. Government bonds and other forms of direct financing contributed more to incremental aggregate social financing than traditional bank lending for the first time, underscoring a growing reliance on state-led financing.

Foreign direct investment trends broadly mirrored this pattern, with inflows into high-technology manufacturing and services proving more resilient despite a continued decline in aggregate FDI.





02

China's Economic Momentum: A Snapshot

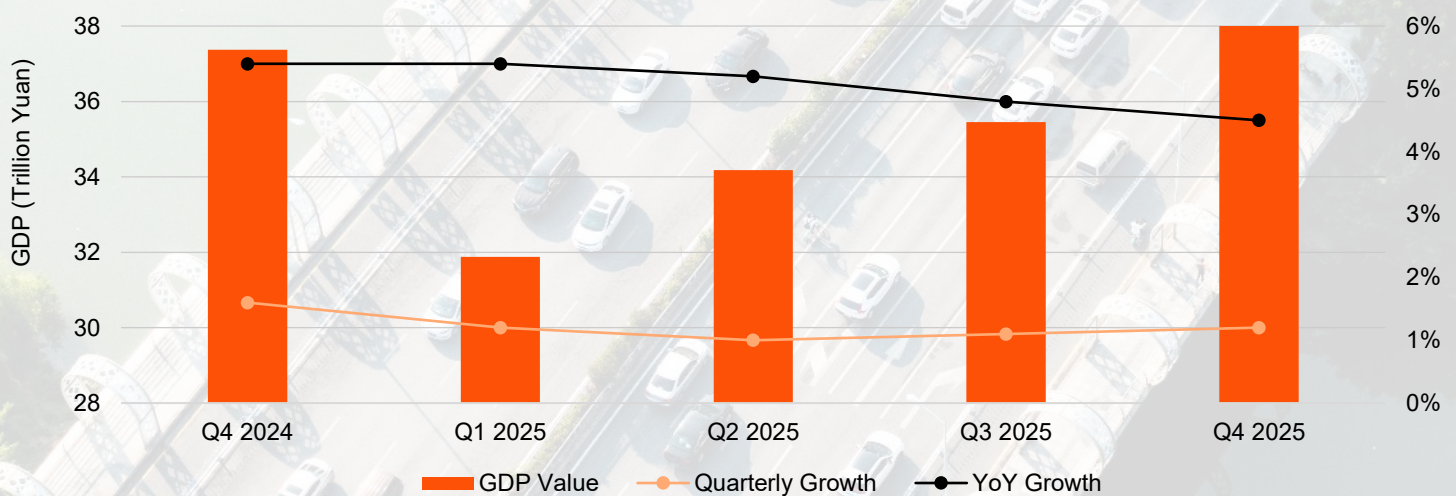
GDP

China's economy met its 2025 growth target, expanding by 5% to reach a record level of RMB 140 trillion. The underlying composition of growth highlights the continued strength of the service sector and external demand as the twin engines of growth.

From the production side, the tertiary sector grew 5.4%, contributing 61.4% to overall GDP growth. Within this, information transmission, software and IT services surged by 11.1%, while leasing and business services rose 10.3%. By contrast, the secondary sector grew 4.5% and the primary sector 3.9%. On the demand side, final consumption accounted for 52% of growth, capital formation contributed 15.3%, and net exports delivered a robust 32.7%.

Momentum slowed in the final quarter, with GDP growth easing to 4.5% from 4.8% in Q3. Services played an outsized role, expanding 5.2% and contributing 63.2% to quarterly growth.

Quarterly GDP Values and Quarterly and Annual GDP Growth Rate



Source: Unless otherwise stated, economic data are from the National Bureau of Statistics of China, the People's Bank of China, and Wind.

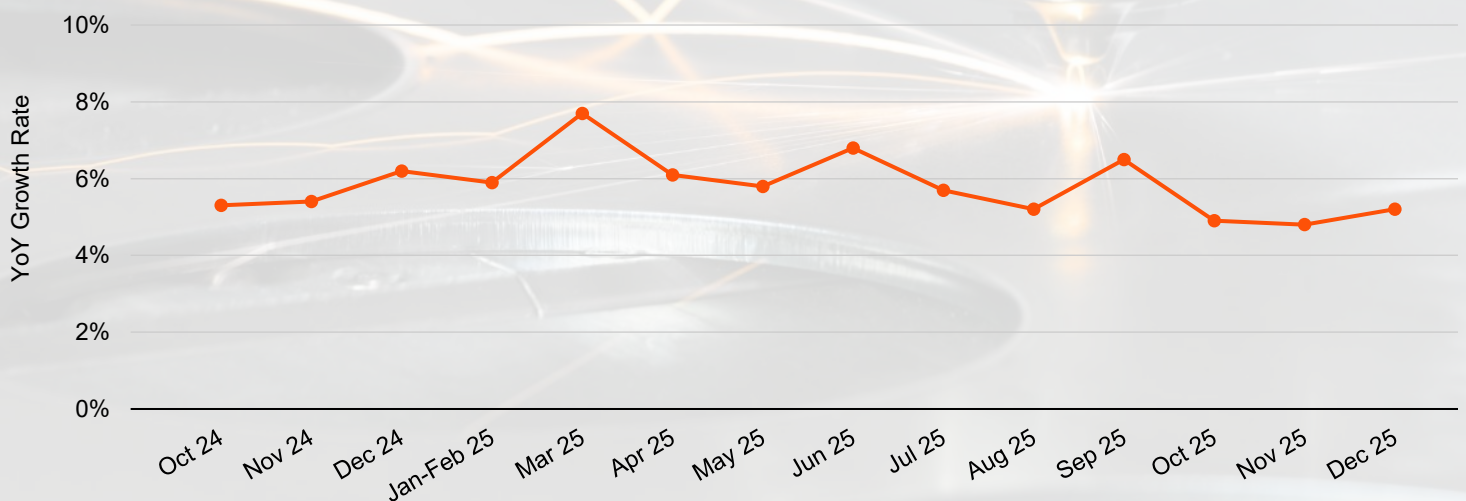
Industrial Output

In 2025, industrial value-added grew 5.9% year-on-year, supported by robust gains in equipment and high-tech manufacturing. Equipment manufacturing rose 9.2%, lifting its share of total industry to 36.8%, up 2.2 percentage points from last year. High-tech manufacturing also accelerated, expanding 9.4% to its fastest rate since 2022 and contributing 26.1% to overall industrial growth.

