

Growing Headwinds, Yet Not Enough to Move Beijing

China's **Manufacturing PMI** exceeded market expectations, but we see this as largely driven by seasonal factors rather than a genuine recovery in demand. The uptick was mainly due to a rebound in production ahead of the eight-day Golden Week holiday, while Beijing continues to implement measures to curb industrial oversupply and discourage involution. Meanwhile, **Non-manufacturing PMI** declined, weighed down by weaker performance in sectors tied to consumer travel and spending during the summer holiday.

Looking ahead to other September data, activity indicators may show further deceleration due to last year's high base and lackluster government-led project investments. On a more positive note, exports may see a modest rebound in August, supported by demand from more diversified markets.

Later this month (20-23 Oct), China is expected to hold the fourth plenary session of the 20th CPC Central Committee, where it will review development plans for the next five years. As such, we expect the focus to be on medium-term sectoral policies rather than immediate responses to current economic headwinds. Based on recent patterns, more substantial support measures are likely only if there is a sharper deterioration in the economy, particularly in the job market, or a material threat to the financial system.

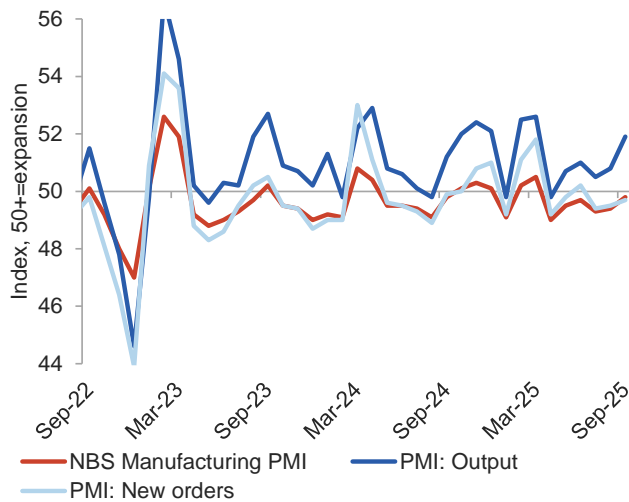
Fig 1 Our forecasts for China's major economic indicators

Indicators	Jun	Jul	Aug	Sep (forecast)
Export growth (YoY %)	5.8	7.2	4.4	6
Import growth (YoY %)	1.1	4.1	1.3	0
Trade balance (USDb)	114.8	98.2	102	100
CPI (YoY %)	0.1	0	-0.4	-0.2
PPI (YoY %)	-3.6	-3.6	-2.9	-2.3
New loans (CNYb)	2240	-50	590	1300
Total social financing (CNYb)	4225	1132	2570	3200
M2 (YoY %)	8.3	8.8	8.8	8.5
VAI (YoY %)	6.8	5.7	5.2	4.8
Retail sales (YoY %)	4.8	3.7	3.4	2.5
FAI (YTD YoY %)	2.8	1.6	0.5	0
GDP (YoY %)	5.2	--	--	4.8

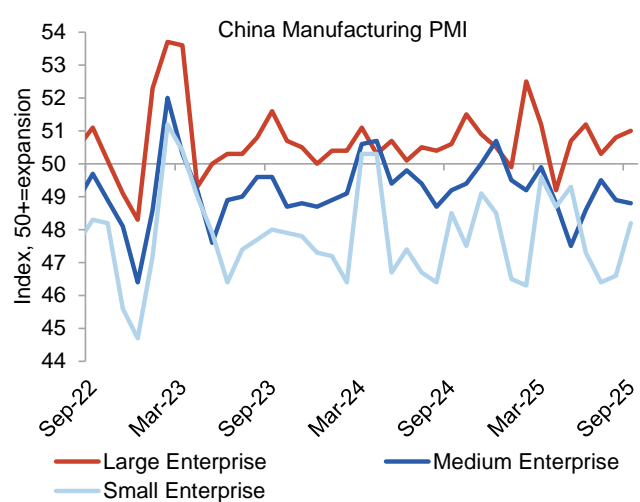
Source: Bloomberg, Mizuho

China's **official Manufacturing PMI** edged up to 49.8 in September, beating market expectations and marking a 0.4ppt increase from August. However, this uptick appears to be more a reflection of seasonal patterns than a genuine recovery in underlying demand. During the past three years (2022-24), the September PMI rose by an average of 0.6 percentage points from August. A closer look reveals that the gains were primarily driven by a rebound in production activity. The production subindex climbed to 51.9, its highest level in six months. In contrast, demand remained lackluster, with the new orders subindex stuck below the 50-threshold at 49.7 (Fig 2).

