

Data Preview: From June tailwinds to July turbulence

China's official PMIs unexpectedly softened in July, underscoring the impact of fading tariff-driven export momentum and disruptions caused by adverse weather conditions. Small factories were hit the hardest, in part due to the newly imposed tariff on small parcels shipped to the US. Sentiment in the property sector also deteriorated in July, with contracted new home sales declining at a faster YoY pace.

Looking ahead to other July data releases, we anticipate a mild deceleration in the growth of exports and industrial value-added. YTD fixed asset investment is also likely to slow further, weighed down by weather-related disruptions, ongoing trade uncertainties, and weakening new home sales. Additionally, July typically sees subdued credit growth in China. Meanwhile, retail sales may see a recovery in growth after distortions in June.

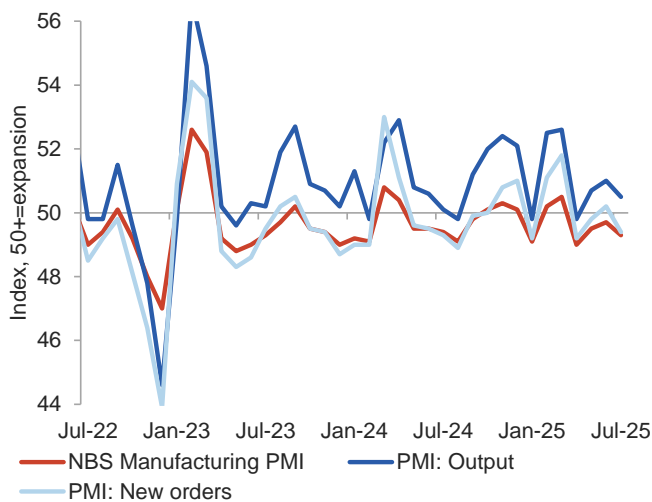
On the policy front, we do not expect the PBoC to cut its policy rate or the RRR over the next couple of weeks. However, policymakers may opt to guide the Loan Prime Rates lower without adjusting benchmark rates, to alleviate additional depreciation pressure on the RMB while align with signals from the July Politburo meeting that emphasized reducing the cost of social financing.

Fig 1 Our forecasts for China's major economic indicators

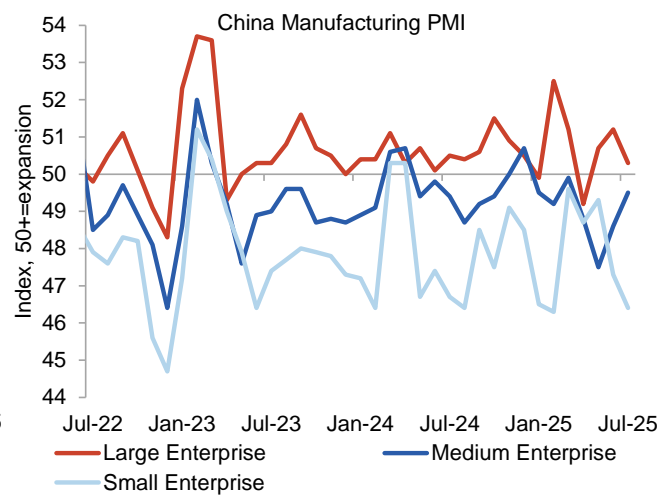
Indicators	Apr	May	Jun	Jul (forecast)
Export growth (YoY %)	8.1	4.8	5.8	5.0
Import growth (YoY %)	-0.2	-3.4	1.1	-1.0
Trade balance (USD\$b)	96.0	103.1	114.8	103
CPI (YoY %)	-0.1	-0.1	0.1	-0.2
PPI (YoY %)	-2.7	-3.3	-3.6	-3.5
New loans (CNY\$b)	280	620	2240	300
Total social financing (CNY\$b)	1160	2287	4199	1600
M2 (YoY %)	8.0	7.9	8.3	8.2
VAI (YoY %)	6.1	5.8	6.8	6.0
Retail sales (YoY %)	5.1	6.4	4.8	5.5
FAI (YTD YoY %)	4.0	3.7	2.8	2.5

Source: Bloomberg, Mizuho

- China's official **Manufacturing PMI** declined to 49.3 in July, falling short of market expectations (49.7) and marking a three-month low. The downturn was broad-based and led by the new orders subindex, which dropped to 49.4, indicating weakening stockpile demand (Fig 2). Adverse weather conditions, including flooding and extreme heat, also contributed to the slowdown. The production subindex fell to 50.5 in July, though it remained above the expansion threshold. By enterprise size, small factories were hit the hardest, partly due to additional tariffs on small parcels to the US, while medium-sized enterprises continued to recover from May's trough (Fig 3).

