

China Economy

PMI returned to expansion amid stimulus

China economy showed signs of stabilisation as manufacturing and service PMIs returned to expansion in Oct. Manufacturing output further picked up while demand marginally improved. Producer confidence remained soft as material inventory and purchase remained in contraction yet at a smaller magnitude. Deflation pressure was moderately relieved as indexes of material purchase price and ex-factory price markedly rebounded. Investors now keep a close eye on the NPC meeting in early Nov after the US election for clues about additional fiscal policy. The additional fiscal policy is expected to focus on 4 areas: 1) LG hidden debt restructuring with possible RMB6tn LGB support over the next 3 years; 2) recapitalisation of major state-owned banks with possible RMB0.6-1tn CGSB support over next 1-2 years; 3) unsold housing and idle land purchase by LG with possible RMB4tn LGSB support over next 5 years; and 4) moderate fiscal support for low-income households, multi-child families and rural social welfare. We expect China's broad fiscal deficit rate to rise from 10% in 2024 to 13.5% in 2025, with possible additional fiscal stimulus if Trump wins the US election.

■ **Manufacturing rebounded into expansion for the first time since Apr.** Manufacturing PMI showed broad-based improvement, climbing from 49.8% in Sep to 50.1% in Oct. Production index increased to 52% from 51.2% while demand marginally improved with new order index up to 50% from 49.9%. Exports might have faced headwinds as new export order index further contracted, while import index narrowed its contraction. Material inventory and material purchase indexes remained in contraction yet at a smaller magnitude. Material purchase price index markedly surged from 45.1% to 53.4% in Oct as commodity price first led the rebound starting in Sep, while ex-factory price almost broke even at 49.9, suggesting Oct PPI may see a positive MoM growth. Employment remained tepid due to demand weakness and manufacturing upgrade towards high labour productivity. Breaking down by sector, general equipment, auto and electrical equipment remained in expansion while furniture, chemical products and non-metal minerals continued to contract. Small firms continued to face challenging conditions as their PMI further contracted while medium and large enterprises rebounded.

■ **Service returned to expansion while construction edged down.** Service PMI improved to 50.1% in Oct following a brief month of contraction at 49.9% in Sep. New order index contracted at a slower pace from 45% to 47.8% as consumer demand was still weak. Deflation pressure was moderately relieved as price index of input and final sale both rebounded but still stayed in contraction. Employment in service kept contracting but at a lesser magnitude. Breaking down by sector, activities in postal service, telecom, broadcasting & TV service, railway & air transport, and environmental protection service were in expansion; while lodging and real estate activities contracted. Construction PMI edged down to 50.4% from 50.7% as new order index bounced up.

■ **Market now keeps a close eye on the NPC meeting in early Nov.** China's macro policies were shifting towards strong loosening as the top policymakers vowed to stabilize the economy and defy the deflation spiral. The market is focused on the NPC meeting in early Nov following the US election for clues about additional fiscal policy. The fiscal policy might focus on 4 areas: 1) LG hidden debt restructuring with possible RMB6tn LGB support over next 3 years; 2) recapitalisation of major state-owned banks with possible RMB0.6-1tn CGSB support over next 1-2 years; 3) unsold housing and idle land purchase by LG with possible RMB4tn LGSB support over next 5 years; and 4) moderate fiscal support for low-income households, multi-child families and rural social welfare. We expect the broad fiscal deficit rate to rise from 10% in 2024 to 13.5% in 2025, with possible additional fiscal stimulus if Trump win the US presidential election.

