

## China's GDP beats expectations amid intensifying global headwinds

China produced a solid first-quarter GDP read, as strong tertiary industry growth and solid industrial activity helped offset still sluggish consumption and investment and a drop in the first-quarter trade surplus. Higher energy prices could begin to drag on growth in the months ahead



China's robust trade performance has sparked fresh interest in the renminbi

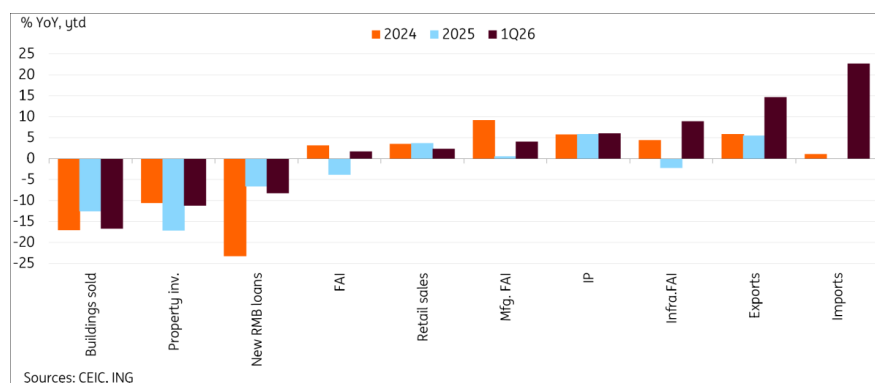
# 5.0% YoY

 China's 1Q26 GDP

Higher than expected

## External demand continues to be a key growth driver for growth

But rising import costs could start to cut into growth



## China's GDP started 2026 off strong

China's GDP came in at 5.0% year-on-year in the first quarter, beating the market and our expectations for a more modest start to the year. This 5.0% level was in line with the 2025 full-year growth and the fastest since the second quarter of 2025.

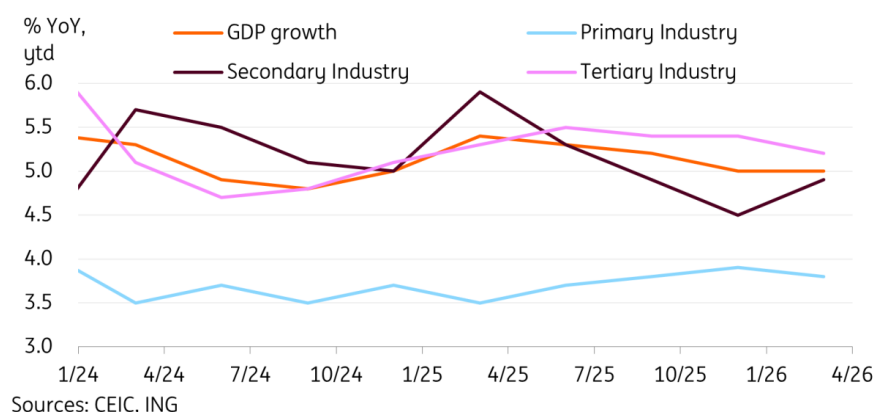
The services sector gets the credit for this outperformance. China's tertiary industry grew 5.2% YoY in 1Q26, outpacing the 4.9% growth in the secondary industry and the 3.8% growth in the primary industry. Households rebalancing spending from goods to services could be a factor in why growth beat expectations despite the slowdown of retail sales.

The breakdown of the GDP data will make for interesting reading when more details are available in a few days. We just saw [China's 1Q26 trade surplus fall in YoY terms](#). There are also growing signs of reflation, which should be weighing on the GDP deflator. March's data show stronger-than-expected industrial activity but disappointing investment and consumption, suggesting that domestic activity remains sluggish.

It's likely that 1Q26 growth is mostly insulated from the negative impact of the Iran war. China is well-placed to weather short-term disruptions, but could face more pressure if energy prices remain higher for longer. We could see a greater impact of higher prices on import costs and input costs in the months ahead.

However, for now, this above-expectation growth at the start of the year is positive news for China's growth, helping it achieve this year's growth target of 4.5-5.0%. It gives policymakers some buffer to work with and potentially reducing the urgency to ramp up more aggressive stimulus.

