

## A Broad-based Rebound Built a Solid Foundation for Q1 2026



- Major economic indicators exceeded market expectations in January-February 2026, signalling a solid start to the year.
- The high-tech sector drove robust growth in industrial production and exports, while retail sales gathered pace and investment returned to growth.
- Solid momentum in January-February 2026 raised the possibility of Q1 GDP growth reaching the upper bound of the 4.5%-5.0% target range.

### Major economic indicators showed notable improvements for January-February

**The Chinese Mainland economy staged a broad-based rebound in early 2026.** Major economic indicators for January-February 2026 exceeded market expectations. Bolstered by the Chinese Mainland's globally leading high-tech competitiveness, both external trade and industrial production delivered outsized performances. Concurrently, retail sales growth accelerated, and fixed asset investment (FAI) returned to growth following a notable contraction in 2025. The widening trade surplus, coupled with improved domestic demand, points to a faster pace of GDP growth in Q1 2026.

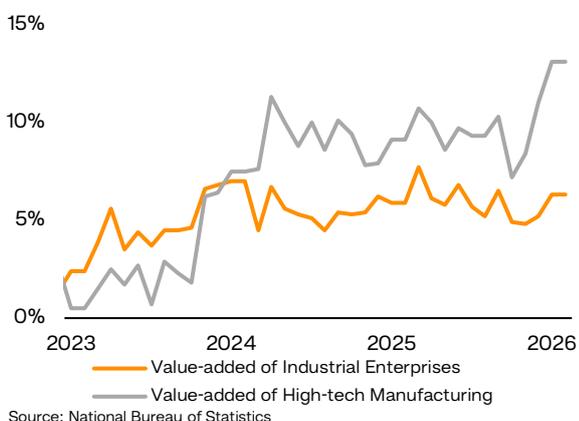
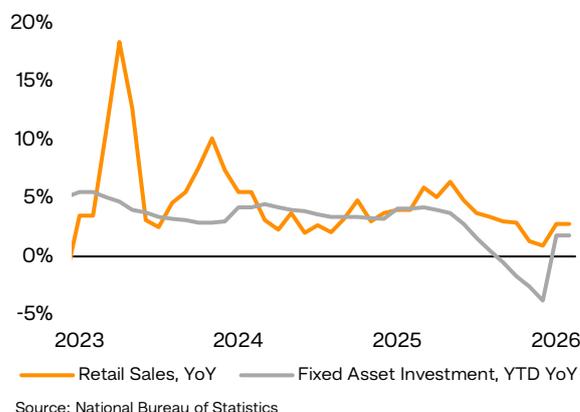
**External trade continued to support growth in early 2026.** In January-February 2026, the Chinese Mainland's merchandise exports and imports surged by 21.8% YoY and 19.8%, partly due to a lower base of comparison. The trade surplus reached USD 213.6 billion in the first two months, setting a record high for the same period. Meanwhile, non-US markets continued to drive exports, with rapid shipment growth to ASEAN (27.8% YoY) and the EU (29.5%). Thanks to stabilising China-US trade relations, exports growth to the US recorded a narrower decline of 11.0% YoY in January-February

2026, compared to a 20% drop in 2025. Elevated geopolitical tensions in the Middle East have materially disrupted global supply chains and induced significant volatility into global energy markets, while the overall impact on global trade remains to be seen.

**High-tech evolution drove robust growth in industrial production.** Industrial production (IP) growth accelerated to 6.3% year-on-year (YoY) in January-February 2026, up from 5.2% in December 2025. The continuous evolution of artificial intelligence (AI) and its broadening adoption have unleashed massive demand for advanced technology components and equipment. Specifically, IP growth in high-tech and equipment manufacturing rose to 13.1% and 9.3% YoY, respectively. These figures underscored how the Chinese Mainland's technological competitive edge has established high-tech industries as the primary growth engine, validating the policy pivot toward developing new quality productive forces.

