

China Economy

PMI signalled early signs of tariff disruptions

China's manufacturing PMI came in notably below market expectation, reflecting early signs of tariff disruptions with both export and import index slumped to three-year low. Both new order and production index dropped into contraction, while deflation pressure intensified as raw material purchase price and ex-factory price index both dipped further. Employment deteriorated to 14-month low, while corporates procurement saw its biggest decline since Apr 2022. Tariff shocks have weighed on economic momentum, as the manufacturing PMI broadly deteriorated and the property market notably softened in Apr, especially in the new housing market. We estimate that the trade war could reduce China's GDP and CPI by 1 and 0.2-0.4 percentage points over the next 12 months. GDP growth might slow from 5.4% in 1Q25 to 4.5% in 2Q25. PBOC may cut RRR and LPRs slightly in 2Q25, with a total reduction of 50bps and 20bps in the full year. Government bond issuance and fiscal spending may be accelerated to provide more support to the real economy. However, additional strong fiscal support and consumption stimulus are unlikely to materialize before 2H25, as China might consider them as bargaining chips in negotiating with the US. With such policy support in place, GDP growth might rebound to 4.7% in 2H25 with the full-year growth at 4.8%.

■ Manufacturing PMI broadly deteriorated amid tariff shocks.

Manufacturing PMI dropped to 49% in Apr from 50.5% in Mar, below market expectations at 49.7%. Apr PMI data reflected early signs of tariff disruptions, with both export and import index slumped to three-year low at 44.7% and 43.4% from 49% and 47.5% in Mar, which may soon be mirrored in the upcoming export figures. As a result, both new order and production index dropped into contraction from 51.8% and 52.6% to 49.2% and 49.8% in Apr. Deflation also intensified as raw material purchase price and ex-factory price index both contracted further to 47% and 44.8% in Apr. Employment deteriorated to 14-month low at 47.9%, while corporates procurement saw its biggest decline since Apr 2022 as purchase volume of materials dropped to 46.3%. Breaking down by sector, agricultural product processing, food and beverage, and pharma saw strong resilience in both new orders and production, while textiles, clothing and metal products saw notable declines.

■ Non-manufacturing PMI edged down. Service PMI eased to 50.1% in Apr from 50.3%, with new order index fell to 45.9% from 47.1%. Price index of final sale edged down while employment index inched up. Breaking down by sector, activities in air transportation, telecom, broadcasting & TV, information technology and insurance services remained in high prosperity; while water transportation and capital market services contracted. Construction PMI dipped to 51.9% in Apr from 53.4%, as new order index fell to 39.6% from 43.5%.

■ Intensifying headwinds call for more proactive policy support. Tariff shocks have weighed on economic momentum, as the manufacturing PMI broadly deteriorated and property market notably softened in Apr. Compared to the Trump 1.0 era, the tariff impact on China is likely to be more severe as reciprocal tariffs target a broader range of trading partners, which will weaken global growth and external demand prospects, weighing on China's exports and export rerouting. We estimate that the trade war could reduce global and China GDP by 0.7 and 1 percentage points over the next 12 months. It may lower China's CPI by 0.2-0.4 ppts, goods export by 3ppts, and manufacturing investment by 0.5ppts. PBOC may cut RRR and LPRs slightly in 2Q25, with a total reduction of 50bps and 20bps in the full year. Government bond issuance and fiscal spending may be accelerated to provide more support to the real economy. However, additional strong fiscal support and consumption stimulus are unlikely to materialize before 2H25, as China might consider them as bargaining chips in negotiating with the US.

