HKUST LI & FUNG
SUPPLY CHAIN INSTITUTE

April 2025

PMI Quarterly on China Manufacturing

PMI 1Q25
Recovery in the manufacturing sector

Policy Outlook
China to ramp up economic stimulus and announce specific policy details soon

2Q25 Forecasts
GDP growth to fall to 3.5%-4.0% yoy while PMI to drop below 50.0

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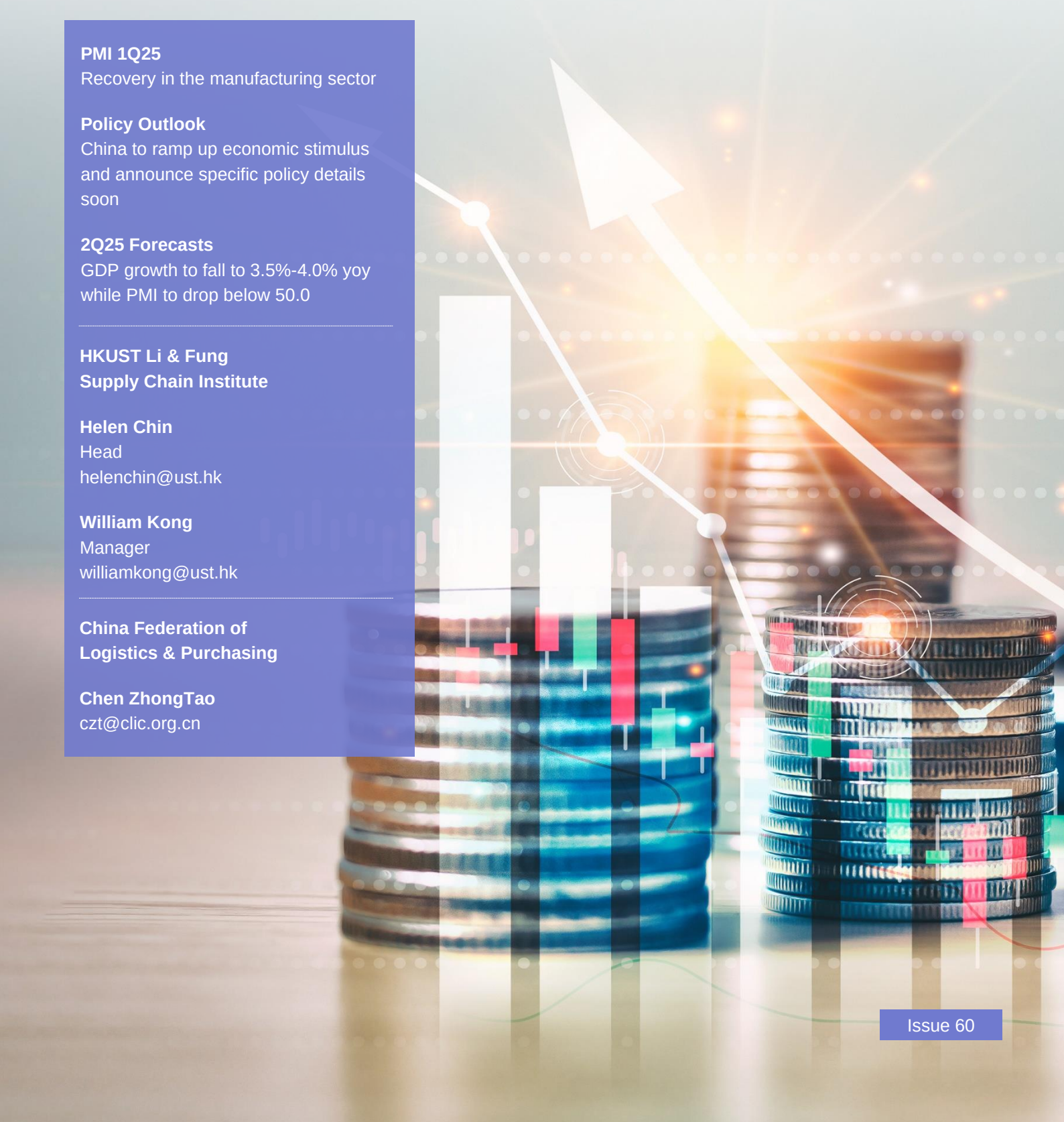

Issue 60

PMI points to a recovery in the manufacturing sector in 1Q25

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Our observations

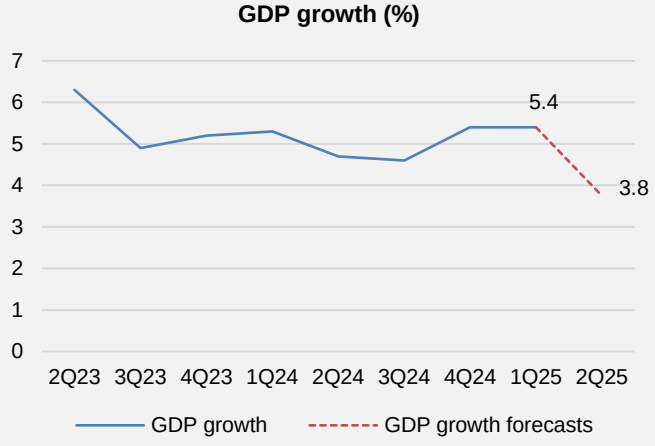
- Large and medium enterprises expand while small enterprises continue to contract but start to stabilize.
- Manufacturing output expands at a relatively rapid pace.
- Overall market demand picks up.
- Manufacturers lower ex-factory prices of their products amid falling input prices.
- Employment in manufacturing sector slightly decreases.

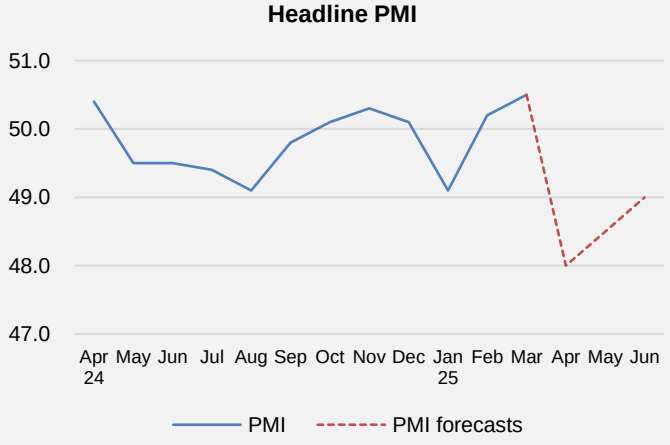
Policy outlook

- The *Government Work Report* released in March reiterated the policy stance of a more proactive fiscal policy and an appropriately accommodative monetary policy.
- Amid the escalating China-US trade war, we expect the Chinese government to ramp up economic stimulus and announce specific policy details in the coming weeks, which will help the Chinese economy navigate the challenging external environment.

Our forecasts for 2Q25

- We project a marked deceleration in the growth in manufacturing production, amid declining export demand due to the Trump trade war and the resulting slowdown in the global economy.
- Headline PMI will drop below 50.0.
- VAIO growth will decelerate markedly.
- Real GDP growth will fall to 3.5%-4.0% yoy.
- Exports will experience a 10% yoy decline.
- Year-on-year growth rates for the purchaser price index and the PPI will go down, due to a recent decline in global commodity prices as Trump's tariffs have fuelled concerns about a potential global recession.





IN THIS ISSUE:

1. PMI points to a recovery in the manufacturing sector in 1Q25

We project that China's real GDP growth will drop to 3.5%-4.0% yoy in 2Q25, primarily due to the slowdown in China's exports and manufacturing production amid the Trump trade war.

China's manufacturing sector in 1Q25

After dropping to 49.1 in January as the Chinese New Year holiday suppressed factory activity in the month, China's manufacturing PMI rose to 50.2 in February and further to 50.5 in March. Although partly driven by seasonal factors, the headline PMI has remained in the expansionary territory since February, which indicates a recovery in China's manufacturing sector. (See exhibit 1)

Manufacturing output has expanded at a relatively rapid pace since February, as the output index rose above the critical 50-mark to 52.5 in February and further to 52.6 in March. This expansion was supported by an improvement in overall market demand: The new orders index increased from 49.2 in January to 51.1 in February and 51.8 in March.

Prices of industrial products continued to decline, as the ex-factory prices index remained below the watershed level of 50 throughout the quarter. The drop in product prices was partly attributed to a decrease in material prices: The input prices index stayed in the contractionary territory in January and March.

