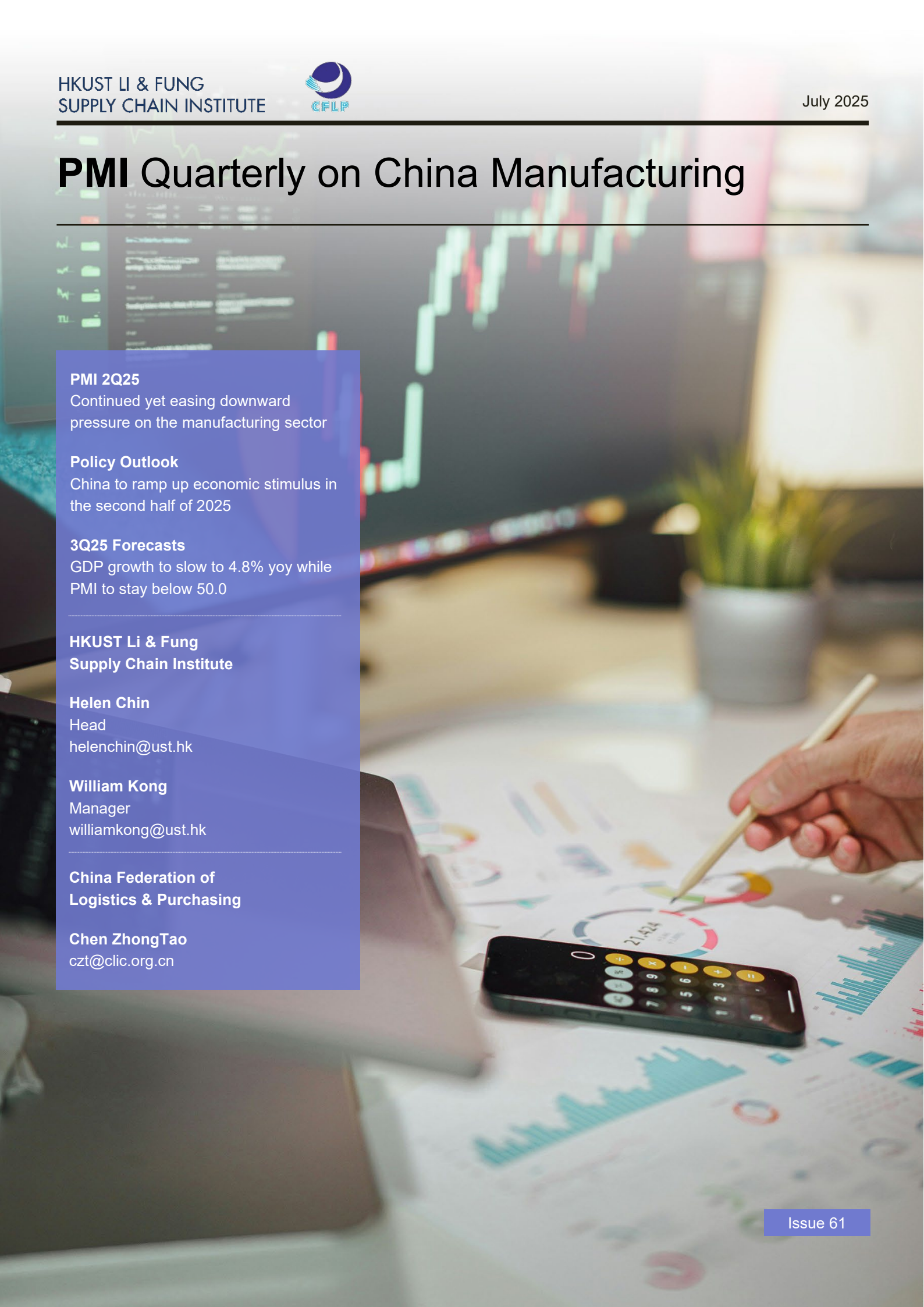
HKUST LI & FUNG
SUPPLY CHAIN INSTITUTE

July 2025

# **PMI** Quarterly on China Manufacturing



**PMI 2Q25**
Continued yet easing downward pressure on the manufacturing sector

**Policy Outlook**
China to ramp up economic stimulus in the second half of 2025

**3Q25 Forecasts**
GDP growth to slow to 4.8% yoy while PMI to stay below 50.0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Issue 61

# PMI points to continued yet easing downward pressure on the manufacturing sector in 2Q25

**Our observations**

- Large and medium enterprises recover while small enterprises continue to contract.
- Manufacturing output resumes expansion since May.
- Overall market demand starts to stabilize.
- Manufacturers lower ex-factory prices of their products amid falling input prices.
- Employment in manufacturing sector slightly decreases.

**Policy outlook**

- A meeting of the Political Bureau of the Communist Party of China Central Committee was held on 25 April. It called for efforts to accelerate the implementation of more proactive and effective macro policies, and to make full use of a more proactive fiscal policy and a moderately loose monetary policy.
- Amid the China–US trade war, we expect the Chinese government to ramp up economic stimulus in the second half of 2025, which will help the economy navigate the challenging external environment.

