Mizuho China Macro

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Manufacturing and trade remain bright spots

China's August manufacturing PMI showed a modest recovery, led by both supply and demand, with trimmed divergence across sectors. However, services and construction sentiment stayed weak, underscoring soft domestic demand, compounded by disruptions from typhoons and heavy rainfall.

Turning to major indicators due in the coming weeks, trade growth is expected to remain resilient despite a stronger renminbi, lending support to industrial production. In contrast, credit growth, fixed asset investment and retail sales are likely to stay subdued amid weak domestic demand and higher one-year market rates. Meanwhile, inflation should edge higher on rising fuel and food costs.

Fig 1 Our forecasts for China's major economic indicators

Indicators	May	Jun	Jul	Aug (forecast)
Export growth (YoY %)	19.4	27.0	23.9	**28**
Import growth (YoY %)	27.4	36.0	27.5	**30**
Trade balance (USDb)	105.2	125.6	112.5	**125**
CPI (YoY %)	1.2	1.0	0.5	**1.0**
PPI (YoY %)	3.9	4.1	3.5	**3.6**
New loans (CNYb)	520	1610	-340	**400**
Total social financing (CNYb)	2029	3365	1402	**2300**
M2 (YoY %)	8.6	8.0	7.7	**7.6**
VAI (YoY %)	4.5	5.3	4.5	**4.8**
Retail sales (YoY %)	-0.6	1.0	0.6	**0.5**
FAI (YTD YoY %)	-4.1	-5.7	-6.7	**-7.3**

Source: Bloomberg, Mizuho

China's official **manufacturing PMI** surprised to the upside in August, rising to 49.8 despite typhoons and heavy rainfall in Zhejiang, one of the country's major industrial hubs. The improvement was broad-based across demand and supply, with the new orders and production subindices returning to expansion at 50.6 and 50.4, respectively (Fig. 2).

By sector, the equipment manufacturing PMI remained firm at 51.4, while the consumer goods and raw materials PMIs recovered from their July lows (Fig. 3). High-tech manufacturing continued to outperform, although its PMI eased to a three-month low of 52.9. By enterprise size, large manufacturers recorded the strongest improvement, with their PMI rebounding to 50.6 from 49.5.

Fig 2 Manufacturing PMI pickup driven by both demand & supply

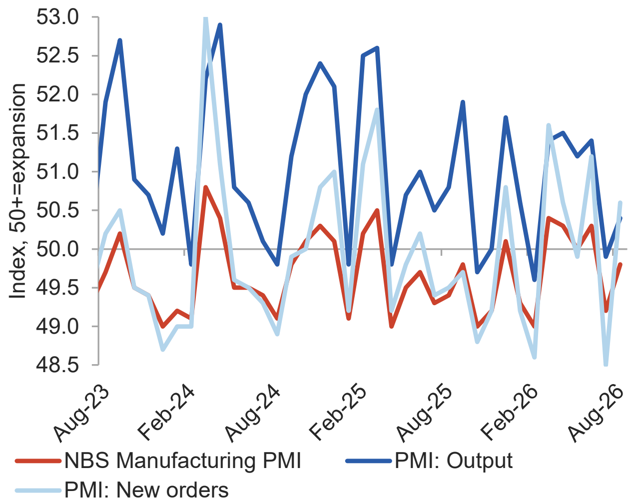
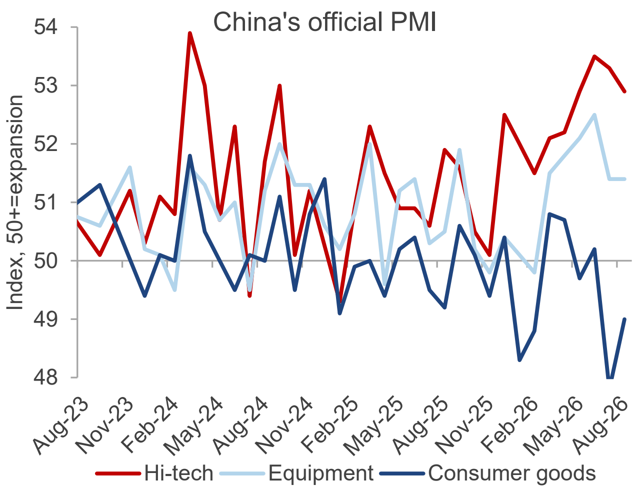


Fig 3 Performance less divergent across sectors



Source: CEIC, Mizuho

Non-manufacturing activity, however, remained weak. The non-manufacturing PMI was unchanged at 49.0, matching its lowest level since 2022. Despite stronger road construction activity (Fig. 4), the construction PMI edged down to 46.9, a new low in more than six years amid typhoons and heavy rainfall (Fig. 5). Services also remained under pressure, with wholesale and retail trade and capital market services both registering sub-50 readings in August.