Within high-tech, output of 3D printing devices surged 52.5%, industrial robots rose 28.0%, and new energy vehicles advanced 25.1%. Digital product manufacturing maintained solid momentum, with value-added up 9.3%, underscoring its role in powering industrial digitalisation and smart transformation.

Quarterly data confirm stability: industrial value-added grew 5.0% year-on-year in Q4, with December alone recording 5.2%. This consistency highlights the sector's resilience and its central role in sustaining China's broader growth trajectory.

Industrial Output



Fixed asset Investment

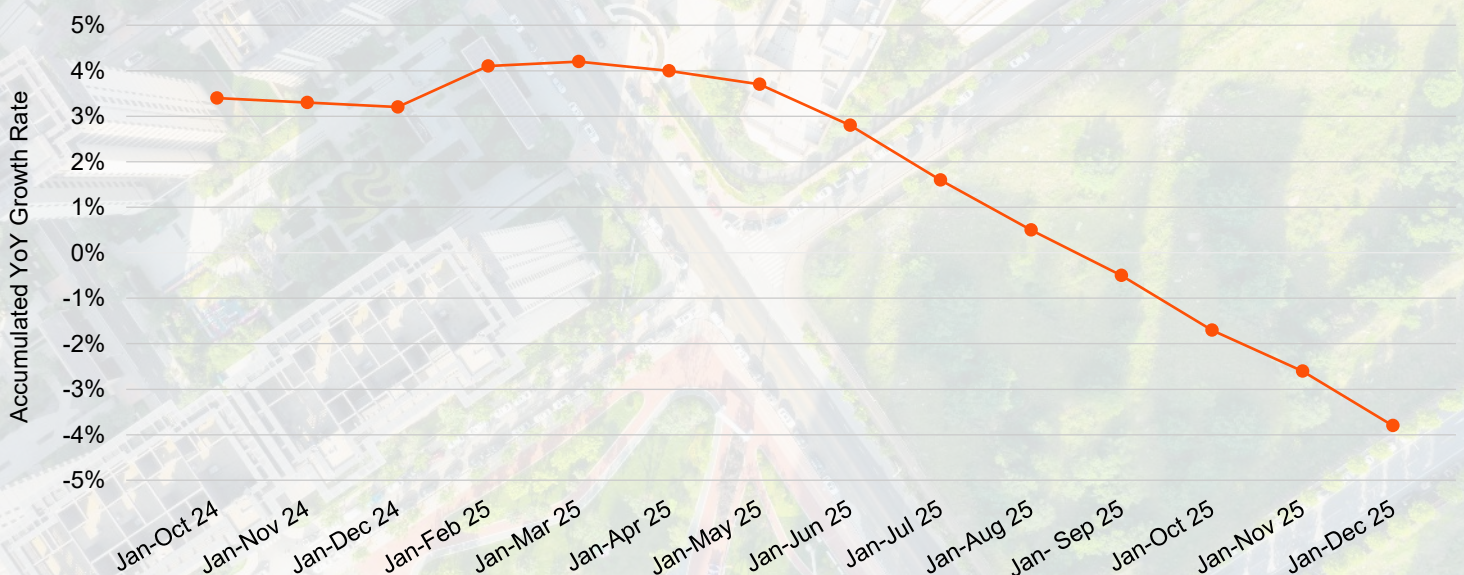
Fixed asset investment (FAI) fell 3.8% in 2025 to 48.5 trillion yuan, with the decline driven primarily by property, where investment plunged 17.2%. Excluding real estate, FAI slipped only 0.5%, underscoring the weight of the housing downturn.

Manufacturing investment edged up 0.6%, supported by policy-driven sectors. Information services rose 28.4%, while investment in aerospace and related equipment increased 16.9%. Policy initiatives on equipment renewal provided a notable boost. Investment in machinery and equipment rose 11.8%, contributing 1.8 percentage points to overall FAI growth. Its share of total investment climbed to 18.0%, up 2.5 points from 2024.

However, private investment weakened, down 6.4% overall, with manufacturing (-0.2%) soft and infrastructure (+1.7%) only marginally positive.

FAI growth momentum deteriorated through the year. Cumulative growth turned negative in September (-0.5%) and widened to -3.8% by year-end. December alone saw a 1.1% month-on-month decline, highlighting persistent weakness despite targeted policy support.

Fixed Asset Investment



Consumption

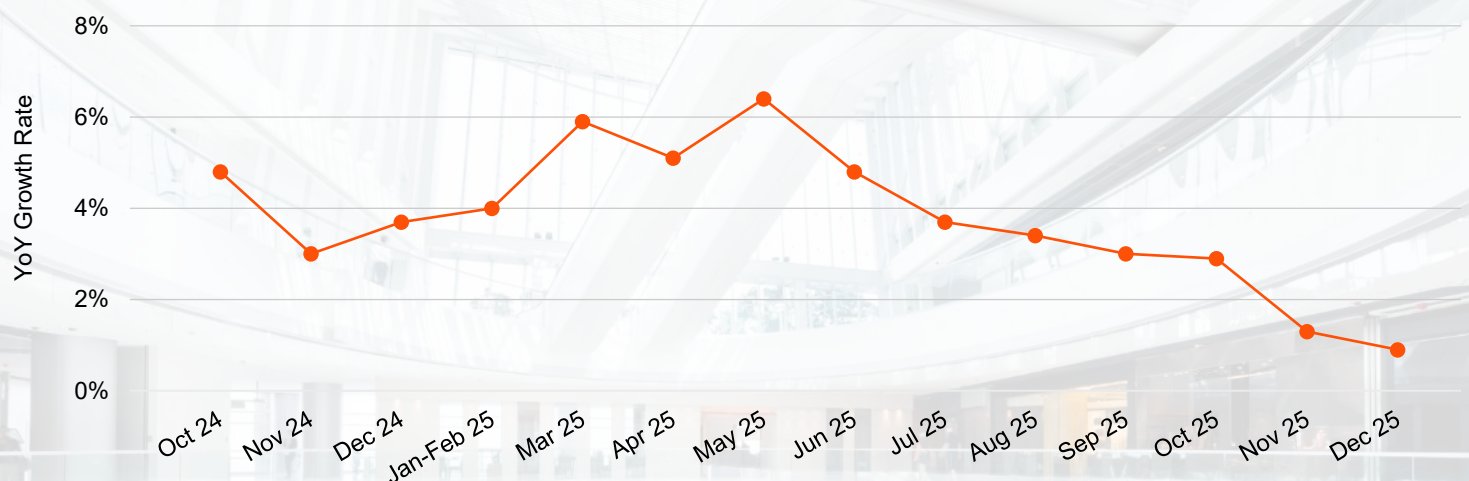
China's consumer market crossed a milestone in 2025, with retail sales of consumer goods exceeding 50 trillion yuan (US\$7.17 trillion), up 3.7% year-on-year. Even so, households remained cautious: the World Bank estimates savings at over 30% of disposable income, far above advanced-economy levels. The property downturn and weak confidence kept many families focused on mortgage prepayments rather than discretionary spending.