**Our forecasts for 3Q25**

- We project a deceleration in the growth in manufacturing production, amid the Trump trade war and the Chinese government's effort to address overproduction in certain industries.
- Headline PMI will stay below 50.0.
- VAIO growth will decelerate to 5.0% yoy.
- Real GDP growth will slow to around 4.8% yoy.
- Exports will experience a low single-digit year-on-year decline.
- Year-on-year growth rates for the purchaser price index and the PPI will continue to be negative but slightly improve in 3Q25, as the Chinese government has prioritized addressing overproduction in certain industries.

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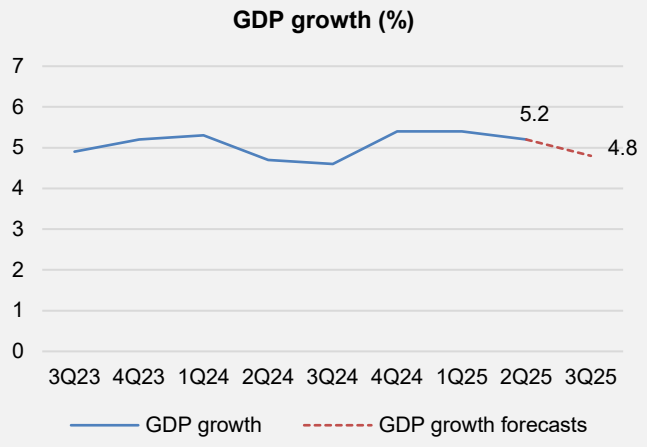
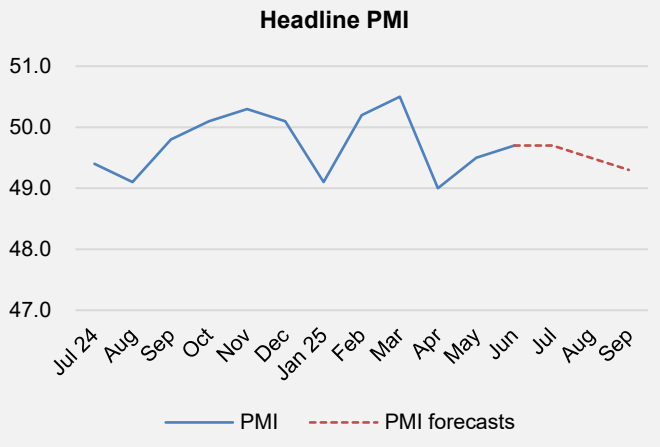


# IN THIS ISSUE:

# 1. PMI points to continued yet easing downward pressure on the manufacturing sector in 2Q25

**We project that China's real GDP growth will slow to around 4.8% yoy in 3Q25, primarily due to the slowdown in China's exports and manufacturing production amid the Trump trade war.**

**China's manufacturing sector in 2Q25**

Since early April, the back-and-forth of the China–US trade war has created significant uncertainty for China's exports and manufacturing production. As a result, China's manufacturing PMI dipped into the contractionary territory in April at 49.0, before rising slightly to 49.5 in May and 49.7 in June.

The manufacturing PMI has remained below the neutral level of 50 throughout the quarter, indicating continued downward pressure on China's manufacturing sector. However, the rebound in the index readings since May suggests that this downward pressure is easing. (See exhibit 1)

After a slight contraction in April, manufacturing output has expanded again since May, with the output index rising above the critical 50-mark to 50.7 in May and further to 51.0 in June. This recent growth was supported by improved overall market demand, as the new orders index increased from 49.2 in April to 49.8 in May and 50.2 in June.

Prices of industrial products continued to decline, with the ex-factory prices index remaining below the watershed level of 50 throughout the quarter. The drop in product prices was partly due to a decrease in material prices, as the input prices index has remained in contraction since March.

Exhibit 2 shows the contributions of the sub-indices to the change in the headline PMI. The rebound in the headline PMI since April was mainly driven by the rise in the output index (which weighs 25% in the computation of the headline PMI) and the new orders index (which weighs 30%). 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, input prices, ex-factory prices, and employment have remained in the contractionary zone throughout the quarter. (See exhibit 3)

**Policy outlook**

A meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee was held on 25 April. The meeting called for efforts to accelerate the implementation of more proactive and effective macro policies, and to make full use of a more proactive fiscal policy and a moderately loose monetary policy. It also pledged to promptly introduce new policies in response to changing circumstances. These wordings signal that China will pursue a more proactive and expansionary macro policy in the second half of 2025.

On 7 May, the People's Bank of China (PBoC) announced a package of monetary policies aimed at enhancing macro regulation and supporting the economy. This includes lowering the policy rate by 0.1 percentage points (ppts) and cutting the required reserve ratio for financial institutions by 0.5 ppts.

