19 October 2026

China Flash

K-shaped economy even more pronounced

Key takeaways: *The Chinese data batch released overnight was a mixed bag but overall shows an economy that is becoming even more K-shaped as domestic demand and housing remains weak while exports have surged to above 30% growth. Q3 GDP growth at 4.5% y/y is back in the 4½-5% government target range supported by public investment projects. I expect more of the same in the coming quarters with infrastructure investments in the 'six networks' playing stronger role on top of robust exports while domestic demand will likely remain subdued in 2027 as well. China's long-term transition to a high-tech and consumer driven economy is still ongoing but currently missing the consumer leg, to a large degree due to the continued housing crisis.*

Details

GDP growth in Q3 was 4.5% y/y up from 4.3% y/y in Q2. It puts it back in the target range for the government, but it hides over a highly imbalanced economy with the continued K-shape that is only getting more pronounced.

Retail sales of goods increased from 0.4% y/y to 1.1% y/y while retail sales of services rose from 4.9% y/y to 5.0% y/y. Household spending of goods is still the weak link in Chinese demand growth.

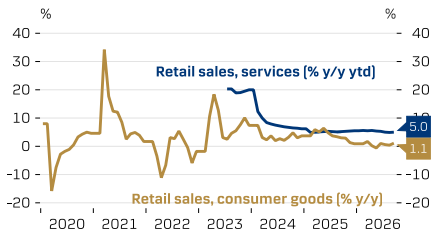
Housing data was a mixed bag. Home sales fell back in September (chart 2) leaving the trend broadly sideways to slightly lower, highlighting weak confidence still. Property investments showed a further decline from -19.9% y/y ytd to -20.6% y/y ytd. On a more positive note, home prices declined at a slower rate in September with new home prices down only 0.11% m/m, the smallest rate of decline in 1½ years. It provides some hope that the overhang of empty housing is coming down, at least in the tier-1 cities. My baseline is still a stabilisation in home prices during 2027, but risks are skewed to the downside.

Industrial production was solid again with the growth rate rising to 5.5% y/y from 5.2% y/y. Production is underpinned by the strong exports (chart 14) and infrastructure investments in the 'six networks'.

Investments dropped again at a -7.2% y/y ytd rate pulled lower by the sharp decline in property investments still, but private manufacturing investments are also in decline (chart 9).

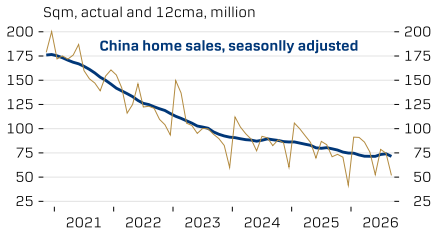
The official unemployment rate dropped to 5.2% from 5.3%, but it is not a good indicator for the state of the labour market. Surveys from PMI and CKGSB still point to weak employment demand.

Chart 1: Goods consumption remains weak, services doing better



Source: Macrobond, NBS, Danske Bank

Chart 2: Home sales still at low levels signalling weak confidence still



Source: Macrobond, NBS, Danske Bank

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Chart 3: Retail sales of goods broadly sideways for 1½ years now



