China Economic Outlook, Q4 2026: Growth by Export, Inflation by Import

Global Strategy Files, October 30, 2026

1. The verdict: growth by export, inflation by import

China will meet its 4.5-5% growth target this year, but the way it gets there is more fragile than the headline suggests. We put 2026 real GDP growth at 4.6% (70% band 4.5-4.7%, 95% probability of at least 4.5%), with Q4 at 4.6% y/y after 4.5% in Q3. The factories and the ports are carrying the economy: dollar exports grew about 28% y/y in Q3 (our quarterly estimate from customs data) and the goods surplus reached $365bn, the highest of the twelve quarters we track, while fixed-asset investment is down 7.2% year to date, property investment is down 20.6%, and credit growth, at 7.1%, is the lowest in the series we track.

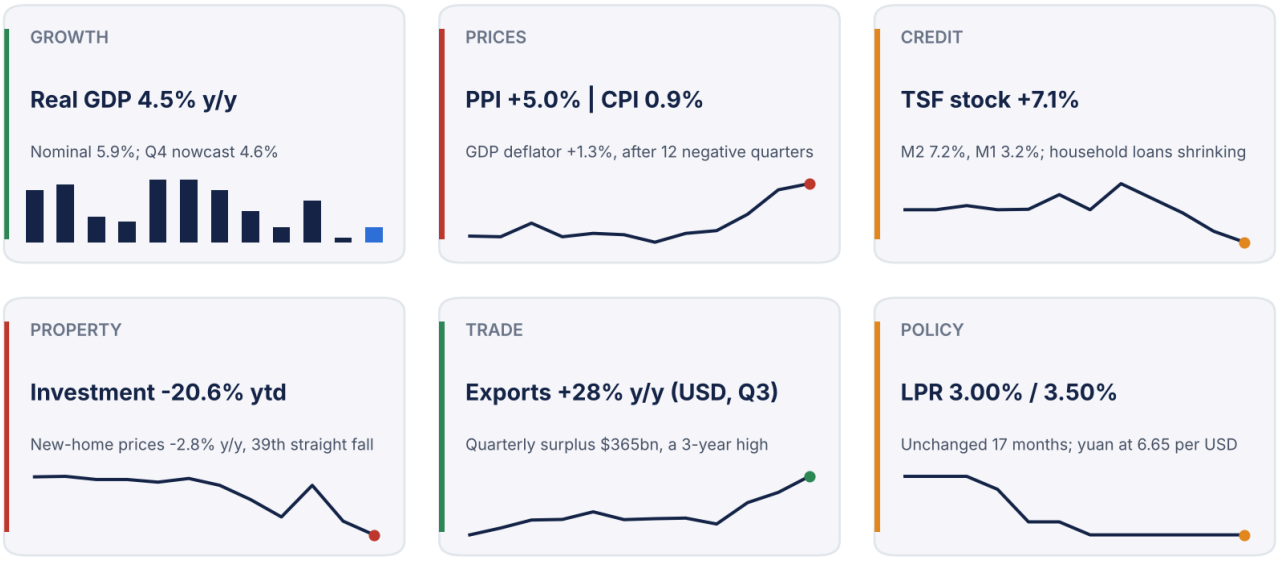


Figure 1. The cockpit. Green marks a strength, amber a watch item, red a weakness. Sparklines run Q4'23 to Q3'26.

The end of deflation is real, but it was imported. The GDP deflator turned positive in Q2 and PPI reached +5.0% y/y in September, yet a simple regression on Brent fits 95% of the quarterly variation in PPI over eight quarters (a small sample, but a tight fit), and consumer-goods PPI is still -0.1%. Headline CPI is 0.9% against a goal of about 2%. When the oil spike laps itself, which our scenarios place in Q1-Q2 2027, PPI and the deflator turn negative again (probability about 99% for both by Q4'27). Nominal GDP growth, which jumped from 3.8% in Q4'25 to 5.9% in Q2'26 and held there in Q3, falls back toward 3% by late 2027.

