Tech boom amid consumer gloom

- **The divergence in China's economy became even more pronounced over the past quarter as consumer demand weakened further while export growth reached new heights and tech keeps booming.**
- **We expect this two-speed economy to continue for the rest of 2026 and into 2027.**
- **China's housing crisis is a key factor behind the ongoing consumer slump. We see signs of stabilization in home sales and look for home prices to stabilize in 2027.**
- **We have lowered the GDP growth forecast for 2026 from 4.8% to 4.6% on the back of the disappointing consumer data in recent months. We stick to our forecast of 4.7% for 2027.**
- **China's tech boom pushes the economy into new frontiers. The rising competitive pressure from China for European companies is set to continue. EU and China are on collision course in trade relations.**
- **We look for China to keep a 'CNY appreciation policy' over the coming year.**
- **The US and China have agreed on 'constructive strategic stability' but bumps in the road are ongoing and a long-term rivalry is here to stay.**
- **The biggest geopolitical risk related to China is a flare-up in tensions over Taiwan. 2028 elections on Taiwan will be a key test.**

3 September 2026
Important disclosures and certifications are contained from page 3 of this report.

		Forecast	
	2025	**2026**	**2027**
GDP Growth	5.1%	4.6% (4.8%)	4.7% (4.7%)
Inflation	0.0%	0.8% (1.0%)	1.0% (1.3%)
Unemployment	5.1%	5.2% (5.2%)	5.2% (5.2%)
Policy Rate*	1.40%	1.20% (1.00%)	1.00% (0.80%)

Parentheses are the old projections (from June 2026)
**End of period (7-day reverse repo rate)*
Source: Danske Bank, Macrobond

Consumer demand and housing still struggling
China's domestic economy remains stuck in a slump with a negative feed-back loop of falling home prices, high savings, weak employment and slow consumer spending. Until we see a moderate recovery in the housing market, we expect household confidence to remain low and private consumption growth weak. We do see signs that home sales are stabilizing and property prices decline at a slowing pace. Our baseline scenario is that we will see a stabilization in home prices in 2027 followed by moderate increases in 2028, which should drive a recovery in confidence and consumer spending. It implies, though that the consumer engine will be missing for some time still, in China's painful transition towards an economy relying less on housing and more on innovation, high-tech manufacturing and consumer spending. We do expect some lift to growth in the second half of the year from a moderate lift to economic stimulus.

> *While the consumer and housing economy is struggling, China's tech and exports are booming"*
>
> *Allan von Mehren, Chief Analyst*

Exports and tech boom
While the consumer and housing economy is struggling, China's tech and exports are booming. Export growth was up around 25% y/y over the summer months driven by strong shipments of EVs, EV batteries, solar panels and microchips, among other things. China keeps climbing the tech ladder and has moved to the frontier in many new areas, not least AI, robotics and pharmaceuticals. China has developed a strong innovation landscape over the past 20 years driven by strong manufacturing supply chains, increasing talent base, high work effort and government support.

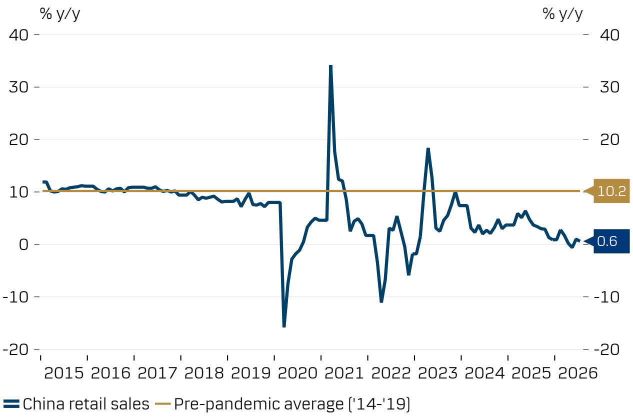
The flip side, though, is intense work pressure and more young people shying away from getting married and having children. This has led to a sharp decline in the fertility rate over the past decade to only 1 over the past decade. China thus faces key demographic challenges over the coming decades with both a big drop in the population as well as an ageing of the society. AI and robotics are seen as part of the answer, but more support for families having children is also implemented. It is doubtful whether it will be enough to turn the low fertility rate, though.

EU-China relations under strain from Chinese competition and rising trade imbalance
Trade tensions have been on the rise this year as EUs trade deficit continues to rise while European companies are now in direct competition with Chinese companies in more areas, not least the auto sector. Chinese overcapacity and heavy use of industrial policy has added to the tensions and EU is preparing more protectionist measures of the European market. China is pushing back, though, and we may very well see more Chinese countermeasures to EU protectionist programs. One of the flashpoints has been the Chinese renminbi, which looks undervalued when measured against the trade imbalance. Over the past year, China has started an appreciation policy of the renminbi, and we expect this trend to continue over the next year.

US-China relations more stable but with bumps on the road
US President Donald Trump's visit to China in April led to an agreement of "constructive strategic stability" and 2026 has been characterized by more calm relative to the turbulent 2025. While the two powers are on a more stable footing, we still see tensions flare up occasionally and the long-term rivalry is set to continue for the foreseeable future.

The greatest geopolitical risk related to China is the Taiwan issue, which continues to linger in the background. A Taiwanese election looming in 2028 will be key for the subsequent path on the question. If KMT, which is more China friendly, wins, it could calm down the issue. However, if the independence-seeking DPP wins the Presidency for the third time in a row, it could cause new tensions. We still see the bar being high for a Chinese invasion in this decade, though, as such a military operation is extremely difficult; a point we think is often overlooked by many observers.

The Chinese consumer recovery is still missing



Source: Macrobond, NBS, Danske Bank

Signs of stabilization in home sales after sharp decline

Source: Macrobond, NBS, Danske Bank

Chinese exports booming

Source: Macrobond, GAC

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Where no other source is mentioned statistical sources are: Danske Bank, Macrobond, EC, IMF and other national statistical institutes as well as proprietary calculations.

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