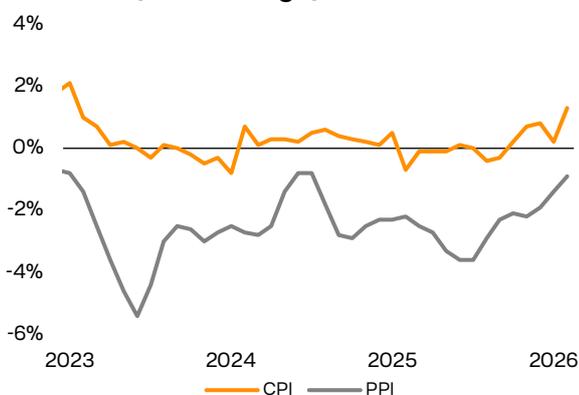
**Retail sales gathered pace amid festive sentiment and front-loaded policy support.** Total retail sales growth rose to 2.8% YoY in January-February 2026, a marked improvement from 0.9% in December 2025. Consumer sentiment was boosted by a longer-than-usual 9-day Chinese New Year holiday and front-loaded pro-consumption incentives introduced in January. Retail sales of services remained resilient, growing by 5.6% YoY in January-February 2026, up slightly from 5.5% in 2025. This growth was particularly pronounced in tourism, cultural and leisure services, which all registered double-digit expansions.

**Investment returned to growth.** Nominal FAI grew by 1.8% YoY in January-February 2026, reversing the 3.8% full-year contraction in 2025. Infrastructure FAI growth accelerated sharply to 11.4% YoY for January-February 2026, as the authorities expedited the launch of major national projects aligned with the 15th Five-Year Plan. Manufacturing FAI also expanded steadily by 3.1% YoY, driven by targeted policy such as equipment renewal subsidies and structural relending programmes for technological innovation and technical transformation. While property development FAI remained in a deep contraction of 11.1% YoY, the pace of decline moderated from the 17.2% drop recorded for the full year of 2025.

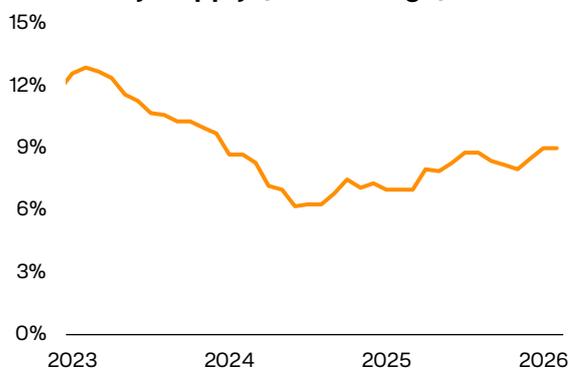
**Industrial Production (YoY)**

**Retail Sales and Fixed Asset Investment**


**Inflation readings in February were above market expectations.** In the first two months of 2026, headline and core consumer price index (CPI) inflation rose to 0.8% and 1.3% YoY, respectively, reflecting a steady stabilising trend. Meanwhile, producer price index (PPI) exhibited a narrowed decline of 0.9% YoY in February, up from a 1.1% drop in January and better than market estimates.

**Monetary backdrop remained supportive to growth.** M2 money supply sustained rapid growth of 9.0% YoY in February. Credit demand also held largely steady. Total social financing (TSF) rose by RMB 2.4 trillion in February, with outstanding TSF increasing by 8.2% YoY. In the first two months of 2026, corporate loans posted higher increments relative to last year, while new household loans contracted. Meanwhile, new government bonds were largely unchanged.

**Inflation (YoY Change)**


Source: National Bureau of Statistics

**M2 Money Supply (YoY Change)**


Source: People's Bank of China

## GDP growth outlook for Q1 is promising

**A notable uptick in GDP growth is anticipated for Q1, establishing a strong foundation to achieve the 4.5%-5.0% growth target for 2026.** For 2026, the authorities are poised to maintain a proactive fiscal policy alongside an appropriately accommodative monetary policy. In accordance with the Government Work Report 2026, the authorities approved a slightly lower GDP growth target at a range of 4.5%-5.0%. This reflects a departure from the "around 5%" target of the past three years, providing the government with the necessary buffer to execute economic transformations. On the fiscal side, fiscal intensity is set to mirror the previous year, which maintains the fiscal deficit-to-GDP ratio at 4% and similar issuance quotas of local government special bonds (RMB 4.4 trillion) and ultra-long special treasury bonds (RMB 1.3 trillion). Regarding the monetary policy outlook, the People's Bank of China retains room for further reductions in the required reserve ratio (RRR) and interest rates to ensure adequate liquidity in the financial system. Based on the momentum in January-February 2026, GDP growth for Q1 2026 is likely to approach the upper bound of the 4.5%-5.0% target range.

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