Monetary policy is easier than it looks. The PBoC has not moved the 1-year loan prime rate (3.00%) for 17 months, but the real rate, measured against the GDP deflator, fell from 3.1% to 1.7% in two quarters, and USD/CNY has fallen 6.6% over twelve months. We do not expect a cut before 2027. The risk to our call is not a policy mistake but the external side: 2026′s outperformance rests on an export boom already running at 28% y/y that cannot compound, so in our model 2027 growth drifts back toward a 4.2% trend.

Our call in four lines.

- **2026:** real GDP 4.6%, CPI about 0.9%, PPI averaging roughly 3-3.5% and ending the year near 7% on the oil base effect.
- **2027:** real GDP 4.3% on average (70% band 3.5-4.9%; 35% chance that the 2027 average is below 4%), CPI at or below 1.4% throughout, PPI around -4% by Q4.
- **Policy:** no cut in 2026; in the base case one 10bp LPR cut arrives in Q1 2027 (30bp if oil normalises, none in escalation), for a probability-weighted 2.87% by Q4′27.
- **Biggest swing factor:** Brent. In our escalation scenario (20% weight) 2027 growth falls to 3.6% and CPI peaks at 1.5-1.6%; if oil normalises (25%) growth is 4.6% and deflation arrives sooner.

Forecast table. Blended median of the simulated paths; 70% band in brackets. Q3′26 is the actual or our estimate.

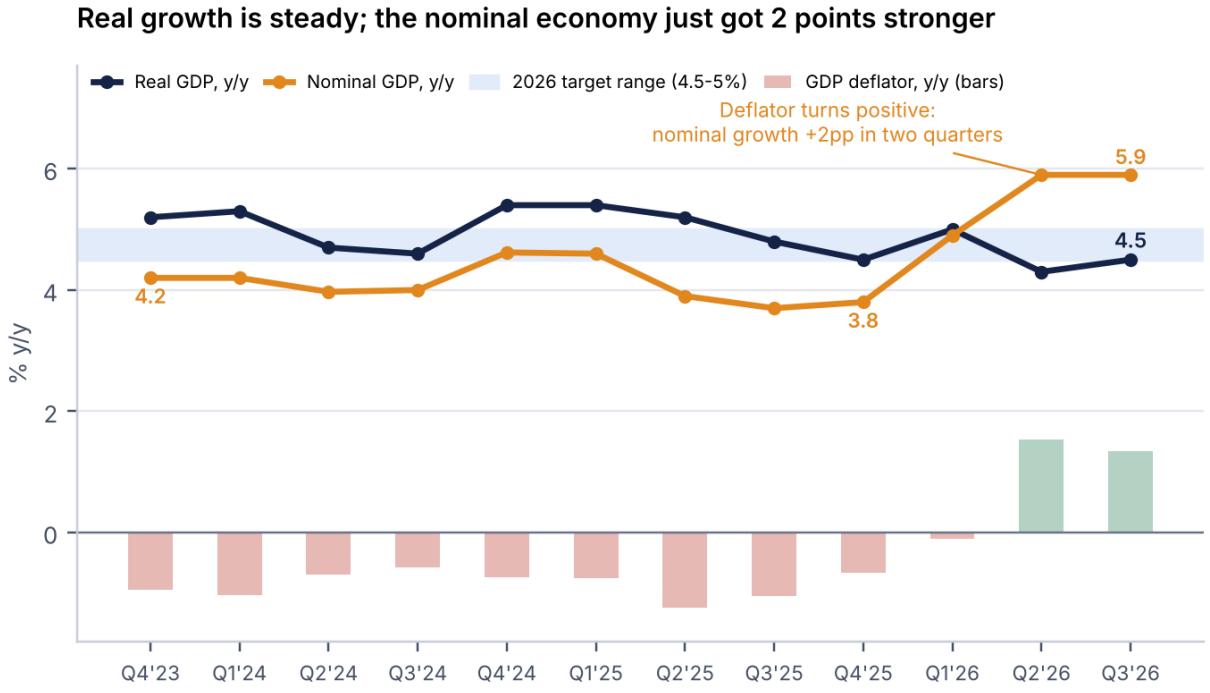
	Q3′26	Q4′26e	Q1′27e	Q2′27e	Q3′27e	Q4′27e
Real GDP, % y/y	4.5	4.6 (4.3-4.9)	4.5 (3.7-5.0)	4.4 (3.5-5.0)	4.1 (3.2-4.8)	4.1 (3.2-4.8)
Nominal GDP, % y/y	5.9*	6.6 (5.8-7.5)	4.7 (3.8-5.6)	3.5 (2.5-4.3)	3.3 (2.3-4.1)	2.7 (1.7-3.6)
GDP deflator, % y/y	1.3*	2.0 (1.3-2.8)	0.2 (-0.5-1.3)	-0.9 (-1.6--0.1)	-0.9 (-1.5--0.1)	-1.3 (-1.9--0.7)
CPI, % y/y	0.9	1.1 (0.8-1.4)	1.4 (0.9-1.9)	1.0 (0.5-1.5)	0.6 (0.1-1.0)	0.4 (-0.1-0.8)
PPI, % y/y	5.0	6.7 (4.9-8.9)	0.8 (-1.0-4.6)	-2.6 (-4.5-0.0)	-2.5 (-4.4--0.1)	-4.0 (-5.6--2.3)
1-year LPR, % (prob-weighted)	3.00	3.00	2.92	2.90	2.90	2.87
Brent, $/bbl (Q3′26 estimate, then base case)	96	105	92	87	82	75

