

China Economy

PMI signals demand softening

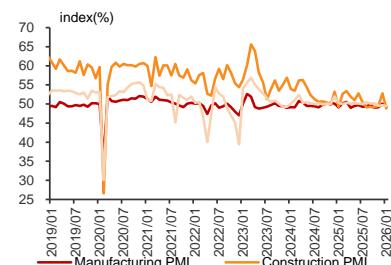
China's manufacturing PMI retreated in January after a brief December rebound with weaker seasonality despite a later-than-usual Chinese New Year (CNY). Demand softened as both new orders slipped back into contraction and export orders weakened again. Deflation pressure nevertheless continued to ease, with raw material purchase and ex-factory prices both expanding, indicating PPI may return to positive sooner than expected. Service PMI remained in contraction while construction PMI fell back, signaling mounting pressure to stabilize the fixed asset investment. We expect the softening growth momentum from both domestic and external demand deterioration should trigger a new round of policy stimulus around CNY, including stabilizing the property market by lowering mortgage rates and purchasing unsold property and stimulating consumption by increasing fiscal subsidies and strengthening the social safety net. Looking forward, we expect a 50bp cut in RRR and a 10bp cut in LPR in 1Q26, followed by an additional 10bp LPR cut in 3Q26, while broad fiscal deficit should remain almost flat at 8.5% in 2026. We expect full-year GDP growth rate may decline from 5% in 2025 to 4.6% in 2026.

- **Manufacturing PMI eased after the December rebound.** Manufacturing PMI fell to 49.3% in January from 50.1% in December, slipping back into contraction and fell short of market expectation at 50.2%. Demand conditions softened as the new order index declined to 49.2% from 50.8%, while new export orders fell to 47.8% from 49.0%. Production eased but stayed in expansion at 50.6% in Jan vs. 51.7% in Dec, indicating supply-side resilience despite softer demand. Deflation pressure continued to ease as raw material purchase prices stayed elevated at 56.1% compared to 53.1% in Dec, while ex-factory prices improved to 50.6% from 48.9%, the first time since May 2024, indicating stronger cost pass-through to downstream pricing. PPI may return to positive sooner than we expected given the surge of global commodities prices. Import demand stayed weak, and inventory indicators remained subdued, highlighting cautious corporate behavior.
- **Non-manufacturing PMI softened.** Non-manufacturing activity weakened in January ahead of the CNY, with services remaining in contraction and construction falling back. Service PMI edged down to 49.5% in Jan from 49.7%, with activity expectations improving to 57.1%. Service selling prices improved to 48.9% from 48.1%, while employment remained subdued at 47.0%. Construction fell to 48.8% in January from 52.8% in December, with new orders weakening to 40.1% from 47.4% and business expectations easing to 49.8% from 57.4%, indicating mounting pressure on fixed asset investment despite policymakers' pledge to stabilize it.
- **PMI pointed to softening economic momentum into 2026.** The January PMI showed weaker seasonality, despite a later-than-normal CNY. Domestic demand indicators softened as new order index in PMI further contracted, new housing market continued to slump and durable sales like vehicles notably dipped. External demand also faced headwinds as export order index weakened again and policy makers vowed to rebalance the outsized trade surplus in China. Policy makers might pivot to boosting domestic demand, including stabilizing the property market by lowering mortgage rates and purchasing unsold property and stimulating consumption by increasing fiscal subsidies and strengthening the social safety net. Looking forward, we expect a 50bp cut in RRR and a 10bp cut in LPR in 1Q26, followed by an additional 10bp LPR cut in 3Q26, while broad fiscal deficit should remain almost flat at 8.5% in 2026. We expect full-year GDP growth rate may decline from 5% in 2025 to 4.6% in 2026.