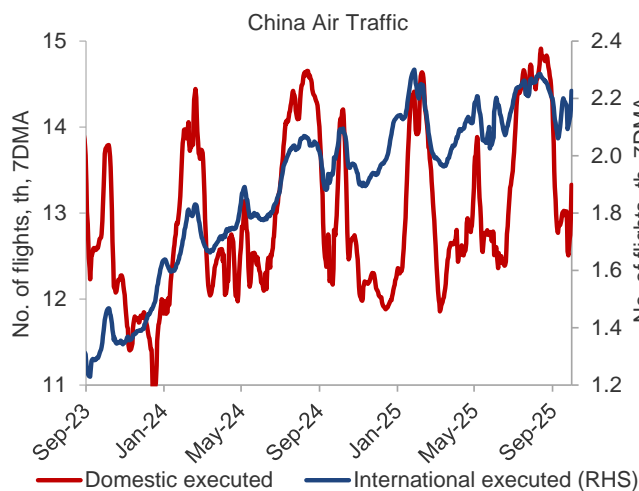
In recent months, Beijing has rolled out measures aimed at curbing industrial oversupply and discouraging involution. While these initiatives may help safeguard profit margins for established manufacturers, they offer little support for boosting near-term domestic demand, if not dampen it further. Large manufacturing enterprises continued to outperform in September, while smaller ones remained below their underlying trends (Fig 3). Sector-wise, equipment and consumer goods manufacturing led the gains, while basic raw materials underperformed.

Fig 2 Manufacturing PMI ticked up on better production sentiment

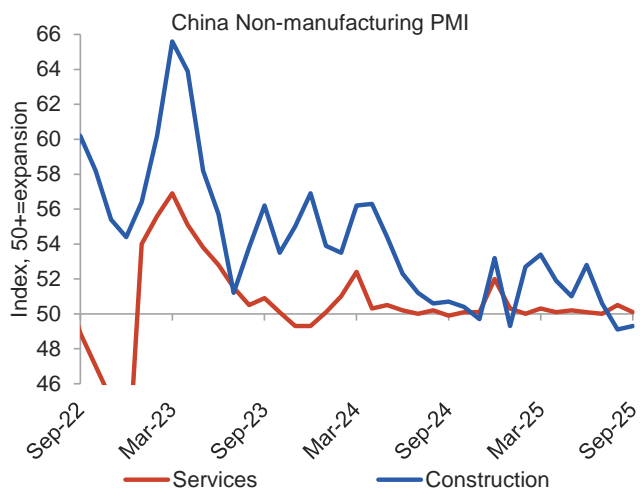
Source: CEIC, Mizuho

Fig 3 Large manufacturing enterprises continue to outperform

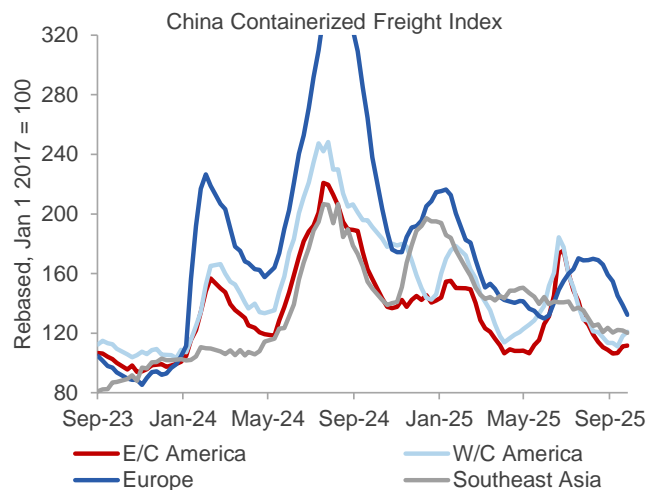
In the **non-manufacturing** sector, the official PMI softened to a ten-month low of 50.0 in September. This weakening dragged down by a decline across sectors closely tied to consumer travel and spending (Fig 4), as the summer holiday effect faded. The service PMI moderated to 50.1, from 50.5 in August. Meanwhile, the construction PMI also remained subdued, registering 49.3, well below typical September levels in previous years (Fig 5).

