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CMB International Global Markets | Macro Research | Economic Perspectives

China Economy

PMI notably beat market expectation

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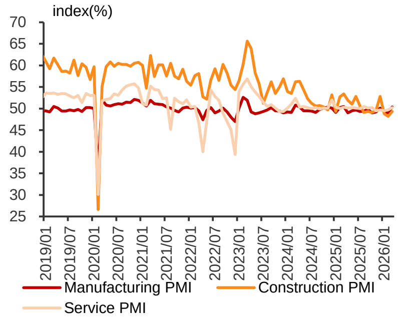
China's manufacturing PMI sharply rebounded in Mar partly distorted by the later and longer CNY holiday in 2026, as the 3M MA remained in contraction. Demand and production both improved, while inventory cycle, and export and import orders recovered. Deflation pressure notably eased as raw materials purchase price and ex-factory price rose to 5-year highs, driven by surging energy prices. Non-manufacturing PMI edged up, with services back in expansion while construction remained in contraction. Price indexes of both manufacturing and service sectors indicated the cost-push reflation may lead to a positive PPI in upcoming months, supporting a rebound in industrial profits particularly in upstream sectors. However, downstream firms' pricing power remains limited and margin pressure may persist as final consumer demand remains soft. In our view, the rising price level does not mean a broad-based recovery in domestic demand or a clear end to China's deflation cycle yet, but it does mark an encouraging first step towards reflation. We are revising Q1 GDP forecast to 4.8% from 4.5%, mainly driven by expanding trade surplus. Rising price level may push the PBOC rate cut from 2Q26 to 3Q26, in our view.

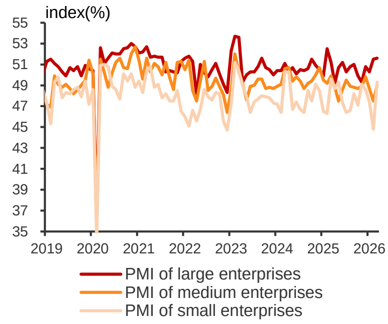
- **Manufacturing PMI notably rebounded driven by seasonal distortions.** Manufacturing PMI recovered to 50.4% in Mar from 49% in Feb, beating market expectation at 49.9%. The sharp rebound in Mar was likely distorted by the later and longer CNY holiday in 2026, as Feb PMI undershot expectations. The 3-month moving average remained in contraction, edging up slightly from 49.5% to 49.6% in Mar. Demand and production both improved, as new order index and production index surged to 51.6% and 51.4% in Mar from 48.6% and 49.6%. Reflation continued as raw materials purchase price and ex-factory price further expanded to 63.9% and 55.4%, the largest expansion in 5 years driven by surging energy prices. Export and import order narrowed their contraction in Mar, while employment index remained subdued tat 48.6%. Breaking down by sector, food processing, smelting and pressing of non-ferrous metals expanded in both new orders and production, while textile & garment, chemical fiber and rubber & plastic notable contracted.

- **Non-manufacturing PMI edged up, with services back in expansion.** Non-manufacturing PMI edged up to 50.1% in Mar from 49.5%, beating market expectation at 49.9%. Service PMI rose to 50.2% in Mar driven by rising price index of input and final sales, while new order index further contracted to 45.3%. Breaking down by sector, railway transport, telecommunications & broadcasting, monetary, financial and insurance services remained in high prosperity; while retail and lodging & dining contracted. Construction PMI inched up from 48.2% to 49.3% in Mar, indicating a slower pace of contraction.

- **Surging price indexes signaled easing deflation pressure.** Price indexes of both manufacturing and service sectors indicated the cost-push reflation may lead to a positive PPI in the next few months. Higher energy and raw material costs are lifting upstream prices and supporting a rebound in corporate profits as Jan-Feb industrial profits rose 15.2% YoY with strong gains in electronics and non-ferrous metals. However, downstream firms' pricing power remains limited and margin pressure may persist as final consumer demand remains soft. The rising price level does not mean a broad-based recovery in domestic demand or a clear end to China's deflation cycle yet, but it does mark an encouraging first step towards reflation alongside improving corporate profits. We are revising Q1 GDP forecast to 4.8% from 4.5%, mainly driven by expanding trade surplus.