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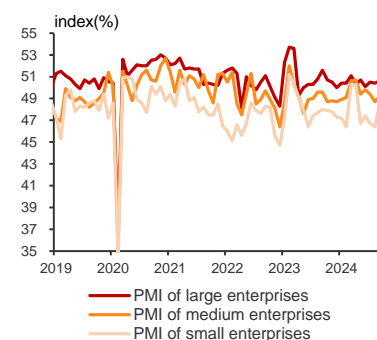
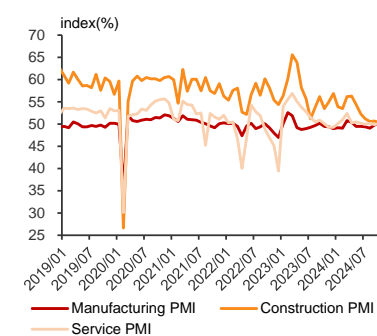
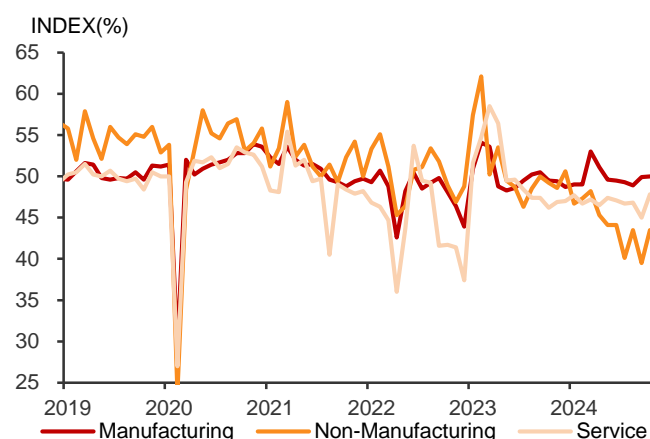
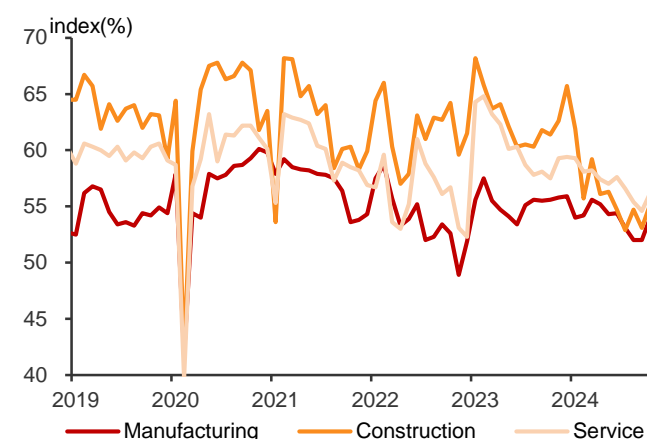