## Tertiary industry continued to outperform in 1Q26



## Industrial activity remains bright spot in China's domestic activity data

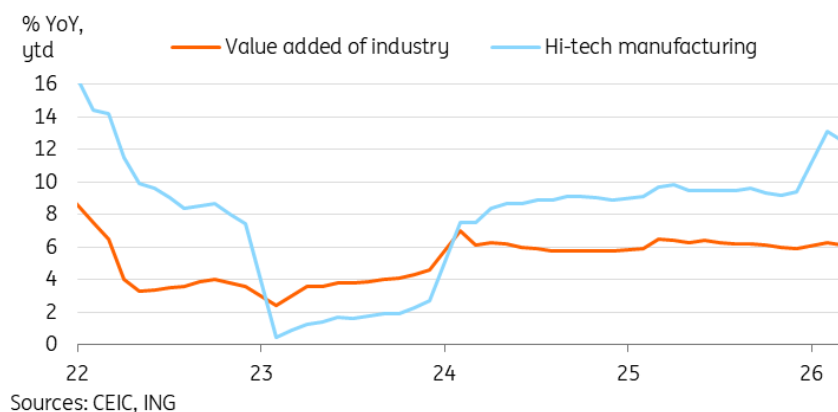
Value added of industry rose 5.7% YoY in March, down from the 6.3% YoY ytd level in the first two months of the year, but still stronger than market consensus and our slightly more optimistic forecast. Through the first quarter of 2026, value added of industry has grown 6.1% YoY ytd, a clear outperformer in China's domestic activity indicators.

Strong external demand continues to support China's industrial activity. The areas with the fastest-growing exports also saw the strongest industrial production growth, such as rail, ships, and aeroplanes (13.3%), computer, communication, and electronic equipment (12.5%), autos (7.5%), and semiconductors (20.6%).

China's robotics industry continues to see solid growth, with production of industrial robots (24.4%) and service robots (6.7%) both surpassing the headline growth.

China's increasing hi-tech manufacturing (11.7%) competitiveness is likely to be one of the core pillars of growth in the coming years.

## Hi-tech manufacturing continues to comfortably outpace overall industrial activity



## Retail sales growth sliding as trade-in policy effects offset decent performance elsewhere

Retail sales, on the other hand, missed expectations, coming in at just 1.7% YoY in March, after a 2.8% YoY ytd start in the first two months of the year. Through the first quarter of 2026, retail sales have grown just 2.4% YoY ytd.

We've written many times about the fading impact of China's trade-in policy and how it was gradually turning from a tailwind to a headwind in the data. We're seeing this play out very clearly in the data.

Looking at the key beneficiary categories of China's trade-in policy, we saw household appliance sales drop by -5.0% YoY in March, lowering 1Q26 growth to 0.0% YoY, after year-on-year growth of over 30% for multiple months last year.

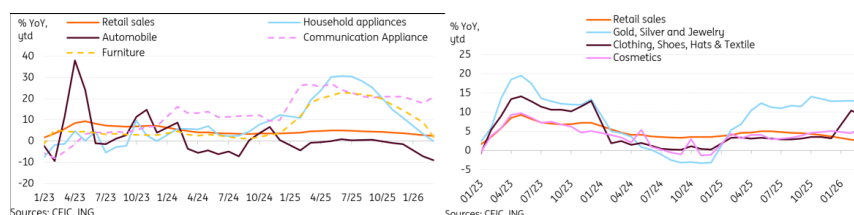
Similarly, furniture sales fell -8.7% YoY in March, bringing 1Q26 growth to a paltry 1.9% YoY ytd, after growing in excess of 20% for multiple months last year.

Auto sales remained sluggish, down -11.8% YoY in March and -9.1% YoY ytd in 1Q26. The trade-in policy and other preferential policies for EVs had been instrumental in China's rapid adoption. But it looks like this is plateauing and should enter a more mature supply-and-demand cycle ahead.

The last key subcategory yet to show signs of a notable slowdown is the communication appliance category. It continues to see robust YoY growth of 27.3% in March, boosting 1Q26 growth to 20.8% YoY. If this softens, we could see further pressure on retail sales data ahead.

The drag from the trade-in policy categories offsets the actual decent growth in other categories. Discretionary spending categories such as gold and jewellery (11.7%), cosmetics (8.3%), and garments (7.7%) all performed well in March. Staples such as grain, oil, and other food (9.5%), beverages (8.2%), and tobacco and liquor (7.7%) all saw much stronger growth than headline growth.

## Drag from last year's outperformers is overshadowing decent sales growth elsewhere



## Fixed asset investment softened in March

Fixed asset investment growth edged down slightly to 1.7% YoY ytd, down from 1.8% YoY ytd in the first two months of the year, weaker than expectations for a slight acceleration.