Two themes defined the year. First, services continued to gain share. Service retail sales grew 5.5%, outpacing goods at 3.8%. Demand shifted towards the *emotional economy*, with notable strength in sports and recreation (+15.7%) and cinema revenues (+20%). Services accounted for 46.1% of per capita spending, signalling a structural rebalancing.

Second, policy support was evident. Trade-in programmes lifted sales of communications equipment (+20.9%), office supplies (+17.3%), furniture (+14.6%), and household appliances (+11%). New energy vehicles stood out: 12.8 million units sold, up 17.6%, with penetration reaching 53.9% of passenger car sales.

Retail sales growth momentum peaked mid-year at 6.4% in May, before easing to 0.9% by December. The slowdown highlights both the limits of policy-driven stimulus and the persistence of household caution, even as headline consumption expands.

Retail Sales of Consumer Goods

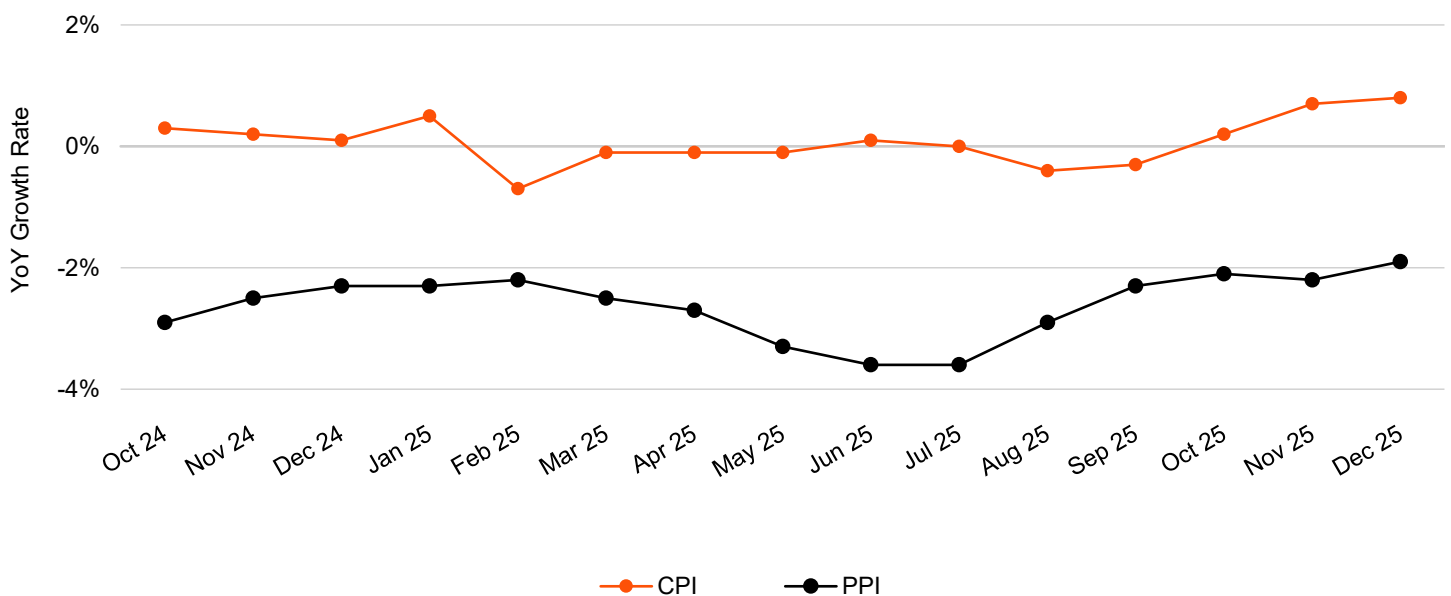


Consumer Price Index (CPI) and Producer Price Index (PPI)

Consumer prices were broadly stable in 2025, with headline CPI flat on average. Base effects pushed year-on-year declines wider in August and September, but policy measures to boost domestic demand helped turn CPI positive from October. By December, headline inflation reached 0.8%, the highest since March 2023. Excluding food and energy, core CPI rose 0.7% for the year, ending 2025 at 1.2%—its strongest level in 20 months. Core inflation held above 1% for four consecutive months from September to December, supported by moderate service price increases (+0.5% for the year), including faster gains in household services (+1.9%).

Producer prices remained in deflation, though the pace eased. PPI fell 2.6% in 2025, marking 39 consecutive months of decline, the longest stretch since 2016. The contraction narrowed in the second half, with three consecutive monthly increases from October and the year-end decline moderating to 1.9%, the smallest since September 2024. Sectoral data show improvement in coal, cement, photovoltaic equipment, lithium batteries, and new energy vehicles, reflecting the impact of “anti-involution” measures and targeted policy support.