Figure 1: New Order Index

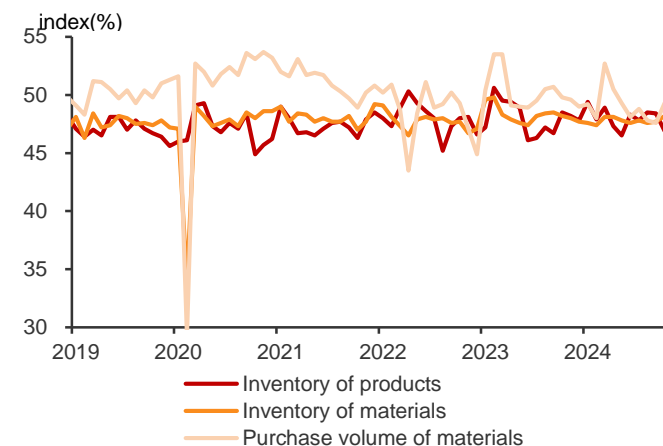
Source: Wind, CMBIGM

Figure 2 : Business Sentiment Index

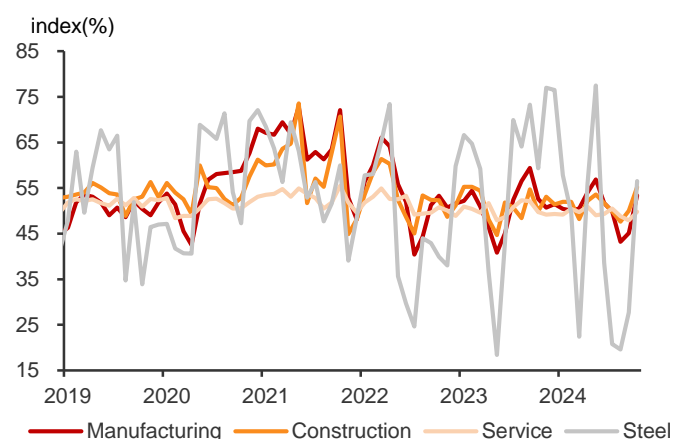
Source: Wind, CMBIGM

Figure 3: Export Order Index and Import Index

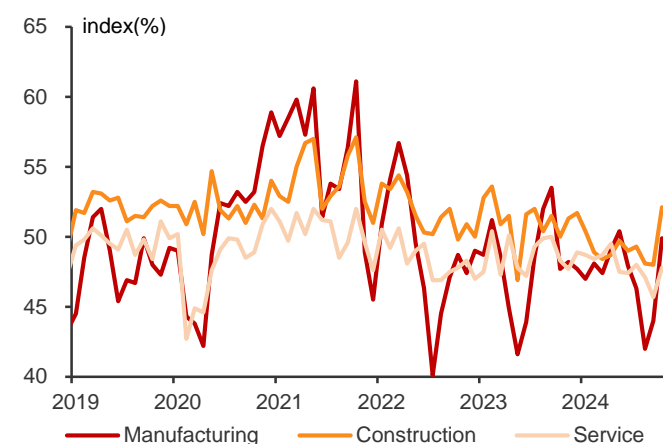
Source: Wind, CMBIGM

Figure 4: Inventory Index

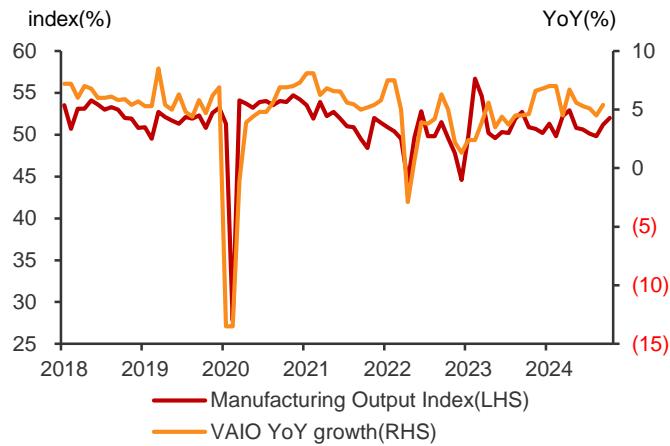
Source: Wind, CMBIGM

Figure 5: Material Purchase Price Index

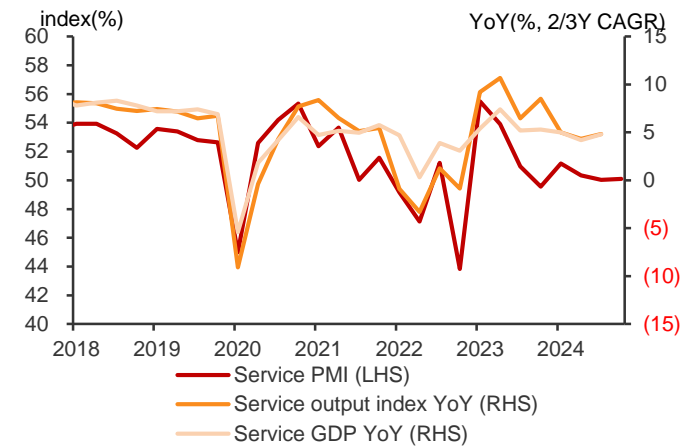
Source: Wind, CMBIGM

Figure 6: Ex-factory Price Index

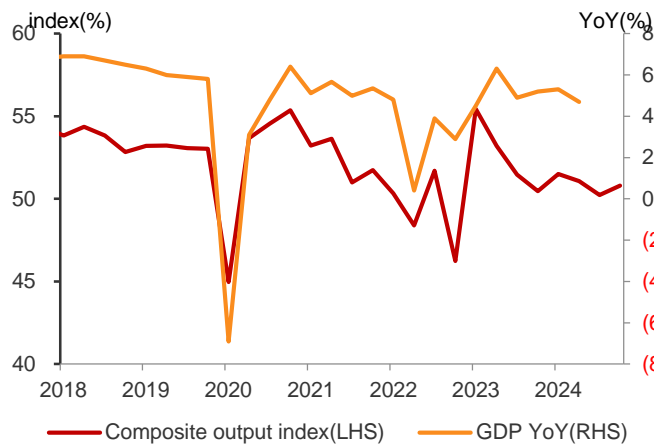
