

# China Economy

## PMI returns to expansion amid ongoing economic recovery

Feb manufacturing PMI bounced back to expansion partly due to distortions from the Chinese New Year, as it reflects sequential changes. Demand and production continued their recovery trend since the stimulus in last Sep while deflation pressure in final products persisted. Service PMI moderated as holiday-related activities retreated while construction PMI notably surged thanks to the work resumption after the CNY. The recent rebound in manufacturing PMI has been driven by the trade-in scheme and the front-loading effect in exports. The recovery might last in the first three quarters and slow down again in 4Q25 due to possible rising tariffs and the diminishing marginal impact of the stimulus. For the NPC this week, we don't anticipate any major surprises, with GDP, CPI and unemployment rate likely to be set at 5%, 2% and 5.5% for 2025. We expect the fiscal policy would be more proactive, and general fiscal deficit, ultra-long central government special bonds and local government special bonds may increase to 4%, 1.3% and 3.1% of GDP in 2025.

- Manufacturing PMI rebounded following the Chinese New Year.** Manufacturing PMI bounced up to 50.2% in Feb from 49.1% in Jan, slightly above market expectations at 49.9%. Demand continued its recovery trend since last Sep, rising to 51.1% in Feb from 49.2%, while production index remained robust. Other indexes also rebounded due to CNY distortions as PMI showed sequential changes. Deflation pressure persisted as ex-factory price index remained in contraction. Breaking down by sector, smelting and pressing of non-ferrous metals, general equipment, and electrical machinery maintained high growth in both new orders and production, while apparel & accessories and crude oil & coal processing contracted. Small & medium enterprises fell to 46.3% and 49.2%, while large enterprises rebounded to 52.5%. The recent rebound in the manufacturing PMI has been driven by the trade-in scheme and the front-loading effect in exports, particularly in midstream industries such as equipment and machinery. However, its sustainability may be challenged by rising tariffs and the diminishing marginal impact of the trade-in scheme.
- Service moderated while construction notably surged.** Service PMI slowed down to 50% in Feb from 50.2%. New order index and price index of final sale further contracted. Employment in services remained subdued. Breaking down by sector, activities in air transportation, postal services, telecom, broadcasting & TV, and the capital market and monetary market services remained in high prosperity; while retail, lodging and dining contracted following the CNY. Construction PMI also surged to 52.7% in Feb thanks to the work resumption after CNY.
- We expect a well-anticipated NPC.** We don't anticipate any major surprises from the NPC this week, with GDP, CPI and unemployment rate likely to be set at 5%, 2% and 5.5% for 2025. We expect the fiscal policy would be more proactive with broad fiscal deficit rising from 8.1% of GDP in 2024 to 9.8% in 2025, as general fiscal deficit, ultra-long central government special bonds and local government special bonds may increase to 4%, 1.3% and 3.1% of GDP from 3%, 0.7% and 2.9%. China may face increasing external headwinds as the US not only announced an additional 10% tariff on Mar 4 but is also pressuring its major trading partners like Canada and Mexico to raise their tariffs on Chinese goods. Policy support is likely to remain stable in 1H25 as the economy continues to recover. However, it may come under pressure for further easing in 2H25 once Trump shifts his focus to China, escalating trade tensions.

**Frank Liu**

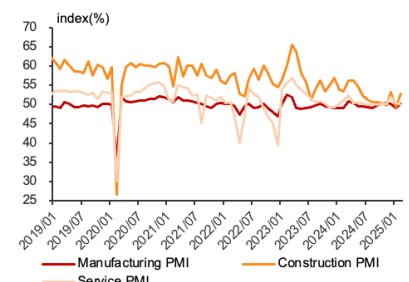
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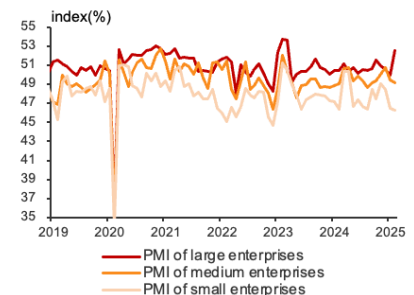
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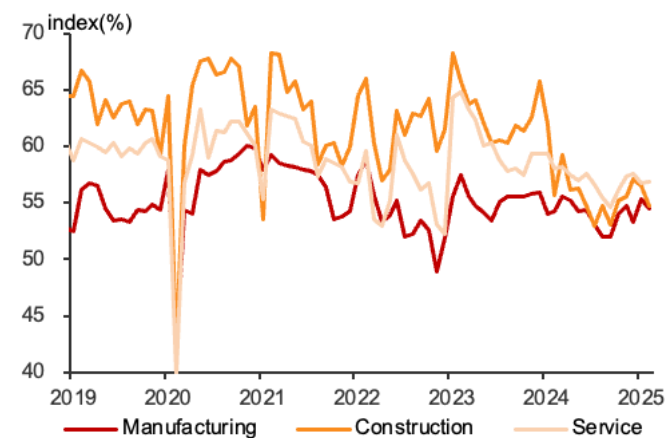
Source: NBS, CMBIGM



