Mizuho China Macro

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A Soft Patch, Not a Stall

China's manufacturing activity weakened more sharply than expected, partly due to less favourable seasonality. The production subindex recorded its steepest monthly decline since the Chinese New Year holiday in February, with the deterioration broad-based across sectors. Non-manufacturing activity, however, slowed more moderately.

For the upcoming October data, we expect trade growth to remain solid, supported by resilient external demand and elevated price levels. The contraction in year-to-date fixed-asset investment should narrow as local governments pivot from debt resolution toward infrastructure projects.

On inflation, elevated imported price pressures likely pushed PPI inflation higher, while CPI inflation probably eased as food prices declined. The pass-through from higher fuel prices to core inflation likely remained subdued amid weak domestic demand.

Fig 1 Our forecasts for China's major economic indicators

Indicators	Jul	Aug	Sep	Oct (forecast)
CPI (YoY %)	0.5	0.8	0.9	**0.7**
PPI (YoY %)	3.5	3.8	5.0	**5.4**
Export growth (YoY %)	23.9	25.0	36.3	**38**
Import growth (YoY %)	27.5	28.2	31.0	**35**
Trade balance (USDb)	112.3	119.1	133.5	**128**
New loans (CNYb)	-340	60	1080	**0**
Total social financing (CNYb)	1407	1658	3548	**1600**
M2 (YoY %)	7.7	7.5	7.2	**7.3**
VAI (YoY %)	4.5	5.2	5.5	**5.4**
Retail sales (YoY %)	0.6	0.4	1.1	**0.8**
FAI (YTD YoY %)	-6.7	-7.2	-7.2	**-7.0**

Source: Bloomberg, Mizuho

China's manufacturing activity weakened more sharply than expected. The official manufacturing PMI fell to a three-month low of 49.3 in October, undershooting market expectations by a wide margin. This weakness was evident across both supply and demand, **partly reflecting less favourable seasonality.** Notably, the production subindex recorded its sharpest monthly decline since the Chinese New Year holiday in February, falling to 49.8 (Fig. 2). The deterioration was also broad-based across sectors. The high-tech and consumer-goods manufacturing PMIs recorded the sharpest declines, falling to 51.3 and 48.8, respectively, from 52.5 and 50.7 in September (Fig. 3).

Fig 2 Manufacturing weakness was seen across demand & supply

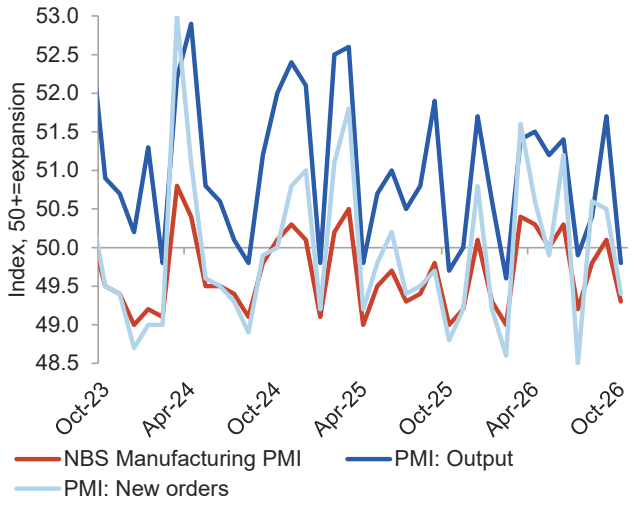
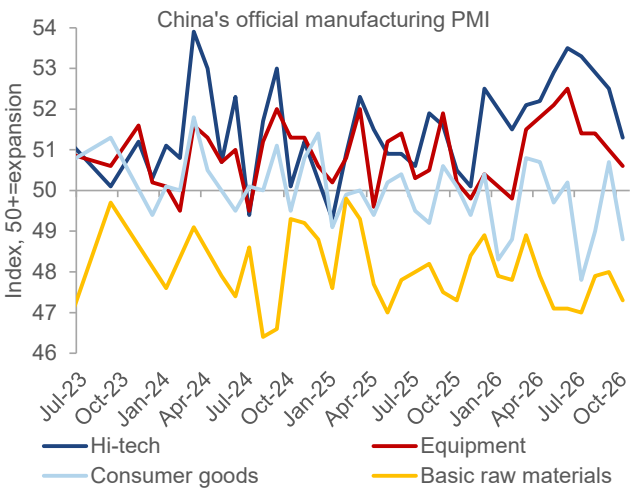


Fig 3 The decline was broad-based across sectors



Source: CEIC, Mizuho

The slowdown in non-manufacturing activity was more moderate. The services PMI stood at the expansion threshold of 50.0 in October, while the construction PMI eased to a two-month low of 48.0. Nevertheless, the recent acceleration in local-government bond issuance should lend some support to fixed-asset investment and construction activity toward year-end. Consistent with this view, prices of key construction materials, particularly cement, have risen steadily since September (Fig. 5).

