Mizuho China Macro

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Fading momentum urging for policy attention

China's Manufacturing PMI slipped to a six-month low in October, falling short of market expectations and revealing rare signs of weakness among large-sized manufacturers. In our view, this underscores intensifying economic headwinds, despite recently improved China–US trade relations. The Non-Manufacturing PMI edged higher, buoyed by holiday-driven demand, though the Construction PMI stayed in contraction territory for the third consecutive month.

Looking ahead to other Chinese data for October, trade growth momentum is likely to be dampened by port fees that the US and China imposed on each other in mid-October. Domestically, activity indicators may soften further, weighed down by a high base from last year and subdued government-led investment.

Last week's Trump-Xi meeting is expected to help reduce uncertainty in China's trade and tech landscape over the coming months. In this context, we anticipate a shift in government priorities toward stimulating domestic demand—particularly through private consumption and public investment.

Fig 1 Our forecasts for China's major economic indicators

Indicators	Jul	Aug	Sep	Oct (forecast)
Export growth (YoY %)	7.2	4.4	8.3	**2**
Import growth (YoY %)	4.1	1.3	7.4	**1**
Trade balance (USDb)	98.1	102.3	90.4	**100**
CPI (YoY %)	0	-0.4	-0.3	**-0.1**
PPI (YoY %)	-3.6	-2.9	-2.3	**-2.5**
New loans (CNYb)	-50	590	1290	**500**
Total social financing (CNYb)	1131	2566	3530	**1200**
M2 (YoY %)	8.8	8.8	8.4	**8.2**
VAI (YoY %)	5.7	5.2	6.5	**5.5**
Retail sales (YoY %)	3.7	3.4	3.0	**2.5**
FAI (YTD YoY %)	1.6	0.5	-0.5	**-1.2**

Source: Bloomberg, Mizuho

China's **official Manufacturing PMI** for October fell short of expectations, declining to a six-month low of 49.0 from 49.8 in September. The slowdown reflects broad-based weakness across both demand and supply, with subindices for new orders and production slipping below the expansion threshold of 50, to 48.8 and 49.7 respectively (Fig 2). Notably, large manufacturing enterprises—previously more resilient to trade headwinds—led the decline, with their PMI falling below 50 for the first time since April, registering at 49.9 (Fig 3). In our view, this highlights mounting growth headwinds for the Chinese economy, despite recent progress in China–US trade relations.

Fig 2 Weakness seen in both demand and supply

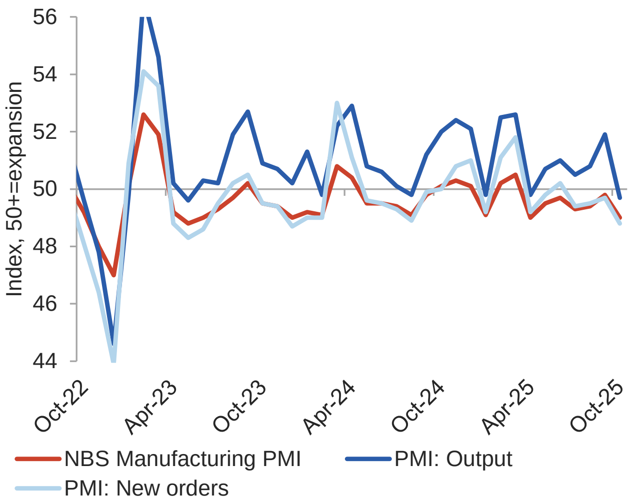
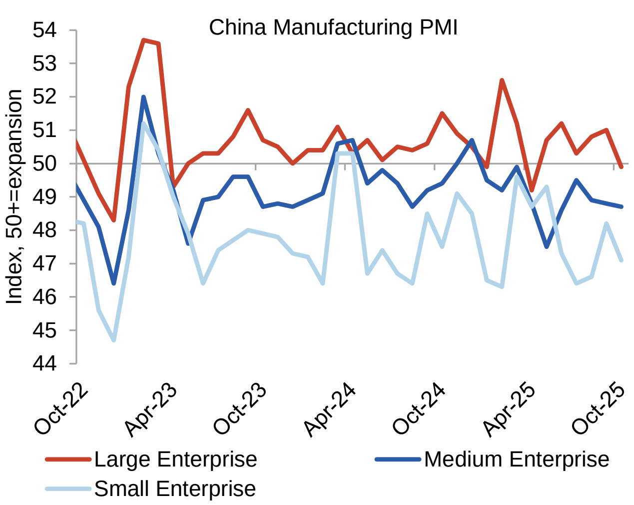


Fig 3 Large enterprises led the decline in manufacturing PMI



Source: CEIC, Mizuho

In the **non-manufacturing** sector, the PMI edged up slightly to 50.1 in October from 50.0 in September. This modest improvement was supported by stronger service sector sentiment, particularly in consumer travel and spending during the week-long national holiday. The service PMI rose to 50.2, while the construction PMI fell further to 49.1, remaining in contraction territory for the third consecutive month (Fig 4). Correspondingly, demand for rebar and cement remained sluggish, with prices continuing to decline (Fig 5).