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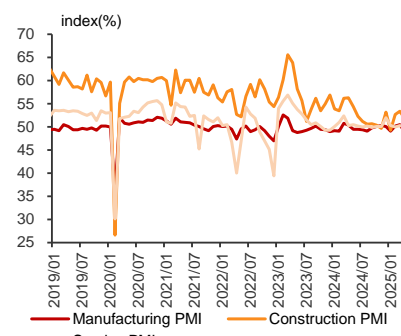
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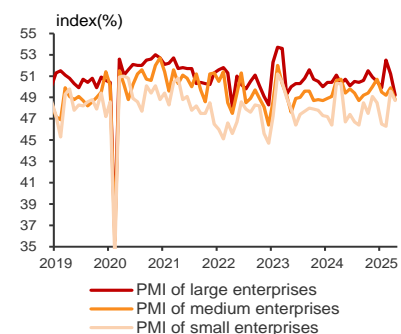
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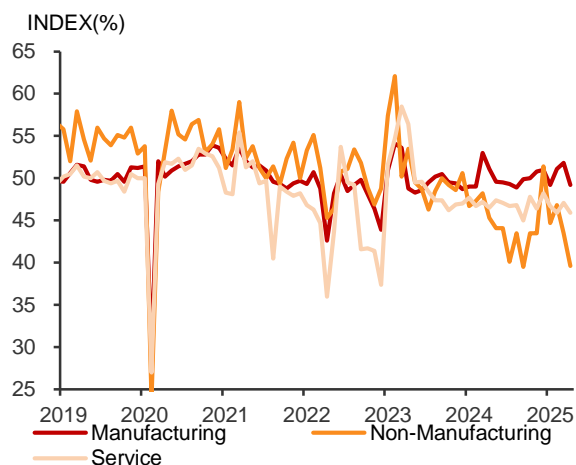
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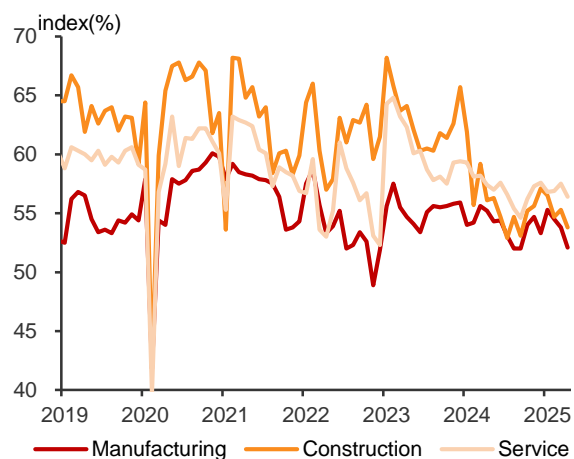
Source: NBS, CMBIGM