Exhibit 2 shows the contributions of the sub-indices to the change in the headline PMI. The increase in the headline PMI in 1Q25 was mainly driven by the rise in the new orders index (which weighs 30% in the computation of the headline PMI) and the output index (which weighs 25%). Among the 12 sub-indices (i.e., excluding the suppliers' delivery time index), only the index of business expectations has remained in the expansionary zone over the past three months. Meanwhile, the indices of new export orders, backlogs of orders, stocks of finished goods, stocks of major inputs, imports, ex-factory prices, and employment have remained in the contractionary zone throughout the quarter. (See exhibit 3)

Policy outlook

According to the *Government Work Report* released in March this year, the Chinese government has set the GDP growth target for 2025 at 'around 5%'. It reiterated the policy stance of a more proactive fiscal policy and an appropriately accommodative monetary policy. As part of the more proactive fiscal policy, the Chinese government has set the deficit-to-GDP ratio for this year at a record high of 'around 4%'. Meanwhile, it pledged to fully leverage monetary policy instruments, make timely cuts to required reserve ratios and interest rates, and maintain adequate liquidity.

Starting 10 April, the US imposed additional 125% tariffs on Chinese products (with some exemptions) following two rounds of 10% tariff increases earlier this year, bringing the total additional tariff rate to 145%. In response, China retaliated with additional 125% tariffs on US imports. Amid the escalating China-US trade war, China's top leaders reportedly held a meeting on 10 April to discuss further fiscal and monetary stimulus, which could include support measures for consumer spending, the property market, industrial and infrastructure investment, and technology and innovation.

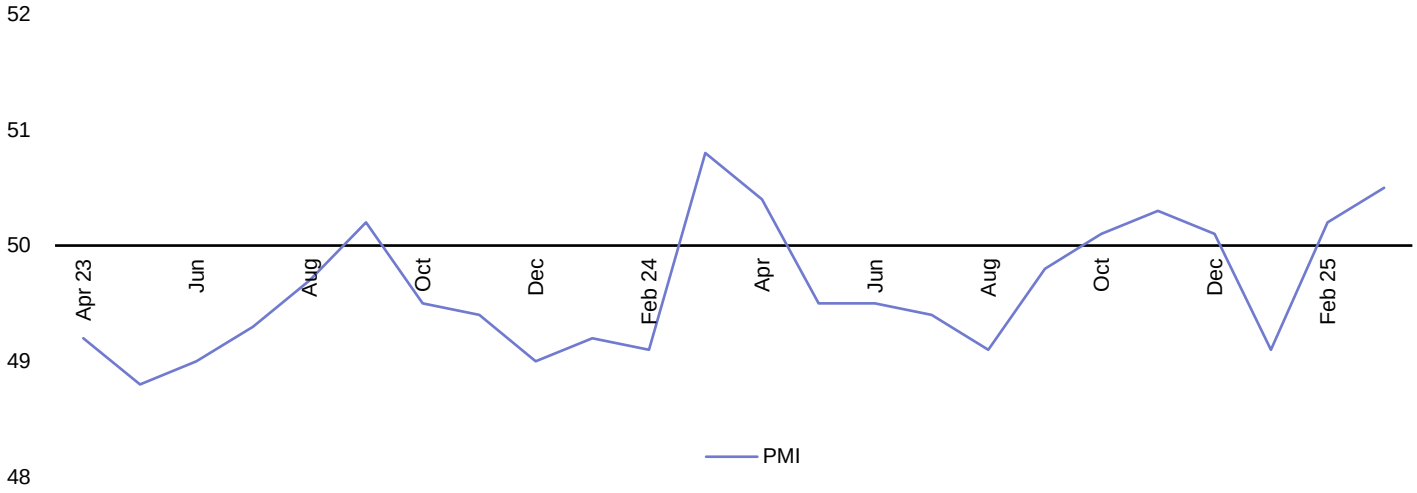
Looking ahead, we expect the Chinese government to ramp up economic stimulus and announce specific policy details in the coming weeks, which will help the Chinese economy navigate the challenging external environment.

Forecasts for 2Q25

China's economy, particularly the manufacturing sector, is under significant pressure from the Trump trade war. The US tariffs, combined with a slowdown in the global economy, are expected to negatively impact China's exports and manufacturing production. Although we anticipate that the Chinese government will increase policy support in the near future, these efforts take time to produce results and are unlikely to fully offset the negative effects of the tariffs. Overall, we predict that China's industrial production growth will decelerate markedly in 2Q25, while the headline PMI will fall into the contractionary territory during the quarter.

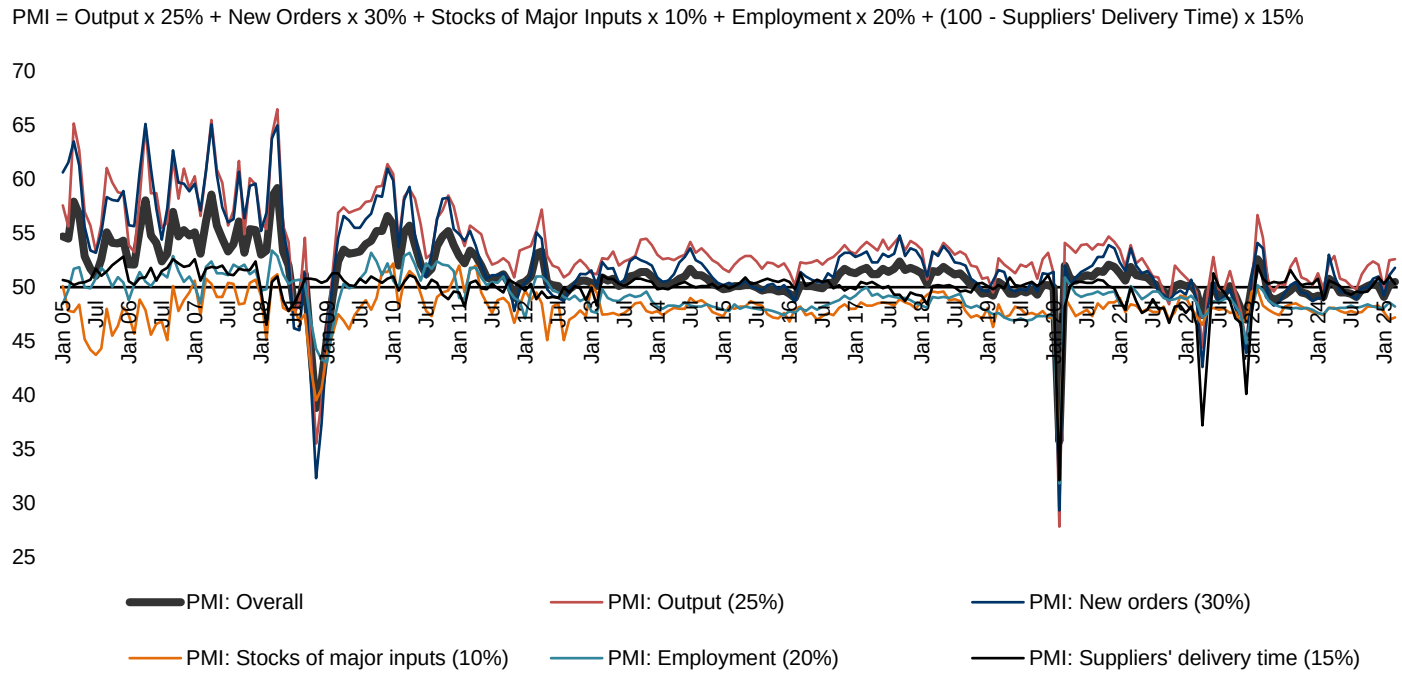
Exhibit 4 plots the quarterly real GDP growth rates versus the monthly PMIs since April 2020. We project that China's real GDP growth will drop to around 3.5%-4.0% yoy in 2Q25, primarily due to the slowdown in China's exports and manufacturing production amid the Trump trade war.

