

China Economy

PMI shows continued recovery momentum

Manufacturing PMI in Mar maintained its recovery momentum as both new orders and production robustly expanded. However, the deflation pressure lingered as both raw material purchase and ex-factory price indexes further contracted. Corporates were reluctant to expand capex and inventory investment, as both inventory of raw materials and finished goods were subdued. Service PMI edged up with improving demand while construction PMI further expanded, although both were weak compared to historical seasonal patterns. Thanks to the improving housing market, strong durables sales as well as the broadening trade surplus, GDP in 1Q25 may have reached 5.2% on our estimates. However, China could face intensifying external headwinds in April and May, as Trump's reciprocal tariffs and extreme pressure tactics could dampen global trade activity, business investment and market confidence. China may consider additional stimulus policies to boost domestic consumption in June or July. The PBOC may cut RRR soon in 2Q25 by 50bps and then cut policy rates by 20bps in 2H25.

■ **Manufacturing PMI recovered as both new orders and production robustly expanded.** Manufacturing PMI edged up to 50.5% in Mar from 50.2% in Feb, almost in line with market expectation of 50.4%. Demand continued its recovery trend since last Sep, with new order index rising to 51.8% in Mar, the peak in 12 months, from 51.1%, while production index edged up to 52.6% from 52.5%. However, deflation pressure lingered as raw material purchase price dropped to contraction and ex-factory price index contracted further. Corporates remained hesitant on sustainability of demand improvement, as both inventory of raw materials and finished goods further contracted. Breaking down by sector, other transportation equipment, computer and electronic equipment saw high growth in both new orders and production, while wood processing & furniture, and oil & coal contracted. Small & medium enterprises notably rebounded to 49.6% and 49.9%, while large enterprises moderated to 51.2%.

■ **Non-manufacturing PMI climbed up.** Service PMI inched up to 50.3% in Mar from 50, with new order index rebounding from 45.9% to 47.1%, contracting at a slower pace. Price index of final sale and employment index both further contracted, indicating weakening domestic demand and deteriorating labor market conditions. Breaking down by sector, activities in water & air transportation, postal services, telecom, broadcasting & TV, and the monetary market services remained in high prosperity; while dining, public utility and entertainment & sports contracted. Construction PMI climbed up to 53.4% in Mar following work resumption after CNY, although the indexes of new orders, sales price and employment broadly deteriorated.

■ **External headwinds may intensify in Q2, calling for additional policy stimulus.** We expect the GDP to reach 5.2% in 1Q25 due to the continuing recovery in housing demand, strong durables sales, as well as the broadening trade surplus. The recent breakthrough in AI technology and shifting policy focus on demand side should support near-term business sentiment and consumer confidence. However, China could face intensifying external headwinds heading into Q2, as Trump's reciprocal tariffs and extreme pressure tactics might dampen global trade activity, business investment and market confidence. China may consider additional policy stimulus on household consumption in June or July. The central government could support local authorities to provide birth grants to young couples and additional subsidies to the social insurance system. The PBOC may cut RRR soon in 2Q25 by 50bps and then cut policy rates by 20-30bps in 2H25.

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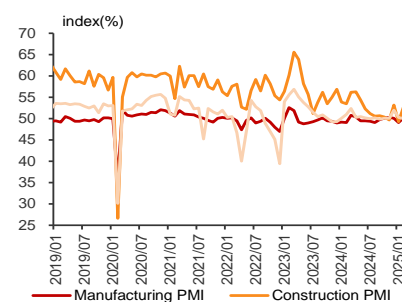
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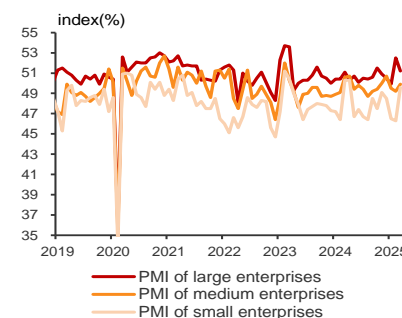
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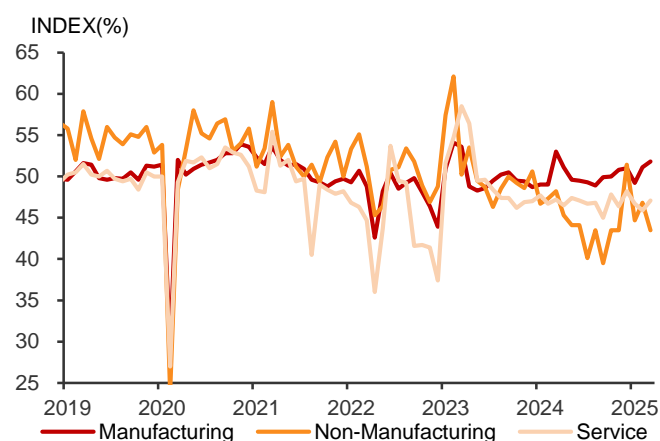
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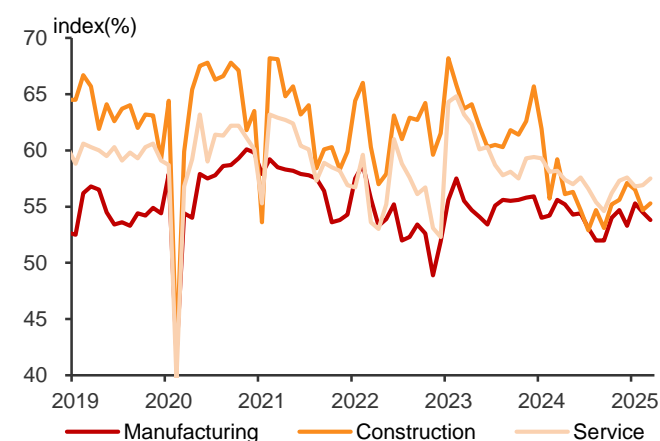
Source: NBS, CMBIGM