Consumer Price Index and Producer Price Index



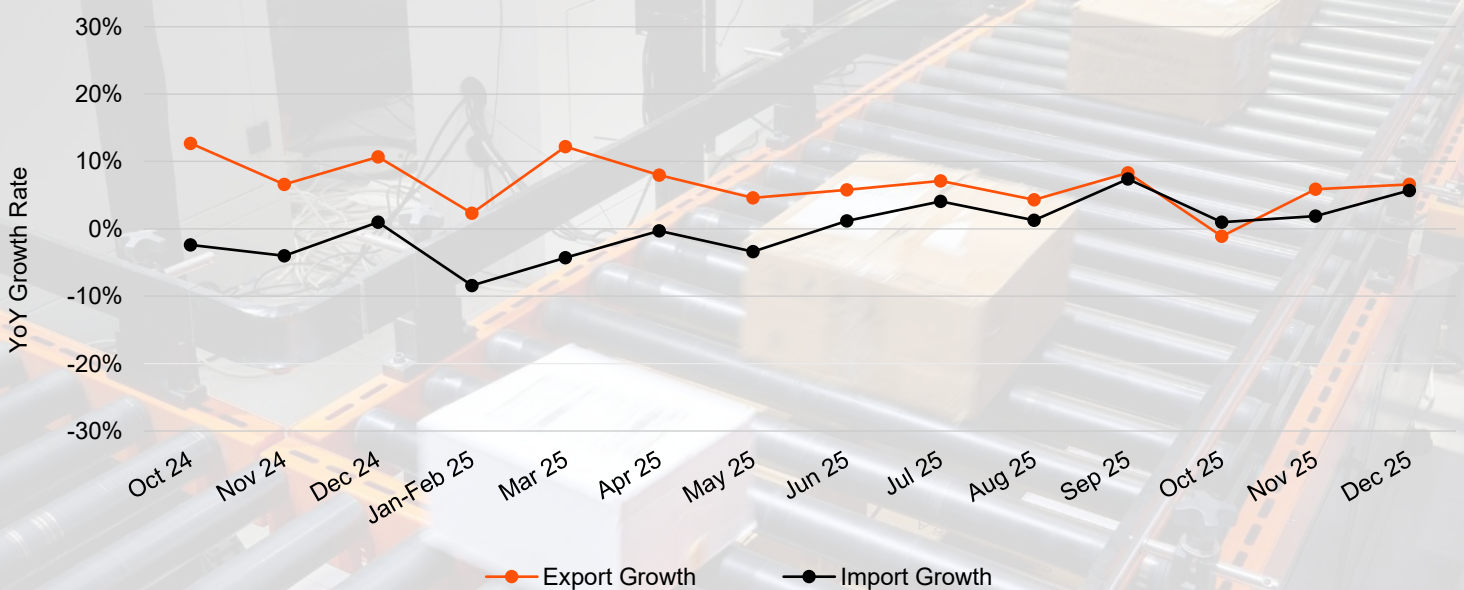
Trade

China posted a record trade surplus of US\$1.19 trillion in 2025. For the full year, exports rose 5.5% in dollar terms, even as trade tensions resurfaced with the United States and Europe. Regional trends diverged: exports to the U.S. fell 20%, while shipments to Southeast Asia rose 13%, to the EU 8.4%, to Latin America 7.4%, and to Africa 26%. Private enterprises strengthened their position as the main contributors to trade, with their share of total exports rising by 1.8 points to 57.3%. In the final quarter, outbound shipments contracted in October (-1.1%), rebounded in November (+5.9%), and gained further momentum in December (+6.6%).

Mechanical and electrical products remained central to export growth, expanding around 8% across the year. High-tech exports rose 13.2%, led by specialised equipment (+20.6%), advanced machine tools (+21.5%), and industrial robots (+48.7%). In particular, industrial robot exports exceeded imports, making China a net exporter for the first time.

Imports were broadly flat, but quarterly data showed improvement from Q2 onwards. Full-year imports of mechanical and electrical products rose 5.7%, with electronic components (+9.7%) and computer parts (+20%) supported by investment in artificial intelligence.

Exports and Imports



Foreign direct Investment (FDI)

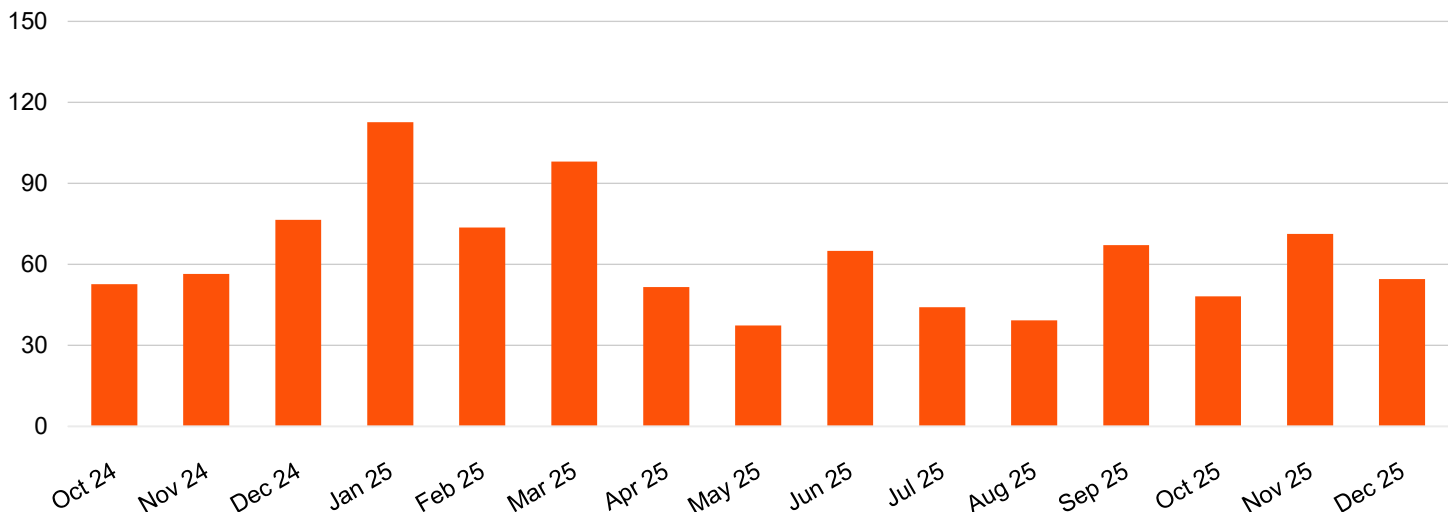
From January to September, 48,921 new foreign-invested enterprises were established nationwide, up 16.2% year-on-year. Actual FDI inflows, however, came in at RMB 573.8 billion, down 10.4% year-on-year. This continued divergence between rising enterprise numbers and declining investment amounts signals an evolving picture, echoing the broader shift in FDI away from big-ticket manufacturing projects toward smaller-scale service industries and high-tech R&D. The overall contraction narrowed in Q3 compared with a 15.2% decline in the first half, while September inflows rose 11.2% year-on-year, suggesting potential signs of bottoming out.

Services sector remained dominant, attracting RMB 410.9 billion in actual FDI, while manufacturing drew RMB 150.1 billion. Within high-tech sectors, investment held up better: e-commerce services surged 155.2%, aerospace equipment manufacturing rose 38.7%, and medical instruments and devices increased 17%.

Despite the overall decline in FDI inflows, investment from Japan (up 55.5%), the UAE (up 48.7%), the UK (up 21.1%), and Switzerland (up 19.7%) grew strongly.