Exhibit 1: Headline PMI, April 2023 to March 2025



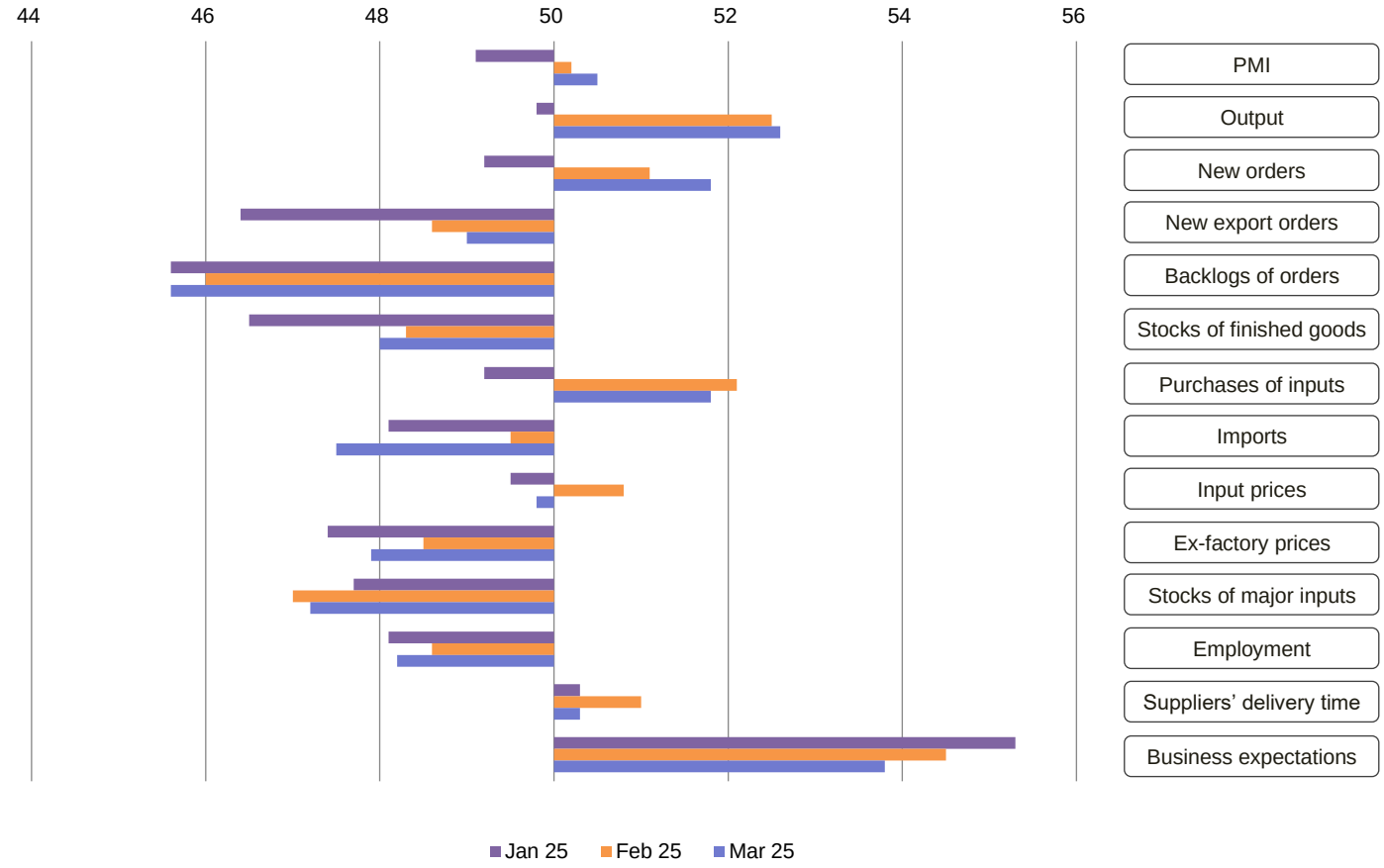
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 2: Headline PMI and sub-indices, January 2005 to March 2025



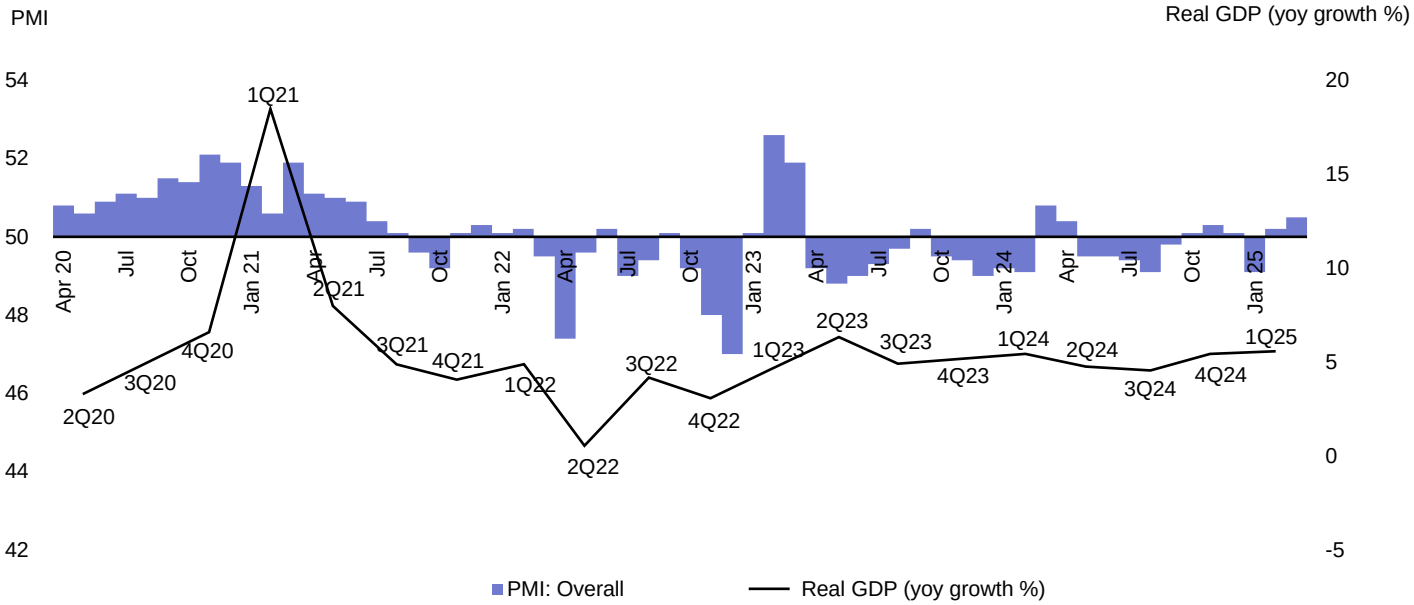
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 3: Headline PMI and all sub-indices, January to March 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 4: Headline PMI and real GDP growth, April 2020 to March 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

2. What the PMI tells us about the performance of enterprises of different sizes

Large enterprises continue to expand since February

The PMI of 'large enterprises' rose from 49.9 in January to 52.5 in February, before retreating to 51.2 in March. The index readings have remained above the critical 50-mark since February, indicating an ongoing expansion of 'large enterprises' lately.

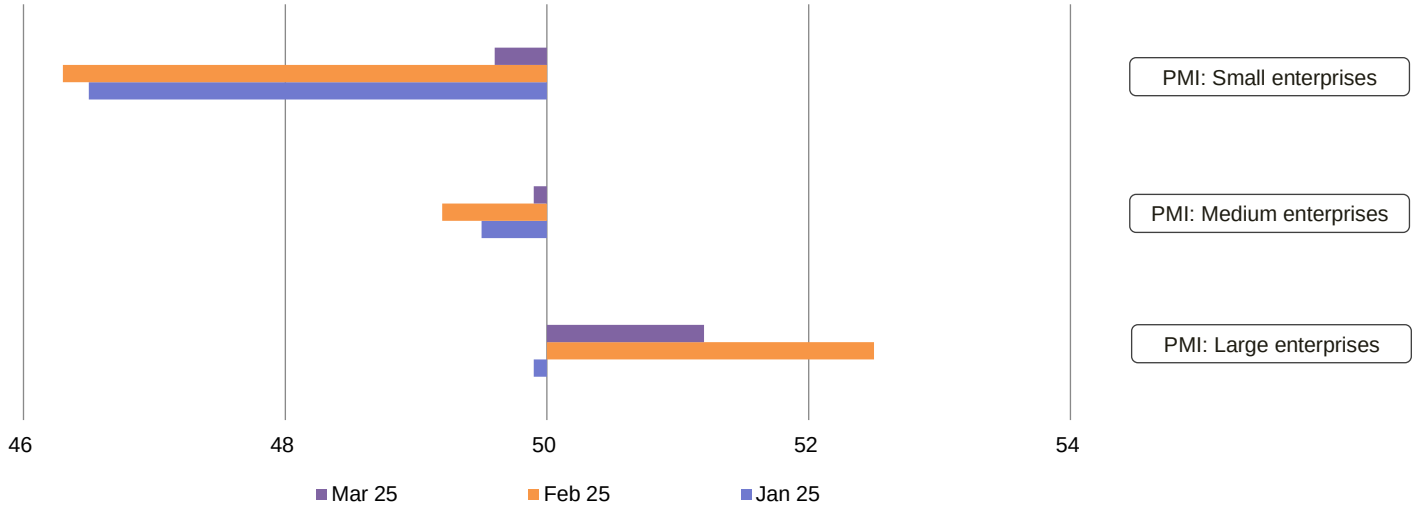
Small and medium enterprises start to stabilize

The PMI of 'medium enterprises' went down from 49.5 in January to 49.2 in February but rebounded to 49.9 in March. Meanwhile, the PMI of 'small enterprises' edged down from 46.5 in January to 46.3 in February but climbed to 49.6 in March.

The latest index readings of 'medium enterprises' and 'small enterprises' were still in the contractionary territory but rose close to 50 in March, indicating some stabilization as the extent of the contraction has eased compared with the previous months. (See exhibit 5)

Large enterprises have fared better than small and medium enterprises, a trend that has persisted for several years. We expect this trend to continue as the China-US trade war intensifies, since small and medium enterprises are more export-oriented.