Source: Macrobond, NBS, Danske Bank

Chart 4: Weak employment and low consumer spending go hand-in-hand



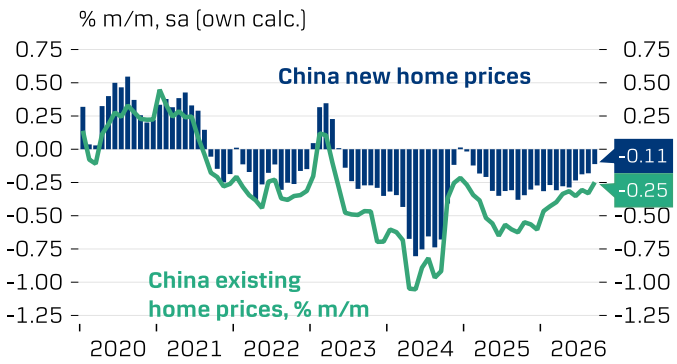
Source: Macrobond, NBS, Danske Bank

Chart 5: The correction in the housing market has come far



Source: Macrobond, NBS, Danske Bank

Chart 6: Home prices fall at lower rate



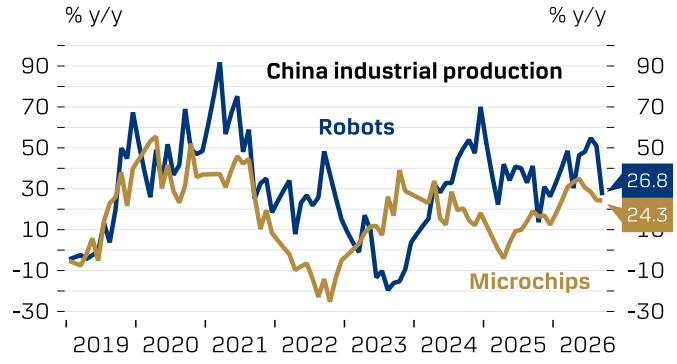
Source: Macrobond, NBS, Danske Bank

Chart 7: Industrial production growing at robust rate lifted by tech and exports



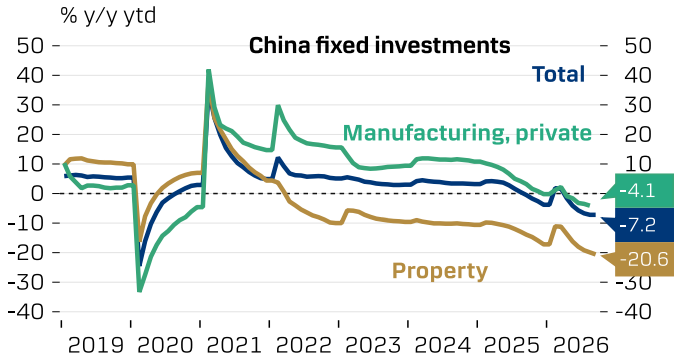
Source: Macrobond, NBS, Danske Bank

Chart 8: Production of robots and microchips growing around 25%



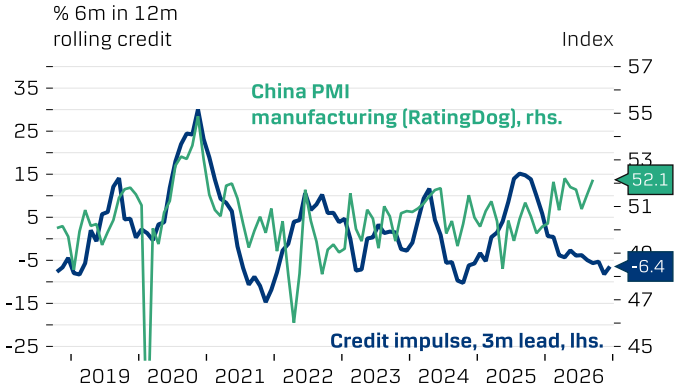
Source: Macrobond, NBS, Danske Bank

Chart 9: Property investments the weak link but private manufacturing investments also falling



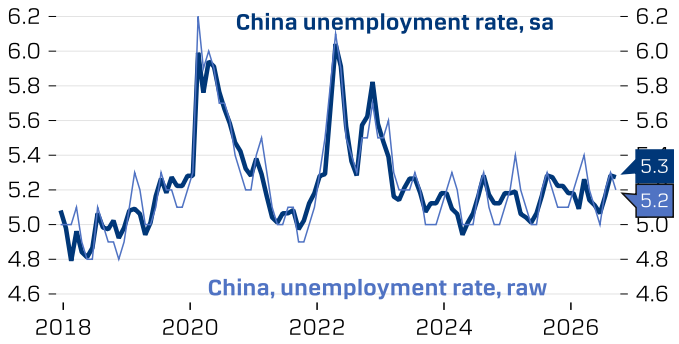
Source: Macrobond, NBS, Danske Bank

Chart 10: Credit impulse negative but no longer a good activity indicator as economic structure has changed



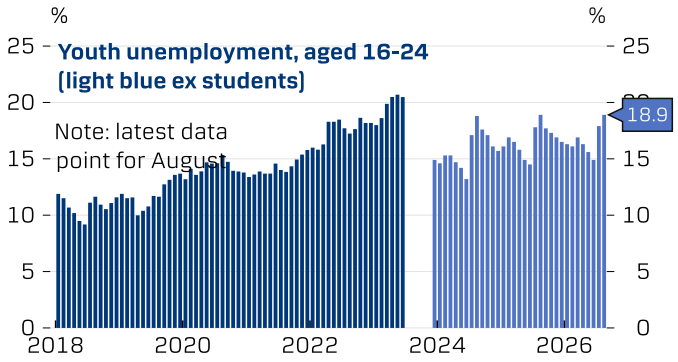
Source: Macrobond, NBS, Danske Bank

Chart 11: Official unemployment rate low but poor indicator of employment demand



Source: Macrobond, NBS, Danske Bank

Chart 12: Youth unemployment higher again following new batch of graduates



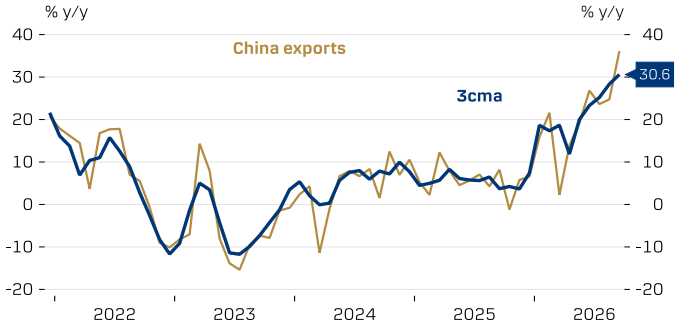
Source: Macrobond, NBS, Danske Bank

Chart 13: Employment demand remains weak according to CKGSB survey



Source: Macrobond, CKGSB, Danske Bank

Chart 14: Export growth even stronger lately, partly lifted by rising chips and electronics prices



Source: Macrobond, NBS, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Allan von Mehren, Chief Analyst.

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Report completed: 19 October 2026 at 10.00 CET
Report disseminated: 19 October 2026 at 10.30 CET