

# China Economy

## PMI signals temporary improvement

China's manufacturing PMI rebounded in December after several months of weakness, but the recovery remained fragile due to favorable seasonality. Demand showed a tentative improvement as new orders expanded, and export orders moved closer to the expansion threshold. Deflation pressure continued to ease, with raw material purchase prices staying firmly in expansion and ex-factory prices further rebounding, reflecting the ongoing policy effort to curb involution-driven price competition. Service PMI remained in contraction while construction PMI rebounded. We expect growth to remain under pressure in early 2026, which might trigger a new round of policy stimulus towards property and consumption. 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 that full-year GDP growth rate may decline from 5% in 2025 to 4.8% in 2026.

■ **Manufacturing PMI rebounded modestly.** Manufacturing PMI edged up to 50.1% in December from 49.2% in November, returning to expansion and beating market expectations at 49.6%. A later Chinese New Year typically implies more favorable seasonal dynamics for December with less impact on economic activities. Demand conditions improved as the new order index rose to 50.8% in December from 49.2%, while new export orders climbed to 49.0% from 47.6%, signaling a slowdown in contraction. Production further strengthened, rising to 51.7% from 50.0%, indicating supply-side resilience. Deflation pressure continued to ease as raw material purchase prices stayed elevated at 53.1% in December, while ex-factory prices rebounded to 48.9% from 48.2%, consistent with policy efforts to curb disorderly price competition in upstream sectors. The improvement in price indicators suggests ongoing stabilization in PPI momentum. Import demand stayed weak, and inventory indicators remained subdued, highlighting cautious corporate behavior.

■ **Non-manufacturing PMI recovered.** Non-manufacturing activity recovered in December, with easing service momentum and rebounding construction activities. Service PMI edged up but remained in contraction at 49.7%, with improving activity expectations. Service price contracted to 48.1% in December, while employment remained subdued at 47%. Business activity indices for telecommunications, broadcasting and satellite transmission services, monetary and financial services, and capital market services all remained in a high-prosperity zone above 60.0%, while those for retail and catering stayed below the expansion threshold. Construction rebounded to 52.8% in Dec from 49.6%, indicating the improving fixed asset investment following the CEWC.

■ **PMI points to a temporary improvement heading into 2026.** The December PMI suggests the economy stabilized toward year-end, supported by supply-side resilience and recovering construction activities, but it might be largely driven by seasonal factors. External demand continued to face headwinds as export momentum slowed, while the marginal effects of earlier policy support to consumption and property faded. We expect growth to remain under pressure in early 2026, which might trigger a new round of policy stimulus towards property and consumption. 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 that full-year GDP growth rate may decline from 5% in 2025 to 4.8% in 2026.

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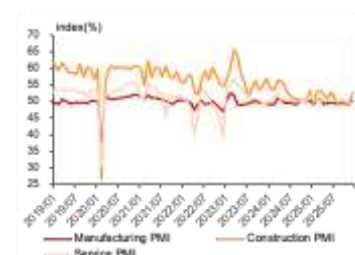
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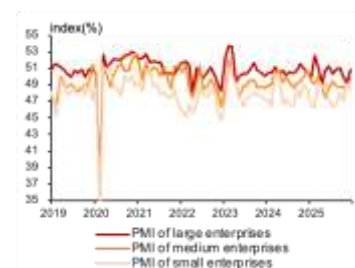
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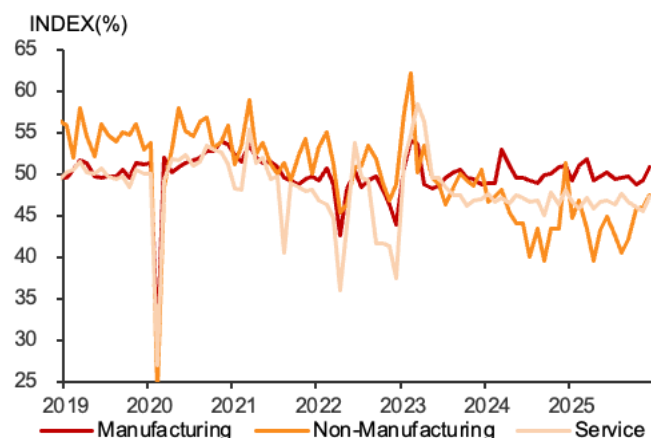
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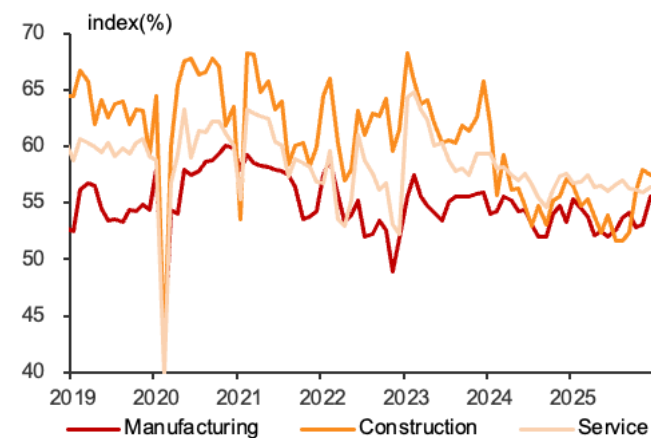
Source: NBS, CMBIGM