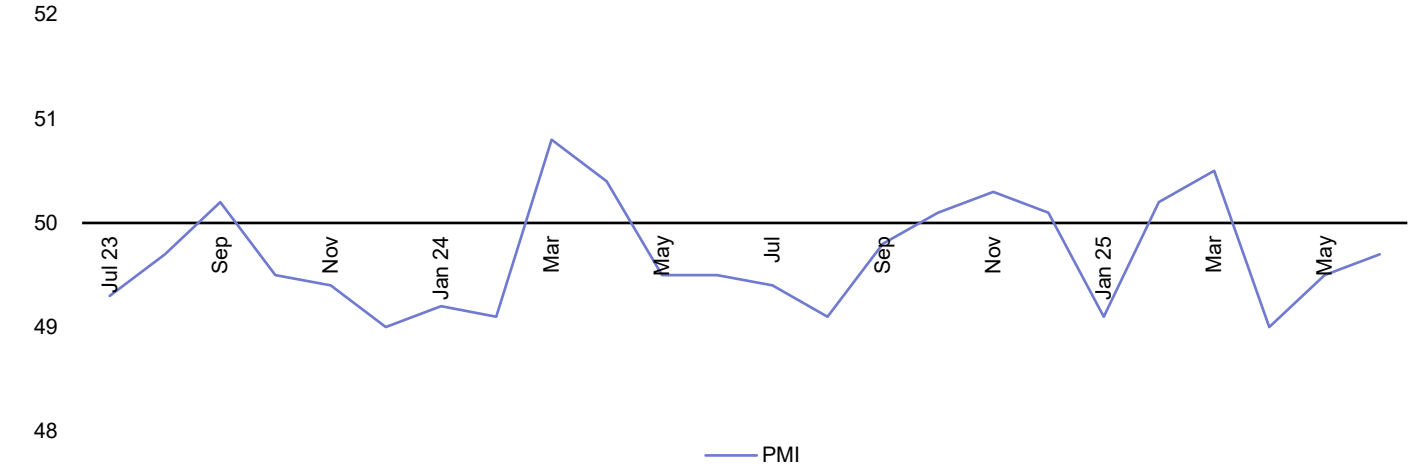
Looking ahead, we expect the Chinese government to ramp up economic stimulus in the second half of 2025, which will help the economy navigate the challenging external environment.

**Forecasts for 3Q25**

The 90-day pause in the China–US tariff war is set to end on 10 August, and the outcomes of ongoing trade negotiations between the two countries remain highly uncertain. Any further increase in US tariffs after this date will negatively affect China's exports and manufacturing production. While we expect the Chinese government to ramp up policy support in response, these measures will take time to produce results and are unlikely to fully offset the negative impact of the tariffs. Overall, we predict that China's industrial production growth will decelerate to 5.0% yoy in 3Q25, while the headline PMI is expected to remain in the contractionary territory during the quarter.

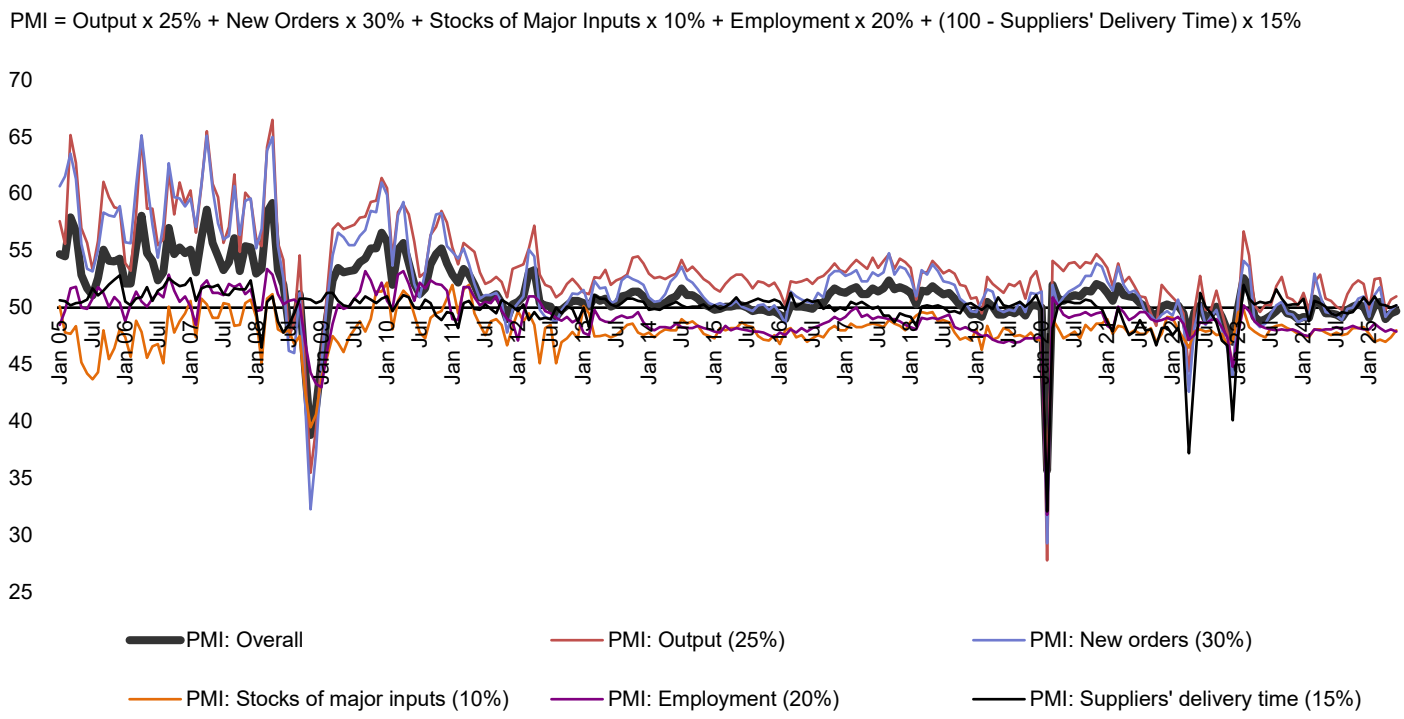
Exhibit 4 plots the quarterly real GDP growth rates versus the monthly PMIs since July 2020. We project that China's real GDP growth will slow to around 4.8% yoy in 3Q25, primarily due to the slowdown in China's exports and manufacturing production amid the Trump trade war.

