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CHINA

China beats dreary expectations, but more work needed to support growth

China's first batch of hard economic activity data for 2026 beat the rather downbeat forecasts. But there's still work to be done to support the domestic economy and achieve this year's growth targets - especially as inflation risks are picking up



Property prices continued to decline, albeit at a slower pace

One of the core drivers of China's soft domestic demand has been the protracted downturn in the property cycle, which has been a notable drag on household confidence and investment.

The price decline continued in February. New home prices fell by -0.28% month-on-month, while used homes fell by -0.43% MoM. Home prices have been in sequential decline for the past 33 months. They're now down 13% for new home prices and 22.2% for used home prices, representing major blows to household balance sheets.

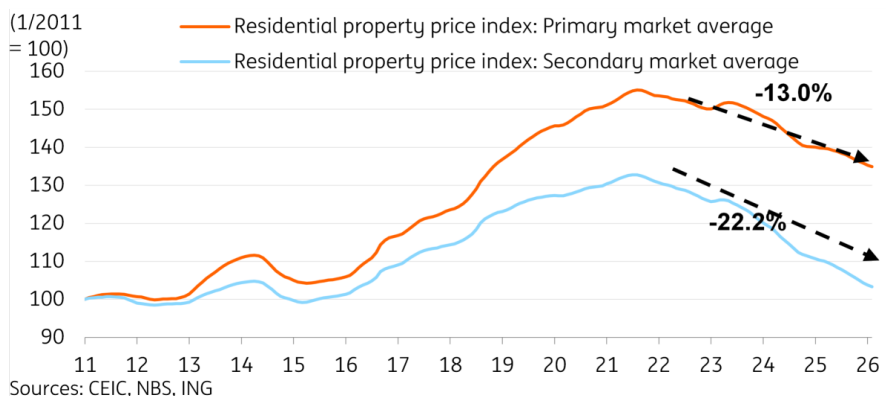
However, relative to the past few months of rather dismal data, there were several silver linings.

Overall, the monthly decline in February was the smallest since May 2025. The city-level data looked generally stronger than it had in a few months. The new-home market showed signs of

improvement, with 17 cities seeing prices stabilise or increase in February. For the used home markets, Beijing and Shanghai saw price increases on the month, while prices were flat in Shenyang and Xiamen. The 66 other cities in the sample all saw price declines in February. Nonetheless, the proportion of cities with prices unchanged or rising was the highest since May 2025.

Resolving property market risks was a goal mentioned at China's Two Sessions, but the aggressiveness of policy action remains to be seen. Success or failure will likely play a big part in how efforts to increase domestic demand unfold.

China's property market malaise continues to hold back domestic demand recovery



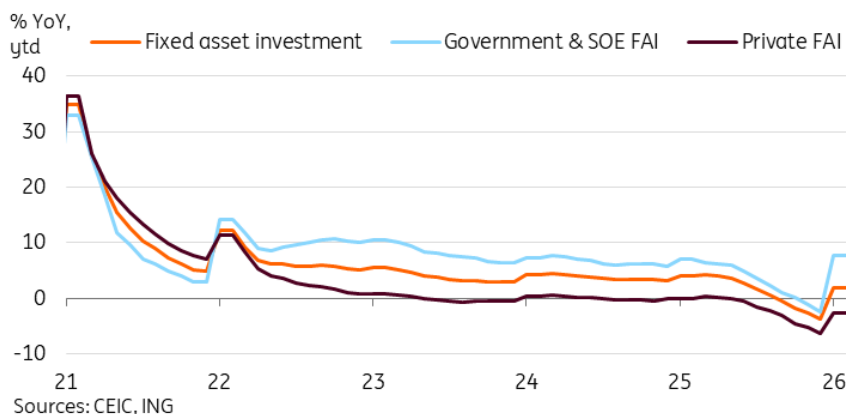
Fixed asset investment returns to tepid positive growth

Fixed asset investment rebounded to 1.8% year-on-year, year to date, for the first two months of 2026, improving incrementally from the -3.8% YoY drop in 2025. The level bucked market expectations for a steep -5.1% YoY decline to start the year; it was roughly in line with our forecast.

After registering the only full-year investment contraction since the data became available, policymakers signalled an intention to halt the contraction in investment growth. They maintained standards for investment quality and avoided redundant investment. This will be a challenging task for the year.

For the first two months of the year, we're seeing these efforts in play, with public-led investment up 7.7% YoY ytd, while private investment was down -2.6%. The rail, ship, and aeroplane sector (31.1%) saw the strongest growth so far in 2026, significantly outpacing the other manufacturing industries. Outside of manufacturing, the agriculture (16.6%), mining (13.0%), and utilities (13.1%) sectors all performed surprisingly well.