Fig 4 The slowdown in non-manufacturing activity is milder

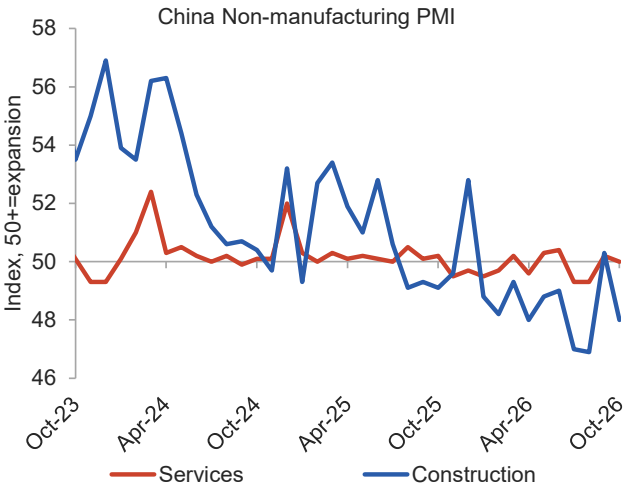
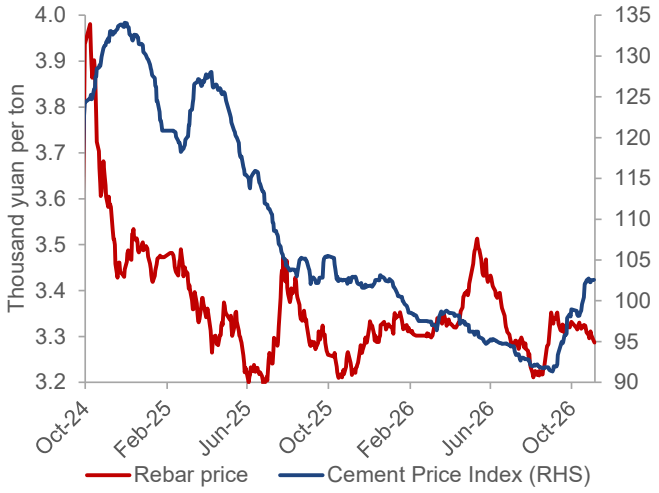


Fig 5 Cement prices have risen to a YTD high



Source: CEIC, Wind, Mizuho

Trade indicators in the PMI survey softened, but do not necessarily bode for slower growth in YoY terms. The new export orders and import indices fell to multi-month lows of 48.7 and 47.0, respectively, in October. However, surging exports from Korea and Vietnam (Fig. 6), together with persistent double-digit increases in export and import prices (Fig. 7), suggest that China's foreign trade likely recorded another month of solid growth.

Fig 6 Exports from Korea and Vietnam continued to surge



Fig 7 Persistent double-digit gains in exports and imports prices



Source: CEIC, Mizuho

Imported inflationary pressures remained elevated. The PMI output price index stood at 51.7 in October, marking a third consecutive month above the expansion threshold (Fig. 8). Domestic diesel prices also rose 5.1% MoM amid persistent tensions in the Middle East. We therefore expect PPI inflation to register another sequential increase, with YoY growth accelerating further to 5.4%.

By contrast, **CPI inflation likely eased as food prices declined**. Alongside a modest fall in fruit prices, fresh vegetable prices dropped sharply in YoY terms, reflecting favourable weather conditions and a high base last year (Fig. 9). Although higher fuel prices continued to exert upward pressure on headline inflation, the pass-through to core inflation likely remained subdued amid weak domestic demand.

Fig 8 PMI output price index remains in the expansion territory

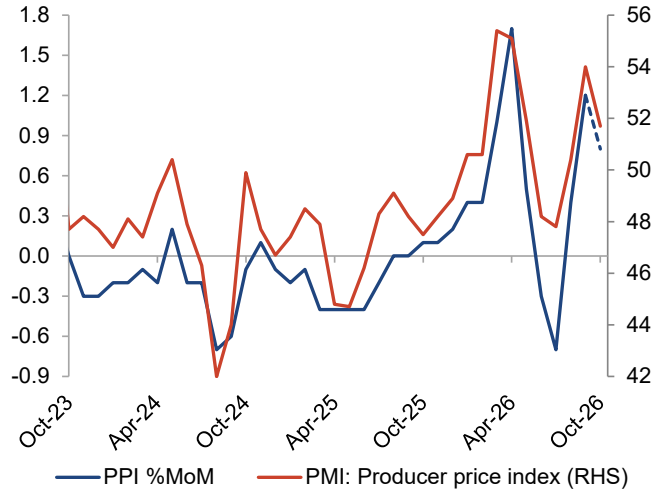
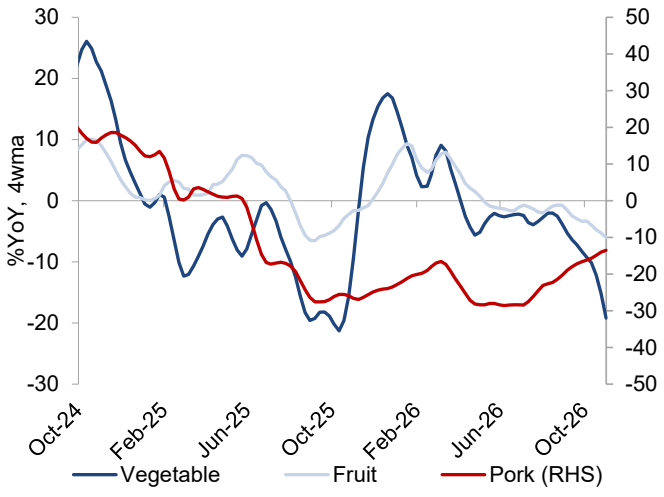


Fig 9 The sharp decline in fresh vegetable prices



Source: CEIC, Wind, Mizuho

Recent bond-market volatility in late October is unlikely to have materially affected **credit growth**, with the negative impact of Zhuhai Huafa's missed payments broadly offset by the relatively positive impact of the PBoC's benchmark transition.

Broader activity data are likely to have remained relatively resilient in October. We expect solid growth in industrial value added, supported by resilient external demand and a favourable base effect. The year-to-date contraction in fixed asset investment should also narrow as local governments gradually shift their focus from debt resolution toward infrastructure projects.

Retail sales remain the key source of uncertainty. The data may be distorted by the shorter National Day holiday, front-loaded promotions during the Double 11 shopping festival and a high base from last year's government trade-in subsidies. These temporary factors come against a backdrop of still-subdued consumer sentiment.

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