## Exhibit 1: Headline PMI, July 2023 to June 2025



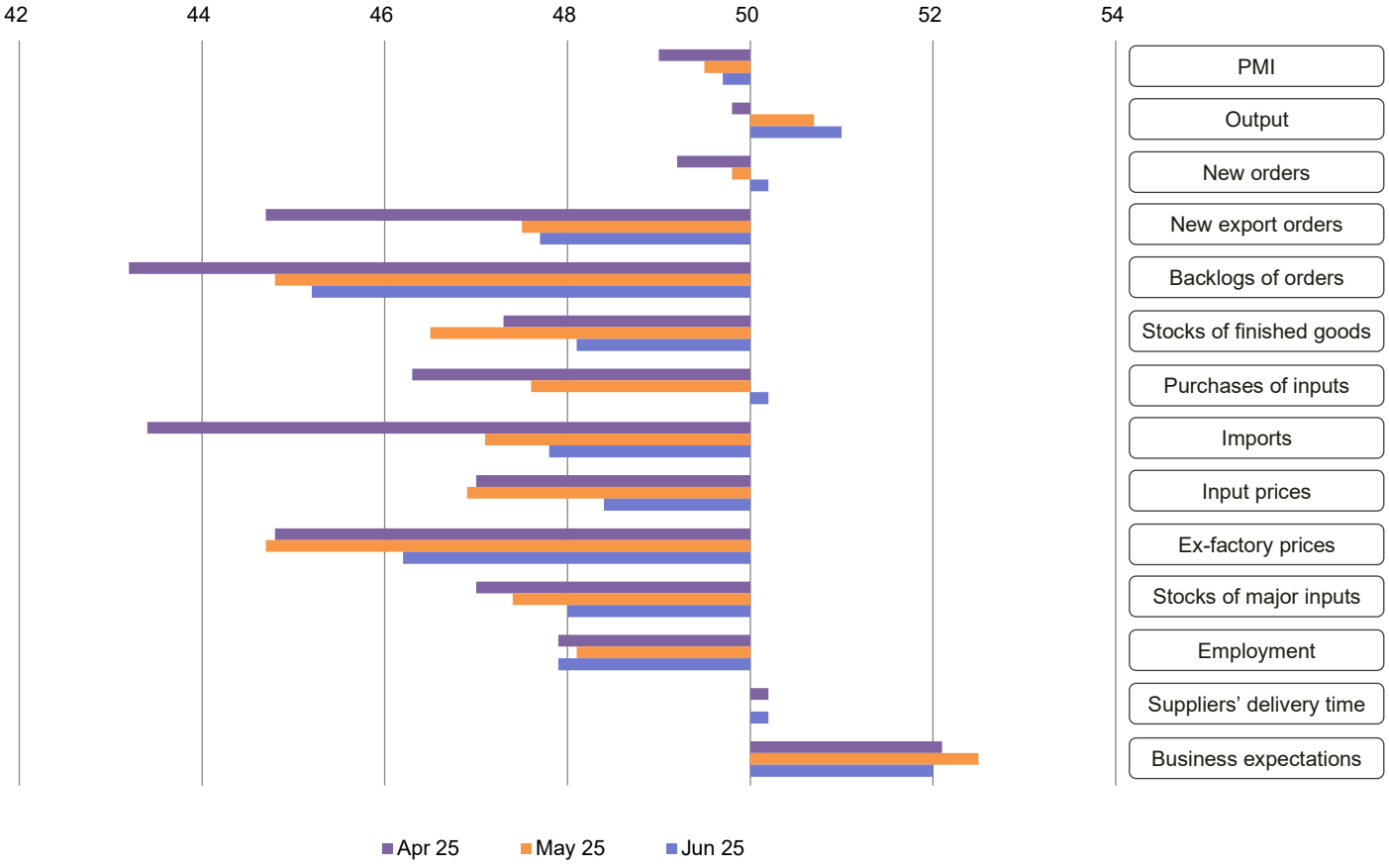

*Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics*

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



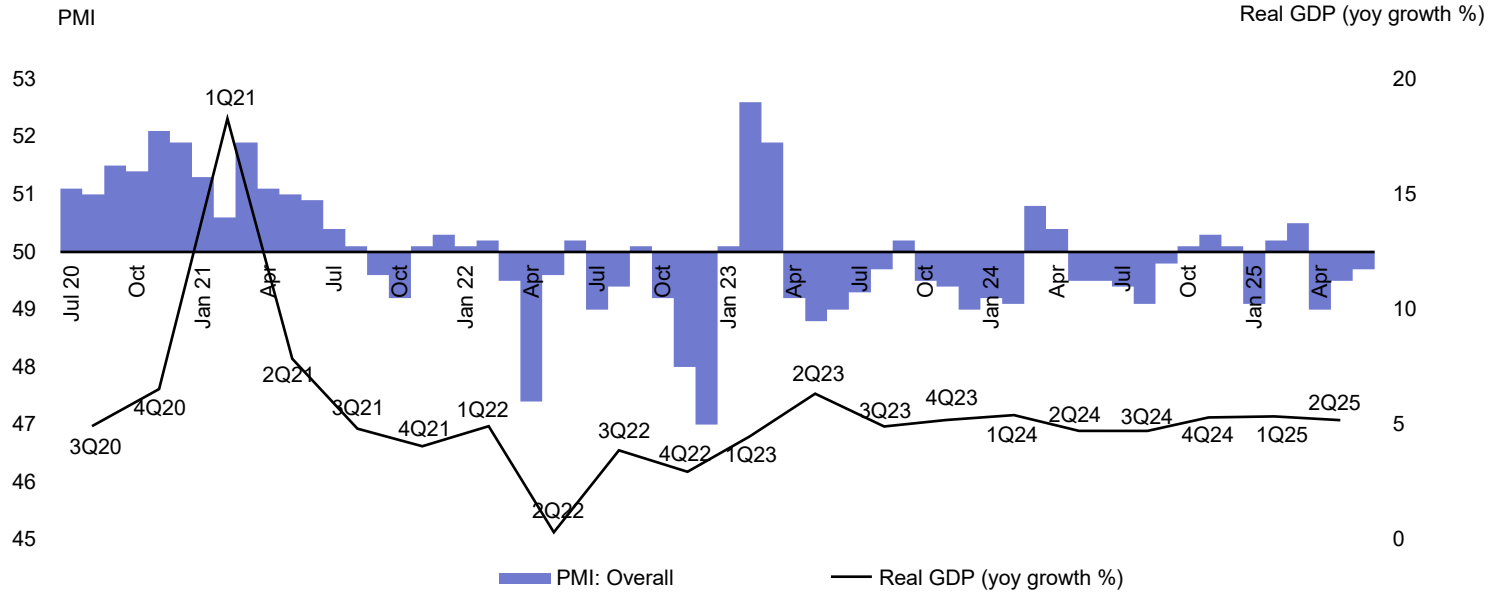

*Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics*

## Exhibit 3: Headline PMI and all sub-indices, April to June 2025




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

## Exhibit 4: Headline PMI and real GDP growth, July 2020 to June 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 on the mend since May**

The PMI of 'large enterprises' jumped from 49.2 in April to 50.7 in May, and then climbed to 51.2 in June. The index readings have stayed above the critical 50-mark since May, indicating that large enterprises have been recovering lately.