Fig 4 Travelling demand faded notably in September

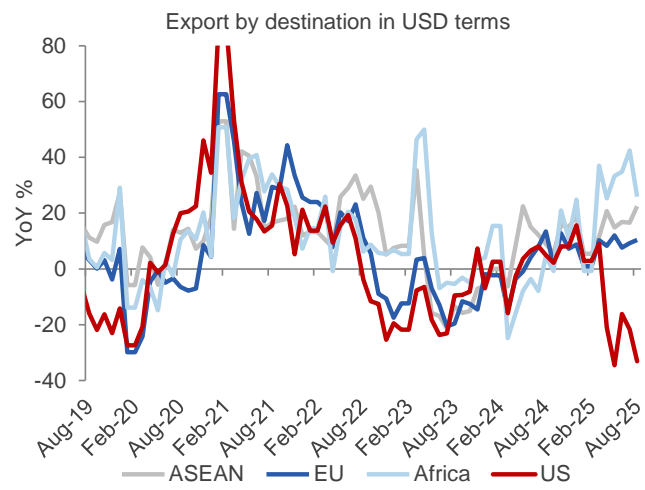
Source: Wind, CEIC, Mizuho

Fig 5 Construction PMI remained subdued

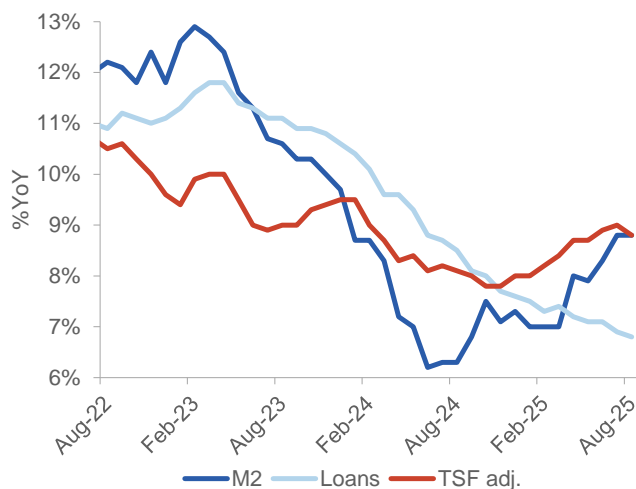
Trade-related PMI indicators suggest less negative sentiment in September. Both the new export orders index and the import index rose to multi-month highs, reaching 47.8 and 48.1 respectively (Fig 6). In recent months, China's exports to non-US regions have picked up significantly, underscoring the sector's resilience. That said, high-frequency shipping rate data indicates mixed external demand: while rates for the Europe route declined notably, those for the US route edged higher. Additionally, the 13-day closure of the Poland-Belarus border in September may have weighed on outbound shipments via the China-Europe Railway Express. Taking all factors into account, we expect a moderate recovery in China's export growth for September.