Fig 4 Improved road construction activity in August

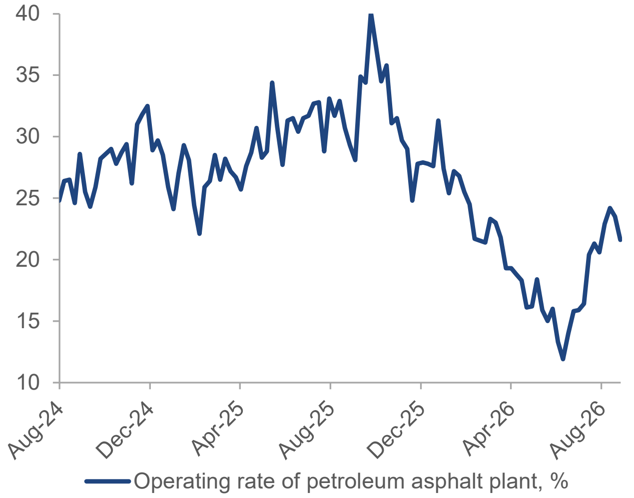
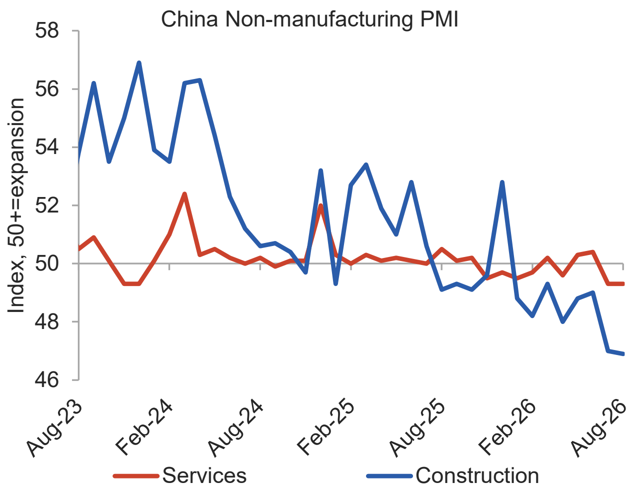


Fig 5 Further deterioration in overall construction sentiment



Source: Wind, CEIC, Mizuho

Trade-related indicators improved. Notably, the new export orders index in the official PMI survey returned to expansionary territory at 50.1, pointing to resilient trade sentiment despite continued renminbi appreciation (Fig. 6). Note that the CFET trade-weighted RMB index reached a four-year high in late July. Together with double-digit increases in export and import prices, this suggests another month of solid trade growth. Korea's exports also continued to outperform in August (Fig. 7), supported by persistent supply constraints in the semiconductor sector.

Fig 6 Trade-related sentiment improved in August

Fig 7 Korean exports outperformed on demand for semiconductors

Source: CEIC, Mizuho

Turning to domestic activity, credit growth is likely to have remained subdued in August amid a notable rise in 1-year rates. While short-term rates stayed low, with DR001 and DR007 declining ~2bp from July on average (Fig. 8), the 1-year CGB yield rose by 7bp during the same period. This was driven by higher 1-year NCD rates and reduced market expectations of an imminent policy rate cut (Fig. 9). Beyond a modest recovery in industrial production, we expect other major activity indicators to have remained soft in August, particularly fixed asset investment and retail sales.