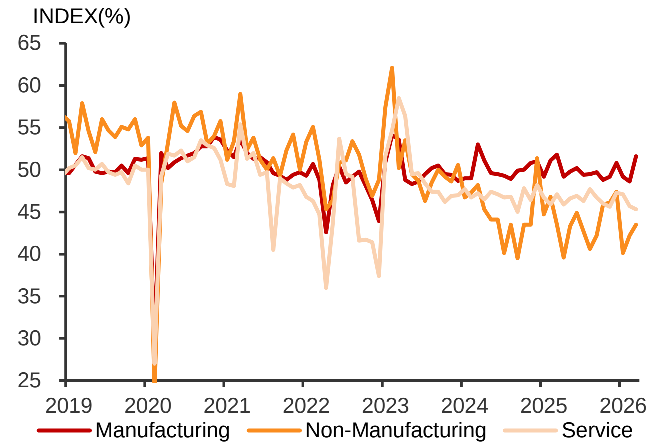


Source: NBS, CMBIGM



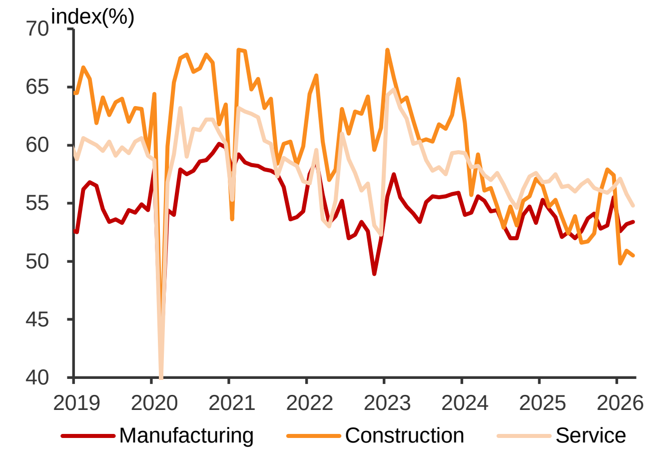
Source: NBS, CMBIGM

Figure 1: New Order Index



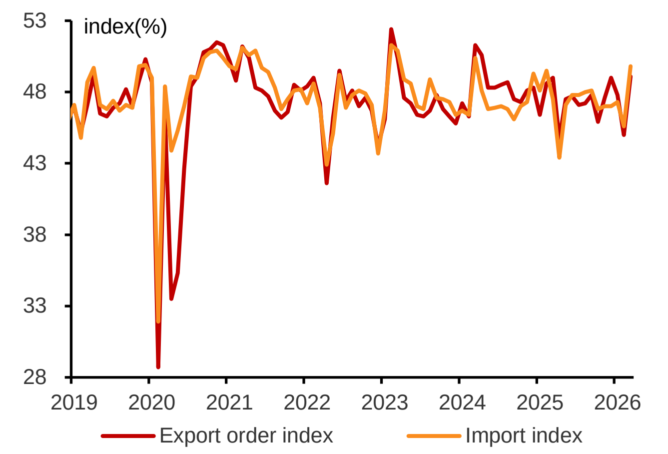
Source: Wind, CMBIGM

Figure 2 : Business Sentiment Index



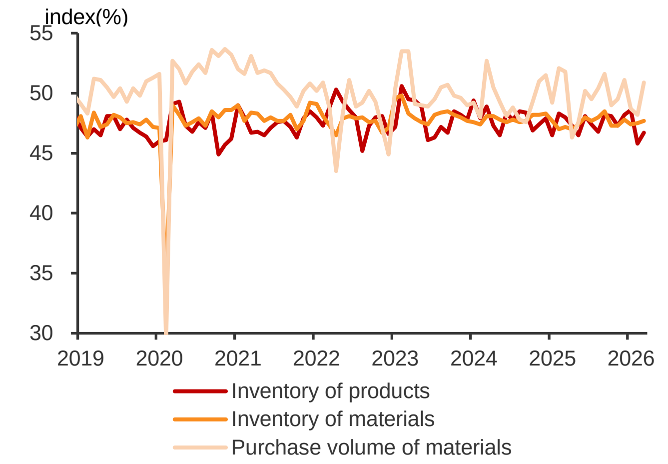
Source: Wind, CMBIGM

Figure 3: Export Order Index and Import Index