Fig 4 Construction PMI below 50 for three months in a row

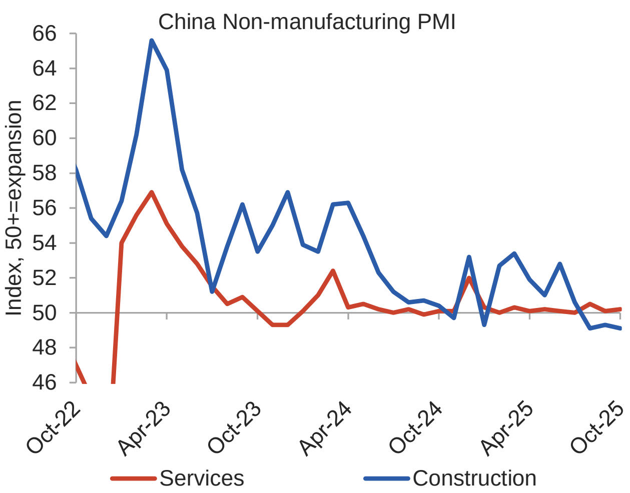
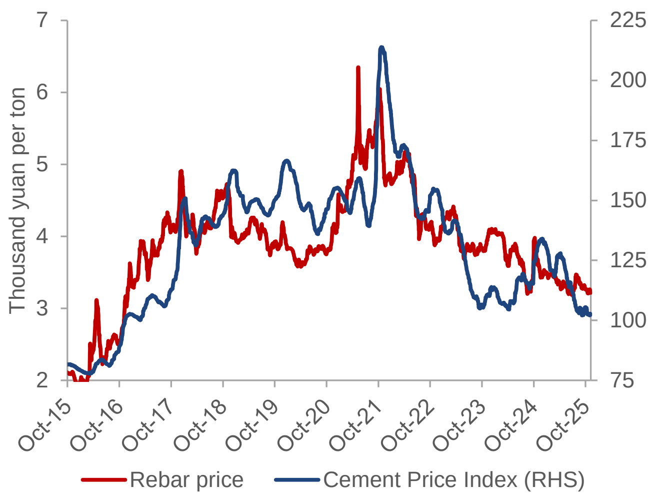


Fig 5 Rebar and cement prices remained on a downward trend

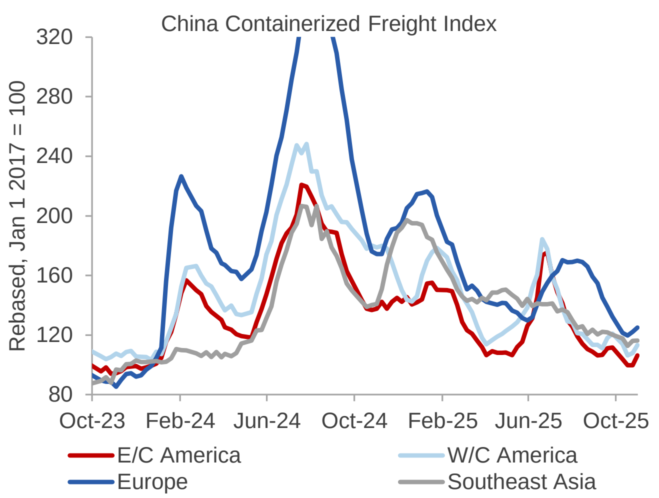


Source: CEIC, Wind. Mizuho

Trade-related PMI indicators point to renewed weakness in external demand. Both the new export orders index and the import index dropped to their lowest levels since April, falling to 45.9 and 46.8, respectively (Fig 6). This deterioration likely reflects the additional port fees imposed by both the US and China on each other's vessels starting mid-October. High-frequency shipping data also suggests a further slowdown in demand for outbound shipments (Fig 7). As such, we expect a notable slowdown in China's export growth for October. Good news is that, following the Trump-Xi meeting, both countries agreed to suspend these tit-for-tat fees for one month starting the week of 10 November.

Fig 6 The latest PMI survey bodes ill for trade growth

Fig 7 A further slowdown in demand for outbound shipments



Source: CEIC, Wind, Mizuho

Credit growth remains subdued. New loan increases are likely to stay weak in October, as local governments continue to repay their hidden debt and investment sentiment remains soft. Net government bond issuance also moderated to around RMB 550 billion in October, less than half the level seen in September. We expect M2 growth to slow modestly due to base effects, as the PBoC cut the benchmark interest rate by 20bps and the RRR by 50bps at the end of September last year.

Activity indicators may have also decelerated further in October. Retail sales growth is likely to moderate due to a high base from last year, when government trade-in subsidies were introduced (Fig 8). **Industrial production** may also lose momentum in YoY growth, in line with the weak PMI readings.

We also expect a faster decline in **fixed asset investment** (FAI). Although local government bond issuance has been strong year-to-date, much of the proceeds have been used to repay hidden debt rather than fund new projects. Progress on the issuance of new special bonds, which is closely tied to public FAI, has lagged behind that of previous years (Fig 9).

