

A two-speed economy

- The latest data in China has changed little to the overall picture of a two-speed economy with domestic demand looking weak while exports and tech continue to power ahead.
- Growth is set to be close to the government's 5% target again this year but finishes the year on a weak note. We look for new stimulus to lift growth in the first half of 2026 and that the target will again be set around 5%.
- We stick to our growth forecast of 4.9% in 2025 followed by 4.8% in 2026. In 2027 we project 4.7% growth.
- More important will be the composition of growth and we expect to see more of the same with domestic demand still not strong enough to match supply keeping overcapacity and deflationary pressures as lingering problems.
- In the new Five-Year Plan, China doubles down on tech and puts more weight on boosting consumer demand. It will require new and more forceful measures to stabilize housing, though, which may take some time still.
- US-China tensions have eased again but we expect a continued bumpy road ahead. Tensions with EU have intensified this year and we see little respite in 2026.
- The question of reunification with Taiwan still lingers but we see limited risk of military conflict during Trump's Presidency.

	2024	Forecast 2025	2026	2027
GDP Growth	5.0%	4.9% (4.9%)	4.8% (4.8%)	4.7%
Inflation	0.2%	0.0% (0.3%)	0.7% (1.0%)	1.0%
Unemployment	5.1%	5.2% (5.1%)	5.2% (5.1%)	5.2%
Policy Rate*	1.50%	1.20% (1.20%)	1.00% (1.00%)	0.80%

Parentheses are the old projections (From September 2025)

*End of period (7-day reverse repo rate)

Source: Danske Bank, Macrobond

A known pattern

Chinese growth this year has followed a similar pattern to the previous years: coming out of the gates pretty strong only to slow down towards the finish. After strong growth in the first half, growth has thus slowed again in the second half, with especially consumer spending and investments looking weak. Exports has remained robust with real growth around 10% and tech companies have had a strong recovery in profit growth and solid performance in the equity market. China continues to be a two-speed economy with ongoing domestic problems while external sales are strong driven by an improving competitiveness and stronger product line. Overcapacity continues to linger but actual core inflation has been moving higher over the past year from around zero a year ago to 1.2% in October. Producer inflation is still negative, though.

3 December 2025

Important disclosures and certifications are contained from page 3 of this report.



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Allan von Mehren, Chief Analyst

More of the same

Looking into 2026, we look for more of the same: China boosting stimulus in the beginning of the year, still sluggish consumer spending due to weak housing and more (but likely inadequate) measures to turn the housing market. Again, we look for stronger growth in the first half and moderation in the second half.

Exports are likely to be robust again as China has gained a lot of competitiveness over the past two years from deflation in producer prices and being strong in high-demand products such as EVs, solar panels and legacy chips. We also look for further achievements in the AI space as seen with DeepSeek in 2025 and Huawei's AI chips.

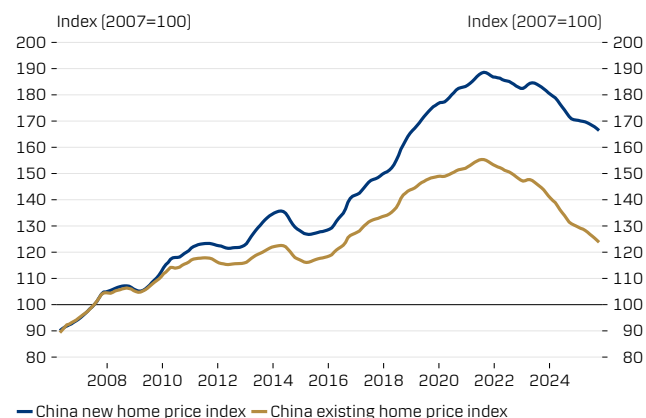
Five-Year Plan doubles down on tech and puts stronger focus on consumption

In October China outlined the main points in the coming Five-Year Plan for 2026-2030, that will be fully revealed in March 2026. The three main points are 1) doubling down on tech, innovation and self-reliance, 2) making more efforts to become the high-tech manufacturing champion of the world and 3) boosting consumption growth and domestic demand in general to reduce overcapacity and reliance on external demand as well as reducing the trade surplus. While we believe China will continue to have success on 1) and 2), point number 3) has proven the toughest nut for China to crack and we see a risk it will take several years to get consumption to become a stronger growth driver. This implies that challenges with overcapacity, deflationary pressures and big trade surplus will be likely to be with us still in 2026. China is in a painful transition of the economy weaning itself off the past reliance on the housing market and moving to an economy instead driven by high-tech investments, 'smart infrastructure' and private consumption. Since the reliance on the housing sector has been substantial in the past, the process will likely take many years and could last for the rest of this decade. Eventually, China could come out stronger, though, if it manages to restore stability to the housing market and unleash pent up demand among consumers that are currently saving extensively due to high uncertainty and weak social security.

US-China trade war to face more bumps, EU-China tensions here to stay

China's rising (goods) trade surplus continues to be a source of tension with other countries, not least the EU and US. Trump's tariffs have for now reduced China's surplus with the US but the surplus with Europe remains. As China becomes a stronger competitor to European companies and differences persist on geopolitical questions, tensions are here to stay. The US-China trade war is on pause at the moment, but we expect to see more bumps on the road in 2026. With trade being weaponized on both sides, the risk of more supply chain disruptions from China's dominance of rare earth minerals is unlikely to go away.

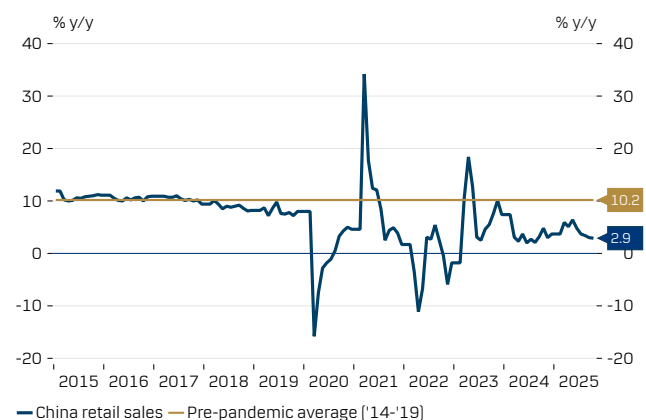
Chinese home prices keep declining



Source: China National Bureau of Statistics (NBS)

Note: Trend- and seasonally adjusted

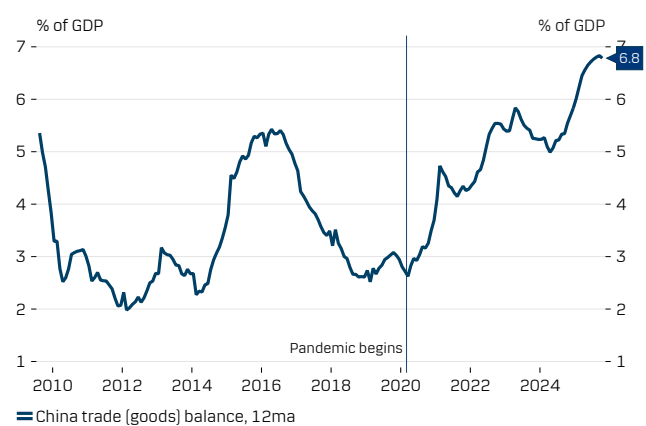
Efforts to boost consumption has failed so far



Source: China National Bureau of Statistics (NBS)

Macrobond Financial, NBS, Danske Bank

Rising trade surplus a source of tension with US and EU



Source: China National Bureau of Statistics (NBS)

Note: Seasonally adjusted



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