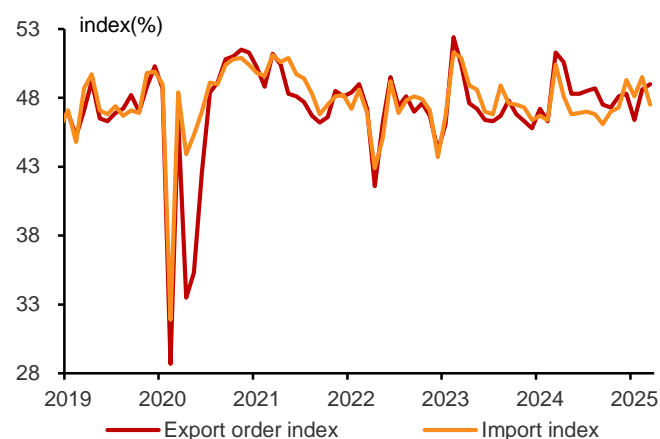
Source: NBS, CMBIGM

Figure 1: New Order Index

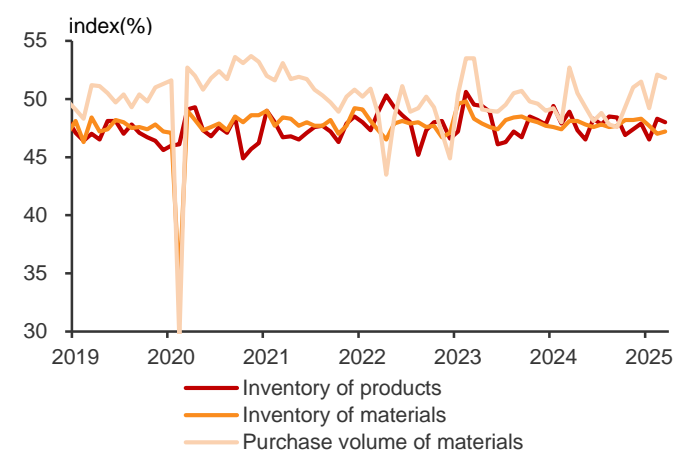
Source: Wind, CMBIGM

Figure 2 : Business Sentiment Index

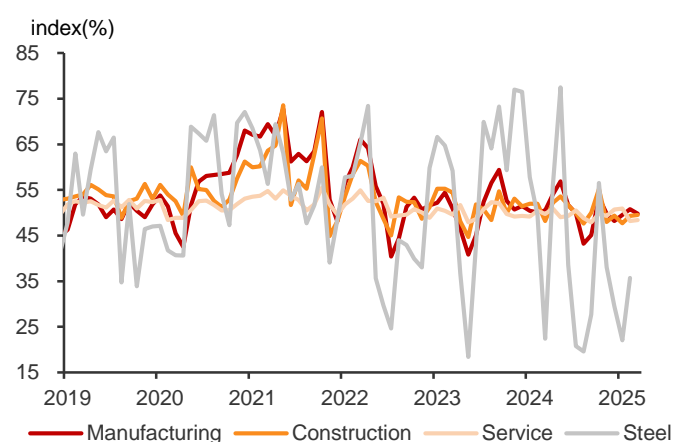
Source: Wind, CMBIGM

Figure 3: Export Order Index and Import Index

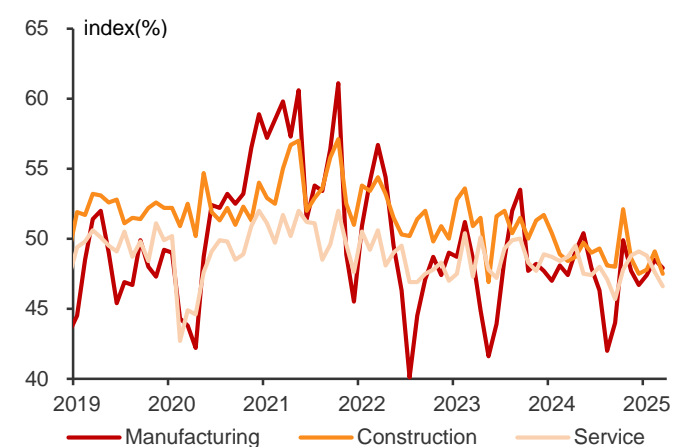
Source: Wind, CMBIGM

Figure 4: Inventory Index

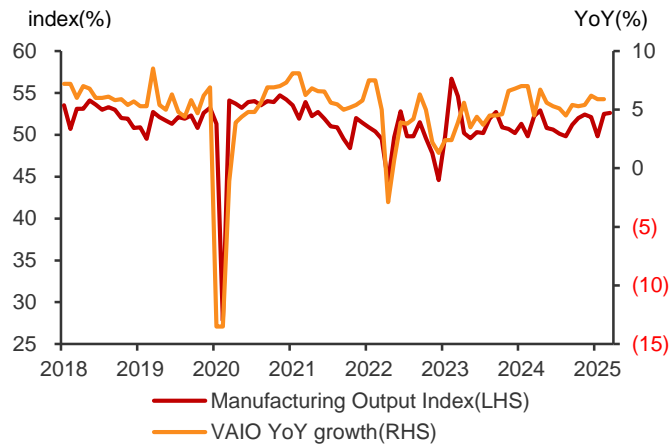