Fig 2 A broad-based downturn in July's official Manufacturing PMI

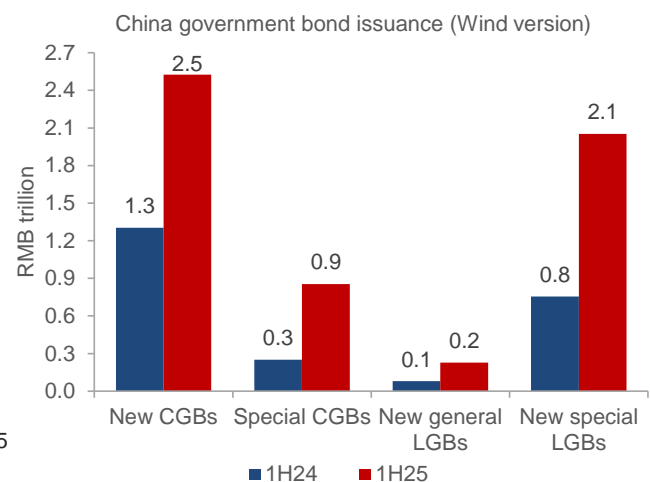
Source: CEIC, Mizuho

Fig 3 Small-sized factories were hit the hardest

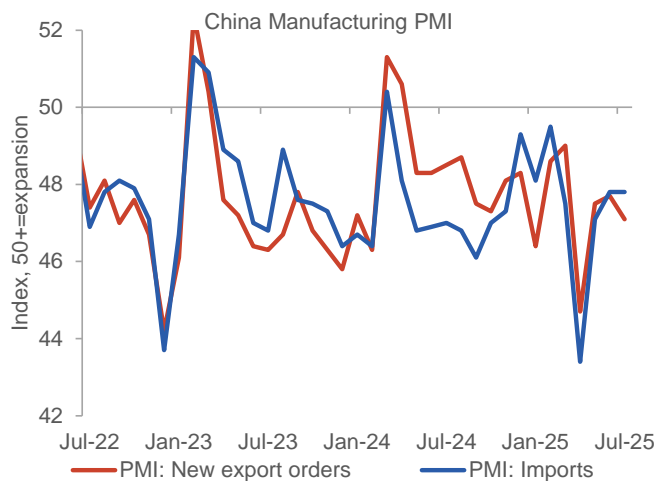
- The **Non-manufacturing PMI** also declined in July, reaching its lowest level since last November. Both service and construction activities weakened amid a stalled property market recovery and unfavorable weather (Fig 4). Notably, the Construction PMI fell to a six-month low of 50.6, despite a significant increase in special local government financing (Fig 5). Contracted sales by China's top 100 property developers totaled RMB211b in July, down 24% YoY, raising concerns about a deepening property market slump.