Exhibit 5: PMIs of large enterprises, medium enterprises and small enterprises, January to March 2025



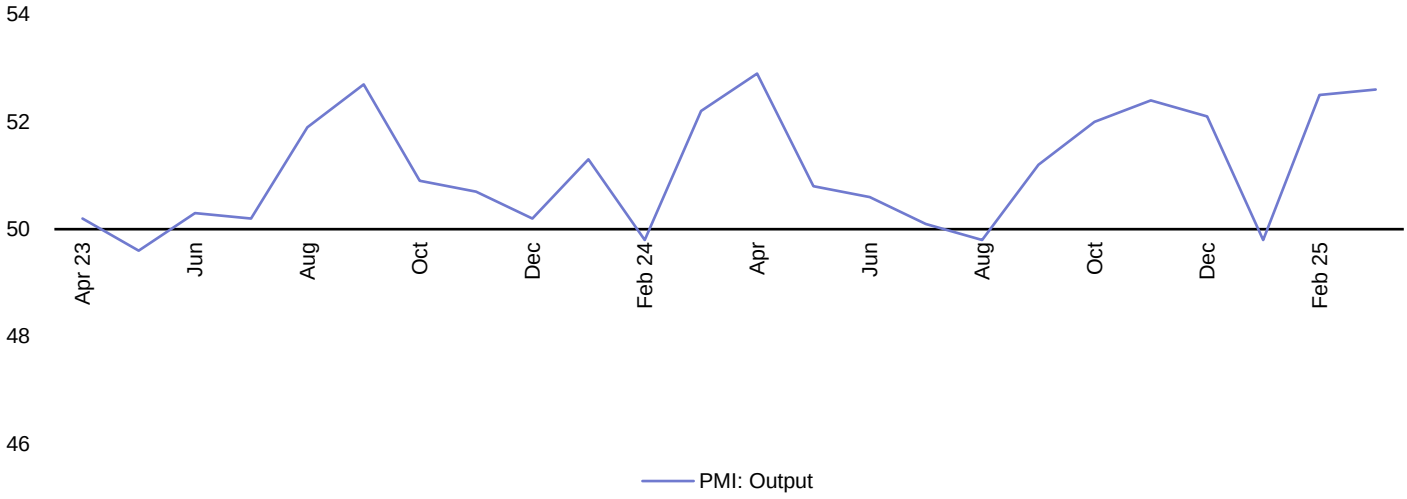
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

3. What the PMI tells us about manufacturing production

Manufacturing output expands at a relatively rapid pace

The output index jumped from 49.8 in January to 52.5 in February and further to 52.6 in March. The latest readings remained markedly above the neutral level of 50, indicating a relatively rapid expansion in manufacturing production in recent months. (See exhibit 6)

Exhibit 6: Output index, April 2023 to March 2025



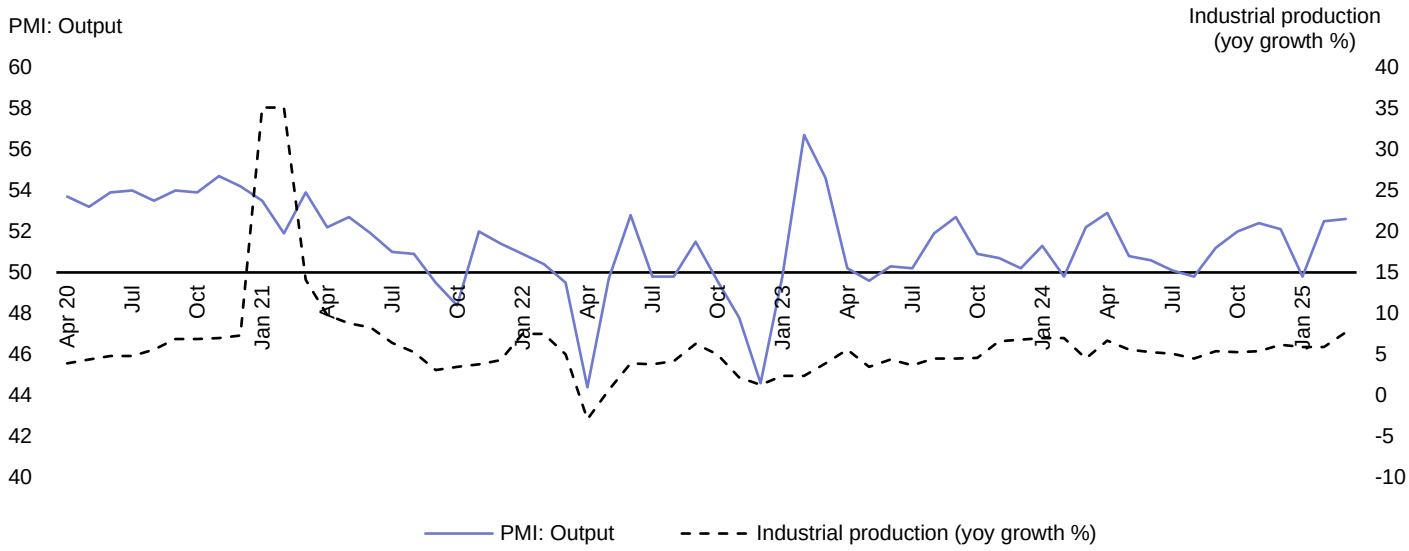
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Manufacturing production growth expected to decelerate in 2Q25

Exhibit 7 illustrates the correlation (with some lags) between the output index and the year-on-year growth of value-added of industrial output (VAIO). As the manufacturing sector grapples with a plunge in export demand due to the Trump trade war and the resulting slowdown in the global economy, we expect China's VAIO growth to decelerate markedly in 2Q25. Challenges facing Chinese manufacturers include the escalation of the China-US trade war, a slowdown in the global economy due to Trump's tariffs, the government's strong commitment to reducing industrial carbon emissions, and intense competition in the international market.

We expect China's VAIO growth to decelerate markedly in 2Q25, as the manufacturing sector grapples with declining export demand due to the Trump trade war and the resulting slowdown in the global economy.

Exhibit 7: Output index and industrial production growth, April 2020 to March 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

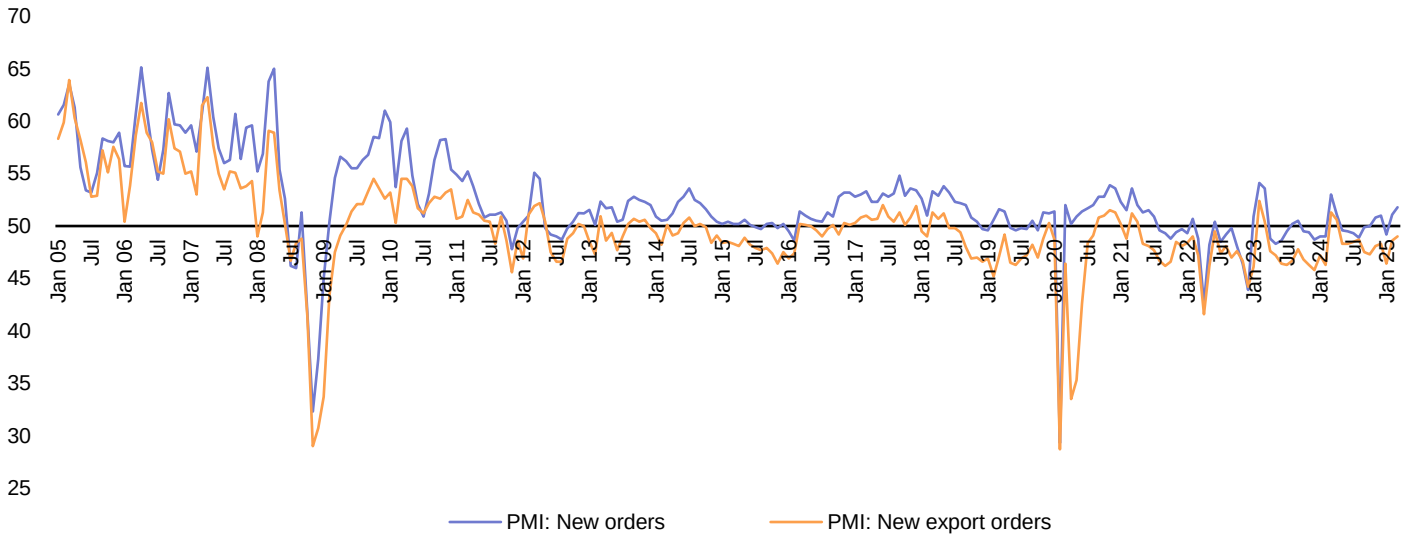
4. What the PMI tells us about overall market demand

Overall market demand picks up

The new orders index increased from 50.0 in October to 50.8 in November and 51.0 in December. The latest index readings have returned to the expansionary zone, indicating a steady pickup in overall market demand recently.

