

China Economy

PMI shows mild reflation in upstream sectors

China's manufacturing PMI edged higher in August, underpinned by improvements in both production and demand. Rebounding raw material price and ex-factory price indexes pointed to a mild price reflation in upstream sectors thanks to the anti-involution campaign. Non-manufacturing PMI inched up as service improved while construction extended its weakness. Reflated raw material prices may point to a mild recovery in PPI, which serves as a constructive leading indicator for a rebound in corporate profits. China's economic growth may face further slowdown pressure in 4Q25. However, the weak data might be a good news as it would increase the possibility of demand-side stimulus and supply-side capacity reduction. We expect another 10 bps LPR and 50 bps cut in 4Q25. Policy may also strengthen transfer payments to low- and middle-income households, the social security system and multi-child families to more effectively boost household consumption.

■ Manufacturing PMI remained in contraction while price level rebounded.

Manufacturing PMI edged up to 49.4% from 49.3% in Aug, above market expectations of 49.1%. Production rose from 50.5% to 50.8% in Aug. New order index inched up to 49.5% from 49.3% as the export order edged up but remained in contraction at 47.2%. Anti-involution policy continued to support mild reflation in upstream material cost as raw material purchase price index further expanded to 53.3% from 51.5%, while ex-factory price edged up to 49.1% in Aug. Corporates procurement moderately recovered while employment further contracted. Breaking down by sector, pharmaceuticals and computer & electronic equipment saw robust performance in both new orders and production, while textiles & apparel, furniture, and chemical products saw notable declines.

■ Non-manufacturing PMI picked up amid recovering service sector. Non-manufacturing PMI Service PMI edged up to 50.3% in Aug from 50.1%. Service PMI accelerated to 50.5% from 50%, as business activity expectations expanded while the new order, sales price, and employment indexes edged down. Breaking down by sector, activities in rail, water & air transportation, telecom, broadcasting & TV and financial market services remained in high prosperity; while retail and real estate contracted. Construction PMI dipped to 49.1% in Aug from 50.6%, as new order index fell from 42.6% to 40.6%, indicating prolonged weakness in infrastructure investment in 2025.

■ Rebounding raw material prices may point to a mild reflation. The anti-involution campaign has driven the raw material price in major upstream industries including lithium battery, photovoltaic equipment and cement, although the prices of downstream end-products remained depressed due to weak demand. The mild recovery in PPI serves as a constructive leading indicator for a rebound in corporate profits, even though the sustainability of this recovery remains the key factor to monitor. China's economic growth may face further slowdown pressure in 4Q25 due to the softening of property market, payback effect of export frontloading and fading impact of trade-in program. However, the weak data might be a good news as it would increase the possibility of demand-side stimulus and supply-side capacity reduction. We expect another 10 bps LPR and 50 bps cut in 4Q25, along with a possible moderate increase in the broad fiscal deficit. Policy may also strengthen transfer payments to low- and middle-income households, the social security system and multi-child families to more effectively boost household consumption.

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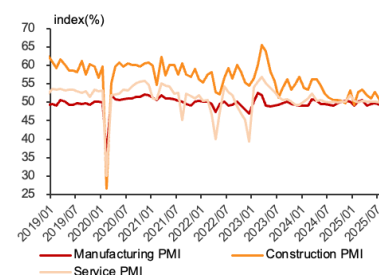
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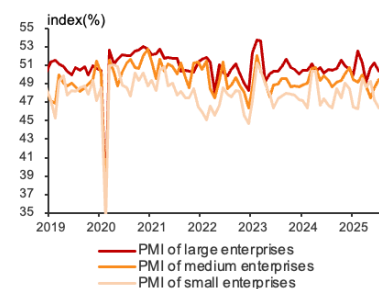
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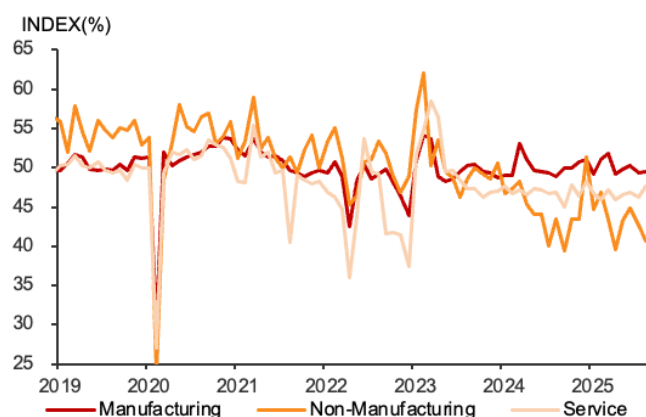
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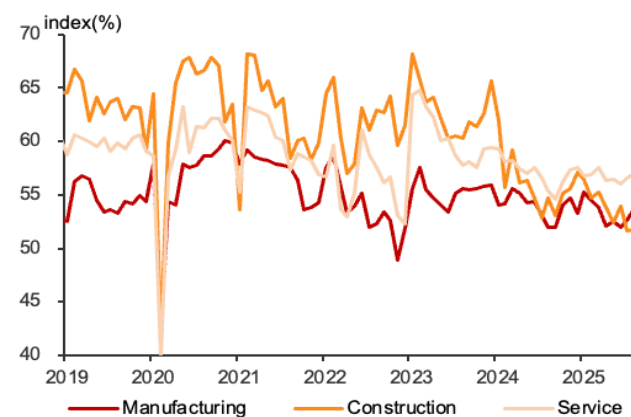
Source: NBS, CMBIGM