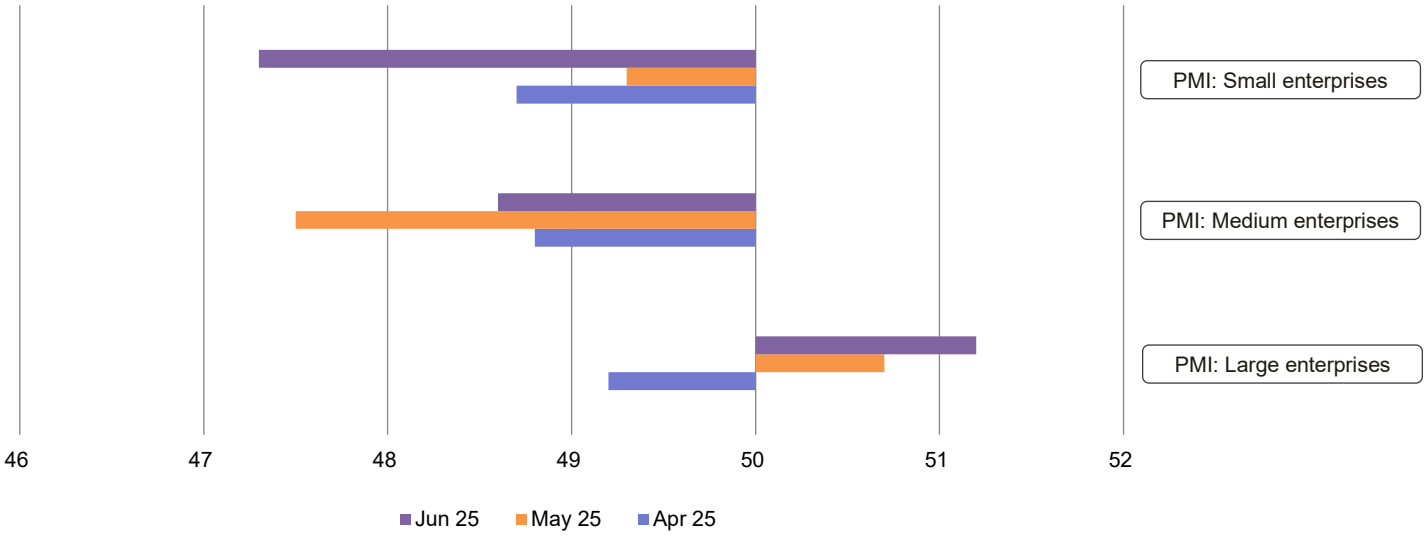
**Small and medium enterprises still struggling**

The PMI of 'medium enterprises' dropped from 48.8 in April to 47.5 in May, before rising to 48.6 in June. Meanwhile, the PMI of 'small enterprises' went up from 48.7 in April to 49.3 in May, before falling to 47.3 in June.

The index readings of both 'small enterprises' and 'medium enterprises' remained below 50 throughout the quarter, indicating that small and medium enterprises have been facing challenges in production and operations lately. (See exhibit 5)

**Large enterprises have fared better than small and medium enterprises, and this trend has been ongoing for several years. We expect it to continue, especially with the China–US trade war, since small and medium enterprises are more export-oriented.**

**Exhibit 5: PMIs of large enterprises, medium enterprises and small enterprises, April to June 2025**



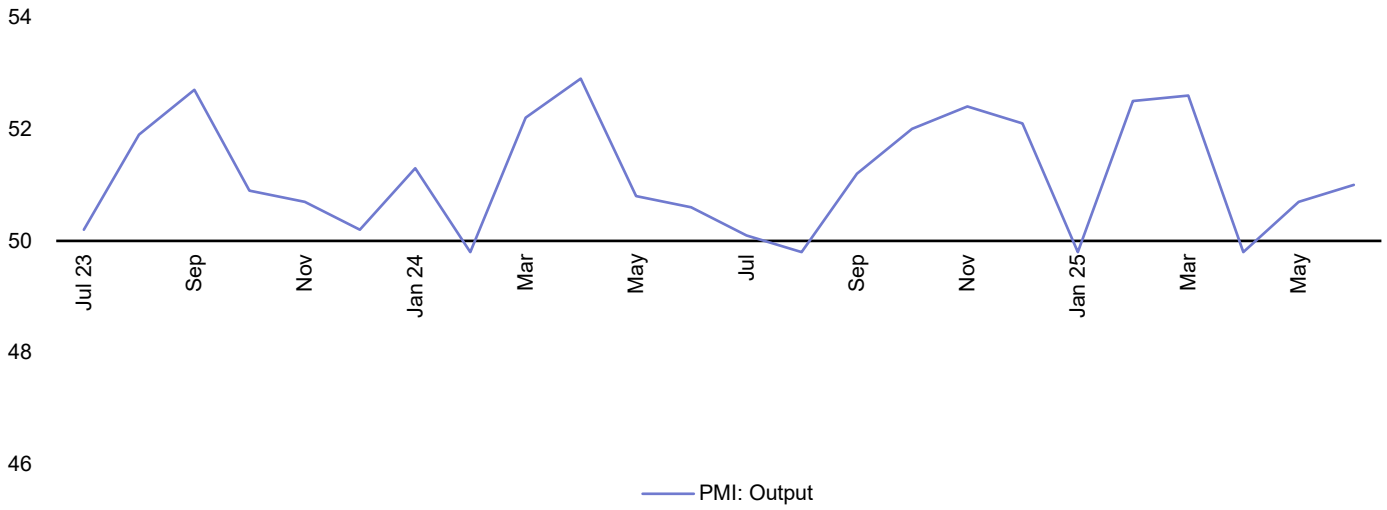

*Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics*

# 3. What the PMI tells us about manufacturing production

**Manufacturing output resumes expansion since May**

The output index climbed from 49.8 in April to 50.7 in May and further to 51.0 in June. The index readings have returned to the expansionary territory since May, indicating a recovery in manufacturing production lately. (See exhibit 6)