Fig 4 Construction PMI led the decline in July

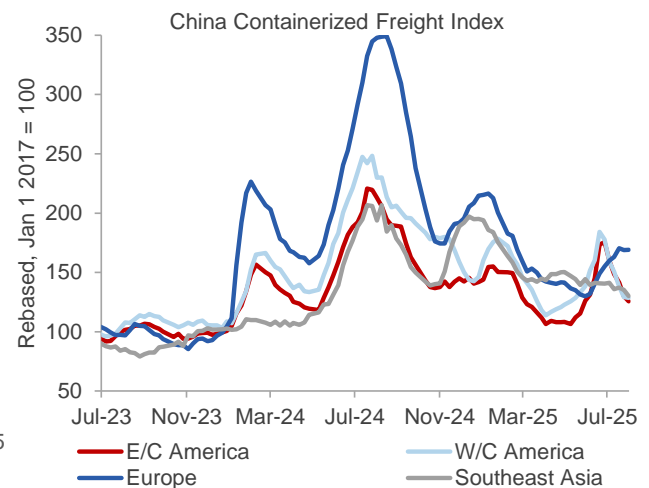
Source: CEIC, Wind, Mizuho

Fig 5 A significant increase in special LGB financing YTD

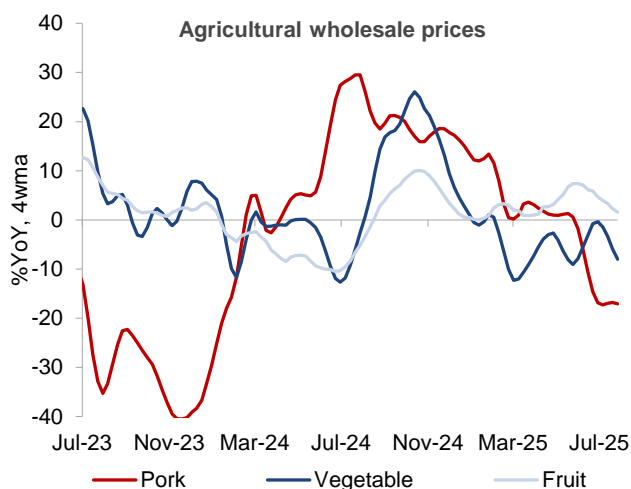
- Trade-related** indicators from the PMI survey suggest diminishing external demand for stockpile ahead of the expiration of the current China-US trade truce on 12 August. The new export orders index fell to a three-month low of 47.1, while the import index remained unchanged at 47.8 (Fig 6). Shipping prices to the US have dropped approximately 30% from recent peaks, reflecting softening outbound shipment demand (Fig 7).

Fig 6 Export outlook softened in July

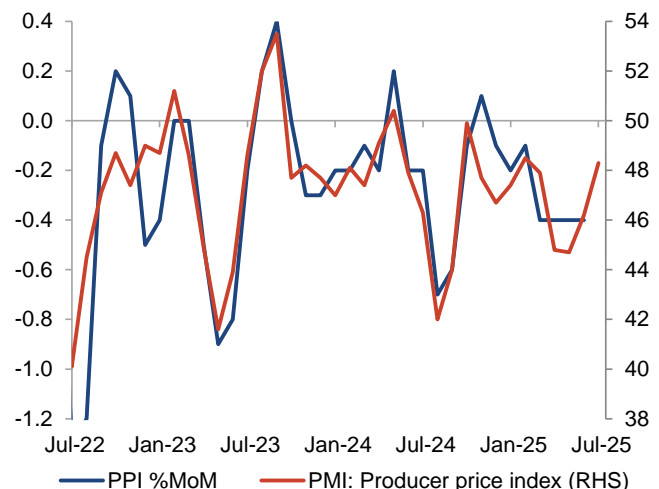
Source: CEIC, Wind, Mizuho

Fig 7 Shipping prices to the US dropped ~30% from recent peaks

- On the **credit** front, July typically sees subdued growth, especially with tighter liquidity during the tax season. We expect RMB300b of new loans this July, consistent with increases during the same period from the past two years. Meanwhile, total social financing costs are likely to rise more rapidly, driven by robust government bond financing. According to Wind, net government bond issuance reached RMB1.25trn in July, nearly double the amount from the same period last year.
- Regarding **other activity indicators** for July, we expect a recovery in YoY retail sales growth, driven by the diminishing impact of distortions from the “618” shopping festival and government trade-in subsidies (see *Mizuho China Macro: Decoding China’s fiscal push (1) - from subsidies to sales, 3 July 2025*). However, industrial production growth is likely to moderate, reflecting the waning effect of tariff-driven export activity. Meanwhile, fixed asset investment growth is anticipated to decelerate further, as momentum in both manufacturing and property investment weakens amid trade uncertainty and sluggish new home sales.

Fig 8 Wholesale food prices posted a YoY decline in July

Source: Wind, CEIC, Mizuho

Fig 9 Continued deflationary pressure in producer prices

- **Consumer prices** are expected to show a YoY decline and a MoM increase in July, partly due to a high base effect. Despite adverse weather, wholesale agricultural prices posted a moderate YoY decline, led by drops in fresh vegetable and pork prices (Fig 8). Additionally, domestic fuel prices rose 1% MoM in July, reflecting the mid-June spike in global crude oil prices. **Producer prices** remain under deflationary pressure, although the producer price index in the Manufacturing PMI survey improved to 48.3, from 46.2 in June (Fig 9).

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