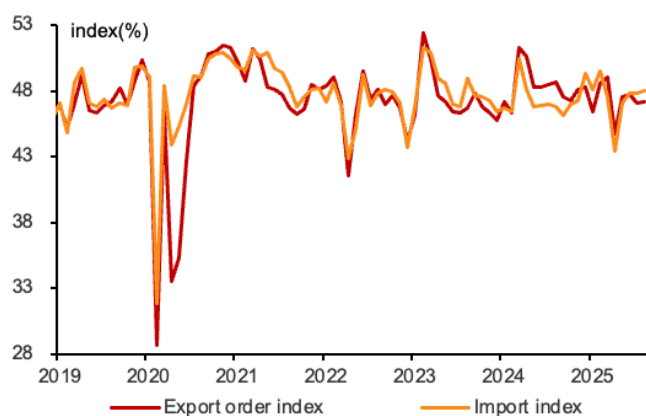
Source: NBS, CMBIGM

Figure 1: New Order Index

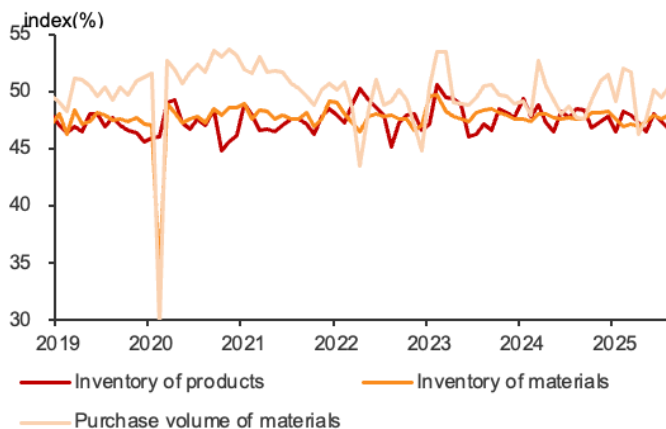
Source: Wind, CMBIGM

Figure 2 : Business Sentiment Index

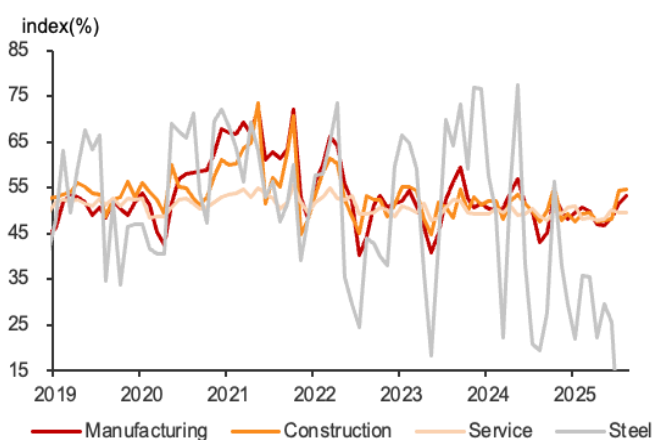
Source: Wind, CMBIGM

Figure 3: Export Order Index and Import Index

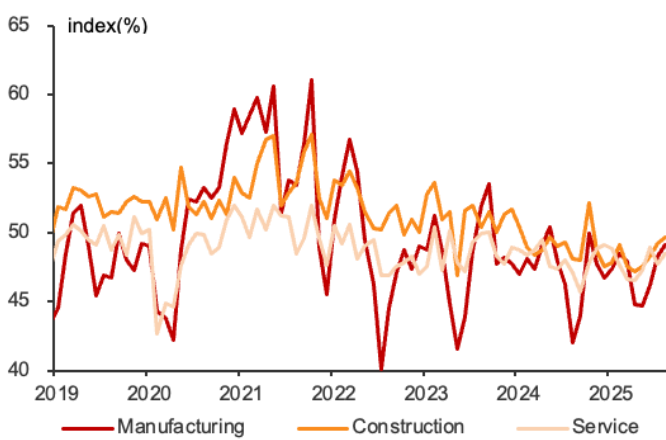
Source: Wind, CMBIGM

Figure 4: Inventory Index

