Economic Research

Economic Briefing

China – August PMIs suggest growth has lost steam

1 September 2025

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The official manufacturing PMI remained in contraction territory at 49.4 in August. The ongoing demand weakness has been exacerbated by companies holding back new orders amid the government's "anti-involution" campaign to curb excessive and destructive competition. The private PMI survey results were more upbeat, however. Meanwhile, the official non-manufacturing PMI improved to 50.3, but the details suggest that the momentum in construction and consumption has lost steam. The government has rolled out some modest measures to support consumption. We think the government will dial up stimulus efforts later this year following a couple more months of weak data.

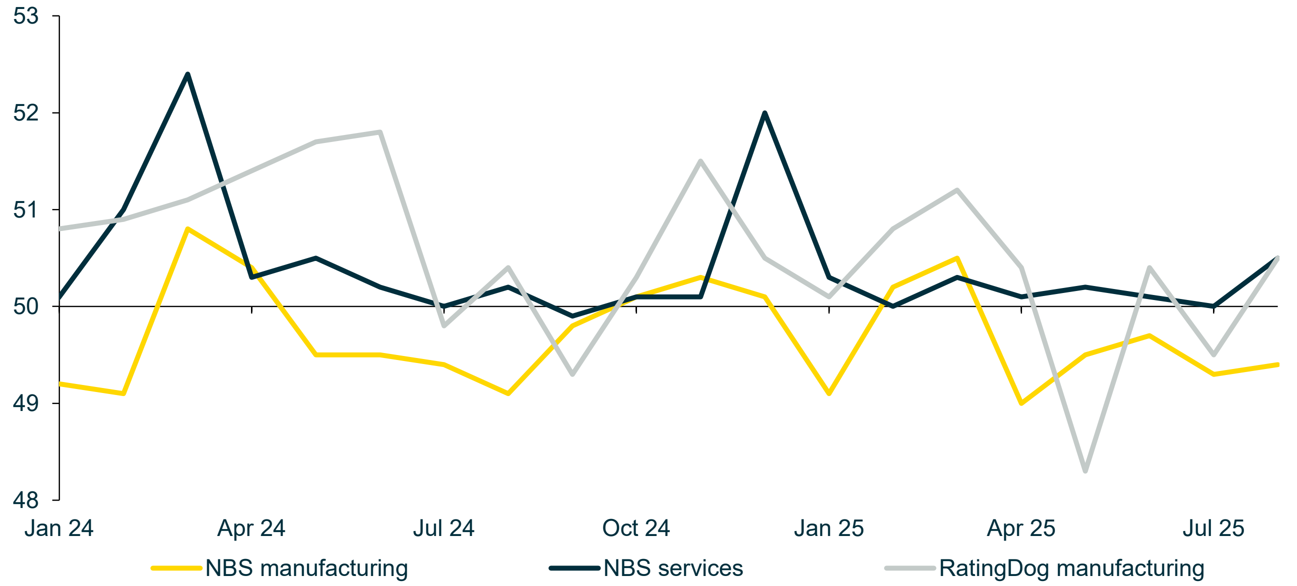
The official PMIs for August show that growth momentum in the Chinese economy continues to stagnate following the sharp slowdown in growth seen in **July's data**.

Manufacturing momentum fell further

The manufacturing PMI stayed below the 50-neutral mark at 49.4 in August after 49.3 in July (Chart 1). The details from the PMI report showed that new orders remained in contraction, even though production expanded further to clear existing orders. In addition to the ongoing demand weakness, the contraction in new orders may have been exacerbated by companies holding back on making new orders and investment amid the government's "anti-involution" campaign which is aimed at curbing excessive and destructive competition.

Chart 1 - PMIs displayed noisy signals, but the details suggest growth has lost steam

50 means no change from last month



Source: NBS, RatingDog/S&P Global, Commerzbank Research

On prices, the factory price index rose to 49.1 in August from below 45 in April-May, albeit still below 50. This seems to suggest there has been some success in the anti-involution campaign in deterring prices from falling further. Meanwhile, employment conditions remained weak and did not change much for at least over a year.

The private survey was more upbeat than the official one. The newly renamed RatingDog China manufacturing PMI (formerly Caixin PMI) from S&P Global rose to 50.5 in August from 49.5 in July due to rising domestic new orders which supported production. Still, the report said the durability of the improvement depends on whether exports can truly stabilize and domestic demand can pick up pace. The private survey has a bigger proportion of smaller, export-oriented firms in its sample.

Construction and consumption stayed weak

The official non-manufacturing PMI rose to 50.3 in August from 50.1 in July. However, this hides the underlying weakness in construction and consumption.

1. The construction subindex fell below 50 to 49.1 vs 50.6 in July. The statistical officials suggest this was due to bad weather conditions during the month. However, we suspect there was more to this. Infrastructure investment probably contracted again after falling in July. The renewed weakness in the property sector might have also been a key drag on construction activity.
2. While the services subindex rose to 50.5 from 50 in July, retail services remained in contraction, i.e. continued decline on a month-on-month basis. On a positive note, business activities such as capital markets, logistics, and communication services expanded strongly.

Modest stimulus for now, perhaps a bit more stimulus later this year

The August PMIs suggest the government needs to do more to stabilize growth in H2. In recent weeks, the government rolled out interest subsidy programs for consumers and service sector businesses. This would effectively reduce the debt servicing burden for households and certain businesses, at a time when banks have not reduced the headline loan prime rates since May. The government also rolled out a nationwide childcare subsidy in its latest push to boost birthrates. The subsidy may not be enough to stem the decline in new births, but it could be useful in boosting sentiment and consumption.

Nevertheless, these new policy measures are modest. We don't expect Beijing to roll out strong stimulus despite the weakness in the hard data for July and the official PMIs in August. Fiscal spending has been frontloaded for this year and we expect Beijing to stick to its budgeted plan for now. This is because Beijing is probably still taking a less dovish view of the economy following the 5.3% growth seen in H1.

However, we expect the government to dial up stimulus efforts later this year following a couple more months of weak data.

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This report was completed 1/9/2025 07:26 CEST and disseminated 1/9/2025 07:26 CEST.

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