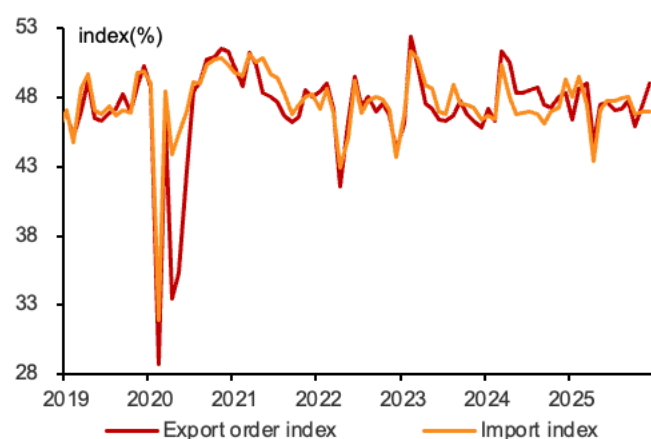
Source: NBS, CMBIGM

**Figure 1: New Order Index**

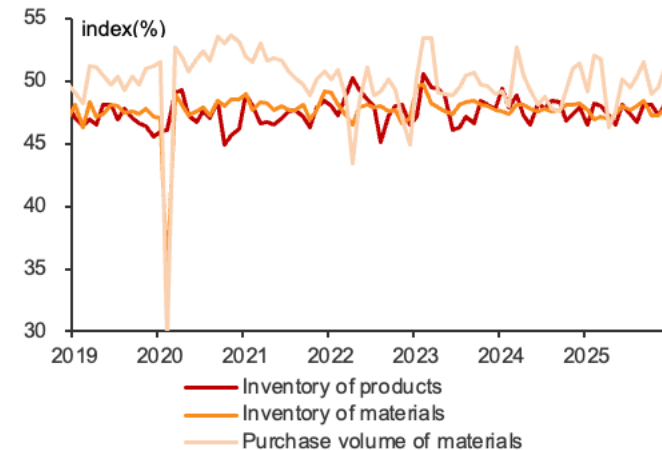
Source: Wind, CMBIGM

**Figure 2 : Business Sentiment Index**

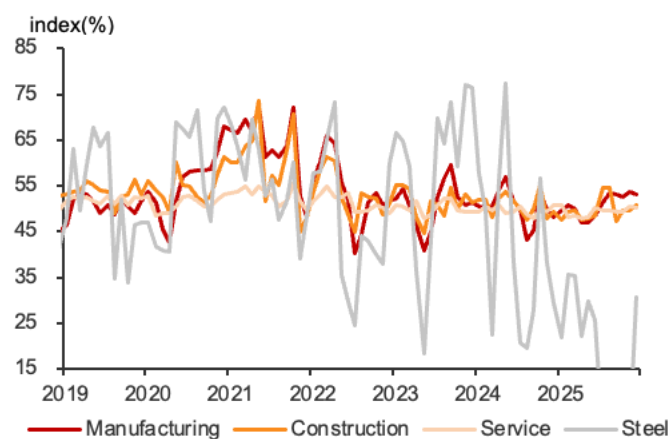
Source: Wind, CMBIGM

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

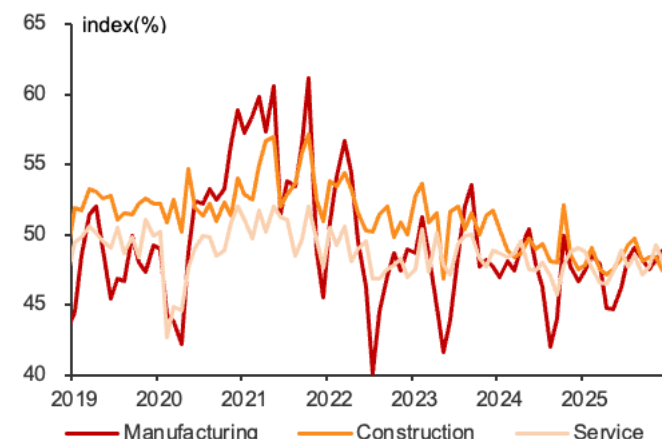
Source: Wind, CMBIGM

**Figure 4: Inventory Index**

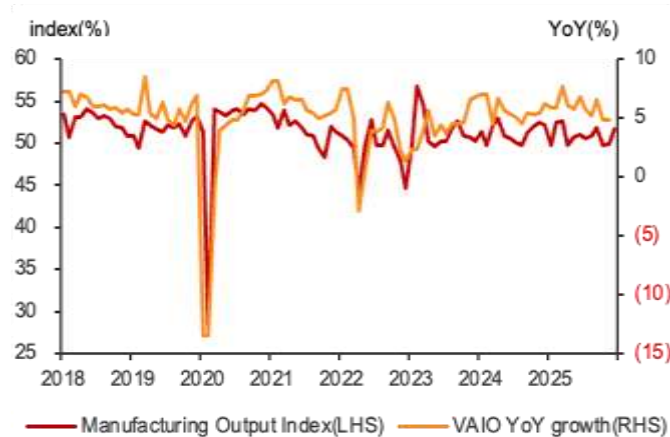