Source: NBS, CMBIGM

**Figure 1: New Order Index**

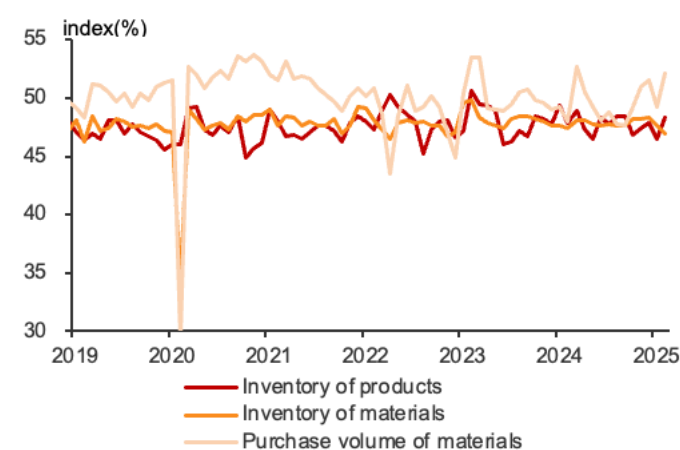
Source: Wind, CMBIGM

**Figure 2 : Business Sentiment Index**

Source: Wind, CMBIGM

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

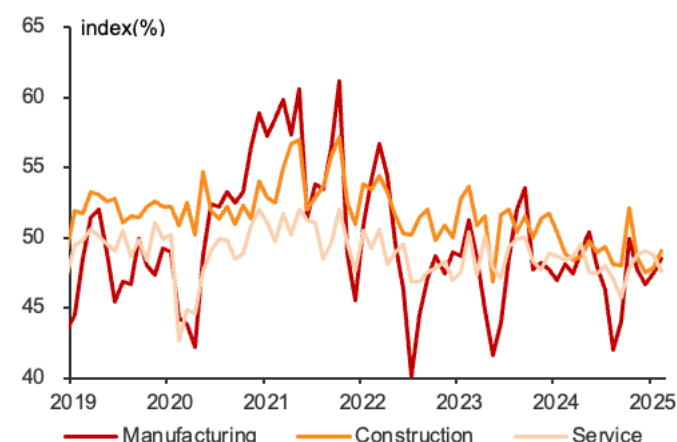
Source: Wind, CMBIGM

**Figure 4: Inventory Index**

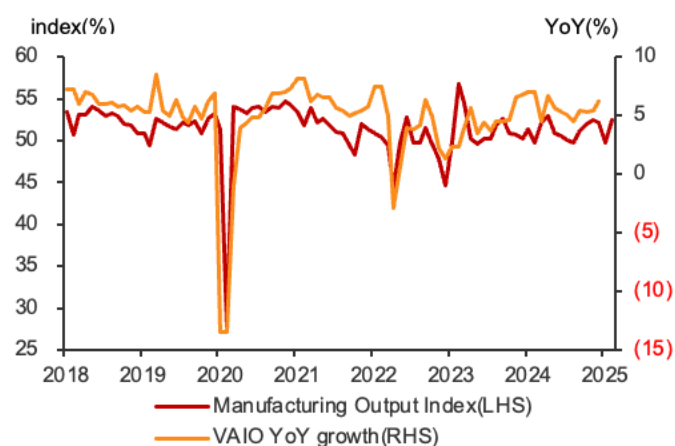
Source: Wind, CMBIGM

**Figure 5: Material Purchase Price Index**

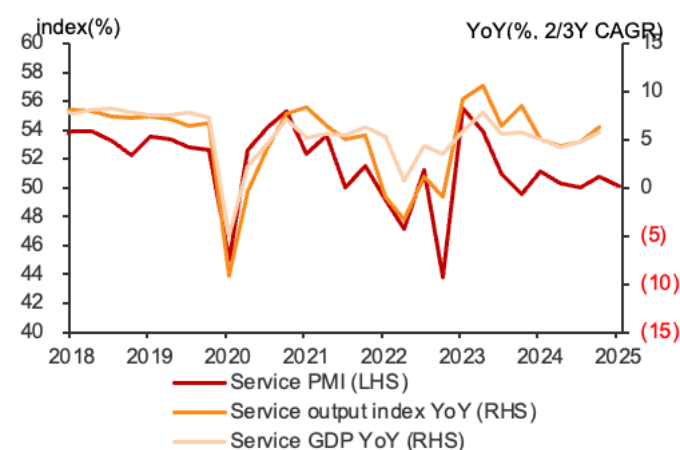
Source: Wind, CMBIGM

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

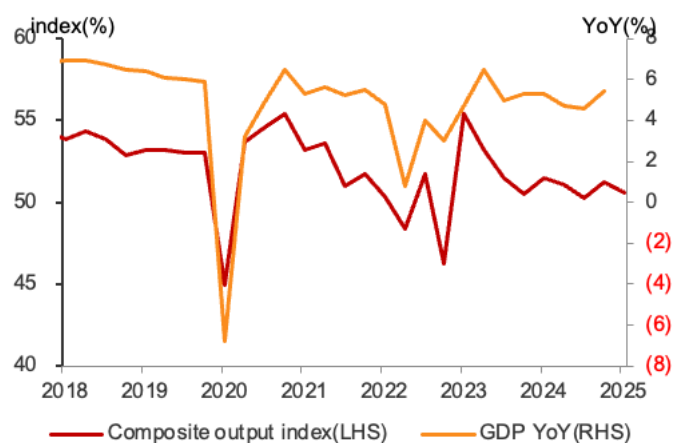