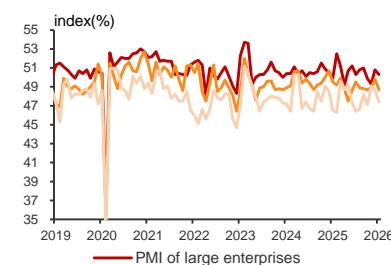
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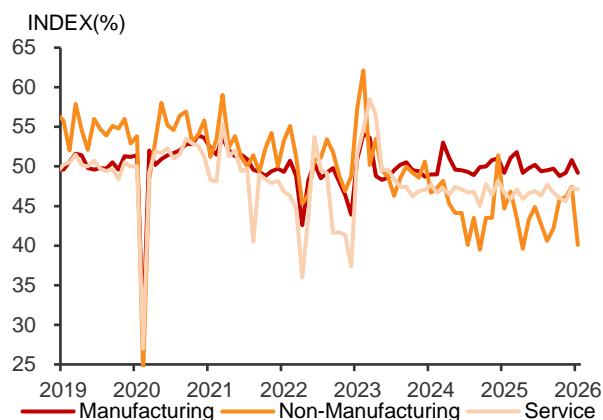
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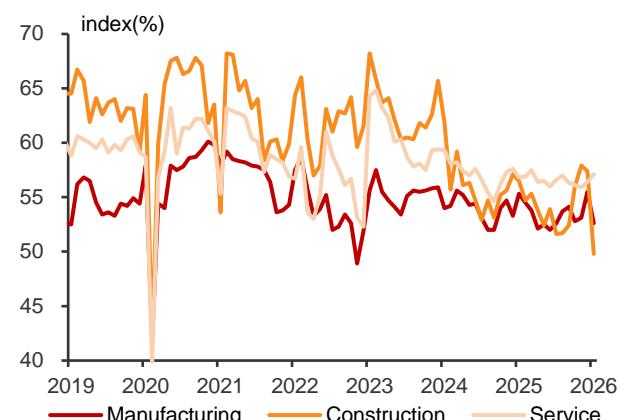
Source: NBS, CMBIGM