Meanwhile, the new export orders index rose from 47.3 in October to 48.1 in November and 48.3 in December, suggesting a continued but smaller decline in new export orders lately. (See exhibit 8)

Exhibit 8: New orders index and new export orders index, January 2005 to March 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

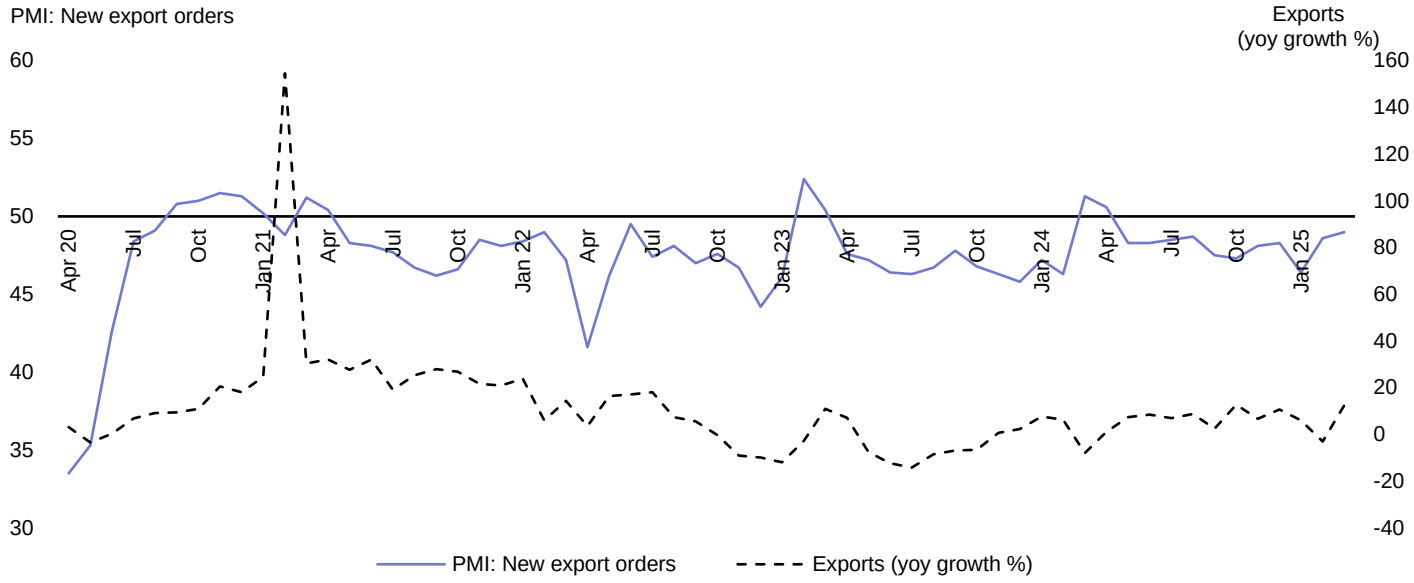
China's exports expected to decline in 2Q25 amid the Trump trade war

Exhibit 9 plots the new export orders index against the year-on-year growth rates of China's exports. From exhibit 10, we can see that the new export orders index has been strongly correlated to the external economies. The OECD's G20 composite leading indicator[1] has risen in the past few months, suggesting a recovery in external demand for China's exports. However, as the trade war between China and the US has intensified, with the US imposing an additional 145% tariff on Chinese products starting 10 April, China's exports to the US are expected to plunge. The global economic slowdown will also hurt China's exports. Overall, we forecast that China's exports will experience a 10% yoy decline in 2Q25.

We forecast that China's exports will experience a 10% yoy decline in 2Q25, amid the intensifying China-US trade war and the global economic slowdown.

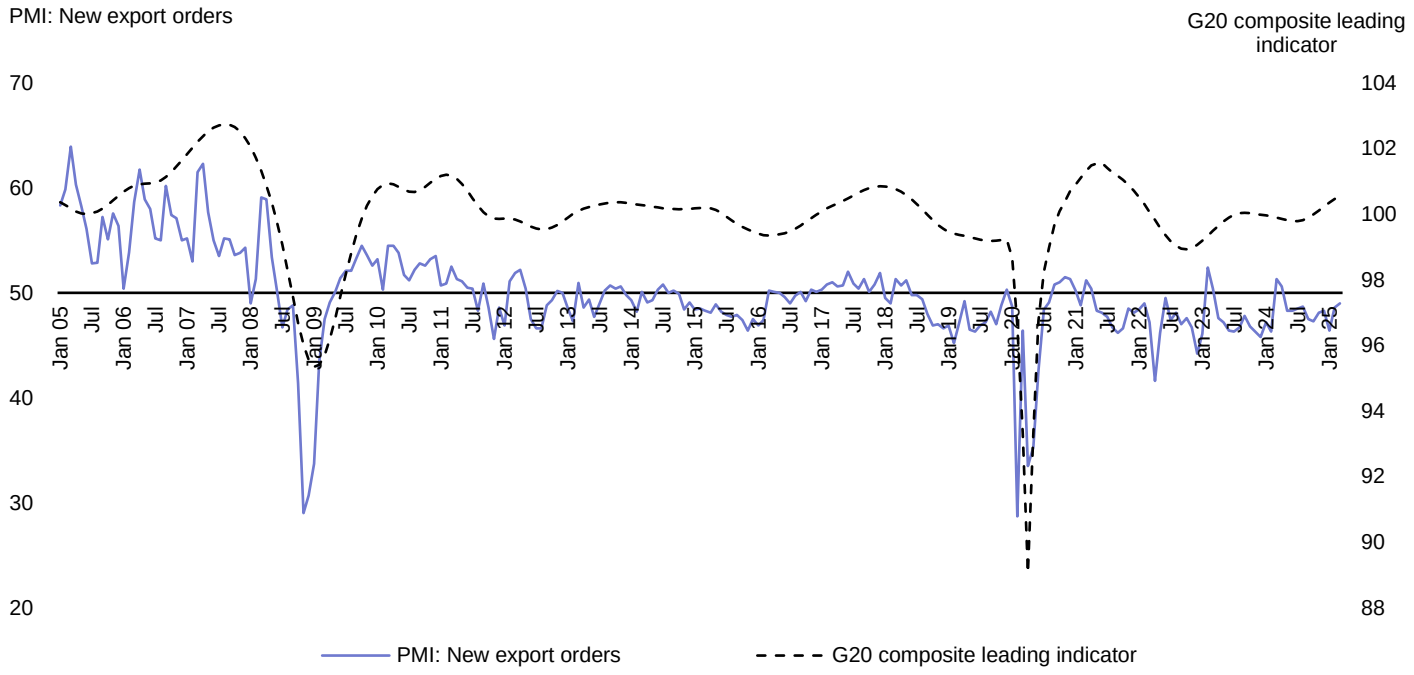
1 The G20 composite leading indicator, compiled by the Organization for Economic Cooperation and Development (OECD), is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity, and covers Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, South Africa, Turkey, UK, and the US.

Exhibit 9: New export orders index and export growth, April 2020 to March 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, China Customs

Exhibit 10: New export orders index and G20 composite leading indicator, January 2005 to March 2025



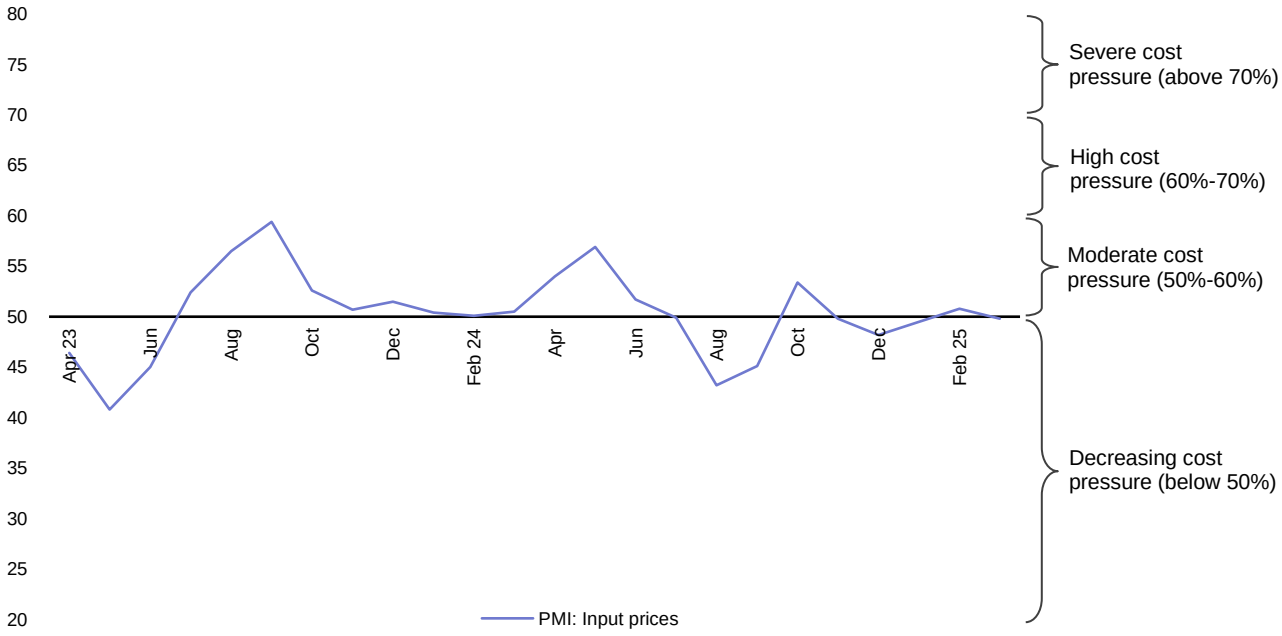
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Organization for Economic Cooperation and Development

5. What the PMI tells us about upstream and midstream prices

Cost pressure on Chinese manufacturers eases amid falling upstream prices

After rising from 49.5 in January to 50.8 in February, the input prices index decreased to 49.8 in March. The latest index reading has fallen below the neutral level of 50, indicating a decline in production input prices lately. Manufacturers continued to experience a drop in the costs of major inputs.