Fig 8 Short-term rates stayed low during the same period

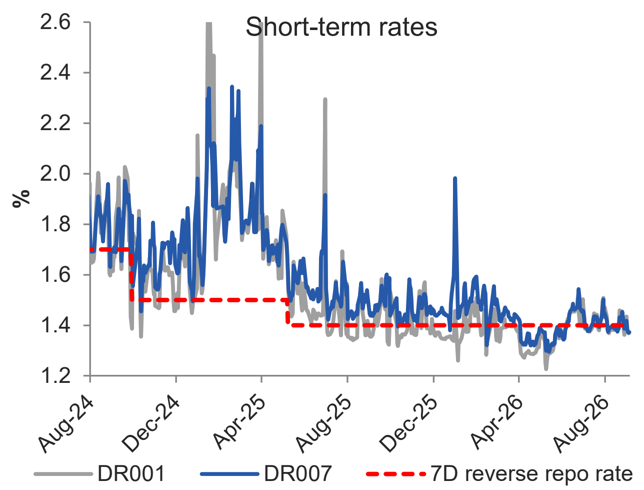
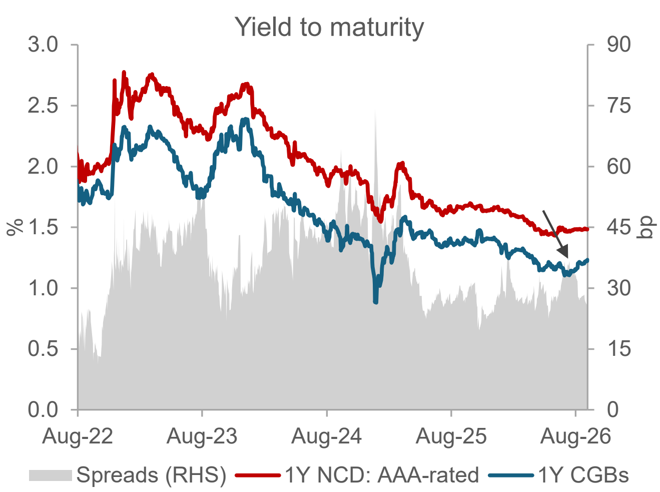


Fig 9 1Y CGB rates pushed higher by NCD rates



Source: Wind, CEIC, Mizuho

On the inflation front, imported price pressures resurfaced, with the PMI input price index rising above 50 for the first time in three months. We therefore expect PPI inflation to record a modest sequential increase in August, alongside a moderate acceleration in YoY growth, to 3.6% (Fig. 10).

CPI inflation likely picked up as well, supported by rebounding fuel costs and firmer food prices. Domestic fuel prices rose by an average of 7.5% MoM, following an 11.7% decline in July. Pork and fresh vegetable prices also appear to have bottomed, partly reflecting supply disruptions caused by typhoons and heavy rainfall. This points to a sequential increase in food prices (Fig. 11). However, weak domestic demand should continue to limit the pass-through of higher energy costs to core inflation.

Fig 10 PMI gauge for producer prices rose above 50 in August

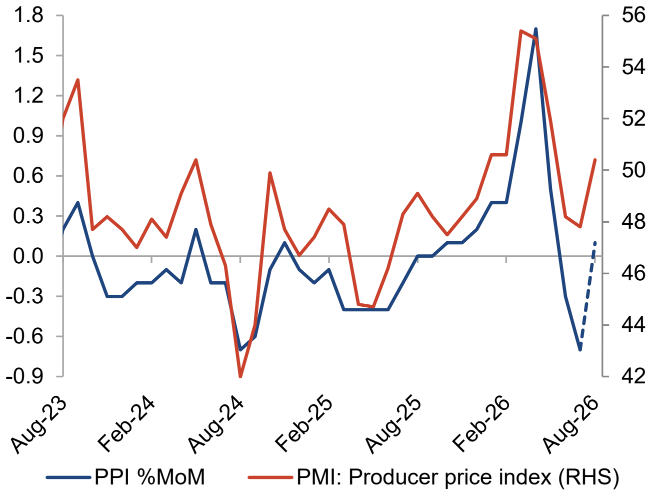
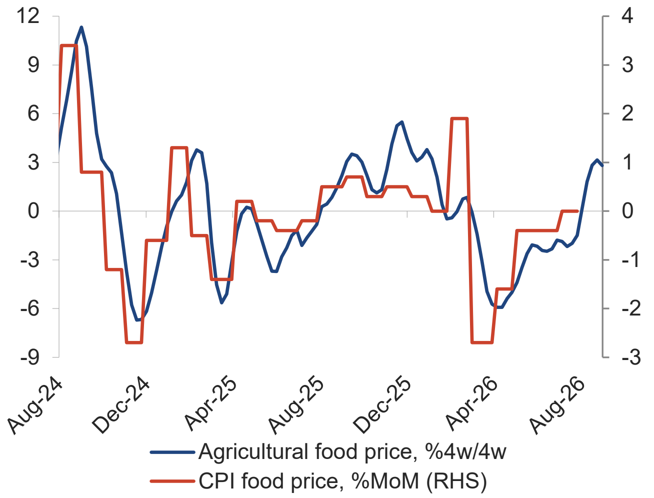


Fig 11 Food prices buoyed by firmer pork and vegetable prices



Source: CEIC, Mizuho

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