FDI Inflows

RMB billion



Purchasing Managers Index (PMI)

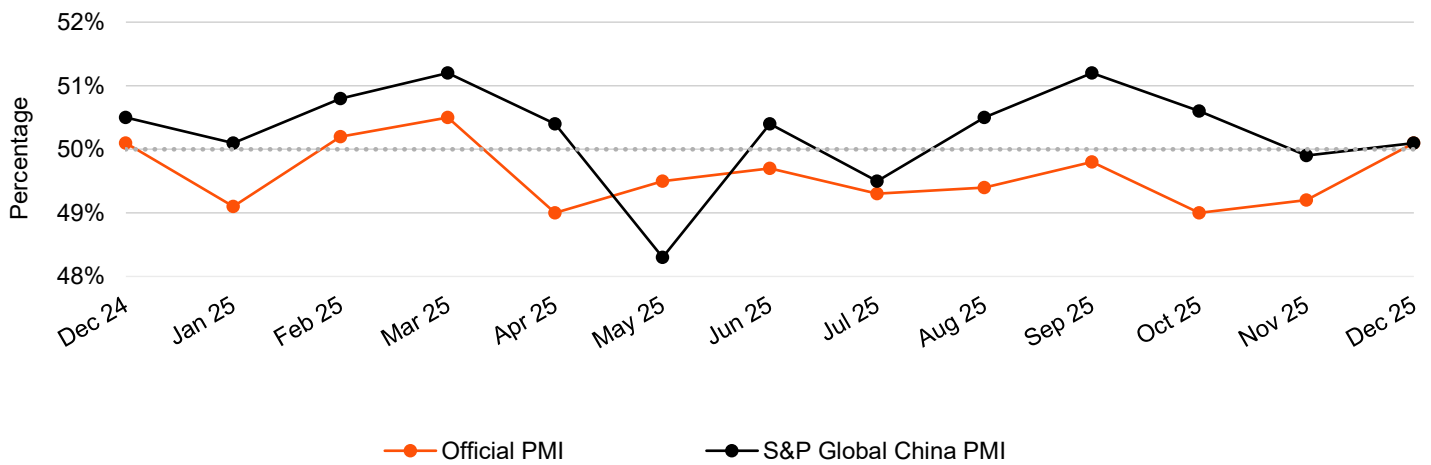
China's official manufacturing PMI remained in contraction through October and November before returning to expansion in December, following a sustained period below the 50-point threshold since April. Within the headline figure, higher value-added segments showed relative resilience, with the high-tech manufacturing PMI rising to 52.5% in December. Equipment manufacturing and consumer goods production both registered expansion, while large enterprises consistently remained in expansionary territory, pointing to a differentiated recovery across firm sizes and subsectors.

That said, the late-year pick-up in activity has yet to translate into improved profitability. While the Output Index strengthened in Q4, rising input costs alongside declining output prices suggest that manufacturers continued to operate under significant margin pressure even as production ramped up.

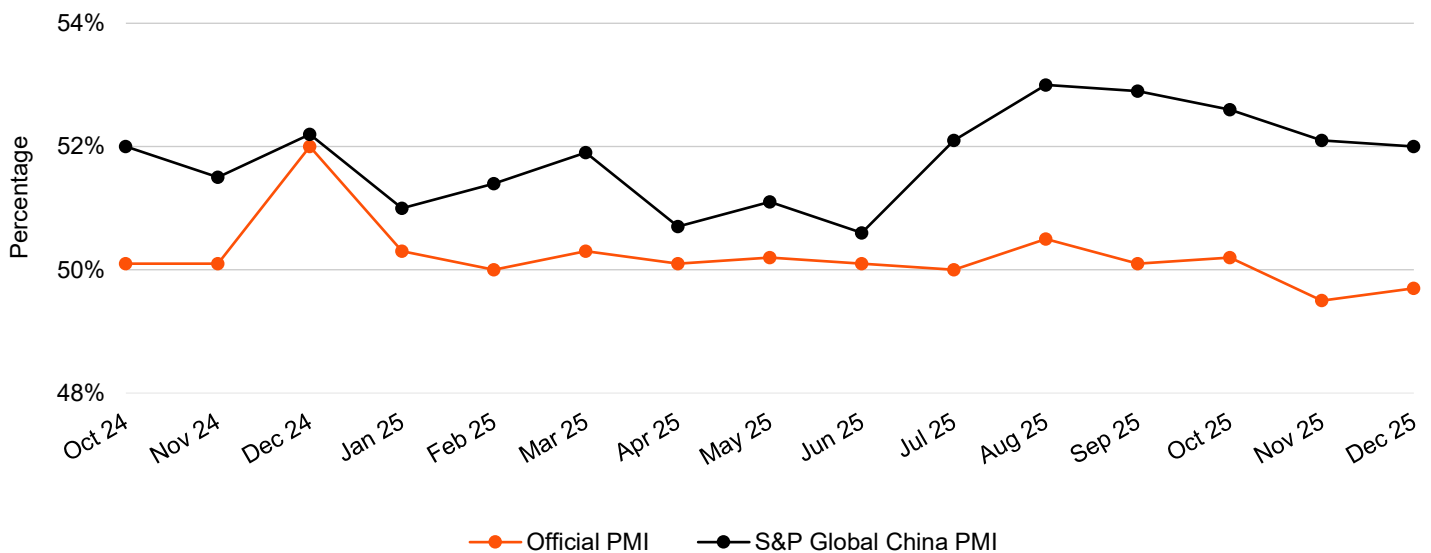


Non-manufacturing activity also showed mixed momentum. The PMI fell to 49.5 in November from 50.1 in October before edging back up to 50.2 in December. The rebound was largely driven by construction, likely reflecting an acceleration in project implementation as local governments moved to utilise special bond quotas ahead of the year-end deadline. In contrast, services activity remained in contraction, highlighting weakness in consumption-related sectors.