**Exhibit 6: Output index, July 2023 to June 2025**



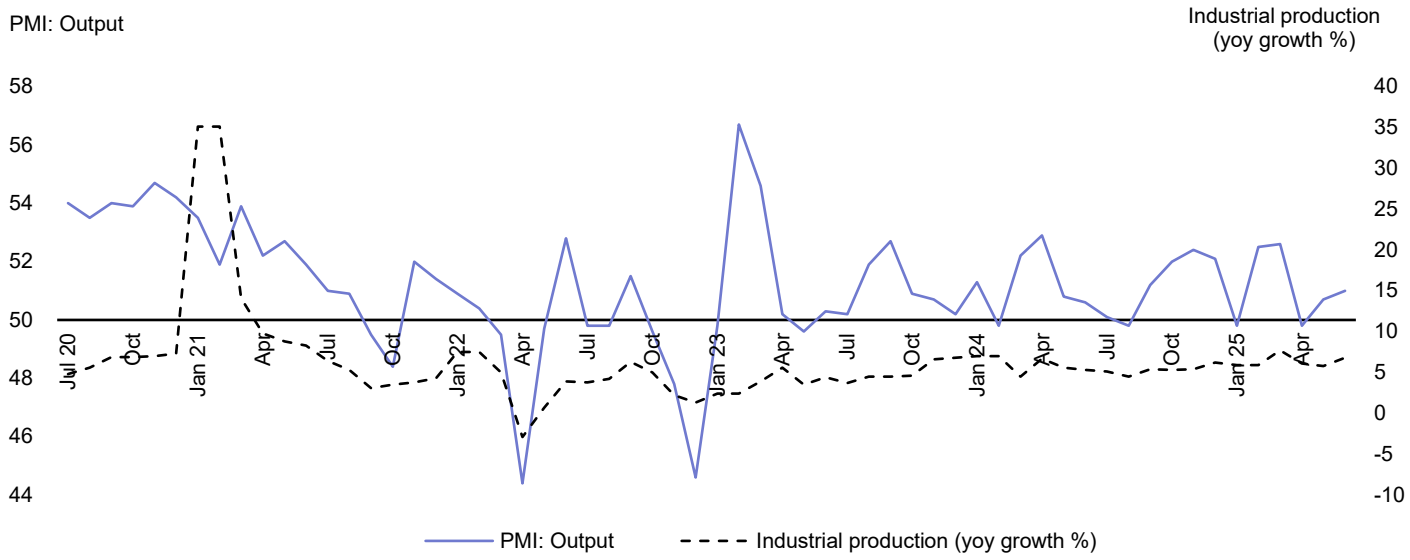

*Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics*

**Manufacturing production growth to slow down in 3Q25**

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). Over the past few months, China's manufacturing output has seen a temporary boost as exporters rushed to front-load shipments. However, this surge is expected to wane in the coming months as some future demand has been pulled forward. Uncertainty around US tariff policies will also weigh on China's exports and manufacturing. Besides, the Chinese government is focused on tackling overproduction and 'involution-style' unhealthy competition in certain industries. Overall, we expect China's VAIO growth to decelerate to 5.0% yoy in 3Q25. Other challenges facing Chinese manufacturers include a global economic slowdown due to Trump's tariffs, the government's strong push to reduce industrial carbon emissions, and fierce competition in the international market.

**We expect China's VAIO growth to decelerate to 5.0% yoy in 3Q25, as the rush by Chinese exporters to front-load shipments is likely to fade and uncertainty around US tariff policies will weigh on China's exports. Besides, the Chinese government is focused on tackling overproduction in certain industries.**

**Exhibit 7: Output index and industrial production growth, July 2020 to June 2025**




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

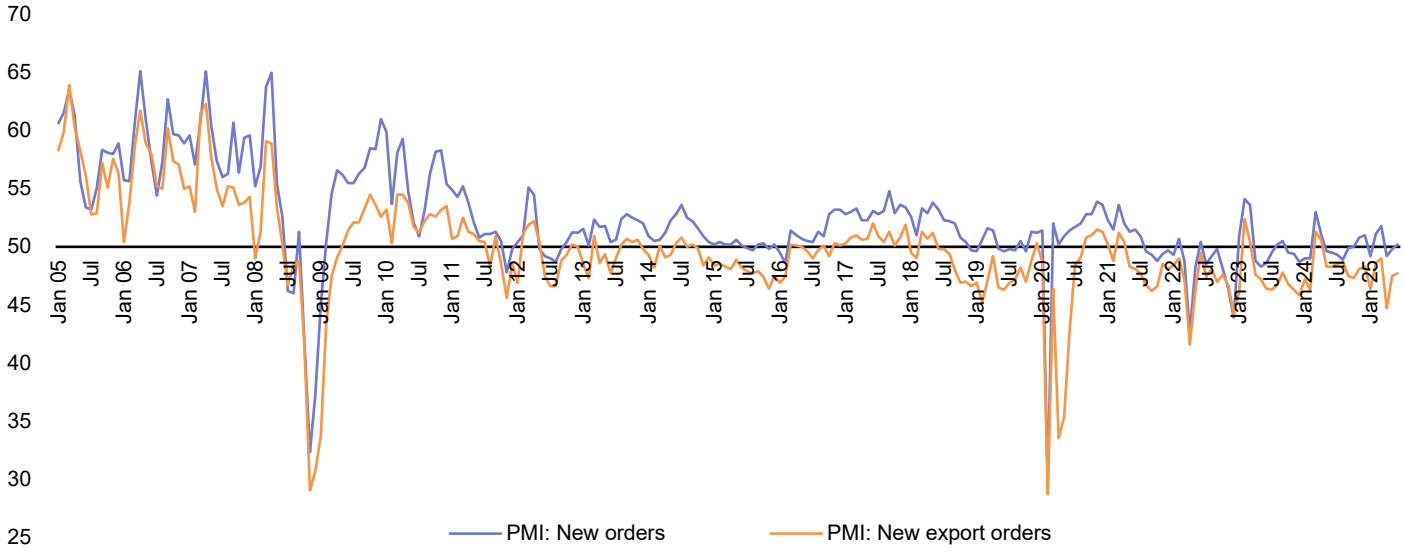
# 4. What the PMI tells us about overall market demand