Fig 6 Quotes for outward shipments were mixed in September

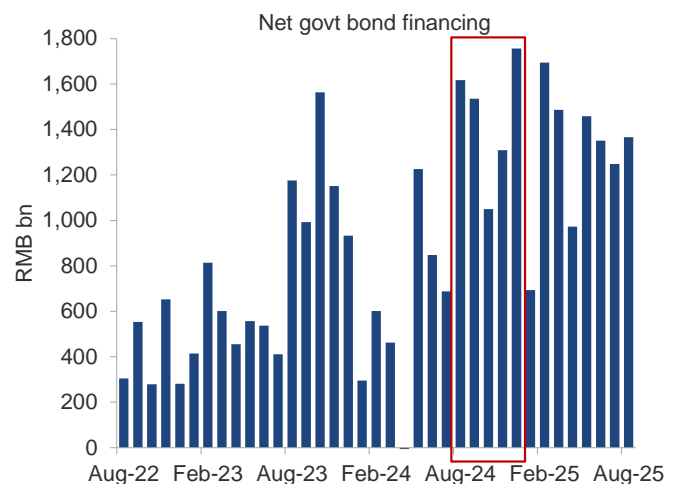
Source: CEIC, Wind, Mizuho

Fig 7 Exports to non-US destinations grew notably

Credit growth remains subdued. New loan increases are likely to stay weak, as local governments continue to use proceeds from special refinancing bonds to repay hidden debt, albeit at a slower pace in September. By the end of September, total issuance of these bonds had reached RMB1.99trn, or 99.3% of the full-year quota, up from 97% in August. We also expect a broad-based moderation in M2 and total social financing growth due to high base effects (Fig 8). Notably, last year's government bond issuance was back-loaded, with a sharp acceleration only beginning in August (Fig 9).

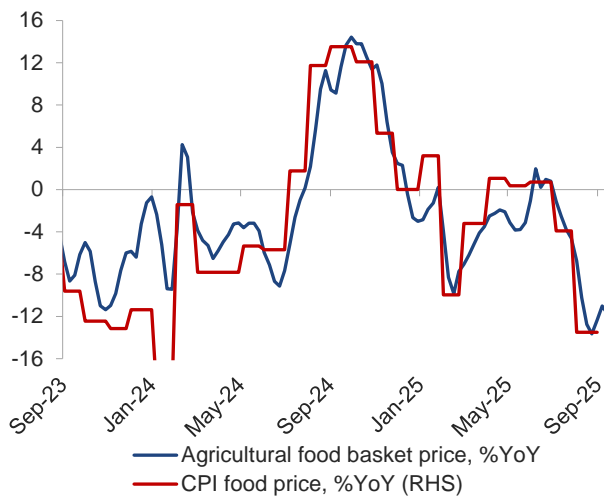
Fig 8 Credit growth is expected to moderate

Source: CEIC, Mizuho

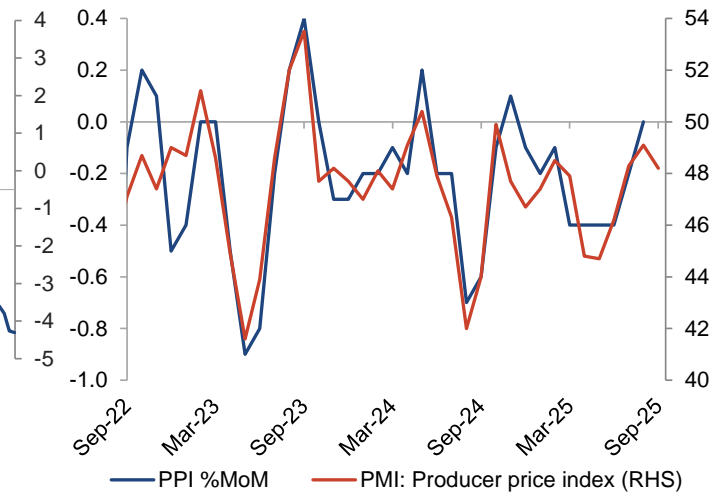
Fig 9 The high base in government bond financing last year

Other activity indicators may have also experienced further deceleration. **Retail sales** growth is likely to moderate on last year's high base, as the boost from government trade-in subsidies started last September. Although there was a jump in local government issuance of new special-purpose bonds in July, much of this was tied to debt resolution under the RMB800b quota. In contrast, project-based bond issuance has remained sluggish, suggesting that a meaningful rebound in **fixed asset investment** is unlikely—especially given continued weakness in private sector investment. **Industrial production** may also lose momentum in YoY growth, given no material recovery.

Deflationary pressure persists in the pipeline. Consumer prices are likely to show a MoM increase and a narrower YoY decline in September, driven by stabilizing non-food prices and a high base for food prices. Food prices are expected to continue falling YoY on cheaper pork prices and last year's elevated base (Fig 10). Meanwhile, domestic fuel prices were unchanged in September, following a 2.2% MoM drop in August. Meanwhile, from a producer perspective, price pressures remain evident, with the PMI producer price index falling to 48.2 in September, pointing a renewed sequential decline in PPI (Fig 11).

Fig 10 Food prices saw a continued YoY decline in September


Source: CEIC, Mizuho

Fig 11 The PMI producer price index declined further


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