Manufacturing PMI



Services PMI



Total Social Financing (TSF) and New Bank Loans

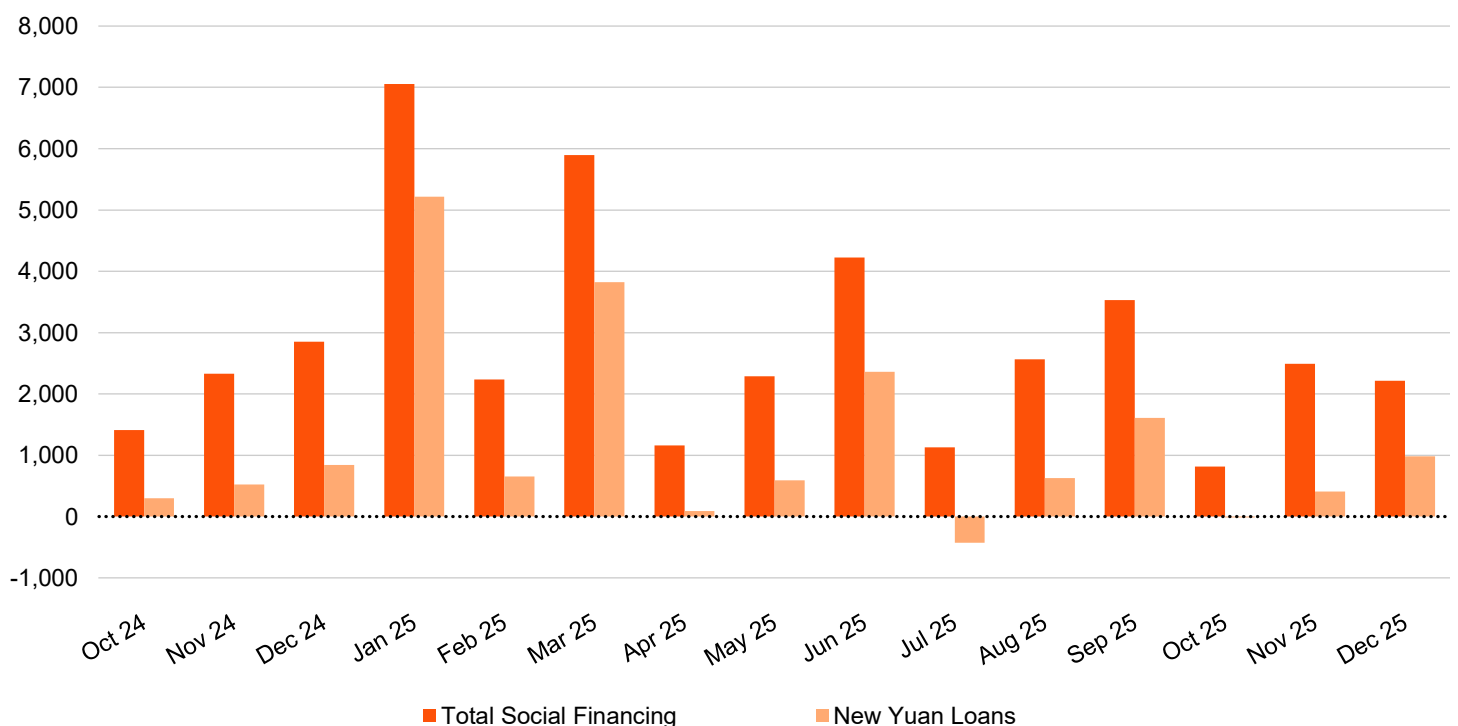
Total Social Financing rose by RMB 35.6 trillion in 2025, an increase of RMB 3.34 trillion compared to the previous year, bringing the outstanding stock of TSF to RMB 442.12 trillion by end-December. Broad money (M2) grew by 8.5% year-on-year to RMB 340.29 trillion. However, banks extended RMB 16.27 trillion in new yuan loans over the same period, down from RMB 18.09 trillion in 2024, reflecting weak consumption and investment demand.

Monthly data point to a more pronounced softening in credit momentum towards year-end. December TSF came in at RMB 2.21 trillion, down from RMB 3.53 trillion in September, while new yuan loans declined to RMB 910 billion from RMB 1.29 trillion over the same period. Notably, government bonds and other forms of direct financing contributing more to TSF growth than traditional bank lending for the first time.

Despite the broader weakness in credit demand, policy support for “new quality productive forces” remained robust. Outstanding loans to the technology and green sectors grew by 11.5% and 20.2% year-on-year respectively, both continuing to outpace overall loan growth. Nevertheless, the scale of financing directed towards these emerging sectors remains insufficient to offset the continued contraction in real estate-related lending, which has left a sizeable drag on aggregate credit expansion.

Credit Growth

RMB billion



03



China 2026 Outlook: Reform Over Stimulus

Growth Outlook: Reform Takes Priority Over Speed

China has set its 2026 growth target in a 4.5%–5.0% band. The move from a point to a range target reflects both elevated external uncertainty and a deliberate recalibration of policy priorities. Global risks — from renewed tariff pressures and geopolitical flashpoints to energy market volatility and the timing of global rate cuts — remain elevated. Domestically, the economic transition is accompanied by near-term challenges in investment, household confidence, and local government finances.

More importantly, the banded target signals that policymakers are willing to tolerate slower headline growth in exchange for deeper structural reform, making large-scale, broad-based stimulus less likely. Policy attention is pivoting toward structural challenges — involution, downward pressure on prices, and local government debt — alongside a continued emphasis on productivity gains driven by technology and innovation. Local authorities are being steered away from debt-financed projects that previously inflated GDP while entrenching underlying imbalances.

Against a volatile global backdrop, this approach reinforces China's role as a source of relative policy certainty and macro stability. For businesses and investors, the implication is clear: capital and policy support will increasingly be directed toward structural priorities rather than blanket expansion. Over time, this will reshape market opportunities and widen the divide between policy-favoured sectors and those facing consolidation pressures.



Fiscal Discipline, Built-In Flexibility

The fiscal stance outlined in the 2026 work report appears modest at first glance, with headline allocations falling short of a major boost. Yet the design seems deliberate: policy is being framed as a flexible framework rather than a fixed plan. Ultra long special treasury bonds and policy backed financial instruments are designed with scalability, allowing expansion if external shocks intensify or domestic pressures deepen.

This approach reflects a broader shift in policymaking. Rather than front-loading stimulus, policymakers are retaining flexibility to recalibrate policy as conditions evolve. The emphasis is on calibrating measures to evolving risks, while maintaining discipline against wasteful investment. Local governments are being nudged towards more efficient fiscal practices, with coordination between fiscal and financial policy intended to amplify impact without resorting to indiscriminate spending.

Notably, fiscal implementation is likely to become more centrally driven. Transfers from the central to local authorities are set to reach record highs in 2026. With local balance sheets constrained by the protracted downturn in land sale revenues, a greater role for central financing may help mitigate execution risks that previously delayed or diluted stimulus efforts, particularly in infrastructure and innovation related investment.

For businesses and investors, the key takeaway is that the current fiscal numbers should be read as a baseline rather than a ceiling. More substantial interventions remain possible, particularly if global uncertainty escalates or domestic demand falters.