Fig 8 A notable pickup in retail sales since last September

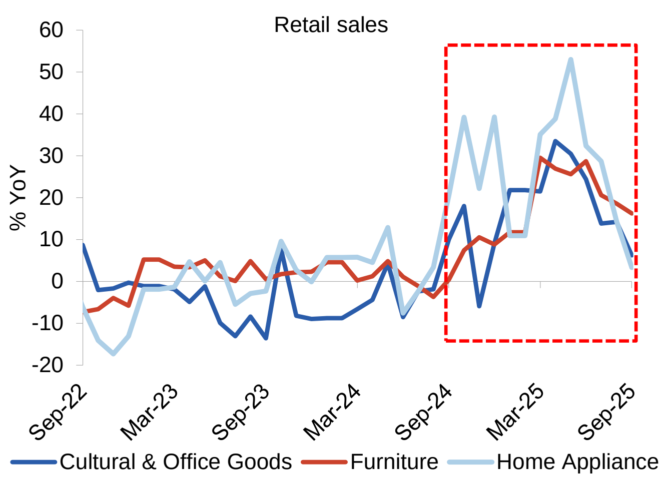
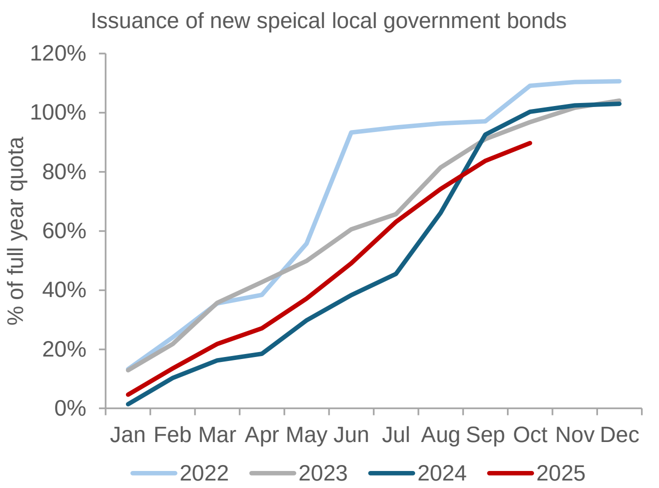


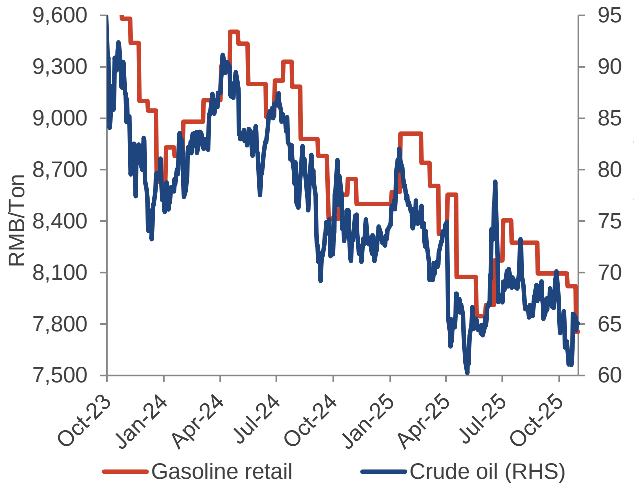
Fig 9 Delayed issuance of new special LGBs this year



Source: CEIC, Wind, Mizuho

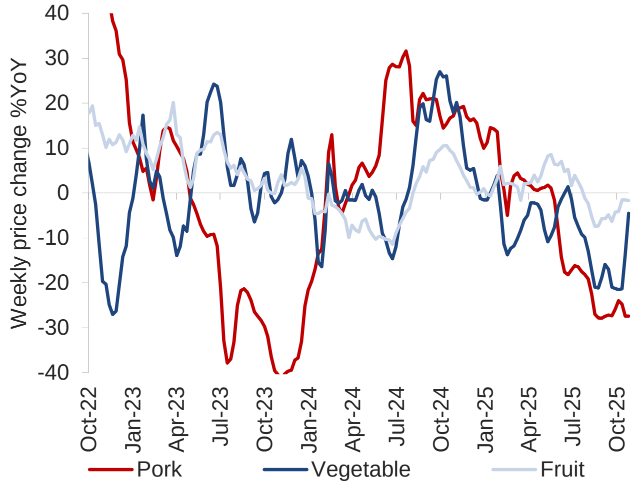
Deflationary pressures persist. Consumer prices are expected to decline both MoM and YoY in October, driven by falling non-food prices. Domestic fuel prices dropped 4.2% MoM in October, following little change in September (Fig 10). Meanwhile, food prices are expected to decline at a slower pace YoY, as fruit and vegetable prices normalize (Fig 11). On the producer side, deflationary trends remain evident, with the PMI producer price index falling to a four-month low of 47.5 in October.

Fig 10 Dropping fuel prices alongside lower oil prices



Source: Bloomberg, CEIC, Mizuho

Fig 11 Normalizing fruit and fresh vegetable prices in October



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