Exhibit 11: Input prices index, April 2023 to March 2025

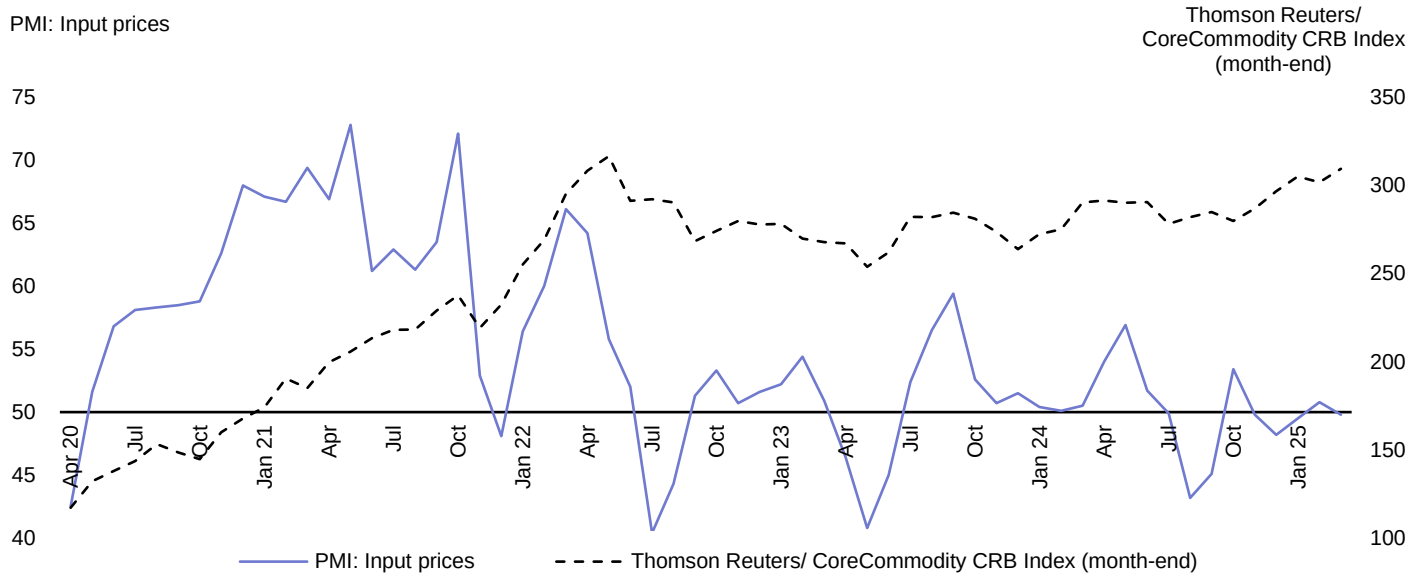


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

To see the extent to which input costs of Chinese manufacturers are affected by global commodity prices, exhibit 12 puts together the input prices index and the Thomson Reuters/ CoreCommodity CRB index.[2]

2 The Thomson Reuters/ CoreCommodity CRB Index, which comprises 19 commodities such as crude oil, aluminum, corn, cotton, gold, natural gas, soybeans, etc, has served as one of the most recognized measures of global commodity prices.

Exhibit 12: Input prices index and Thomson Reuters/ CoreCommodity CRB Index, April 2020 to March 2025

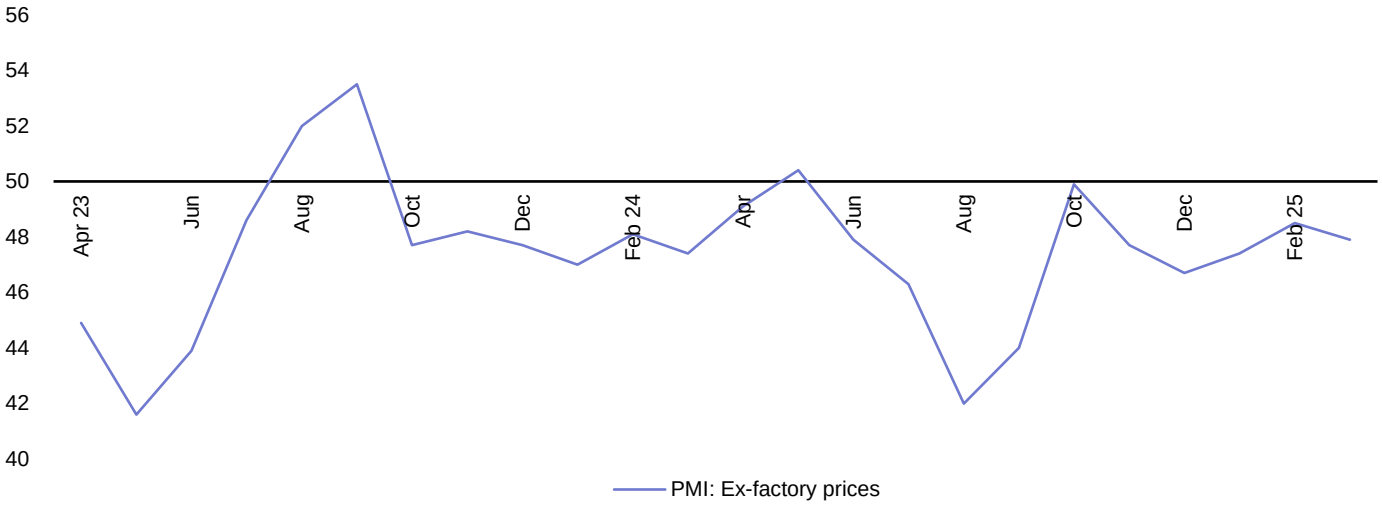


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Thomson Reuters

Manufacturers lower ex-factory prices of their products

The ex-factory prices index picked up from 47.4 in January to 48.5 in February but retreated to 47.9 in March. The index readings have remained in the contractionary territory since June, indicating that Chinese manufacturers have been continuously lowering the ex-factory prices of their finished products.[3]

Exhibit 13: Ex-factory prices index, April 2023 to March 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

3 The ex-factory prices index has been released since January 2017.

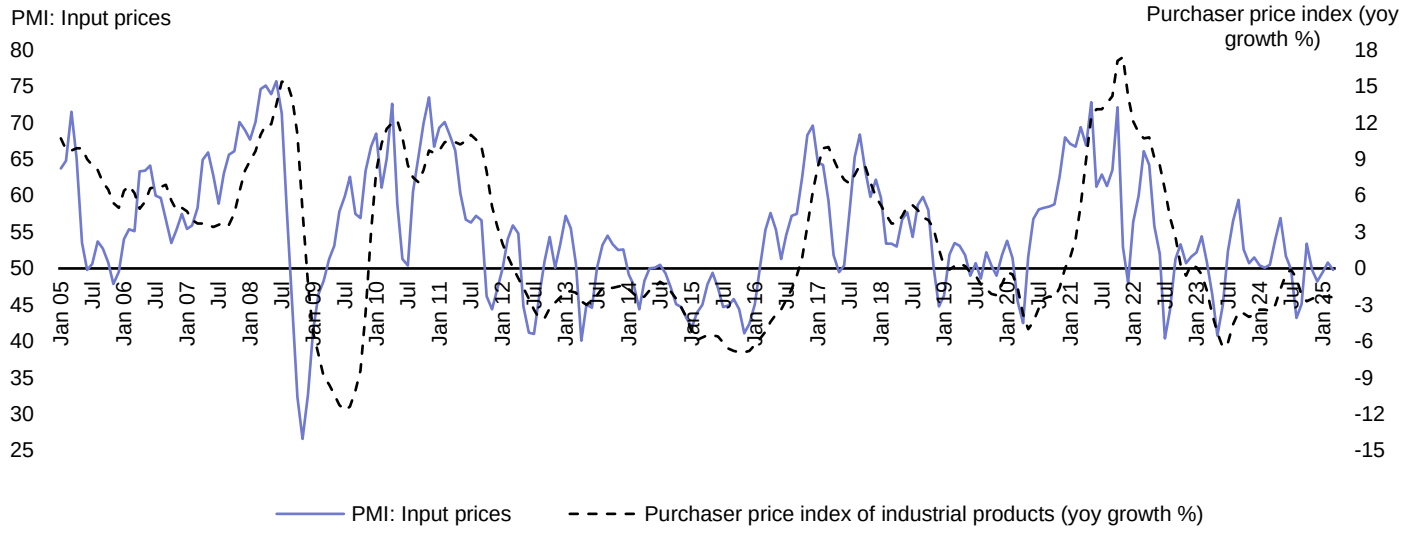
Growth in input prices and ex-factory prices expected to go down in 2Q25

Exhibit 14 shows that the input prices index serves as a useful leading indicator of upstream prices. To demonstrate the association between the input prices index and 'midstream' prices, we plot the input prices index against the year-on-year growth of the producer price index (PPI)[4] in exhibit 15.