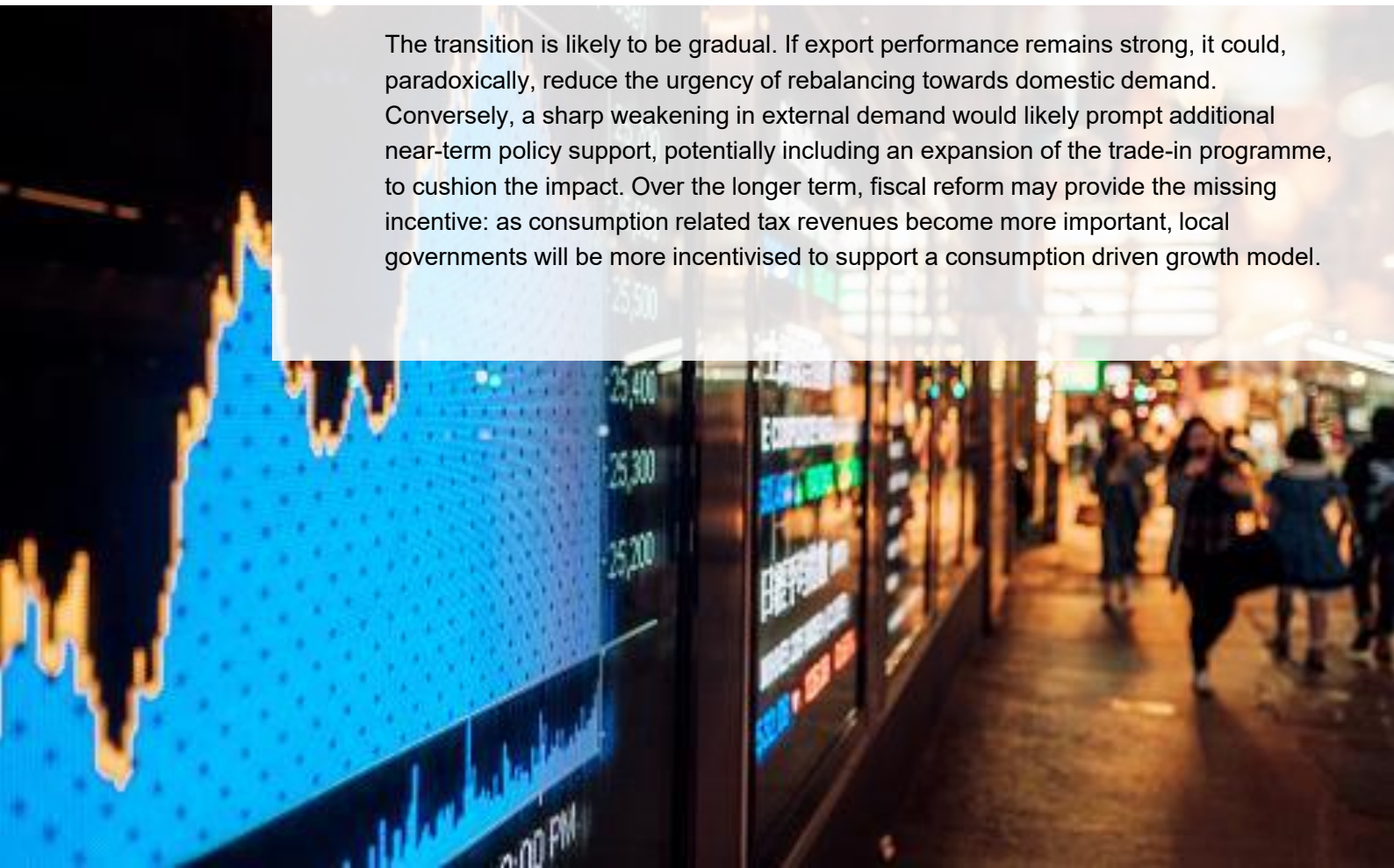
Consumption: From Sugar Highs to Sustainable Gains

Consumption remains a policy priority, but the approach is deliberately measured — shifting away from short-term stimulus toward structural reform. Despite rising protectionism and geopolitical risks clouding external demand, policymakers are avoiding large, one-off consumption boosts. Measures such as the RMB 250 billion trade-in programme (down from RMB 300 billion in 2025) and a RMB 100 billion fiscal–financial coordination fund are being used as targeted, short-term supports to smooth the cycle. Tools such as loan interest subsidies, financing guarantees, and risk-sharing mechanisms are intended to cushion near-term weakness, while the broader emphasis remains on strengthening the foundations of household demand.

More fundamentally, policy is moving toward a more structural, people-centred approach. The emphasis is on “investing in people” — raising household income, expanding social security, and strengthening safety nets to rebuild consumer confidence. The aim is to support more stable, broad-based consumption. This shift also aligns with the recent “Export to China” campaign, opening longer-term opportunities for high-quality global products and services.

Consumption patterns are also evolving, with services and experience-based categories — including culture, tourism, sports, elderly care, childcare, and the pet economy — likely to gain share. Stabilising the property market remains critical, as limiting negative wealth effects is essential to restoring household confidence.

The transition is likely to be gradual. If export performance remains strong, it could, paradoxically, reduce the urgency of rebalancing towards domestic demand. Conversely, a sharp weakening in external demand would likely prompt additional near-term policy support, potentially including an expansion of the trade-in programme, to cushion the impact. Over the longer term, fiscal reform may provide the missing incentive: as consumption related tax revenues become more important, local governments will be more incentivised to support a consumption driven growth model.



Capital Mobilisation: Re-Engaging Private and Foreign Investors

Private investment contracted in 2025 for the first time in more than three decades, with the decline accelerating in the second half of the year. The property downturn was the main drag, but the broader transition away from property and infrastructure led growth has also exposed adjustment challenges. Policymakers first flagged these concerns at the Central Economic Work Conference last December, and pledged to stabilise investment momentum.

The 2026 work report introduces more targeted instruments to support private capital. An allocation of 800 billion yuan in policy backed financial instruments — 300 billion yuan more than last year, and issued earlier in the cycle rather than mid year as in the past — is intended to provide seed funding and risk sharing, lowering barriers for private firms to participate in national projects. The Ministry of Finance has also rolled out a RMB 500 billion special guarantee programme to support private investment by micro, small, and medium-sized enterprises, reinforcing the broader push to ease financing constraints. Together, these measures signal a stronger emphasis on leveraging private participation in strategic sectors. A modest recovery in fixed-asset investment is expected in 2026, driven by policy-supported capital spending in areas such as AI computing power, advanced manufacturing, and other national priorities.

