

# China Economy

## PMI indicated continued yet slowing recovery

Manufacturing PMI edged down but remained in expansion for 3 consecutive months. New order and production indexes were the major drivers while deflation pressure persisted as both material purchase price index and ex-factory price index continued to retreat. Service PMI surged as the recent stimulus mildly boosted consumer sentiment. Heading into 2025, the property market and consumer demand might mildly improve amid continued policy stimulus, while exports and private business investment may face headwinds amid the Trump shock. Fiscal policy will be more expansionary with the broad fiscal deficit higher than we expected, while monetary policy may be more accommodative with additional RRR and policy rate cuts. We expect China's GDP growth to slightly slow from 4.9% in 2024 to 4.7% in 2025.

■ **Manufacturing PMI moderated but stayed in expansion for 3 consecutive months.** Manufacturing PMI edged down to 50.1% in Dec from 50.3% in Nov, in-line with market expectations. Demand continued to expand with new order index increasing to 51% from 50.8%, while production index remained robust at 52.1%. Businesses remained reluctant to increase inventory investment while the material purchase volume index continued to trend up thanks to the improvement of both demand and output. New export order index extended its rally since Oct driven by front-loading orders amid tariff threats, while import index marginally narrowed its contraction. However, deflation pressure persisted as material purchase price and ex-factory price indexes dipped from 49.8% and 47.7% to 48.2% and 46.7%. Breaking down by sector, food & beverage, general equipment and electrical machinery maintained high growth in both new orders and production while ferrous metals and metal products contracted.

■ **Service and construction notably surged.** Service PMI accelerated to 52% in Dec from 50.1% in Nov. New order index rebounded while price index of final sales kept contracting yet at a lesser magnitude. Employment in services remained subdued. Breaking down by sector, activities in railroads, waterway and air transportation, telecom, broadcasting & TV, internet & information technology, the capital market and insurance services remained in high prosperity; while lodging and dining contracted. Construction PMI also surged to 53.2% in Dec from a low base of 49.7% in Nov, as the recent stimulus boosted infrastructure investment and construction activities.

■ **Macro policies will remain accommodative with challenges in the sustainability of the economic recovery.** Fiscal policy will be more expansionary in 2025 as we expect the broad fiscal deficit ratio to increase from 9% in 2024 to 12% in 2025, higher than our prior expectations. Liquidity condition and credit supply will be more easing as we expect additional RRR cuts by 100bps and policy rate cuts by 20-30bps in 2025. Broad credit and renminbi loan growth might gradually stabilize. Property market and consumer demand might mildly improve thanks to the continued policy stimulus. But exports of goods and private business investment might see downward pressure amid the Trump shock. China economy might continue to improve in 1H25 and slow down in 2H25. We estimate GDP growth to mildly decelerate from 4.9% in 2024 to 4.7% in 2025.

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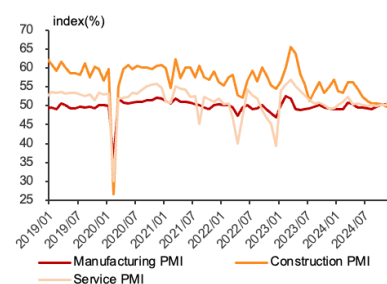
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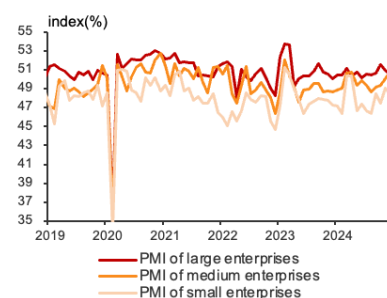
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Source: NBS, CMBIGM



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**Figure 1: New Order Index**