Source: Wind, CMBIGM

Figure 5: Material Purchase Price Index

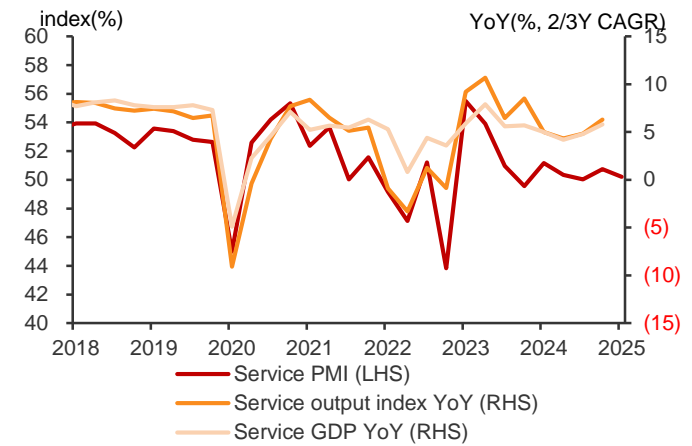
Source: Wind, CMBIGM

Figure 6: Ex-factory Price Index

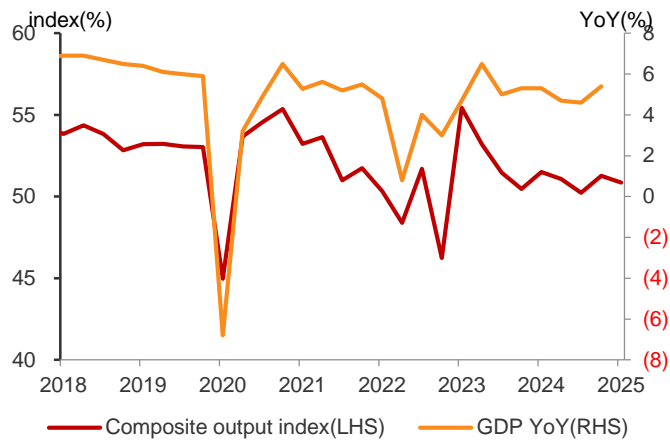
Source: Wind, CMBIGM

Figure 7: Manufacturing output Index

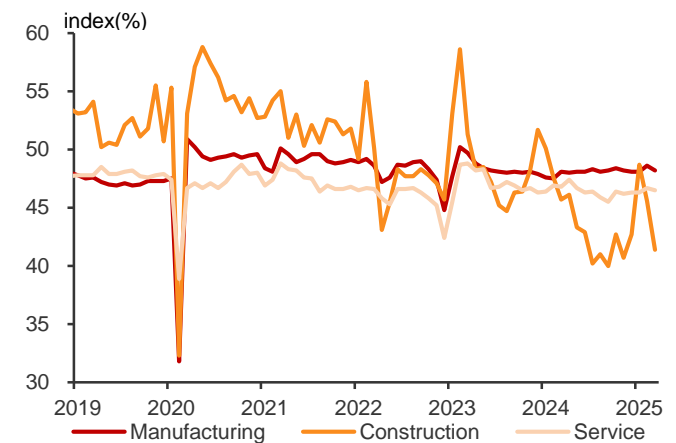
Source: Wind, CMBIGM

Figure 8: Service PMI & Output Index

Source: Wind, CMBIGM

Figure 9: Composite Output Index

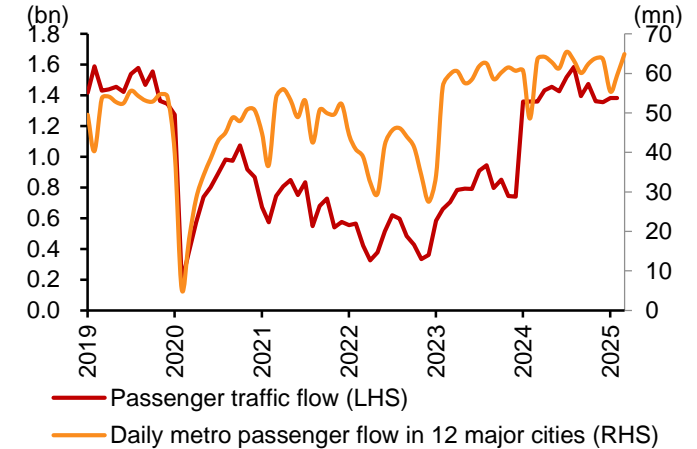