Source: Wind, CMBIGM

Figure 7: Manufacturing output

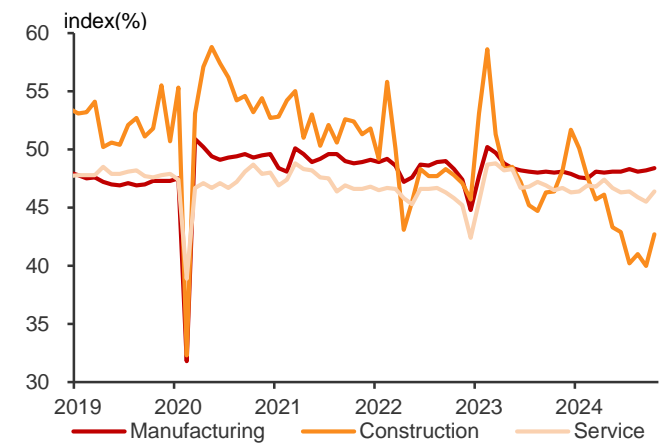
Source: Wind, CMBIGM

Figure 8: Service PMI & Output Index

Source: Wind, CMBIGM

Figure 9: Composite Output Index

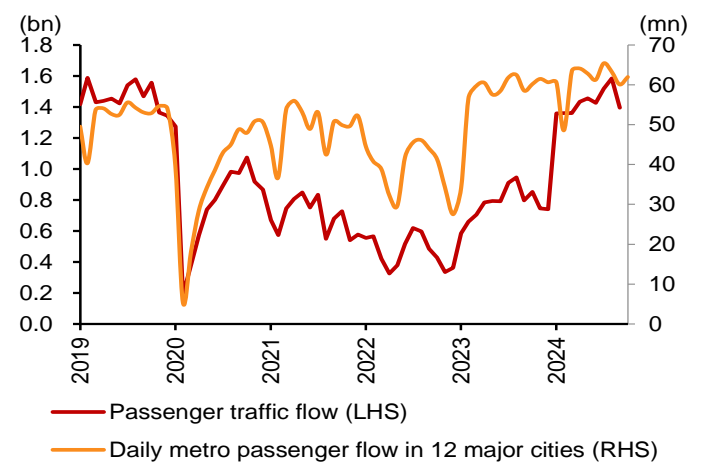
Source: Wind, CMBIGM

Figure 10: Employment Index

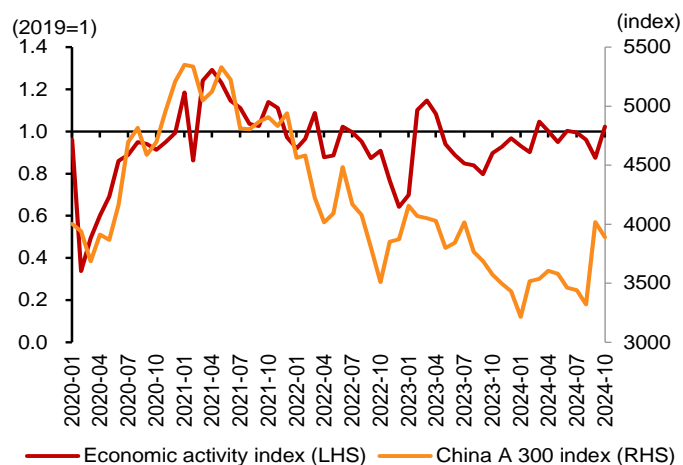
Source: Wind, CMBIGM

Figure 11: Supply Delivery Index

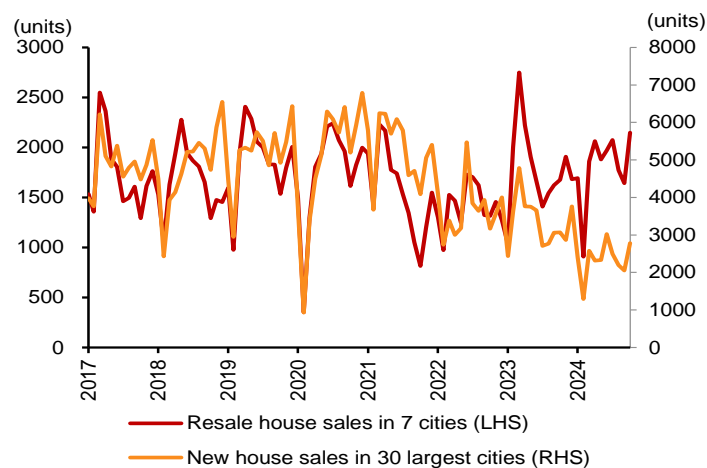
Source: Wind, CMBIGM

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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