FAI rebound was strongly led by public sector boost



Retail sales beat expectations to start the year

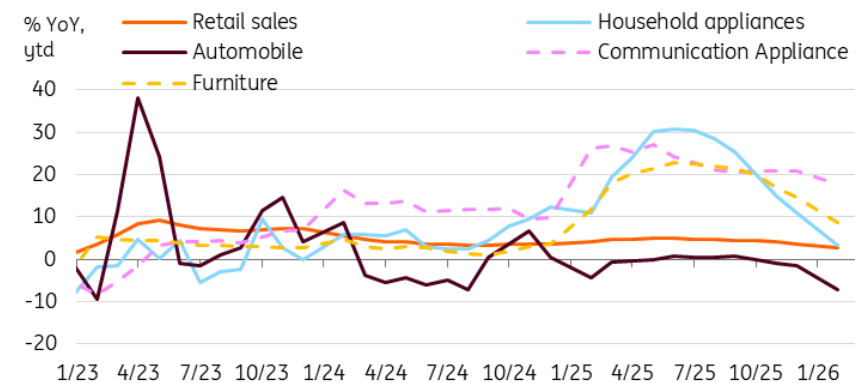
Retail sales rebounded to 2.8% YoY ytd in the first two months of 2026, up from 0.9% in December. This level beat our expectations -- and the market's -- for a smaller rebound. While the overall level remains quite weak, the underlying data are relatively encouraging.

Looking at the breakdown of retail sales, there's a very clear drag from three categories offsetting what otherwise was a strong report. These three categories are autos (-7.3%), petroleum products (-9.7%), and construction and decoration materials (-2.2%), and are tied to China's EV transition, and ongoing softness in the property market.

The other categories actually did quite well to start the year. After taking a back seat last year, China's "eat, drink, and play" theme categories handily outperformed headline growth to start 2026. Catering (4.8%), tobacco and alcohol (19.1%), and sports and recreation (4.1%) all fared well. Amid the record surge of gold, silver, gold and jewellery also saw strong retail demand at 13.0% YoY. Communication devices also started the year strong at 17.8% YoY.

With the trade-in policy's scale diminishing this year, and with last year's base effects coming into play, the growth in beneficiary categories such as communication devices, household appliances, and furniture could slow in the coming months.

Outperformance of trade-in policy beneficiaries will likely continue to narrow in coming months



Sources: CEIC, ING

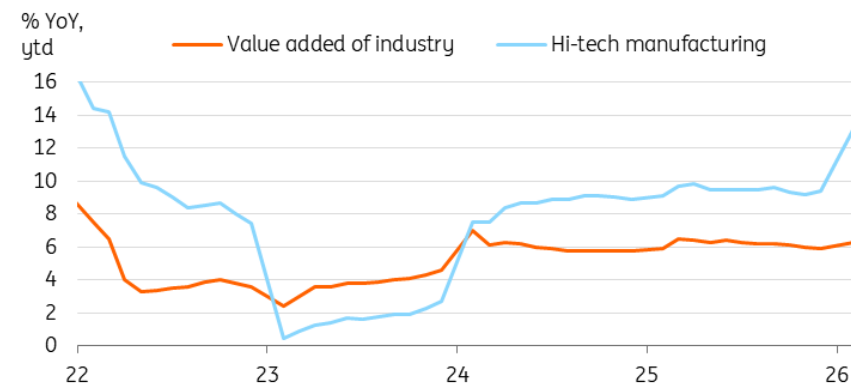
Industrial production continues to outperform amid strong external demand

China's value added of industry rose 6.3% YoY ytd in the first two months of the year, also beating market expectations.

We continue to see evidence of China's key industrial modernisation strategy in the data. Hi-tech manufacturing grew by 13.1% YoY, with a 31.1% increase in industrial robotics production to start the year. The computer & communications (14.2%) and rail, ship, and aeroplane (13.7%) categories also performed well.

At the same time, anti-involution efforts to crack down on excess capacity in the auto industry may also be starting to gain traction. The auto industry as a whole saw a 3.4% YoY ytd gain in value added, but auto production by volume was down -9.9%, with EVs in particular down -13.7%. Recall that the government published a Price Behaviour Compliance Guideline for the auto sector to crack down on automakers' pricing vehicles below cost. The industry may face waves of consolidation as clear winners and losers emerge.

Hi-tech manufacturing has consistently been outperforming headline since 2024



Sources: CEIC, ING

Decent start to the year for China as markets await data on impact of Iran war

Our first data dump of the year showed indicators beating forecasts across the board, largely due to downbeat expectations rather than a particularly robust domestic economy.

After the [significant beat in trade data to start 2026](#), the same theme from the last two years remains in play, where a resilient external environment helps offset relatively slower domestic growth. While we have seen a lot of attention at high-level policy meetings to boosting domestic demand, today's data does beat market forecasts, but there's still much work to be done on this front.

Next month's data will no doubt be watched closely. The market will gauge how the rise in oil prices amid the Iran conflict will impact global growth and inflation. In China, even absent the impact from surging oil prices, we already saw inflation hit a 37-month high. Rising oil prices should only add to this, even though the immediate impact is highly uncertain. Short-term price spikes can be blunted by drawing on oil reserves, and with reports that Chinese oil tankers are still able to pass through the Strait of Hormuz. Nonetheless, as things stand today, the odds of CPI inflation eclipsing our current 1.0% YoY forecast this year have risen, and PPI inflation could return to positive levels for the first time since September 2022 in the coming months.

China's real GDP growth has benefited from a negative GDP deflator for the past 10 quarters. If this returns to positive levels, which positive CPI and PPI would suggest, nominal growth will need to accelerate to reach growth targets, even though the real GDP [growth target was softened to 4.5-5% at the Two Sessions](#) this year.

As such, all eyes remain on the policy rollout in China in the months ahead, and whether this

will be sufficient to achieve the goals. We maintain our 4.6% YoY GDP forecast for 2026 for now.

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