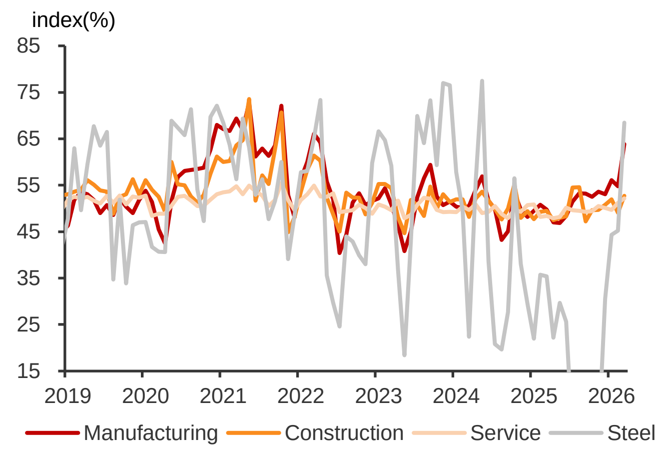
Source: Wind, CMBIGM

Figure 4: Inventory Index



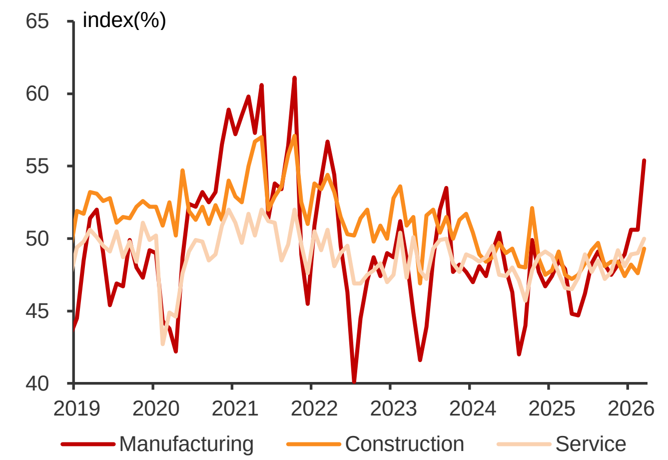
Source: Wind, CMBIGM

Figure 5: Material Purchase Price Index



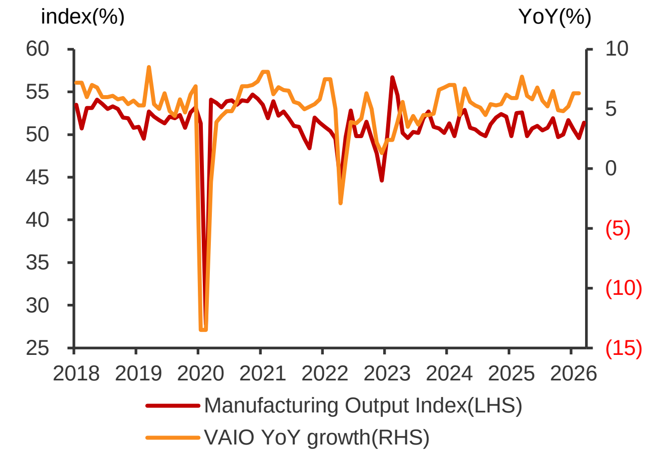
Source: Wind, CMBIGM

Figure 6: Ex-factory Price Index



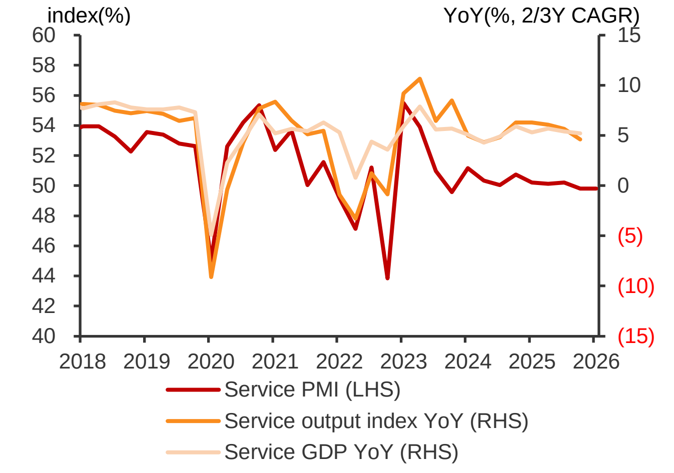
Source: Wind, CMBIGM

