

China – Details of June PMIs point to underlying weakness

The official manufacturing PMI rose in June but remained in contraction territory. Exports, employment, and price momentum have remained rather weak. Non-manufacturing PMI improved on the back of increased infrastructure investment, but the underlying services momentum remained lackluster. As such, the details in June PMI readings support our view that the recent rise in retail sales growth and robust industrial production, thanks to the stimulus measures, are unlikely to be long-lasting.

Manufacturing PMI remained in contraction

June official manufacturing PMI rose to 49.7 from 49.5 in May. Yet, it remained in contraction territory below the 50-neutral mark for the third consecutive month, pointing to continued weakness (Chart 1). This is despite the production component rising further above 50 and overall new orders returning to above 50.

30 June 2025

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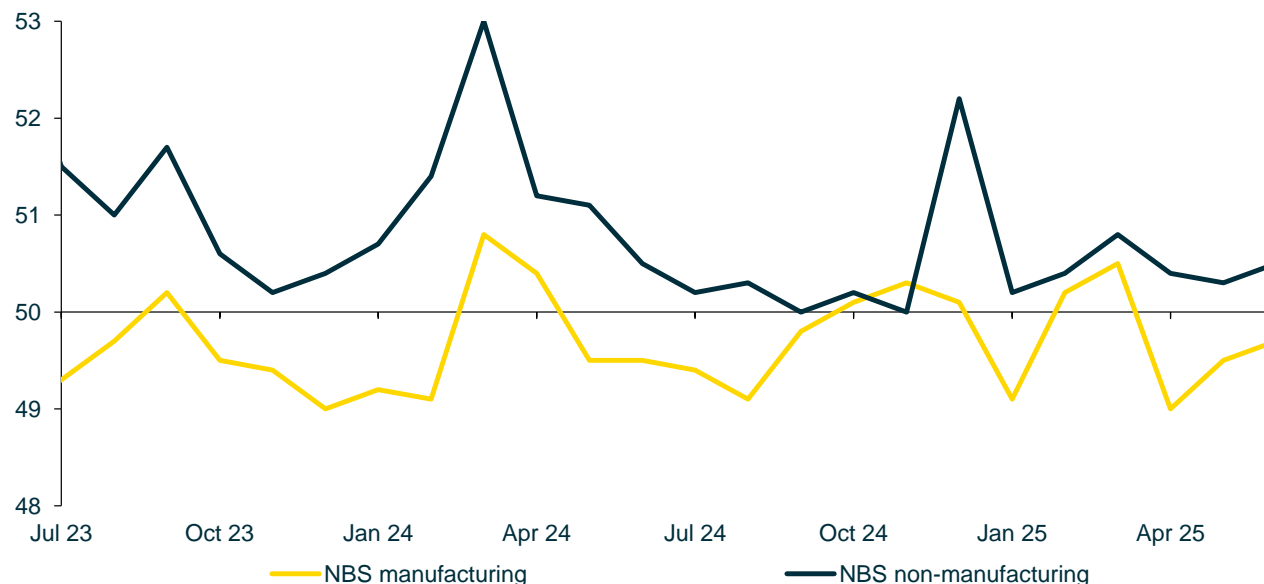
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Chart 1 - PMIs improved marginally

50 means no change from last month



Source: NBS, Commerzbank Research

On the one hand, domestic growth is likely holding up, for now. This would be in line with the robust industrial production growth and a rise in retail sales growth as we discussed in our recent [Economic Briefing](#).

On the other hand, export momentum and other components such as employment and factory prices have remained rather weak. In fact, even though new export orders rose to 47.7 in June after reaching a low of 44.7 in April – as the temporary reduction in US tariffs from prohibitive levels first announced in April spurred the frontloading of shipments to the US, such reading is rather weak. Employment and factory prices also remained well below 50.

Services momentum remained lackluster

The official non-manufacturing PMI remained in expansion territory and rose to 50.5 in June from 50.3 in May. Among the subindexes, the construction PMI rose to 52.8 from 51 previously. It was supported by increased infrastructure spending by the government.

However, services PMI edged down to 50.1 from 50.2 in May. In fact, the monthly readings were flat and hovered between 50.1 and 50.3 in the first half of this year. This suggests the underlying domestic demand has remained rather soft despite this year's policy focus to support consumption and services.

Expect growth to slow in H2 due to weaker exports...

On the external front, exports should continue to receive some support from the tariff truce with the US for a 90-day period which ends on August 12. The trade negotiations in London in early June resulted in an agreement “in principle to a framework” for implementing the consensus reached in Geneva in May when the US tariff on China was reduced to 30% and China's retaliatory tariff to 10%. The “agreement” reached in London should in principle lead to the US easing some export restrictions and China to speed up shipments of rare earth metals critical to US auto and defense firms. We expect both sides to abide by the “agreement” in order to ease trade tensions.

It is possible that the tariff rates will stay unchanged beyond the 90-day tariff truce period. Nevertheless, the additional tariff means the effective US tariff rate on China will increase to around 40% from 11% before President Trump's second term begins. Estimates based on trade elasticities suggest that over half of the bilateral trade will be wiped out over the medium term. This means, beyond the near term in which frontloading would boost shipments, exports would be under greater pressure in H2 and beyond.

...and slower domestic growth

We think the recent rise in retail sales growth, thanks to the stimulus measures, is just temporary. Retail sales have been supported by the government's trade-in program for big-ticket consumer items such as home appliances and cars, as well as consumer electronics. However, there have been issues with the program itself. Over half of the CNY300 billion earmarked for the trade-in program by Beijing



for this year has already been distributed by early June. Consumer participation has seen local governments quickly running out of funds for these subsidies.

The central government may soon distribute the remaining funds to local governments to fund the program. However, in our view, it is unclear whether consumer confidence has actually improved, given that the outlook for jobs and incomes has remained uncertain.

What's more. We think the impact of the stimulus is unlikely to be long-lasting. The sharp rise in loss-making enterprises points to a rather bleak picture for business confidence and employment, which in turn affect consumer confidence. And in fact, May's industrial profits fell again by over 9% yoy. For the first five months of 2025, they fell 1.1% compared to the same period last year.

Also, due to high overall government debt, we believe there is a limit as to how much more debt the government can carry to finance new stimulus. As such, there is a good chance that the policy stimulus will eventually slow due to fiscal constraints. Our concern is that, once the stimulus slows or even stops, the macro picture will worsen again.

For a more thorough discussion, please see our latest Economic Insight on "[**China - Why do we think growth will slow in H2?**](#)".



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