Source: Wind, CMBIGM

**Figure 2 : Business Sentiment Index**



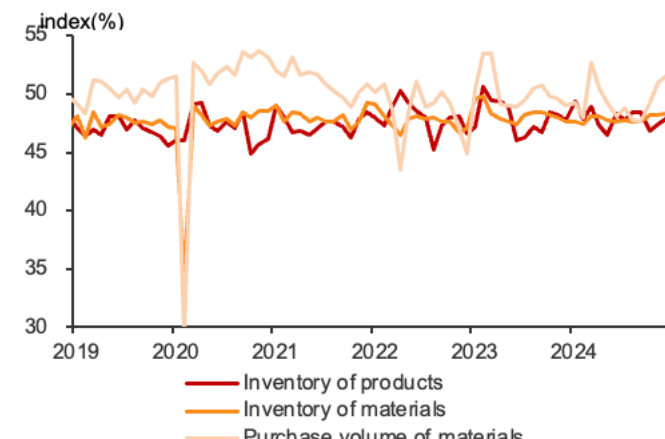
Source: Wind, CMBIGM

**Figure 3: Export Order Index and Import Index**



Source: Wind, CMBIGM

**Figure 4: Inventory Index**



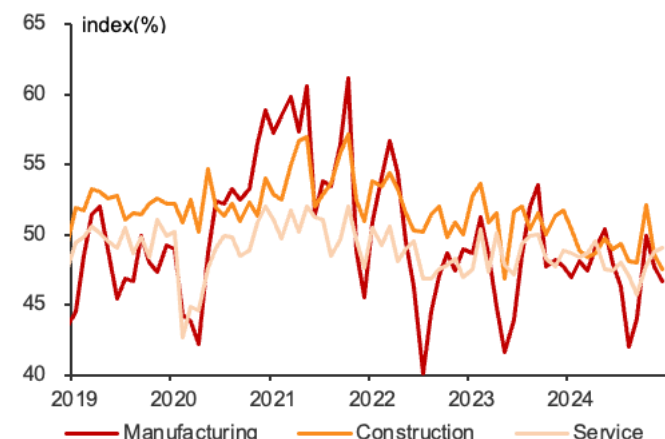
Source: Wind, CMBIGM

**Figure 5: Material Purchase Price Index**



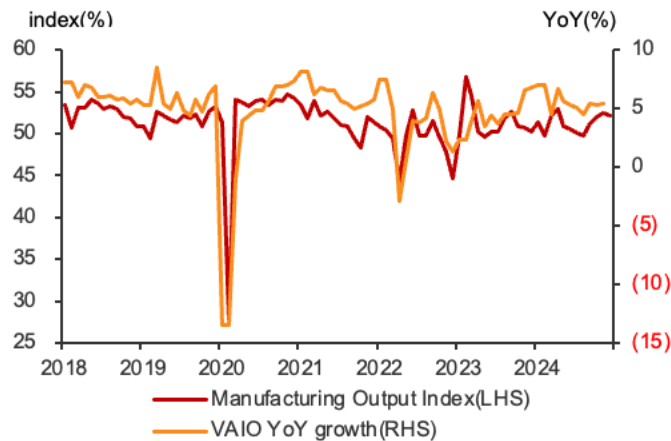
Source: Wind, CMBIGM

**Figure 6: Ex-factory Price Index**



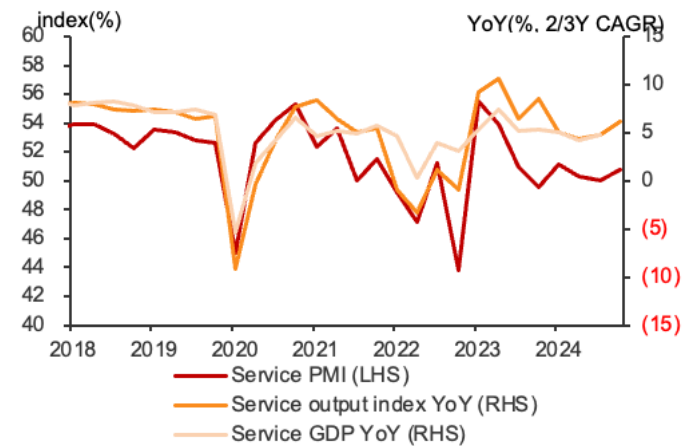
Source: Wind, CMBIGM

**Figure 7: Manufacturing output**



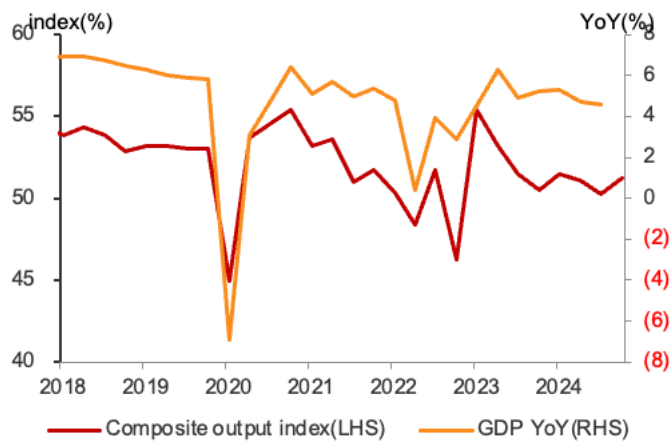
Source: Wind, CMBIGM

