

China Economy

PMI points to waning economic momentum

China's manufacturing PMI weakened again after a brief rebound following the tariff truce. Demand softened as new order and export order indexes further contracted, indicating the export front-loading may be coming to an end. However, deflation pressure eased as raw material purchase price notably expanded and ex-factory price rebounded, thanks to the recent policy effort to curb the involution competition. Non-manufacturing PMI came in below expectation as both service and construction activities moderated. The July PMI signaled the weakening economy in 3Q. Deterioration in both external and domestic demand is expected to drag on the economy, as export front-loading faded and policy effect on consumption and real estate marginally declined since 4Q24. However, the policy easing window may not open until 4Q25 when durable goods retail sales sharply slow down due to higher year-on-year bases and lower policy stimulus effects and China may have stronger motivation to advance economic rebalancing after a potential trade deal with the US.

■ Manufacturing PMI further contracted with fading export front-loading.

Manufacturing PMI edged down to 49.3% in July from 49.7% in June, below market expectations of 49.6%. Demand deteriorated as new order index dropped to 49.4% in July from 50.2%, as new export order further contracted to 47.1% in July from 47.7%, the lowest month since the tariff truce, indicating that the export front-loading may be coming to an end. Production moderated to 50.5% in July but remained at expansion. Deflation pressure in manufacturing notably eased as raw materials purchase price accelerated to 51.5% in July from 48.4%. Prices of photovoltaics, rebar and lithium carbonate have notably surged following the policymakers' effort to curb "involution competition". Ex-factory price also rebounded to 48.3% in July from 46.2%. We might see rebounding PPI in July. However, the sustainability remains in question. Breaking down by sector, other transportation equipment and computer & electronic devices expanded in both new orders and production, while chemical products and non-metallic minerals notably contracted. Small enterprise PMI markedly dropped to 46.4%, as they were most affected by tariffs.

■ **Non-manufacturing PMI softened.** Non-manufacturing PMI dipped to 50.1% in July from 50.5%, below market expectation of 50.4%. Service PMI edged down to 50% in July from 50.1%, as the activity level was unchanged from the previous month. New order index dropped to 46.3% in July from 46.9%. Price indexes of input and final sales both further contracted, indicating the intensifying deflation pressure in the service sector. Breaking down by sectors, activities related to household tourism and consumption remained in high prosperity, including rail & air transportation, postal, telecom, and recreational & sports activities; while real estate and household services contracted. Construction PMI dipped from 52.8% to 50.6% in July, as new order contracted to 42.7%.

■ **PMI signaled the weakening economy in 3Q.** Deterioration in both external and domestic demand is expected to drag on the economy in 3Q, as export front-loading faded and policy effects on consumption and real estate from 4Q24 marginally declined. However, the policy easing window may not open until 4Q25 when durable goods retail sales sharply slow down due to higher year-on-year bases and lower policy stimulus effects and China may have stronger motivation to advance economic rebalancing after a potential trade deal with the US.

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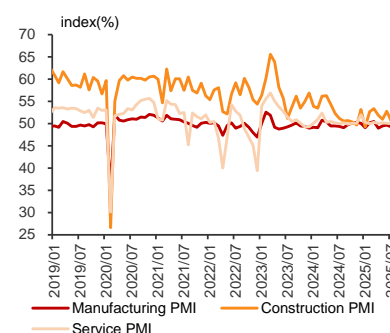
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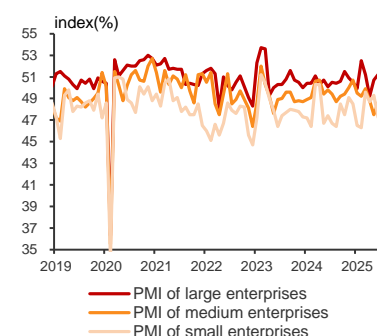
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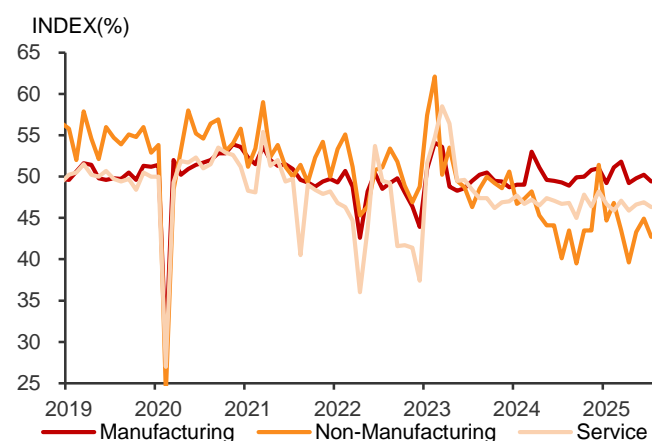
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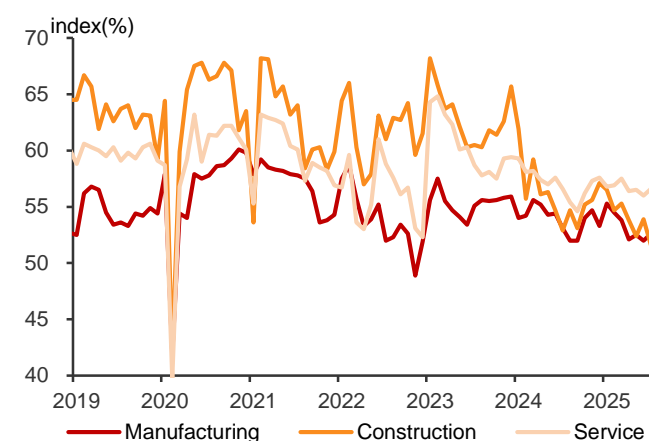
Source: NBS, CMBIGM