Beyond headline allocations, policymakers are seeking to channel social capital into strategic emerging industries and high-tech sectors, while raising the share of direct and equity financing. Plans include establishing a national merger and acquisition fund to broaden exit channels for venture capital, improving capital turnover efficiency, and reducing reliance on IPOs as the dominant path to liquidity. By encouraging patient capital to recycle back into early-stage innovation, authorities aim to mobilise over one trillion yuan in funding across diverse sources — a scale that could support a broader pipeline of innovative firms, rather than pushing them to chase listings as the only path to liquidity.

Foreign investment is also rising in priority, with policymakers expected to expand incentives for foreign-funded enterprises to reinvest and scale local operations, alongside measures to improve policy execution and market access. Against a volatile global backdrop, China's policy environment and market scale should continue to position it as a source of relative stability and certainty for businesses and investors. High-tech, advanced manufacturing, and R&D-intensive sectors are likely to remain key anchors for investment.

In this context, Hong Kong is likely to be seen increasingly as a reliable hub for asset diversification and a key gateway for international capital accessing China. Policy support for innovative sectors should also help underpin continued momentum in IPO activity and cross-border financing.

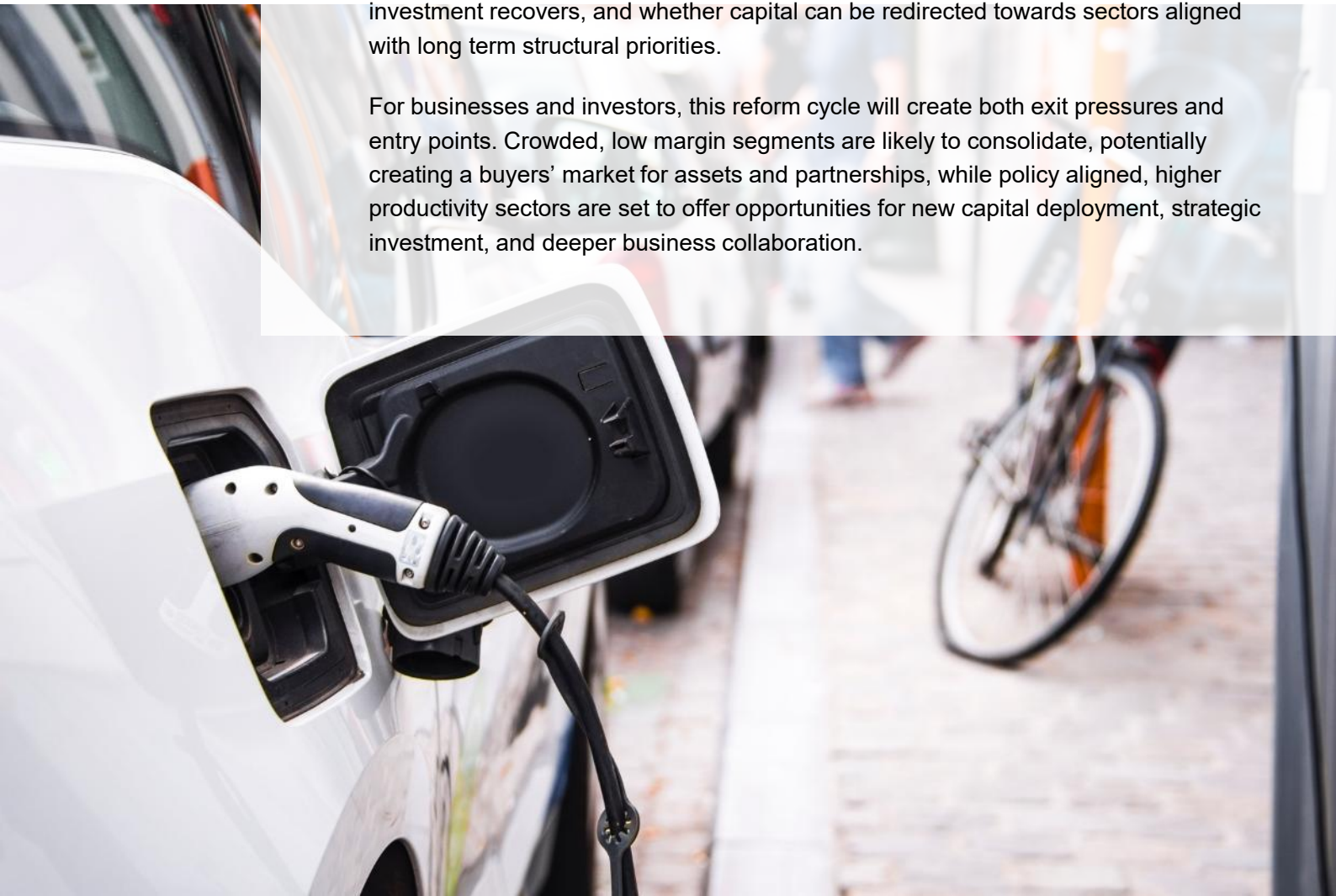
Reform in Action: Unlocking Effective Investment

Reviving private investment increasingly hinges on structural reform rather than broad policy incentives. Policymakers have signalled a stronger commitment to advancing reforms, recognising that while new strategic sectors continue to attract capital, legacy industries — and even some recently designated “emerging” sectors such as electric vehicles — are facing squeezed margins from falling prices, weak demand, and excessive competition. Policy support has succeeded in building scale; the next phase is consolidation.

Measures under the “anti-involution” agenda — including price floors and limits on working hours — have already helped narrow producer price declines after three consecutive years of contraction. The likely trajectory is towards industry consolidation, with weaker firms exiting and local government protection scaled back. In the short term, this process may dampen investment, as local authorities step away from propping up weaker players and as capacity rationalisation proceeds. Over time, however, consolidation should leave more competitive and efficient firms in place, improving profitability and creating conditions for renewed investment.

The pace of consolidation will be critical in shaping private sector confidence. Progress in reducing excess capacity and restoring margins will determine how quickly private investment recovers, and whether capital can be redirected towards sectors aligned with long term structural priorities.

For businesses and investors, this reform cycle will create both exit pressures and entry points. Crowded, low margin segments are likely to consolidate, potentially creating a buyers’ market for assets and partnerships, while policy aligned, higher productivity sectors are set to offer opportunities for new capital deployment, strategic investment, and deeper business collaboration.



Author



Jackie Yan
PwC China Economist
+852 2289 5460
jackie.z.yan@hk.pwc.com

www.pwchk.com

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2026 PricewaterhouseCoopers Limited. All rights reserved. PwC refers to the Hong Kong member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.