

## Mixed trends to continue in March

China's official PMI survey exceeded market expectations, suggesting that the impact of oil supply disruptions in the Strait of Hormuz remains manageable for now. The improvement in manufacturing sentiment appears to be largely demand-driven, particularly by AI-related sectors. In this sense, export and industrial value-added growth, both due over the next two weeks, are also likely to show solid performance in March.

That said, construction-related activity remains subdued amid persistent weakness in the overall property market and heavy local government debt burdens, underscoring a still challenging investment outlook for China this year.

Overall, we expect China's Q1 GDP growth to pick up to 4.8%, from 4.5% in the previous quarter. Despite recent liquidity withdrawals by the PBoC, we continue to view overall liquidity conditions as accommodative, as evidenced by falling one-year CGB yields. We do not expect the PBoC to tighten liquidity in response to external supply disruptions, and we continue to forecast a cumulative 20bp in policy rate cuts by year-end.

Fig 1 Our forecasts for China's major economic indicators

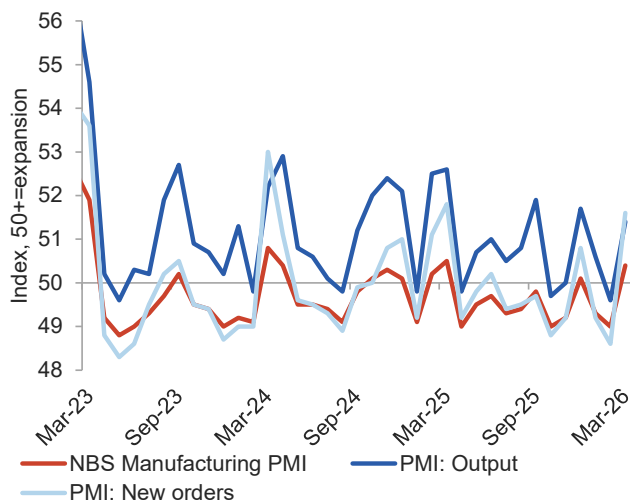
Indicators	Dec	Jan	Feb	Mar (forecast)
Export growth (YoY %)	6.6	9.8	39.6	<b>24</b>
Import growth (YoY %)	5.7	25.9	13.8	<b>20</b>
Trade balance (USDb)	114.1	122.6	91.0	<b>135</b>
CPI (YoY %)	0.8	0.2	1.3	<b>1.5</b>
PPI (YoY %)	-1.9	-1.4	-0.9	<b>0.3</b>
New loans (CNYb)	910	4710	900	<b>3500</b>
Total social financing (CNYb)	2213	7221	2386	<b>5600</b>
M2 (YoY %)	8.5	9.0	9.0	<b>8.9</b>
VAI (YoY %)	5.2	--	6.3 (Jan-Feb)	<b>6.5</b>
Retail sales (YoY %)	0.9	--	2.8 (Jan-Feb)	<b>2.4</b>
FAI (YTD YoY %)	-3.8	--	1.8 (Jan-Feb)	<b>1.0</b>
GDP (YoY %)	4.5 (Q4)	--	--	<b>4.8 (Q1)</b>

Source: Bloomberg, Mizuho

China's **official manufacturing PMI** came in above market expectations, suggesting that business sentiment remained relatively resilient despite oil supply disruptions in the Strait of Hormuz. The index rose to a 12-month high of 50.4 in March, up from 49.0 in February. That said, the reading was still slightly below the level typically seen in March—usually 50.5 or higher—when factories resume operations following the extended Lunar New Year holiday and business activity normalizes.

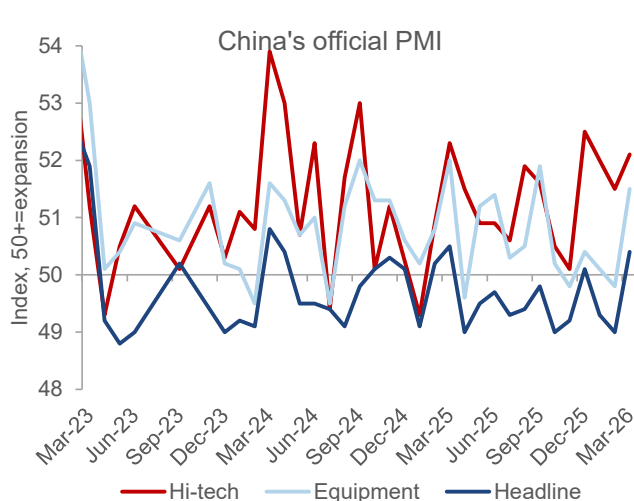
The improvement was broad-based and primarily demand-driven. The new orders index climbed to 51.6, surpassing the production index for the first time in two years (Fig. 2). By sector, high-tech and equipment manufacturing were the main contributors to the headline recovery (Fig. 3), consistent with what has been observed in industrial profits during the first two months of the year.