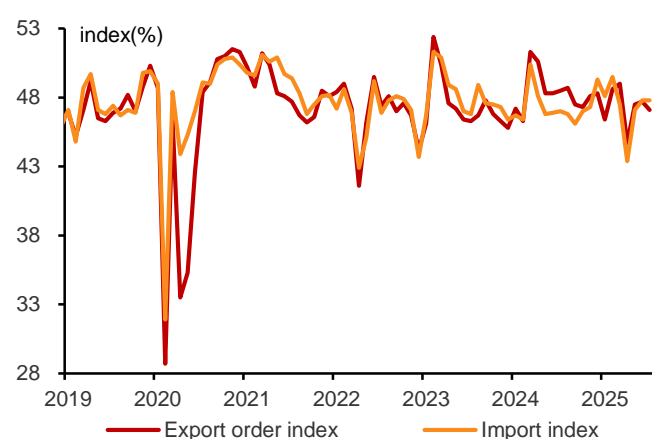
Source: NBS, CMBIGM

Figure 1: New Order Index

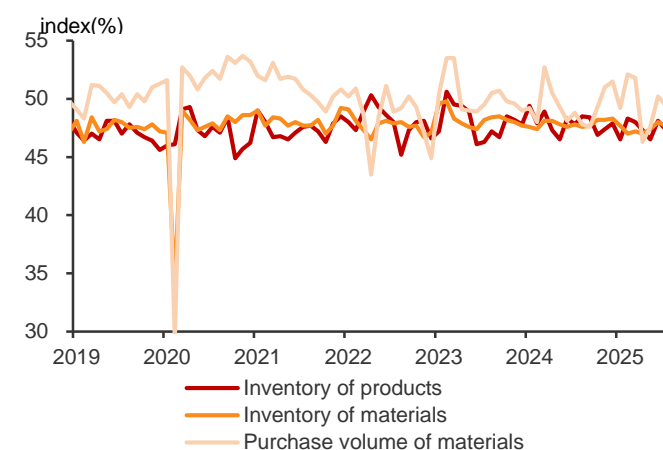
Source: Wind, CMBIGM

Figure 2 : Business Sentiment Index

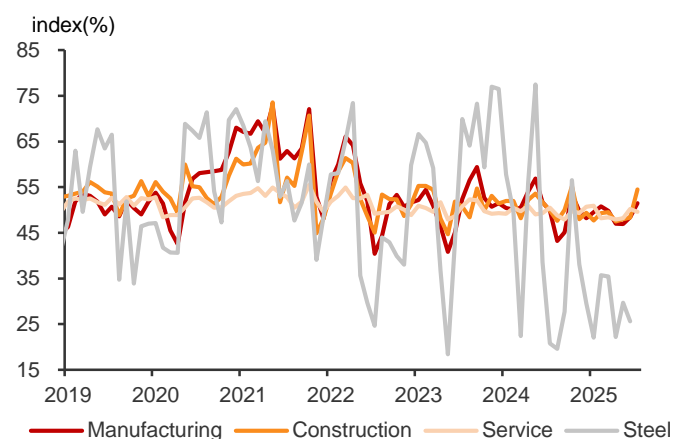
Source: Wind, CMBIGM

Figure 3: Export Order Index and Import Index

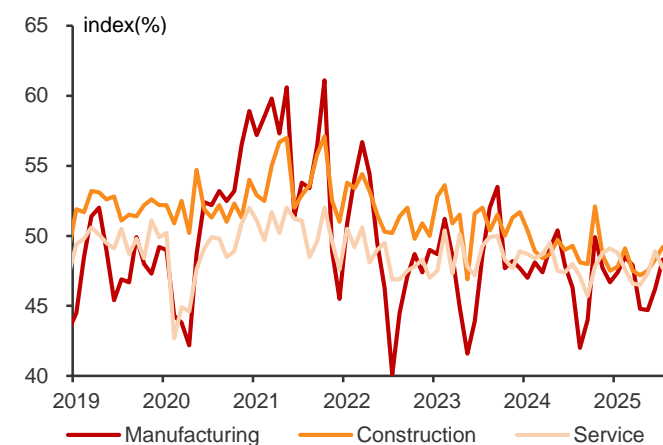
Source: Wind, CMBIGM

Figure 4: Inventory Index

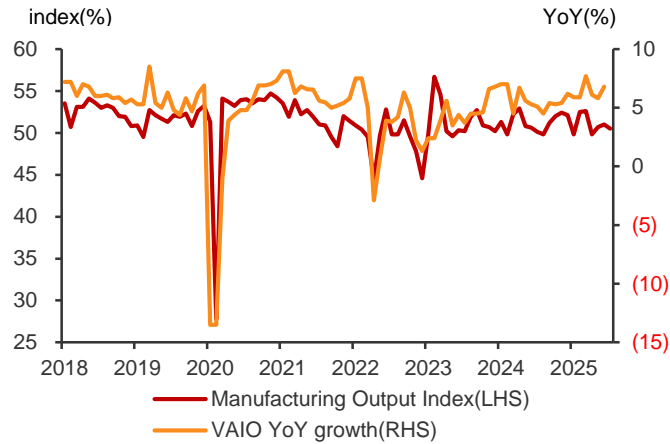