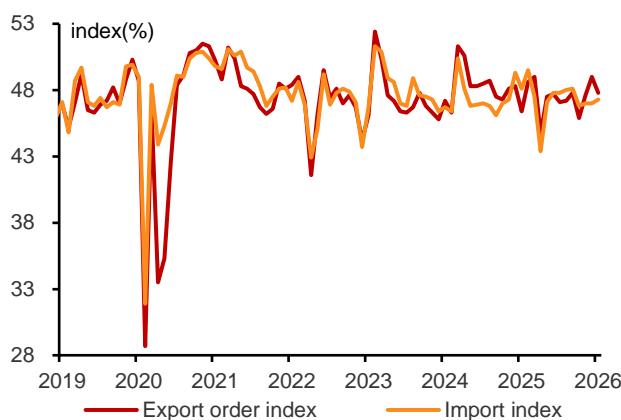
Source: NBS, CMBIGM

Figure 1: New Order Index

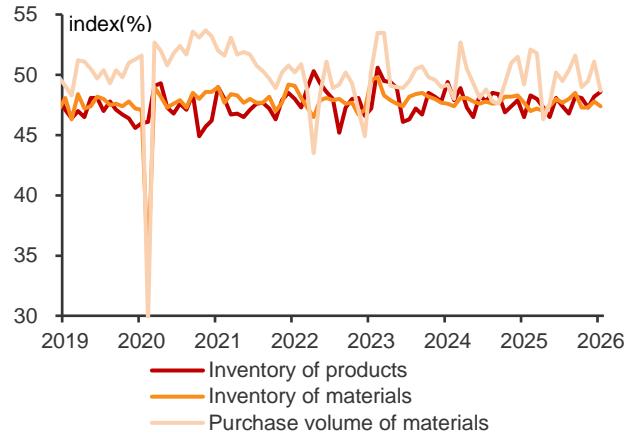
Source: Wind, CMBIGM

Figure 2 : Business Sentiment Index

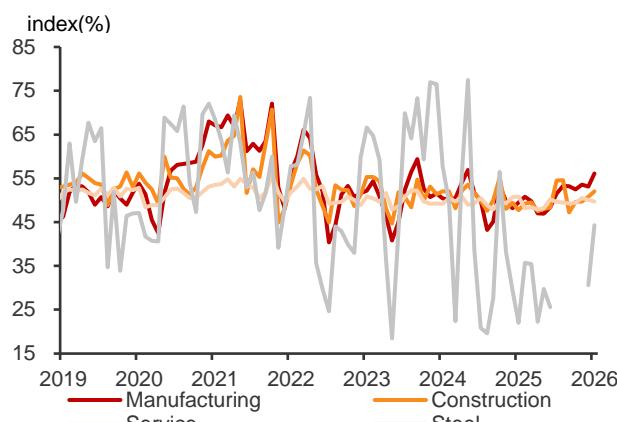
Source: Wind, CMBIGM

Figure 3: Export Order Index and Import Index

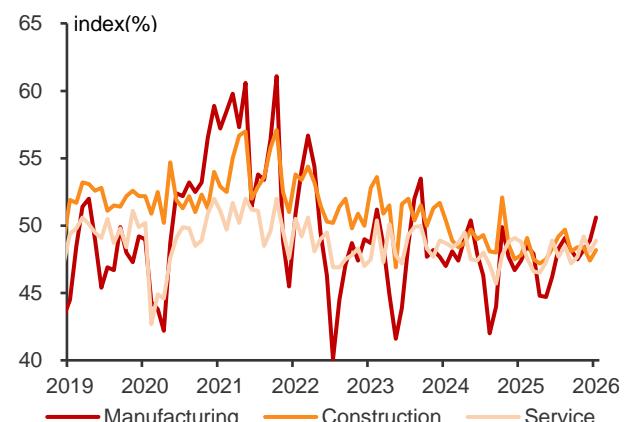
Source: Wind, CMBIGM

Figure 4: Inventory Index

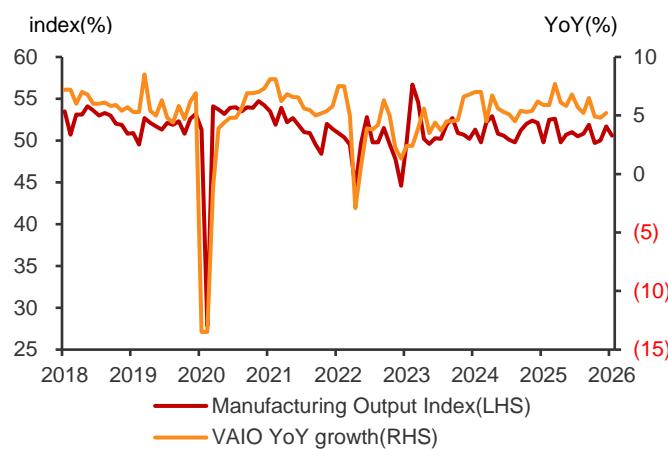
Source: Wind, CMBIGM

Figure 5: Material Purchase Price Index

Source: Wind, CMBIGM

Figure 6: Ex-factory Price Index

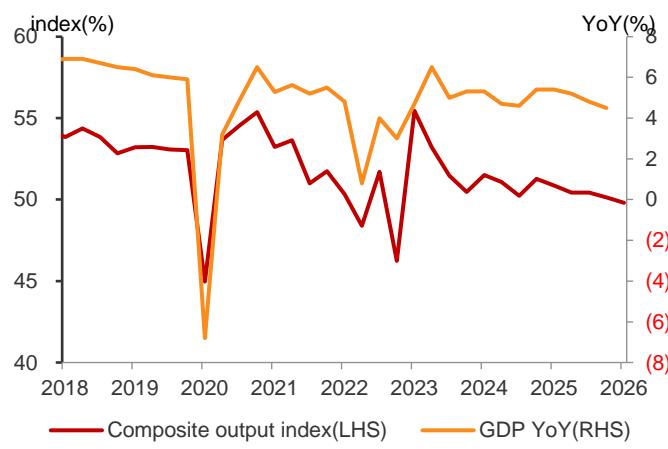
Source: Wind, CMBIGM