The data continues to suggest that the government is following through on its intention to stabilise investment. Public-led investment rose 7.1% YoY ytd, while private sector caution persists, with private enterprise investment down -2.2% YoY ytd. Manufacturing FAI came in decently at 4.1%

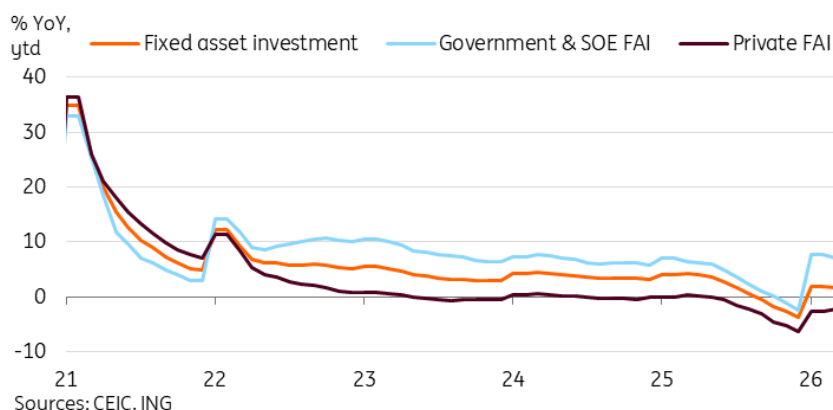
YoY ytd, while infrastructure FAI outperformed with a 8.9% YoY ytd growth in 1Q26.

While overall investment growth remains sluggish, certain industries continue to see strong investment. The rail, ships, and aeroplane industry saw 27.7% YoY ytd growth, while the logistics industry saw 16.3% YoY ytd growth as well. We also saw solid investment growth in the agricultural (15.2%), mining (15.0%), and textiles (17.6%) industries.

The larger drag on investment came from the usual culprit: real estate FAI, which was down -11.2% YoY ytd. The tertiary sector, too, where FAI into education (-7.9%), healthcare (-9.7%), and culture, sport, and entertainment (-5.4%) were deep in negative territory again after performing poorly in 2025.

While it's encouraging to see FAI growth back in positive territory after 2025 marked the first recorded annual decline, the 1.7% YoY ytd pace suggests investment is unlikely to be a major growth driver this year.

## Strong public sector led investment suggests early efforts to stabilise investment growth



## Property prices continued to drop but at slowest pace since 1Q25

The National Bureau of Statistics published its 70-city sample of housing prices. New home prices fell by -0.21% month-on-month, while used home prices fell by -0.24% MoM in March. While prices continued to fall, we began to see more divergence in the city-level data, and overall, the pace of contraction was the smallest since 1Q25.

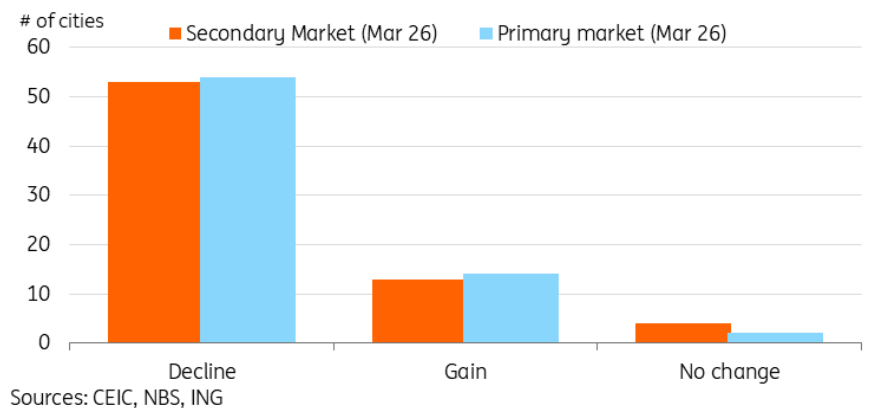
Looking at the city-level data, for the primary market, 16 cities saw prices stabilise or increase in March, down slightly from 17 in February. In the secondary market, we saw 17 cities with stable or higher prices, marking the highest proportion since 2023, including a 0.6% MoM price pickup in Beijing. This is an encouraging development, as secondary market prices will have a bigger impact on household confidence.

While continued price declines can't be characterised as good news, there does appear to be at least some momentum toward stabilisation again.

We continue to await signs of confirmation of a trough forming. Structural overcapacity remains a

consideration for lower-tier cities. But stabilisation of prices in tier 1 and 2 cities would be a significant step in China's efforts to pivot toward domestic demand-driven growth.

## Property prices continued to fall but more cities saw rising or stable prices



### Author

**Lynn Song**

Chief Economist, Greater China

[lynn.song@ing.com](mailto:lynn.song@ing.com)

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