Source: Wind, CMBIGM

Figure 5: Material Purchase Price Index

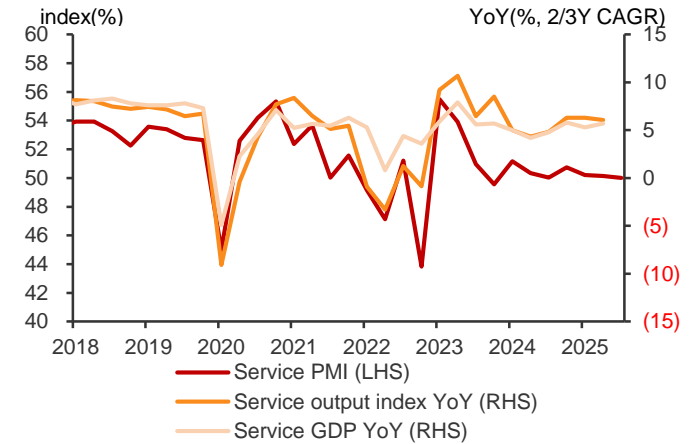
Source: Wind, CMBIGM

Figure 6: Ex-factory Price Index

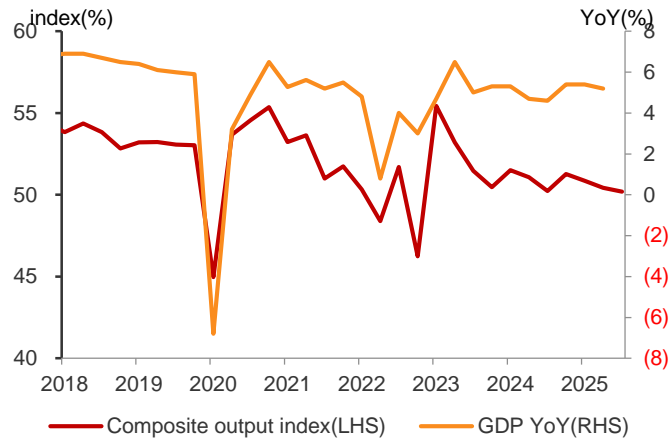
Source: Wind, CMBIGM

Figure 7: Manufacturing Output Index

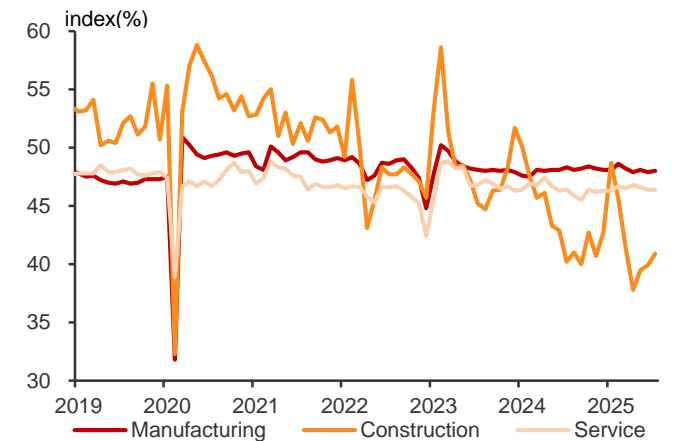
Source: Wind, CMBIGM

Figure 8: Service PMI & Output Index

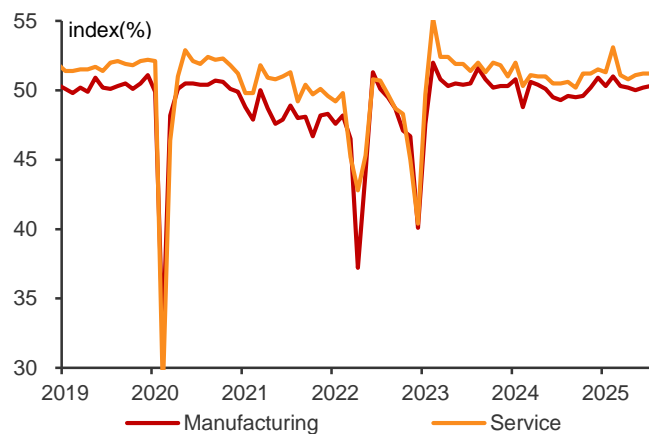