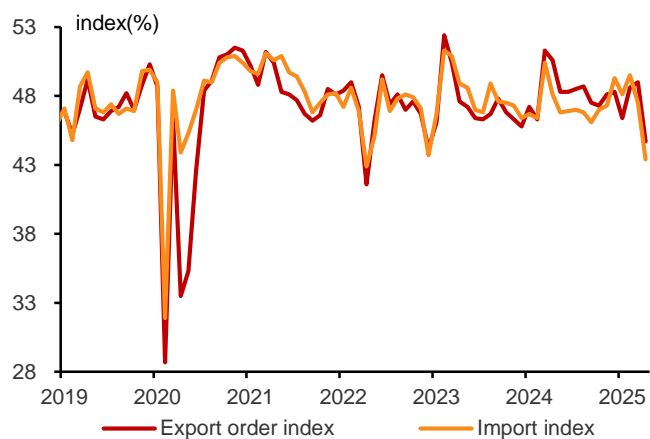
Source: NBS, CMBIGM

Figure 1: New Order Index

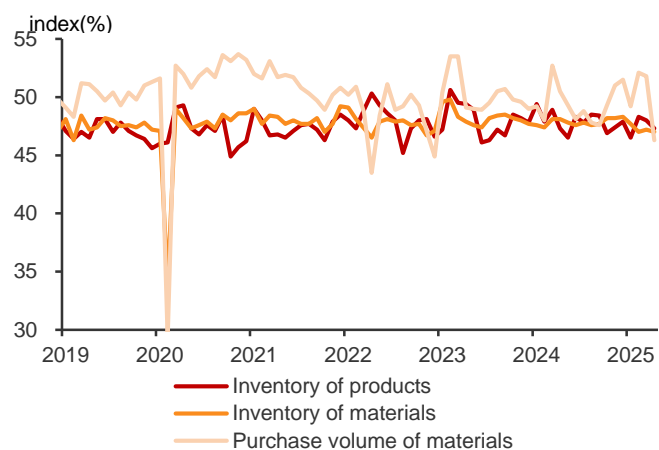
Source: Wind, CMBIGM

Figure 2 : Business Sentiment Index

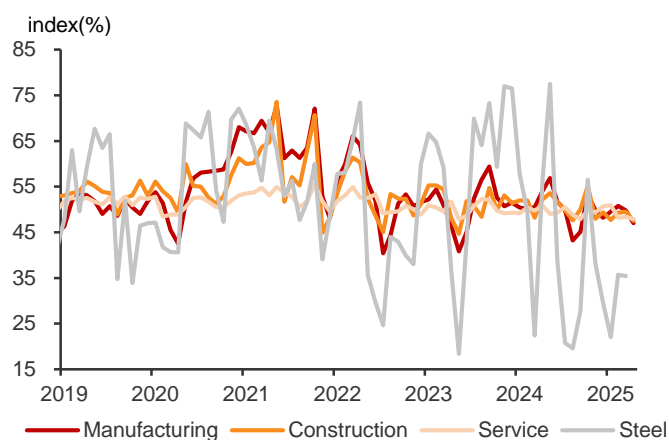
Source: Wind, CMBIGM

Figure 3: Export Order Index and Import Index

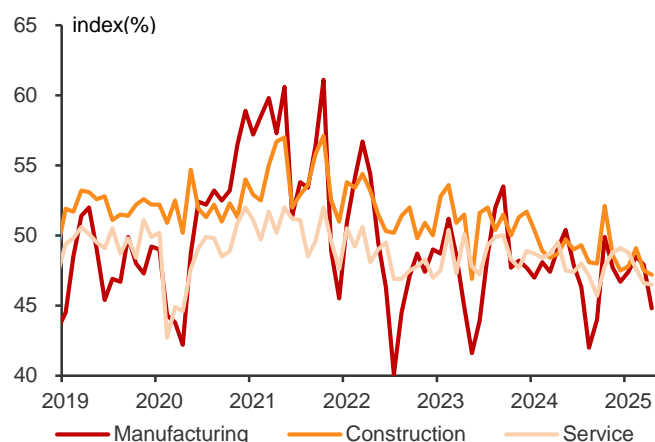
Source: Wind, CMBIGM

Figure 4: Inventory Index

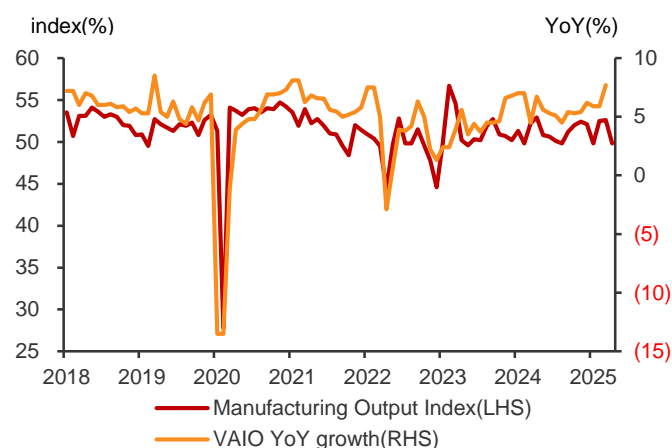
Source: Wind, CMBIGM

Figure 5: Material Purchase Price Index

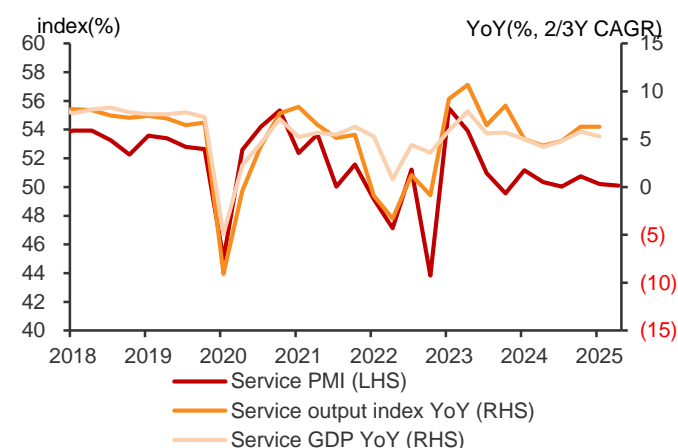
Source: Wind, CMBIGM

Figure 6: Ex-factory Price Index