Looking ahead, we expect that the year-on-year growth rates for both the purchaser price index and the PPI will go down in 2Q25, due to a recent decline in global commodity prices as Trump's tariffs have fuelled concerns about a potential global recession.

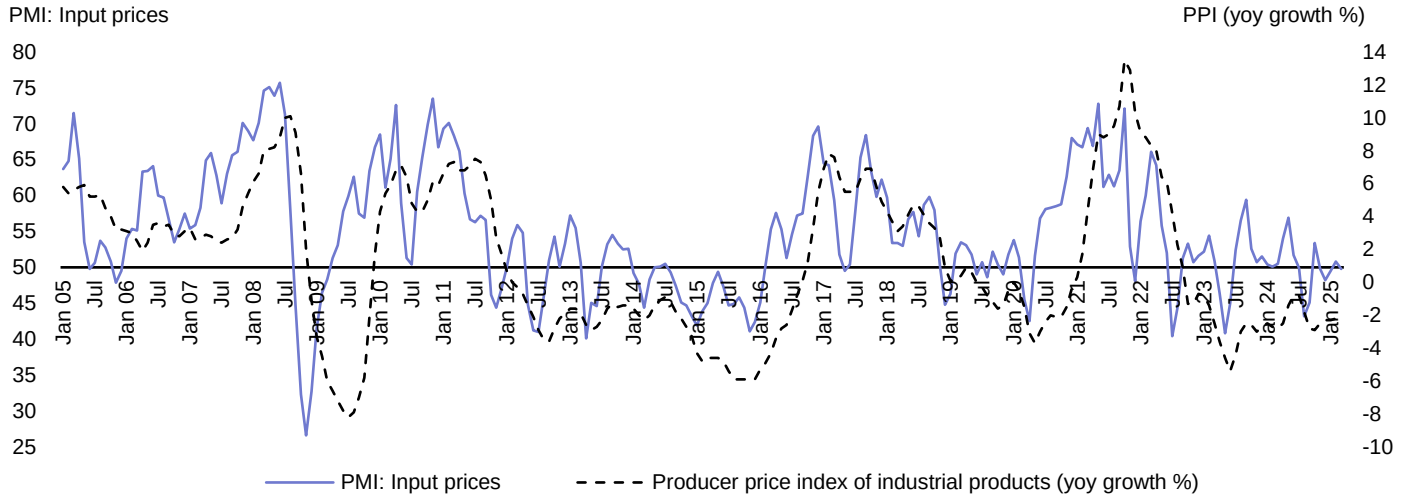
We expect that the year-on-year growth rates for both the purchaser price index and the PPI will go down in 2Q25, due to a recent decline in global commodity prices as Trump's tariffs have fuelled concerns about a potential global recession.

Exhibit 14: Input prices index and purchaser price index of industrial products, January 2005 to March 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 15: Input prices index and producer price index, January 2005 to March 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

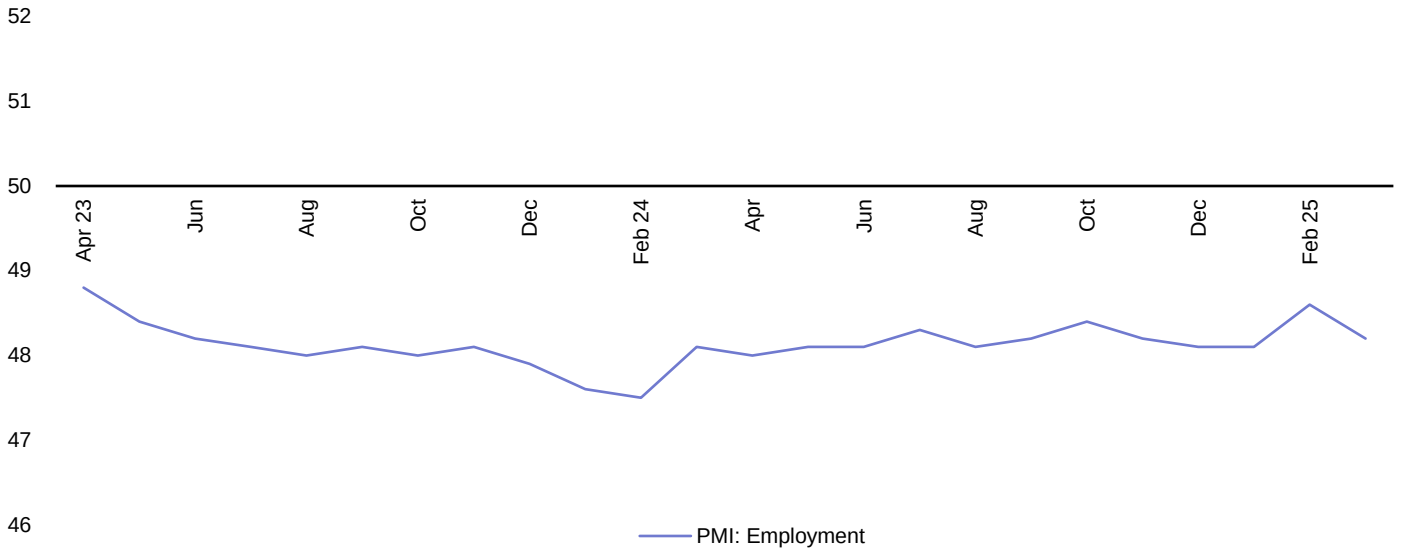
[4] The producer price index of industrial goods (PPI), compiled by China National Bureau of Statistics, measures the prices of industrial products when they are sold for the first time after production.

6. What the PMI tells us about manufacturing employment

Employment in the manufacturing sector slightly decreases

The employment index has remained low, hovering between 48.1 to 48.6 in recent months. The index readings indicate that employment in the manufacturing sector has slightly decreased lately. (See exhibit 16)

Exhibit 16: Employment index, April 2023 to March 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 17 shows that the employment in China's manufacturing sector heavily relies on the export sector. Exhibit 18 and 19 provide insights into how the employment situation improves or deteriorates in relation to the manufacturing sector and the overall economy. Given an anticipated slowdown in the export sector and the overall Chinese economy, we expect that manufacturing employment will worsen in 2Q25.