** Our estimate: NBS does not publish nominal GDP growth or a deflator. The base-case Brent path and the scenario weights (55% / 25% / 20%) are judgment, not model output; section 8 sets out the three scenarios.*

How to read this note. Each section opens with its conclusion. Figures are images, not live charts, and every one carries its sources and caveats in the caption line. Where the data are our own estimate, derived from published levels, or missing, we say so on the figure and again in section 10.

2. Anatomy: steady real growth, a changing engine

Real GDP growth has stayed between 4.3% and 5.4% for three years, so the headline hides the real story, which is who is doing the work. Over the first nine months of 2026, final consumption added 2.1pp to growth, gross capital formation 1.3pp and net exports 1.2pp (NBS, cumulative; total 4.6%). In H1 the split was 2.1 / 1.7 / 0.8. Differencing the two cumulative readings, which is our arithmetic and carries an error of about ±0.3pp per component, implies that net exports supplied roughly 2pp of Q3's 4.5% while capital formation supplied roughly 0.5pp. That is the cleanest way to see the shift: investment has slowed sharply and the trade surplus has taken over.

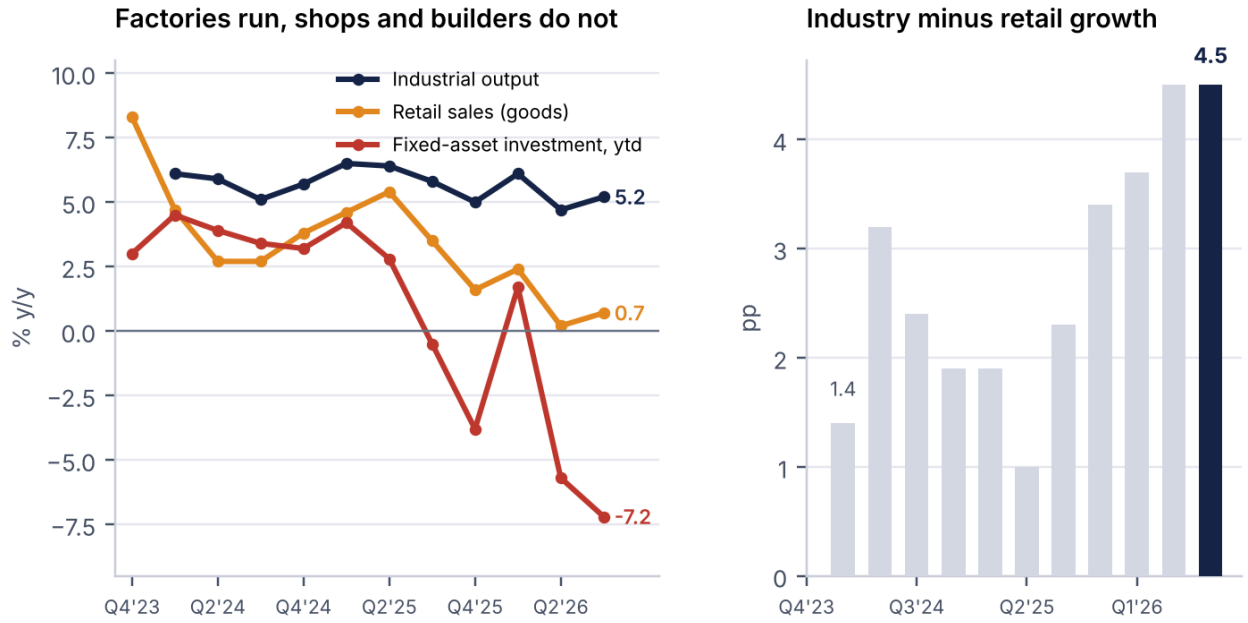


Sources: NBS, PBoC, China customs, EIA, IMF, World Bank (Oct 30, 2026 vintage); Global Strategy Files models. Q3'26 nominal and deflator are our estimate (NBS has not published nominal GDP growth).

Figure 2. Real growth is flat, nominal growth is not. The shaded band is the 2026 target range. Q3'26 nominal GDP and the deflator are our estimates from NBS levels; a press source puts the Q3 deflator at +1.5%.

Nominal growth is what pays wages, taxes and debts, and for twelve quarters it ran below real growth because the deflator was negative. That ended in Q2 2026: nominal growth moved from 3.8% in Q4'25 to 5.9% in Q2'26 and held there in Q3, with no change in real