Source: Wind, CMBIGM

**Figure 5: Material Purchase Price Index**

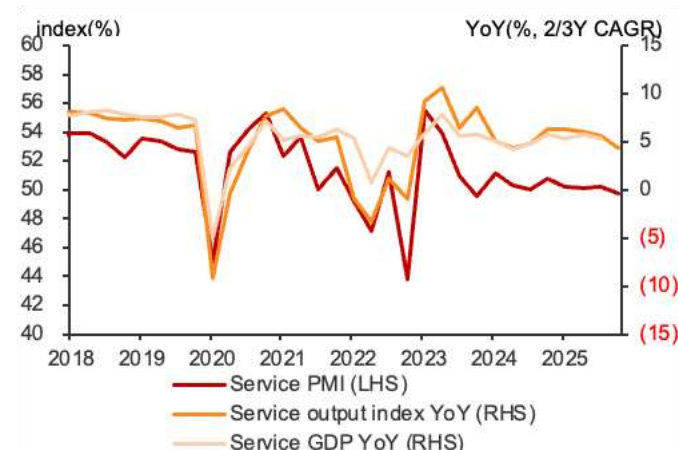
Source: Wind, CMBIGM

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

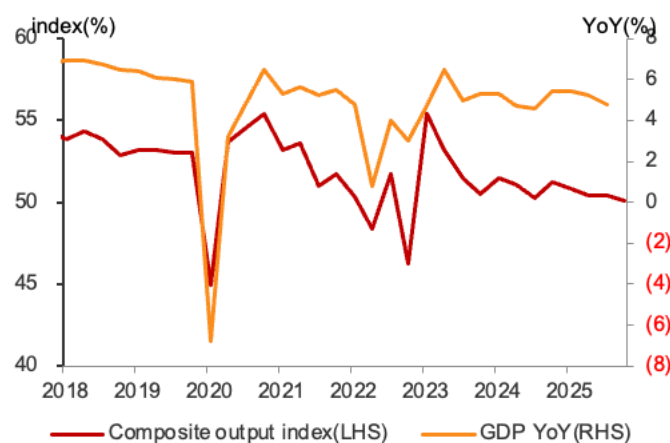
Source: Wind, CMBIGM

**Figure 7: Manufacturing Output Index**

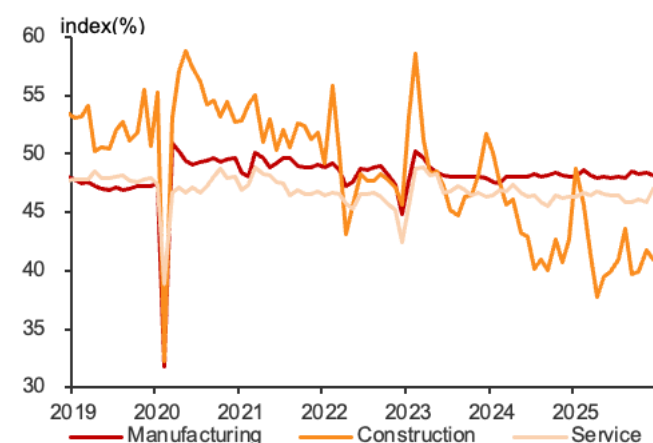
Source: Wind, CMBIGM

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