Source: Wind, CMBIGM

Figure 10: Employment Index

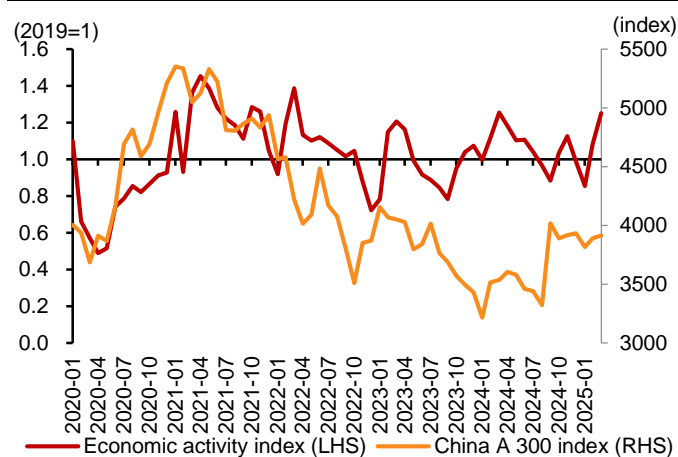
Source: Wind, CMBIGM

Figure 11: Supply Delivery Index

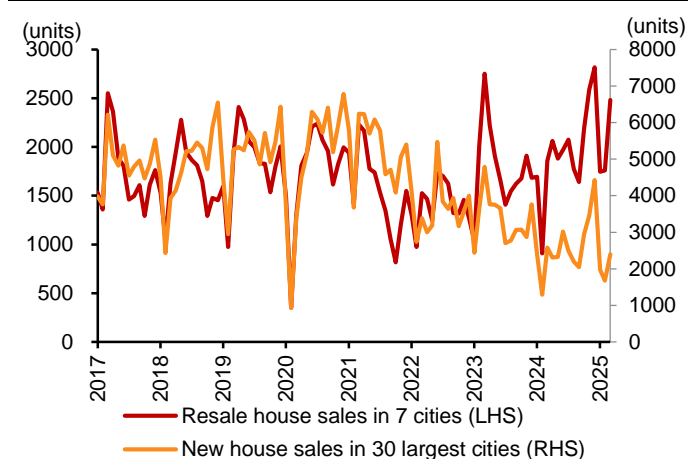
Source: Wind, CMBIGM

Figure 12: Passenger flow

Source: Wind, CMBIGM

Figure 13: Economic Activity & A Share Index

Source: Wind, CMBIGM

Figure 14: House sales

Source: Wind, CMBIGM

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