

WSJ Print Edition

Exports Drive China's Economic Growth

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China reported accelerating economic growth to start the year, driven by robust exports, but shock waves from the Iran war threaten its momentum.

China's gross domestic product expanded 5% in the first quarter of 2026 compared with a year earlier, up from 4.5% growth in the fourth quarter of 2025, who show government data released Thursday.

Trade helped drive much economic expansion, with dollar-denominated exports surging 22% in January and February from a year earlier. But export growth slowed sharply to 2.5% in March, underscoring the risk of relying on global demand to boost the economy.

China is better-positioned than many countries to weather the Middle East conflict's energy shocks because of its oil stockpiles and renewable-energy sources. China's manufacturers and farmers have faced limited supply disruptions so far, according to high-frequency data analyzed by Citigroup.

Beijing has in some ways prepared for a slowdown in growth. Earlier this year, China set its lowest annual growth target in more than three decades, aiming for GDP growth of between 4.5% and 5% this year, compared with around 5% in recent years.

China's renewable-energy industry is emerging as a winner from the Iran war fallout. China dominates the production of solar panels and electric vehicles, which are seeing a burst of new demand worldwide.

Still, a prolonged increase in energy prices could reduce overall spending by other countries, limiting China's ability to use exports to meet its growth target. Many of China's fastest-growing trading partners in the past year have been lower-income regions such as Southeast Asia that rely heavily on imported energy sources and are vulnerable to price shocks.

"While China's production side is relatively insulated

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from such shocks, the demand side presents a more immediate concern," analysts at Goldman Sachs said in a report.

Without strong export growth, China has few good levers to boost the economy. Household spending remains tepid. Retail sales, a key gauge of household spending, rose 1.7% in March from a year earlier, down from a 2.8% increase in the January-February period.

China's property market continues to drag on consumer and business sentiment. Home prices in major Chinese cities fell 3.6% in March from the year prior, widening from a 3.5% drop in February, official data showed. Property investment fell 11% year over year in the first quarter, while home sales tumbled about 19%.

Higher commodity costs for China's manufacturers could further erode profit margins, clouding the outlook for investment. Already, factory prices in China rose in March for the first time in more than three years.

China's urban jobless rate edged up to 5.4% last month from 5.3% in February. *Not*

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China GDP, change from a year earlier



Note: Adjusted for inflation
Source: China's National Bureau of Statistics

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