Source: Wind, CMBIGM

**Figure 9: Composite Output Index**

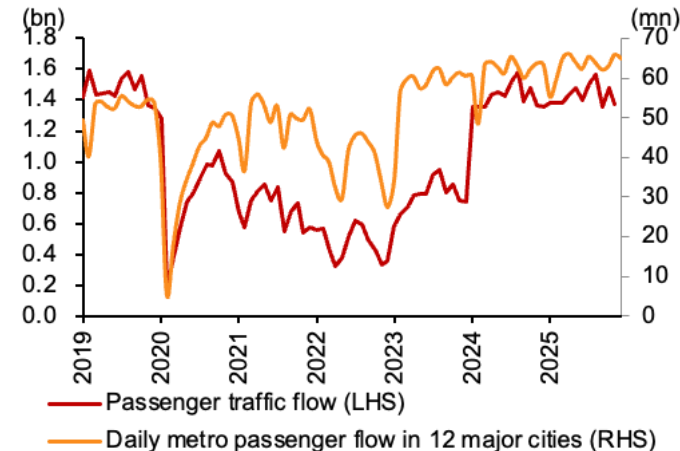
Source: Wind, CMBIGM

**Figure 10: Employment Index**

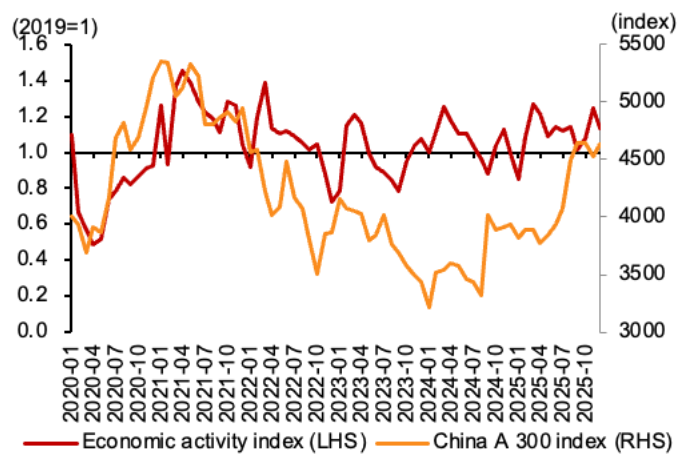
Source: Wind, CMBIGM

**Figure 11: Supply Delivery Index**

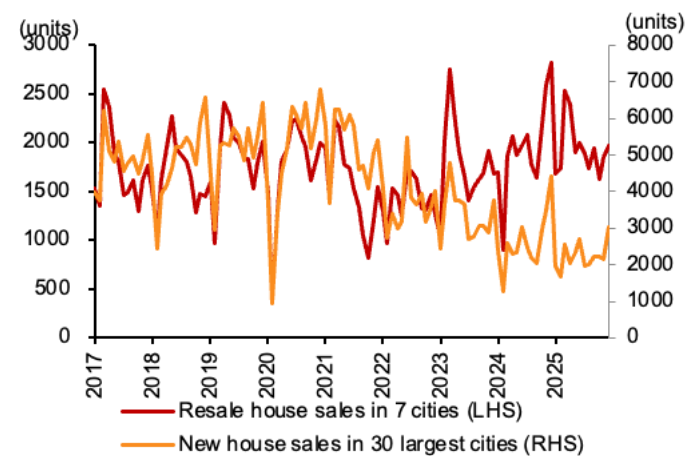
Source: Wind, CMBIGM

**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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