**Fig 2** New orders rose above production for the first time in 2 yrs



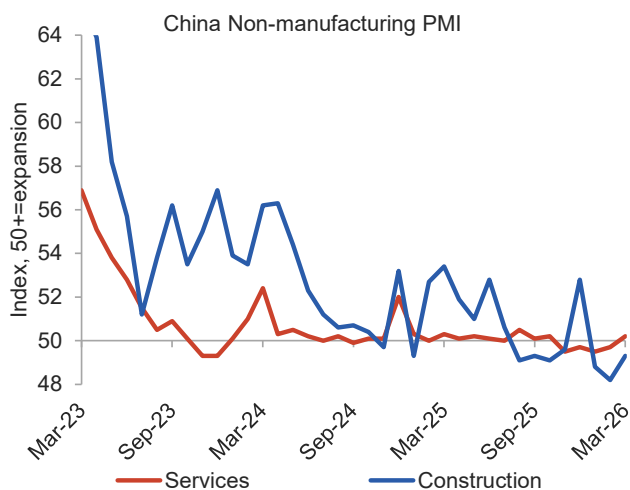
Source: CEIC, Wind, Mizuho

**Fig 3** Hi-tech and equipment manufacturing drove the recovery



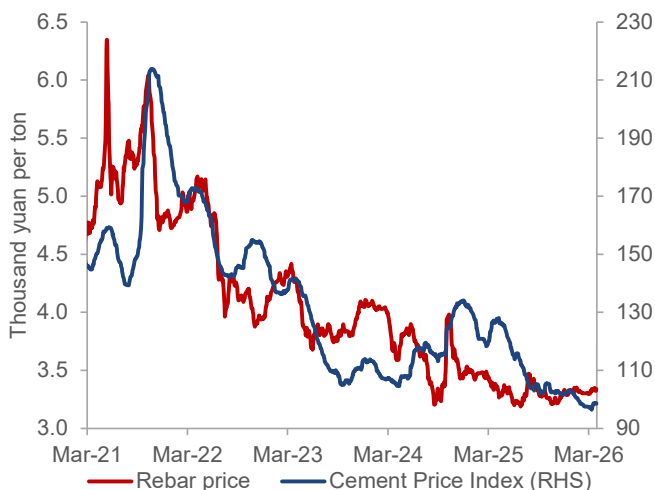
At the same time, the **non-manufacturing PMI** returned to expansion territory, rising to 50.1 in March from 49.5 in February. The rebound was led mainly by a recovery in services, where the PMI rose to a five-month high of 50.2 despite the fading boost from holiday-related demand (Fig. 4). In contrast, **construction activity remained weak**, with the PMI staying in contraction territory at 49.3 in March. Cement prices, an important proxy for construction demand, also remained near decade lows (Fig. 5).

**Fig 4** Construction activity remains subdued



Source: CEIC, Wind, Mizuho

**Fig 5** Cement prices near decade lows



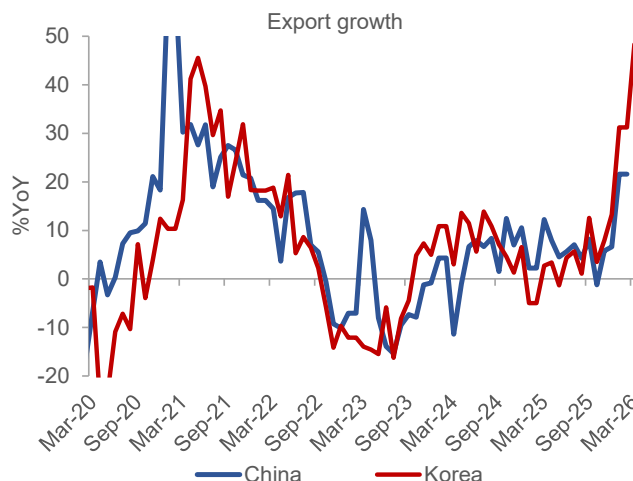
**Trade-related PMI** indicators suggest further easing in external headwinds. The new export orders index rose to 49.1 in March, its highest level since last April’s “Liberation Day,” while the import index climbed further to 49.8, marking a two-year high (Fig. 6). Meanwhile, Korean exports, which are also closely linked to AI-related demand, surged 48% YoY in March, pointing to solid external demand (Fig. 7).