Figure 7: Manufacturing Output Index



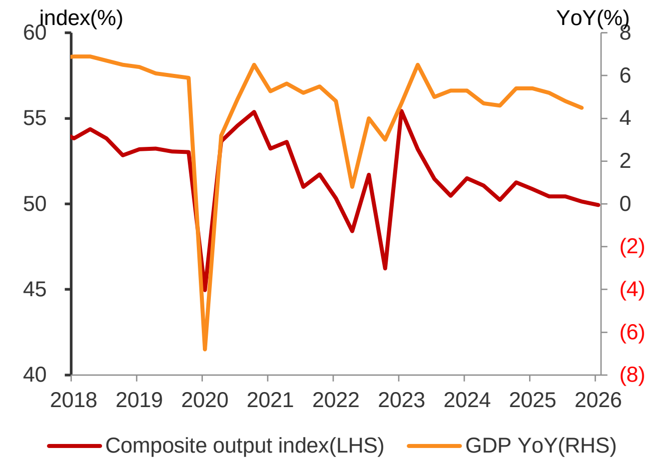
Source: Wind, CMBIGM

Figure 8: Service PMI & Output Index



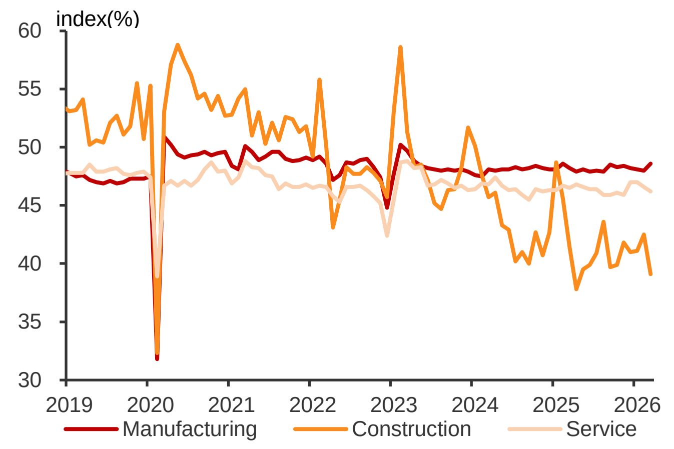
Source: Wind, CMBIGM

Figure 9: Composite Output Index



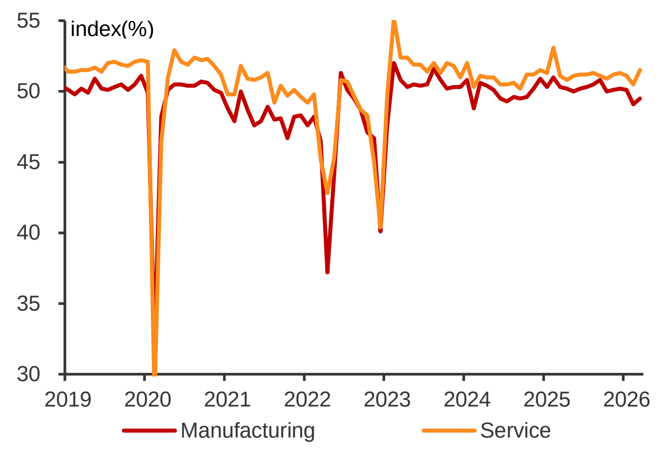
Source: Wind, CMBIGM

Figure 10: Employment Index



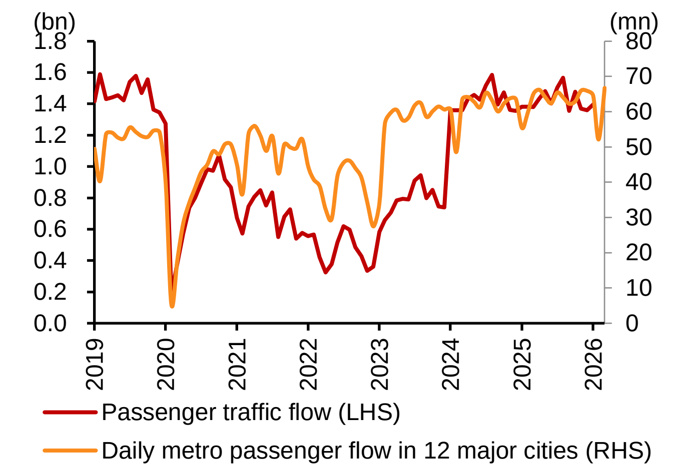