activity. The recovery in revenues and profits that this implies is a price effect, not a volume one. Section 5 shows what lies behind it.



Sources: NBS, PBoC, China customs, EIA, IMF, World Bank (Oct 30, 2026 vintage); Global Strategy Files models. Q4'23 industrial output not published as a quarterly figure. Retail Q3'25-Q3'26 partly derived by NBS-based arithmetic.

Figure 3. Left: quarterly y/y growth in industrial value added, consumer-goods retail sales and fixed-asset investment (year to date, ex-rural). Right: the gap between industry and retail. Retail sales for Q3'25-Q3'26 are partly derived from NBS year-to-date levels (±0.3pp); Q4'23 industrial output was not published as a quarterly figure.

The supply side runs hot while demand lags. Industrial output grew 5.2% in Q3, with high-tech manufacturing at +14.3% and equipment at +10.2% for the first nine months, but consumer-goods retail sales grew only 0.7% in Q3 (1.1% year to date) and the gap between the two, at 4.5pp, ties Q2 2026 as the widest in the three-year window. Fixed-asset investment is down 7.2% year to date: equipment purchases are up 9.7% and intellectual-property investment 9.3%, but construction and installation are down 10.0%. The services sector still contributes about two-thirds of growth (66.3% in the first nine months) and services retail is growing 5.0%, which is why consumption is not collapsing; goods demand, however, is flat.

The labour market is stable on paper: urban surveyed unemployment was 5.2% in September, against a target of about 5.5%, but youth unemployment (16-24, excluding students) is 18.0%. Per-capita disposable income rose 4.4% in real terms in the first nine months, a little slower than GDP growth of 4.6%.

END OF THE FREE PREVIEW

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