**Fig 6** Trade-related sentiment improved notably in March



Source: CEIC, Mizuho

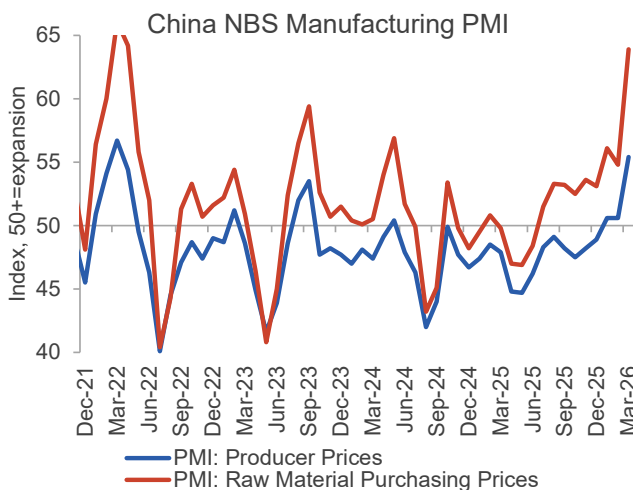
**Fig 7** Korea exports posted the strongest growth in years



**On the inflation front**, disruptions in the Strait of Hormuz appear to have sharply increased manufacturers' input costs, with the raw material purchase price index surging to 63.9 in March, near a four-year high (Fig. 8). Against this backdrop, we expect **PPI growth** to turn positive for the first time since 2022.

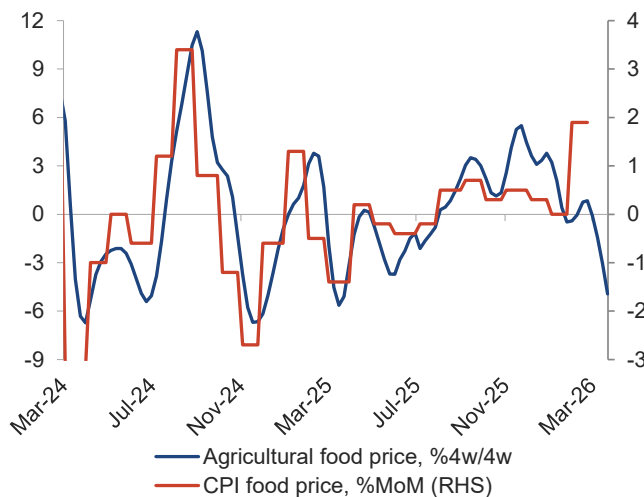
For consumers, **CPI growth** is also estimated to have picked up in March, as retail fuel prices rose 25% MoM. Notably, China has already taken steps to curb domestic fuel price increases amid elevated global oil prices. The retail fuel price hike implemented on 24 March was roughly 47% lower than what would have been implied by the prevailing pricing formula. Meanwhile, food prices continued to decline after the Lunar New Year holiday, helping to contain headline inflation (Fig. 9).

**Fig 8** Raw material purchasing prices rose to a four-year high



Source: CEIC, Wind, Mizuho

**Fig 9** Food prices continued their downward trend in March



Despite recent liquidity withdrawals by the PBoC, **credit growth** is likely to remain supported in March. We continue to view overall liquidity conditions as accommodative, as reflected in the decline of one-year CGB yields to a new low since January 2025. In our view, the PBoC is unlikely to tighten liquidity in response to supply disruptions, particularly those stemming from external factors, given that inflation control is only one of its several core policy objectives. At the same time, government bond issuance slowed by around 25% in March relative to the January–February average.

Meanwhile, **activity indicators** are likely to remain mixed. On the one hand, **industrial production** growth probably accelerated modestly on a YoY basis in March, supported by strong AI-related demand. On the other hand, **fixed asset investment** growth is expected to moderate, as continued weakness in the property market and heavy local debt burdens remain key drags.

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