Figure 7: Manufacturing Output Index

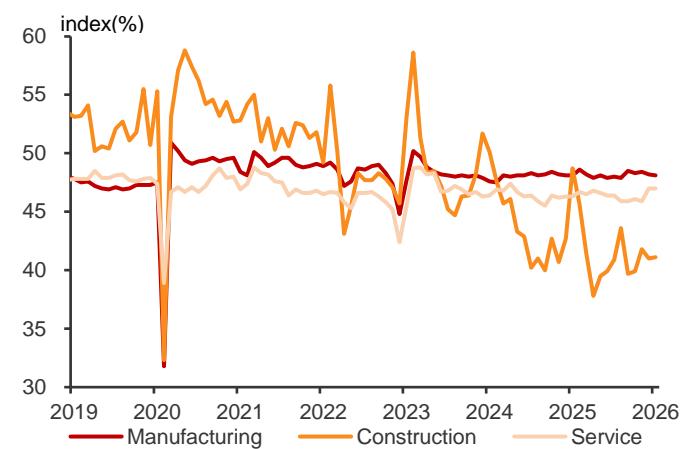
Source: Wind, CMBIGM

Figure 8: Service PMI & Output Index

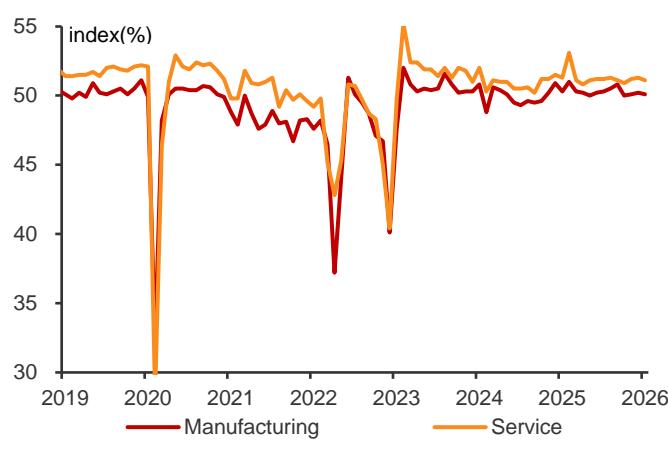
Source: Wind, CMBIGM

Figure 9: Composite Output Index

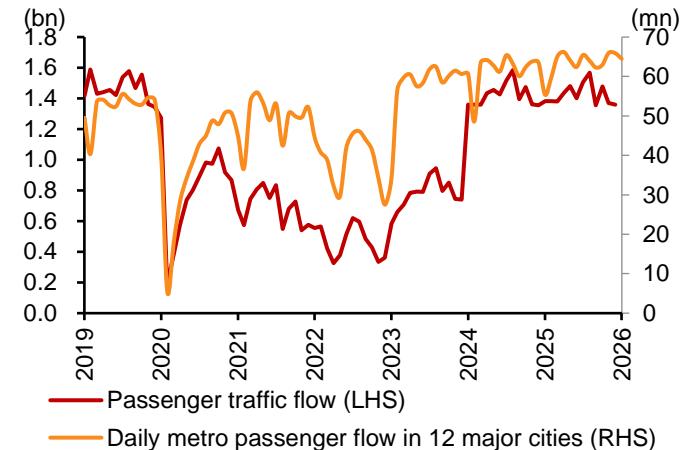
Source: Wind, CMBIGM

Figure 10: Employment Index

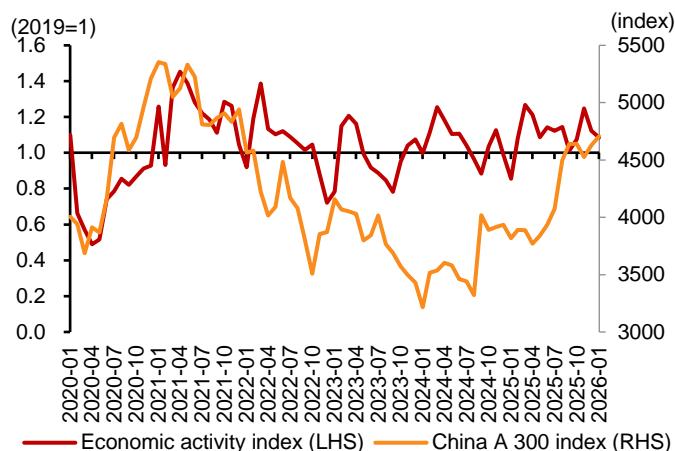
Source: Wind, CMBIGM

Figure 11: Supply Delivery Index

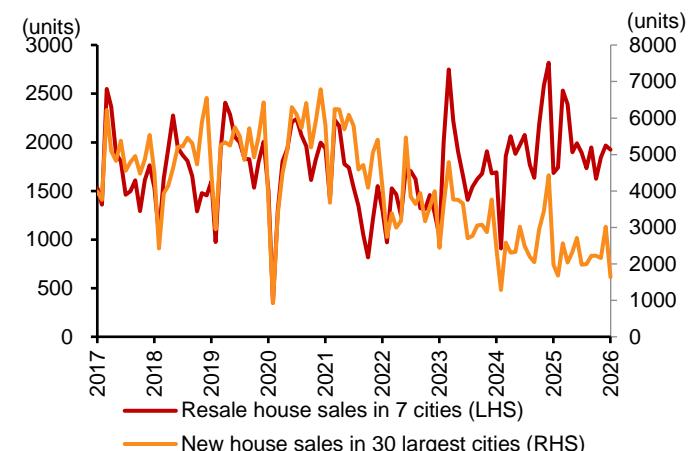
Source: Wind, CMBIGM

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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