Source: Wind, CMBIGM

Figure 11: Supply Delivery Index



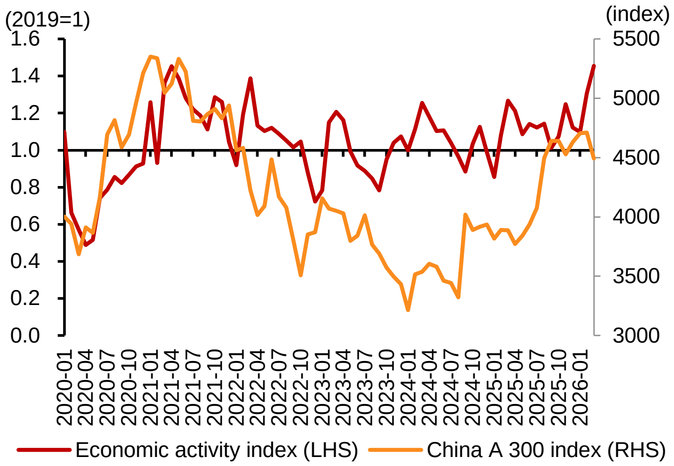
Source: Wind, CMBIGM

Figure 12: Passenger flow



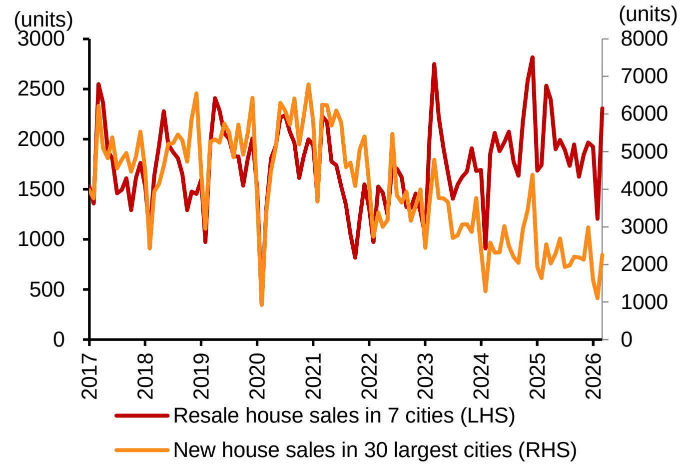
Source: Wind, CMBIGM

Figure 13: Economic Activity & A Share Index



Source: Wind, CMBIGM

Figure 14: House sales



Source: Wind, CMBIGM

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