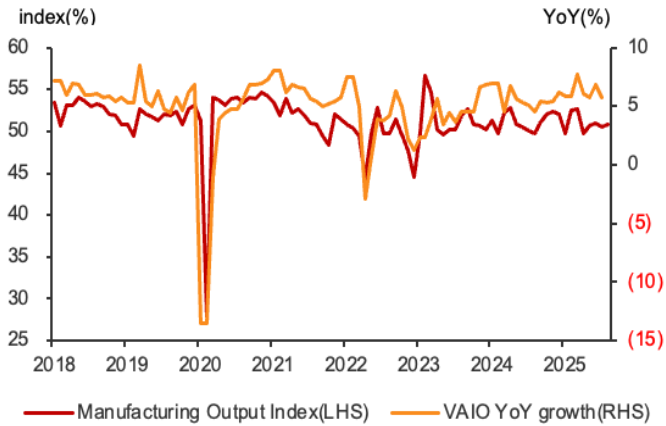
Source: Wind, CMBIGM

Figure 5: Material Purchase Price Index

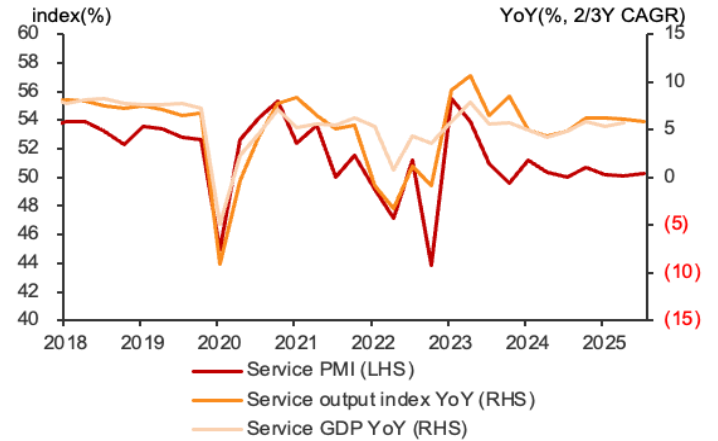
Source: Wind, CMBIGM

Figure 6: Ex-factory Price Index

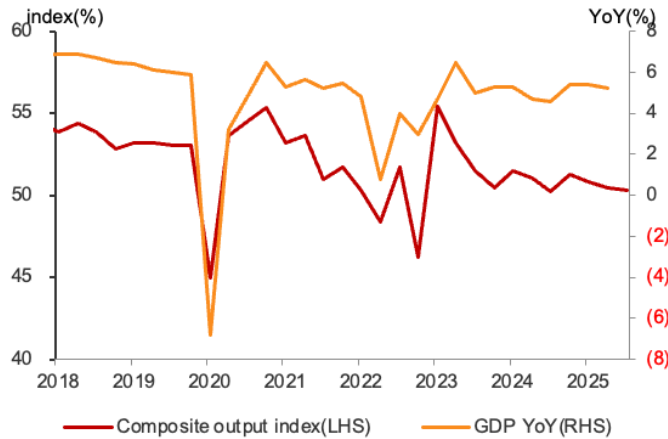
Source: Wind, CMBIGM

Figure 7: Manufacturing Output Index

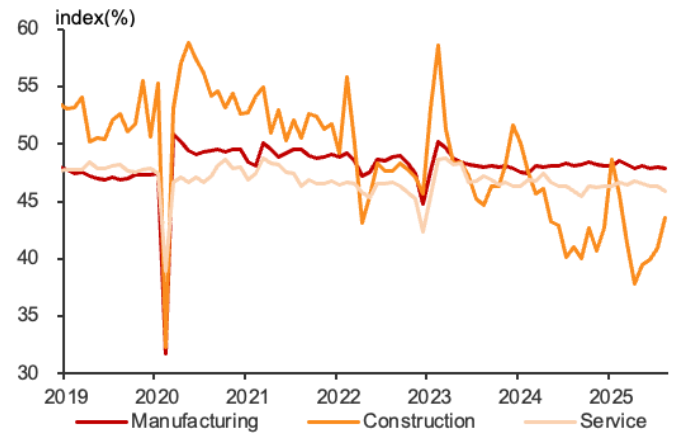
Source: Wind, CMBIGM

Figure 8: Service PMI & Output Index

Source: Wind, CMBIGM