Source: Wind, CMBIGM

**Figure 7: Manufacturing output**

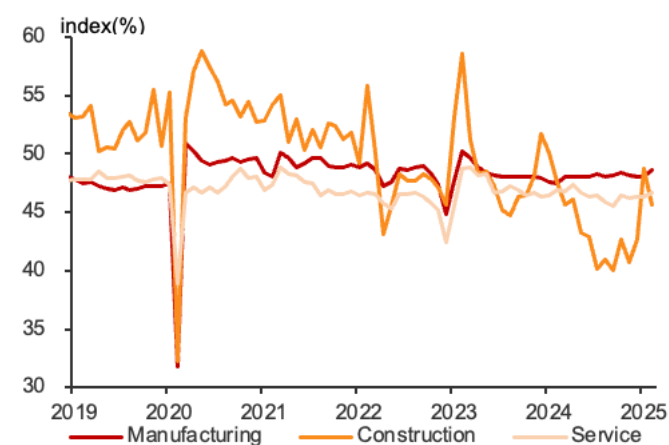
Source: Wind, CMBIGM

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

Source: Wind, CMBIGM

**Figure 9: Composite Output Index**

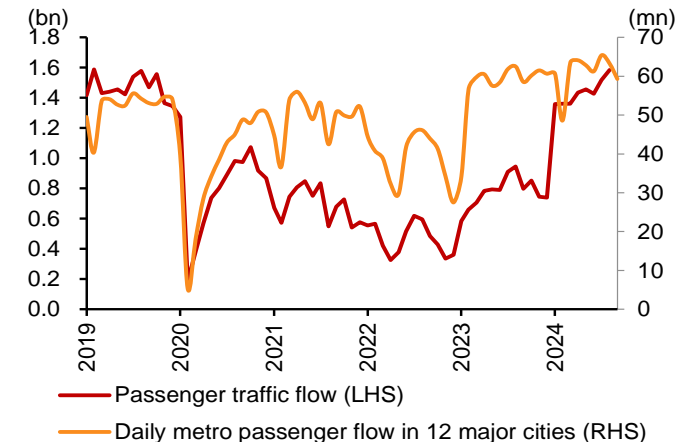
Source: Wind, CMBIGM

**Figure 10: Employment Index**

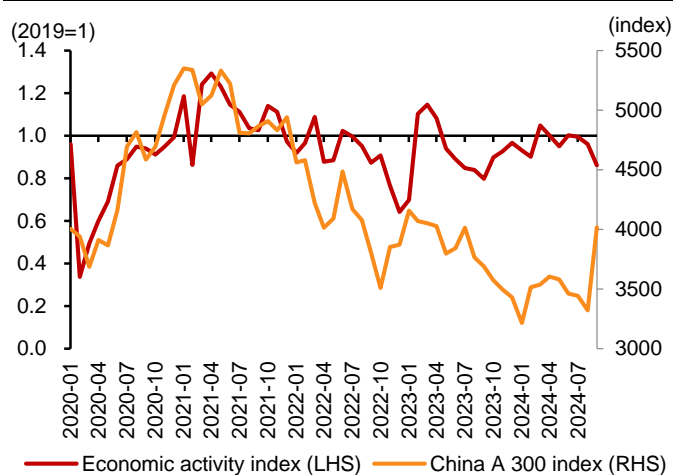
Source: Wind, CMBIGM

**Figure 11: Supply Delivery Index**

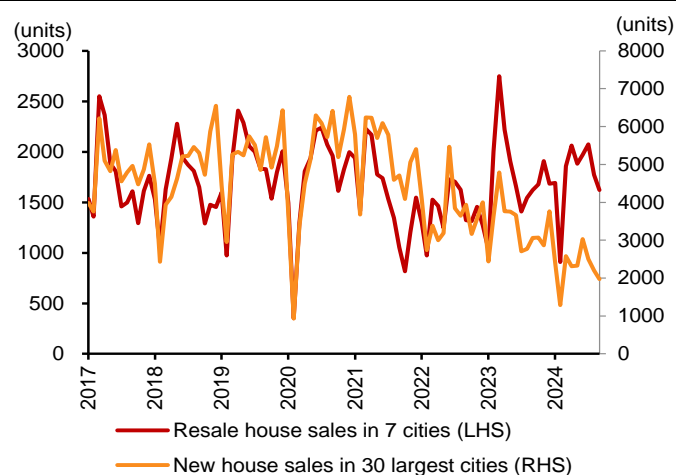
Source: Wind, CMBIGM

**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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