



Navigating through new headwinds

- **The two-speed economy is still pronounced with consumer demand weak while exports and tech-related investments are robust.**
- **After a strong start of 5% GDP growth in Q1, new headwinds arrived with the increase in energy costs and higher uncertainty over the export outlook.**
- **Still, we keep the 4.8% growth forecast for 2026 as we look for policy makers to calibrate stimulus to meet the 4½-5% growth target. Risks are skewed to the downside, though. In 2027 we continue to look for 4.7% growth.**
- **The housing crisis continued into 2026 but has shown tentative signs of bottoming out this year. We expect 2026 to be the low point but forecast only a gradual recovery in 2027.**
- **China is moving from a global deflationary force to an inflationary force as producer prices are now rising briskly.**
- **China continues to make headways in technology, and its' companies are increasingly going global. Competition and trade tensions with US and EU are set to be with us for years to come.**
- **US-China relations remain stable following the Xi-Trump meeting in May. The trade war is still on stand by and Chinese supply lines of rare earth minerals continue to be open. The rivalry and competition are set to continue, though, and future supply risks remain a feature of the new world order.**

3 June 2026

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

	2025	Forecast 2026	2027
GDP Growth	5.0%	4.8% (4.8%)	4.7% (4.7%)
Inflation	0.0%	1.0% (0.7%)	1.3% (1.0%)
Unemployment	5.2%	5.2% (5.2%)	5.2% (5.2%)
Policy Rate*	1.40%	1.00% (1.00%)	0.80% (0.80%)

Parentheses are the old projections (From March 2026)

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

Source: Danske Bank, Macrobond

Impact from Iran war starting to show

As seen in recent years, China got off to a strong start in Q1. GDP grew 5% in Q1 lifted by strong exports and a slight pick-up in consumer activity. But in April we saw signs that the Iran war is starting to have an impact on spending. Retail sales slowed to only 0.2% y/y (see chart) and total investments dropped into negative again. Property investments were especially weak with a decline of 13.7% y/y in the first four months of the year. Home sales and house prices also still declined, albeit at a slowing pace. There are some rays of light in the big cities where we have seen increases in both sales and prices following recent housing stimulus.

We expect this year to mark the low point for the housing market but with regional variations where tier-3 and tier-4 cities are expected to lag behind. 2026 is set to be another year of a two-speed economy with weak domestic demand but robust exports



This year China has moved from being a global deflationary force to becoming an inflationary force”

Allan von Mehren, Chief Analyst

and tech investments, not least within AI. We expect the Chinese government to step up stimulus soon to keep growth on track to meet the 4½-5% growth target for this year and we keep our forecast of 4.8% in 2026 and 4.7% in 2027 unchanged.

Over the past 1-2 years China built significant oil reserves of 1.4 trillion barrels and can cope with the disruption of oil supplies through the Strait of Hormuz (SOH) for up to a year. However, being a big oil importer, China will ultimately see rising pain from the closure of the SOH and elevated oil prices if the war drags out.

This year China has moved from being a global deflationary force to becoming an inflationary force. Producer prices have been going up for six months now and saw a jump higher when energy prices spiked higher at the onset of the Iran war. Consumer price inflation has also moved away from deflationary territory, now rising around 1% y/y.

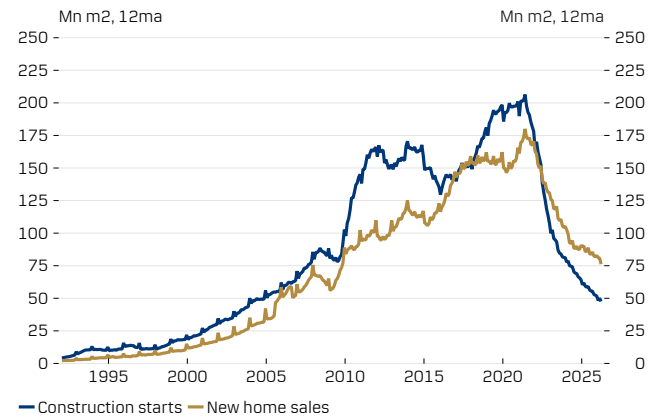
Headways in technology, competition to intensify

Chinese tech development has really taken off in the past couple of years. It is especially evident in EVs, robotics, and AI but we see a general move up the value chain into high-tech manufacturing, which is now around 20% of the economy. Digital industries make up 10%. China's 15th Five-Year Plan for 2026-2030 doubled down on technology, innovation and self-reliance and sets the stage for even more competition with Chinese companies in the years ahead. As Chinese consumption growth is set to stay subdued while China works its way through the housing crisis, we are likely to see a continued high trade surplus and trade tensions with especially EU. We also see Chinese companies going global to a much larger degree than in the past adding to the competitive landscape in global markets.

US-China relations stayed on a stable path following the Xi-Trump summit in mid-May with the trade war ceasefire intact securing no new tariffs or Chinese restrictions to rare earth minerals exports. The rivalry and competition are set to continue, though, and future supply risks remain a feature of the new world order. The Taiwan issue is also set to linger in the years ahead.

China continues its journey of 'self-reliance' to become less dependent of the US and has made headways in areas like development of AI chips and invoicing trade of in the renminbi instead of the dollar. De-risking efforts take place in both US, EU and China as all seek more autonomy. China has the benefit of being a massive population of 1.4 billion people, having become superior when it comes to manufacturing supply chains and dominating mining and processing of many key metals. Nevertheless, China continues to depend a lot on the West, not least when it comes to advanced chip technology as well as consumer markets to sell Chinese made products.

Chinese property de-tox has come far



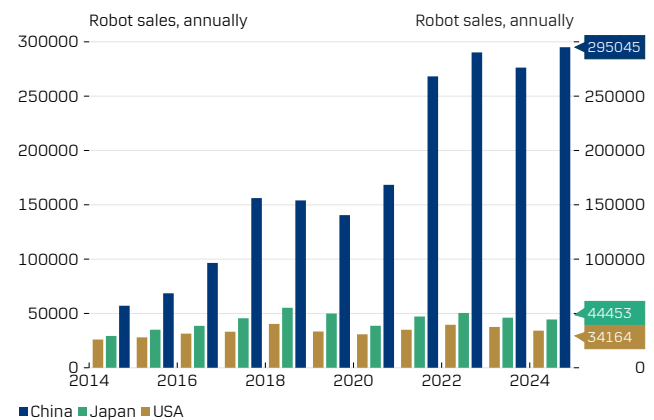
Sources: Macrobond, NBS and Danske Bank

Retail sales remain weak



Sources: Macrobond, NBS and Danske Bank

Chinese companies invest heavily in robotics



Sources: Macrobond, International Federation of Robotics



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