Figure 9: Composite Output Index

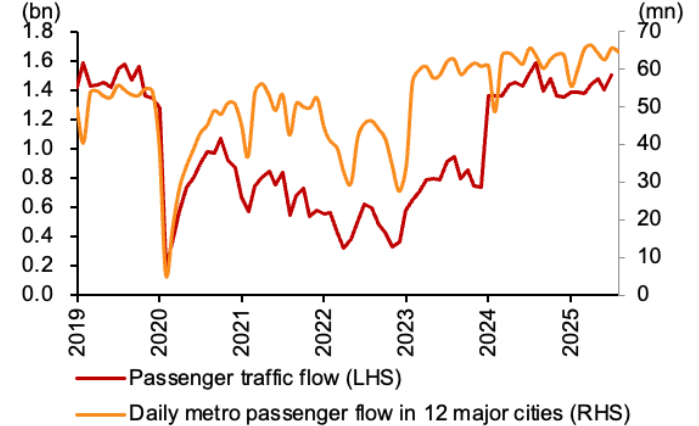
Source: Wind, CMBIGM

Figure 10: Employment Index

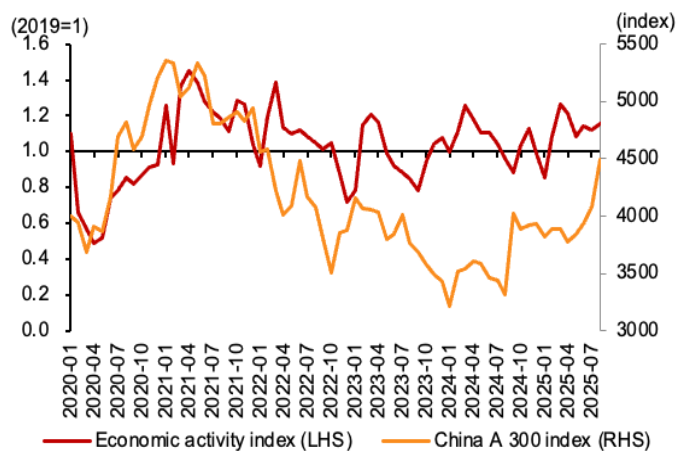
Source: Wind, CMBIGM

Figure 11: Supply Delivery Index

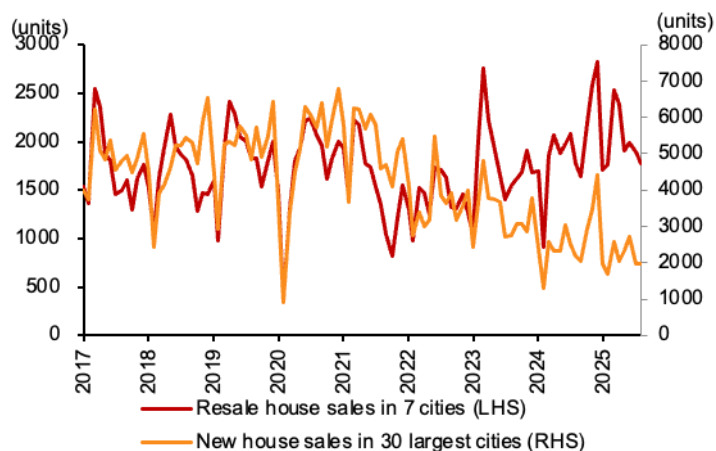
Source: Wind, CMBIGM

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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