**Figure 8: Service PMI & Output Index**



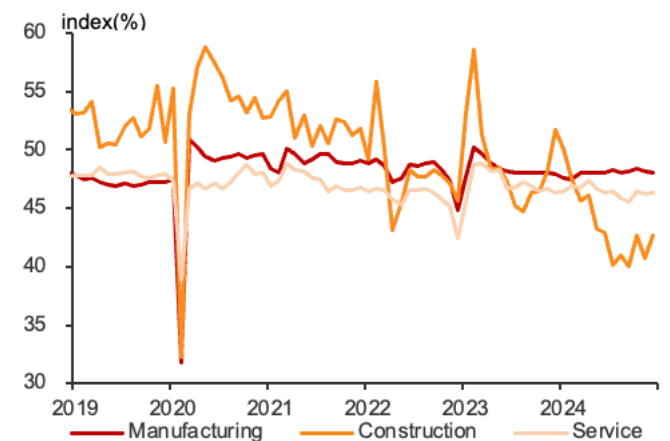
Source: Wind, CMBIGM

**Figure 9: Composite Output Index**



Source: Wind, CMBIGM

**Figure 10: Employment Index**



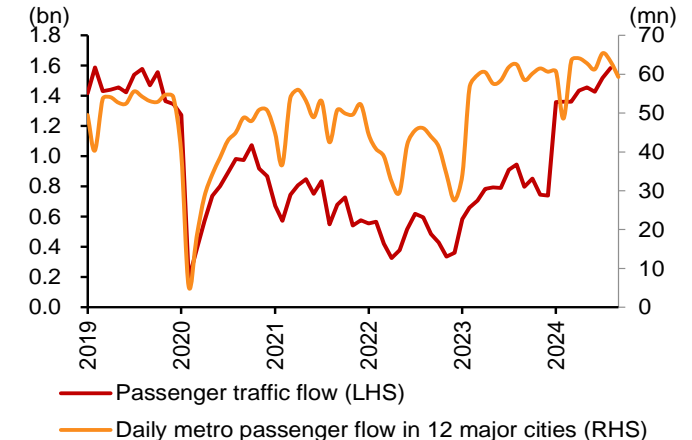
Source: Wind, CMBIGM

**Figure 11: Supply Delivery Index**



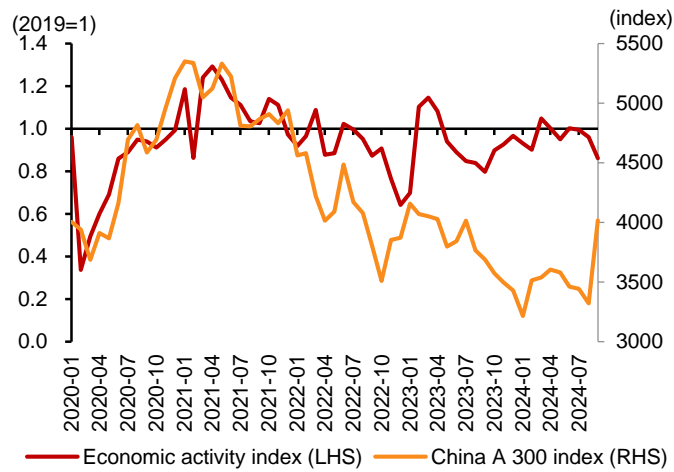
Source: Wind, CMBIGM

**Figure 12: Passenger flow**



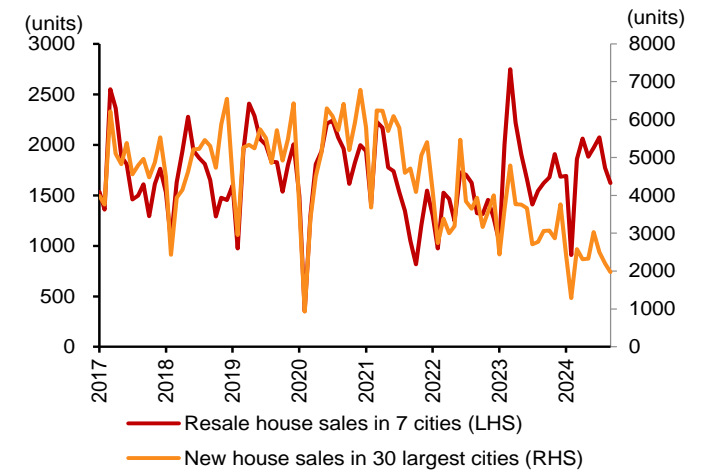
Source: Wind, CMBIGM

**Figure 13: Economic Activity & A Share Index**



Source: Wind, CMBIGM

**Figure 14: House sales**



Source: Wind, CMBIGM

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