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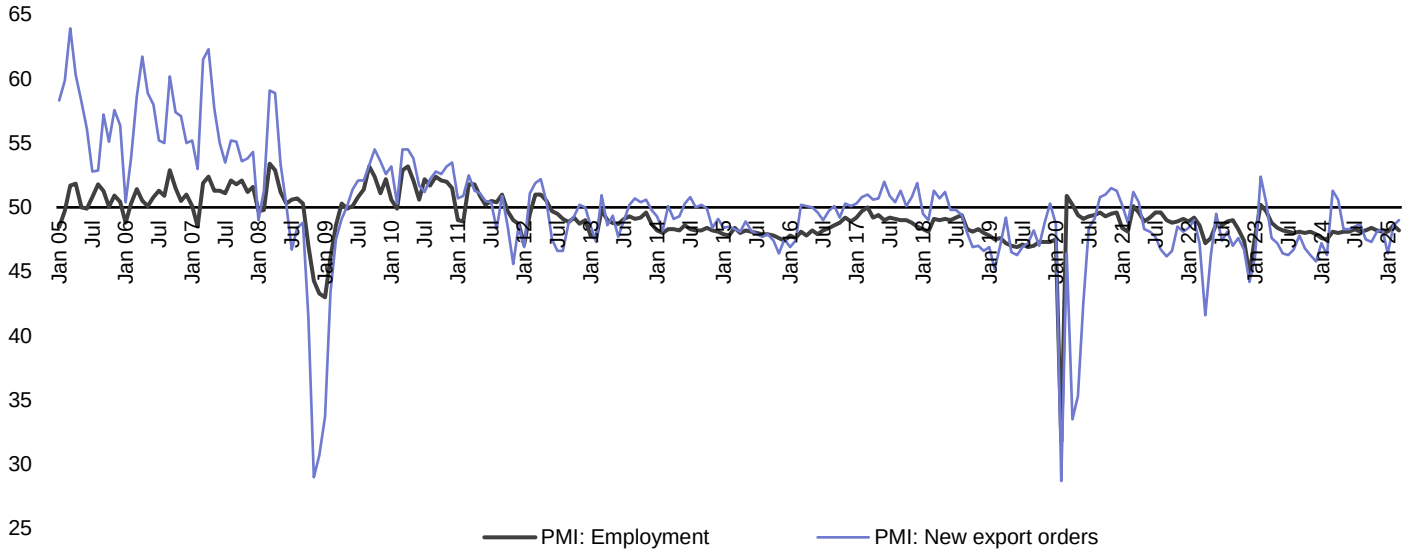
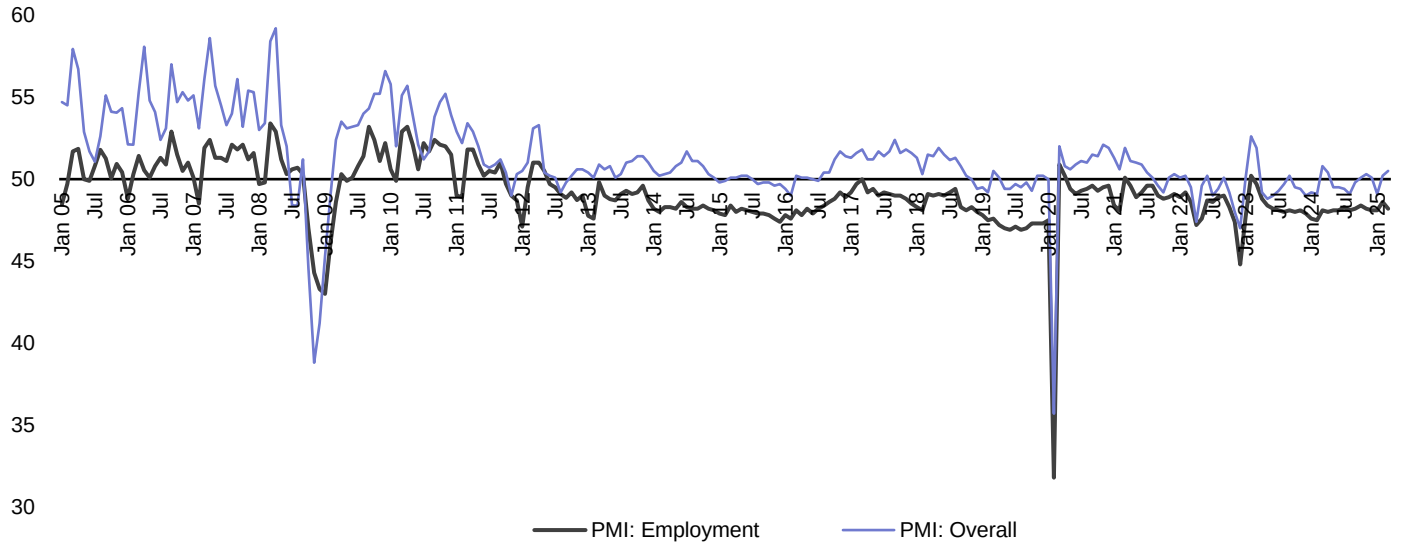
Exhibit 17: Employment and new export orders, January 2005 to March 2025



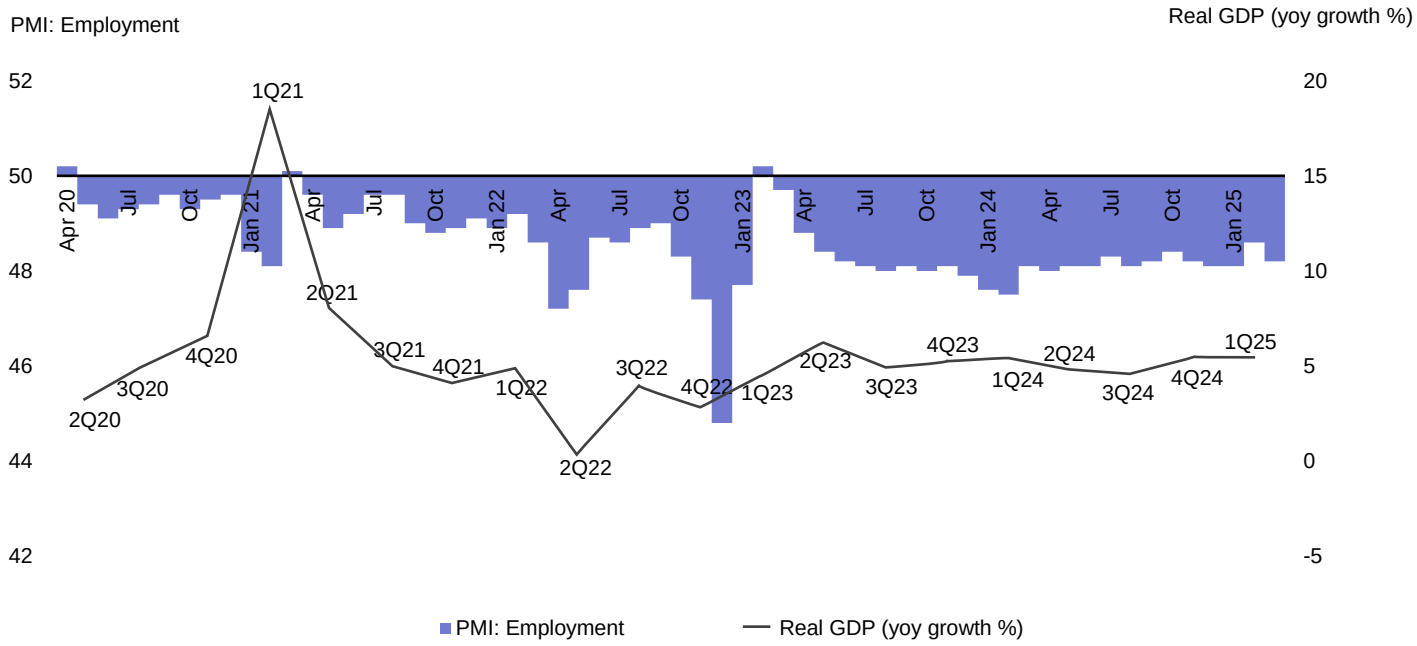
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 18: Employment index and headline PMI, January 2005 to March 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 19: Employment index and real GDP growth, April 2020 to March 2025



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

About China Manufacturing PMI:

China Manufacturing Purchasing Managers' Index (PMI) provides an early indication each month of economic activities in the Chinese manufacturing sector. It is jointly published by China Federation of Logistics & Purchasing (CFLP) and the National Bureau of Statistics (NBS). The HKUST Li & Fung Supply Chain Institute is responsible for drafting and disseminating the English PMI report.

Every month questionnaires are sent to 3,200 manufacturing enterprises all over China. The data presented herein is compiled from the enterprises' responses about their purchasing activities and supply situations. CFLP makes no representation regarding the data collection procedures, nor does it disclose any data of individual enterprises. The PMI should be compared to other economic data sources when used in decision-making.

3,200 manufacturing enterprises in 31 industries from Eastern, Northeastern, Central and Western China are surveyed. The sampling of the enterprises involves the use of Probability Proportional to Size Sampling (PPS), which means the selection of enterprises surveyed is largely based on each industry's contribution to GDP, and the representation of each geographical region.

There are 13 sub-indicators in the survey: Output, New Orders, New Export Orders, Backlogs of Orders, Stocks of Finished Goods, Purchases of Inputs, Imports, Input Prices, Stocks of Major Inputs, Ex-factory Prices, Employment, Suppliers' Delivery Time and Business Expectations. An index reading above 50 indicates an overall positive change in a sub-indicator; below 50, an overall negative change.

The PMI is a composite index based on the seasonally adjusted indices for five of the sub-indicators with varying weights: New Orders—30%; Output—25%; Employment—20%; Suppliers' Delivery Time—15%; and Stocks of Major Inputs—10%. A PMI reading above 50 indicates an overall expansion in the manufacturing sector; below 50, an overall contraction.

Currently there are more than twenty countries and regions conducting the PMI survey and compilation, based on an internationally standardized methodology.

About the Organizations:

China Federation of Logistics & Purchasing

China Federation of Logistics & Purchasing (CFLP) is the logistics and purchasing industry association approved by the State Council. CFLP's mission is to push forward the development of the logistics industry and the procurement businesses of both government and enterprises, as well as the circulation of factors of production in China. The government authorizes the CFLP to produce industry statistics and set industry standards. CFLP is also China's representative in the Asian-Pacific Logistics Federation (APLF) and the International Federation of Purchasing and Supply Management (IFPSM).

HKUST Li & Fung Supply Chain Institute

The HKUST Li & Fung Supply Chain Institute (Institute) accelerates the creation, global dissemination, and practical application of new knowledge for managing tomorrow's supply chains.

The Institute seeks to develop local and international talent in supply chain management through teaching, professional development, and exchanges at specialist conferences. It brings together leaders in industry, academia, and the public sector in a new collaboration for research, executive education and practice focused on innovation in business models, sustainable supply chain design, process re-engineering, and the rapid adoption of new technologies. These outcomes are vital in addressing the need for visionary, innovative supply chain management in the face of rapid technological advancements, disruption from geopolitical tensions, and concerns related to sustainability and climate.

Jointly established by HKUST and supply chain industry leader Li & Fung, the Institute brings together research excellence and industry expertise in supply chain management to drive real-world impact across the Greater Bay Area, Greater China, Asia, and globally, while contributing to Hong Kong's development as a multinational supply chain management center.