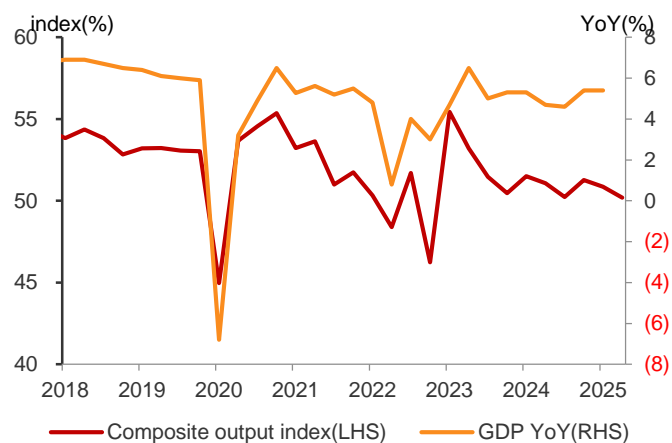
Source: Wind, CMBIGM

Figure 7: Manufacturing output

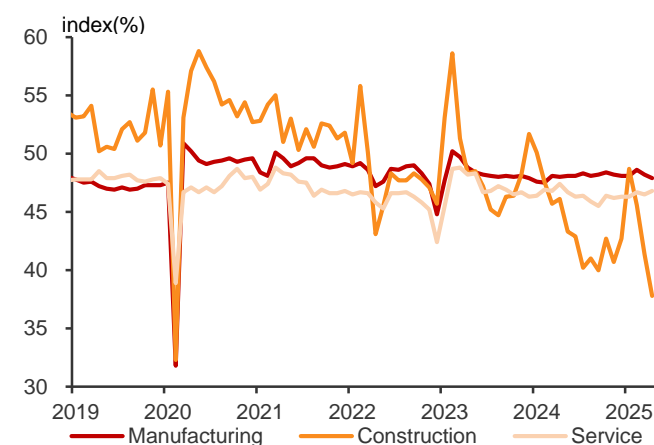
Source: Wind, CMBIGM

Figure 8: Service PMI & Output Index

Source: Wind, CMBIGM

Figure 9: Composite Output Index

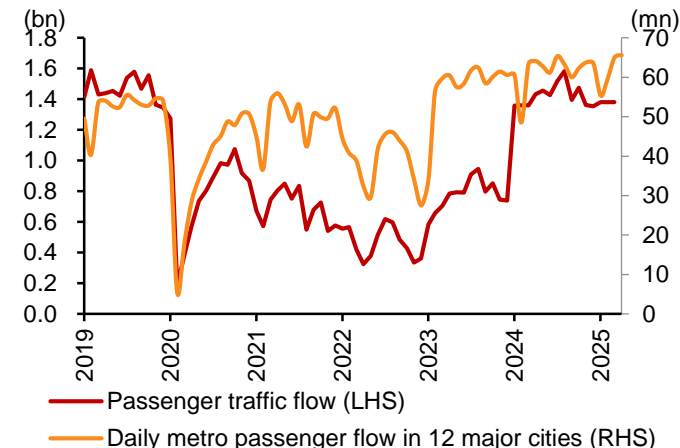
Source: Wind, CMBIGM

Figure 10: Employment Index

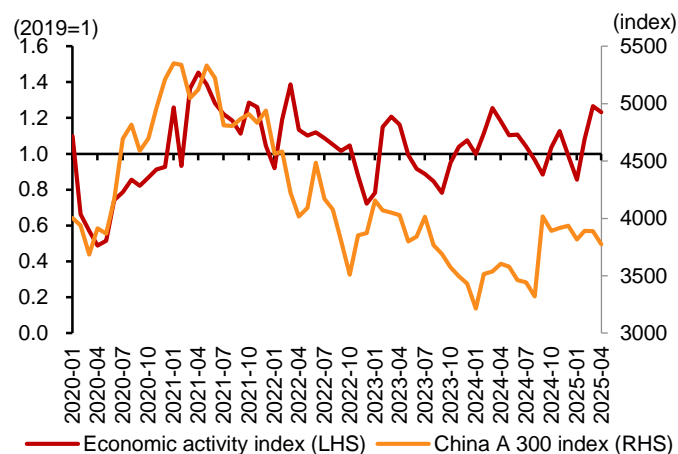
Source: Wind, CMBIGM

Figure 11: Supply Delivery Index

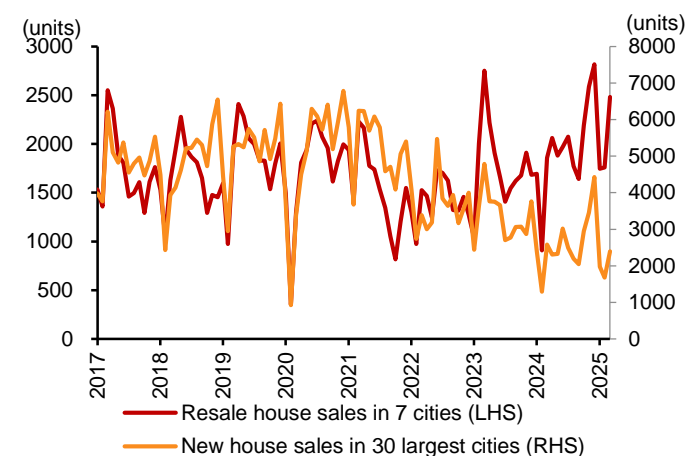
Source: Wind, CMBIGM

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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