Source: Wind, CMBIGM

Figure 9: Composite Output Index

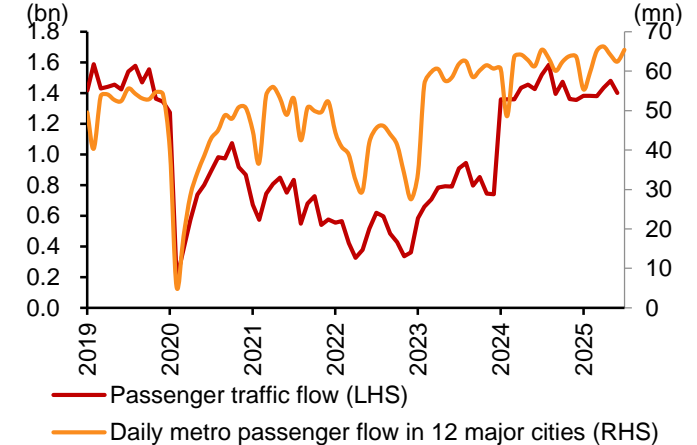
Source: Wind, CMBIGM

Figure 10: Employment Index

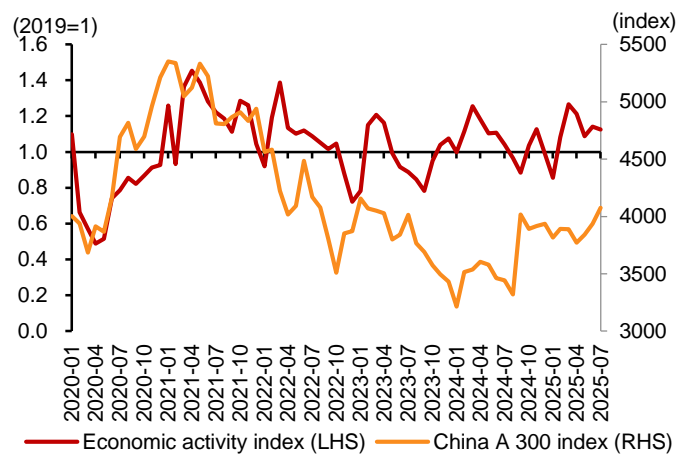
Source: Wind, CMBIGM

Figure 11: Supply Delivery Index

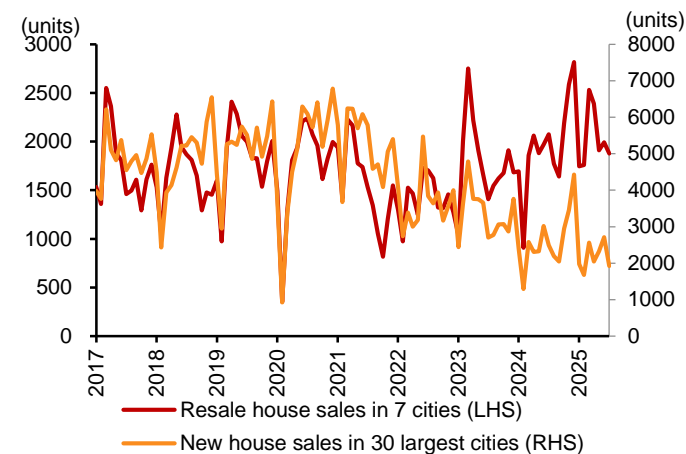
Source: Wind, CMBIGM

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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