**Overall market demand starts to stabilize**

The new orders index increased from 49.2 in April to 49.8 in May and 50.2 in June. The latest index reading returned to the expansionary zone in June, indicating that overall market demand started to stabilize.

Meanwhile, the new export orders index picked up from 44.7 in April to 47.5 in May and 47.7 in June, 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 June 2025**




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

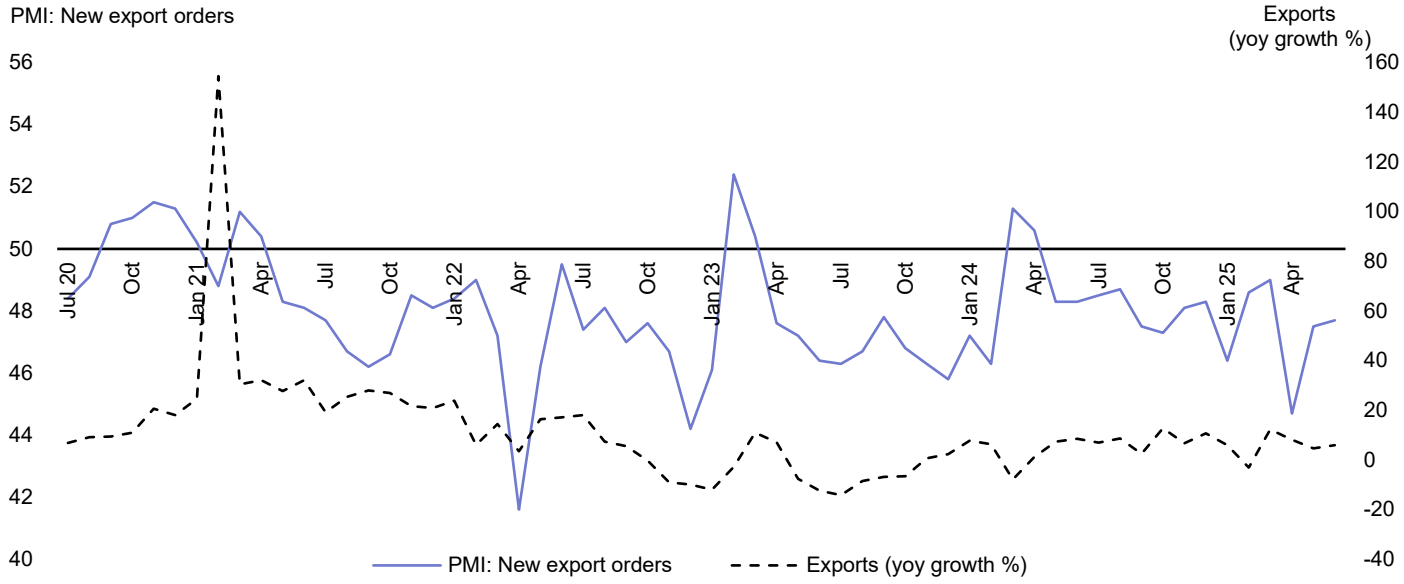
**China's exports expected to decline in 3Q25 amid the Trump trade war**

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 an improvement in external demand for China's exports. However, this uptick is unlikely to last much longer. First, as Chinese exporters have rushed front-load shipments over the past few months, some future demand has been pulled forward. Second, there is considerable uncertainty surrounding US tariff policy, especially with the 90-day pause in the China–US tariff war set to end on 10 August. Moreover, the global economy is likely to start feeling the delayed effects of Trump's tariff hikes soon, which will weigh on China's exports. Overall, we forecast a low single-digit year-on-year decline in China's exports in 3Q25.

**We forecast a low single-digit year-on-year decline in China's exports in 3Q25 amid the Trump trade war.**

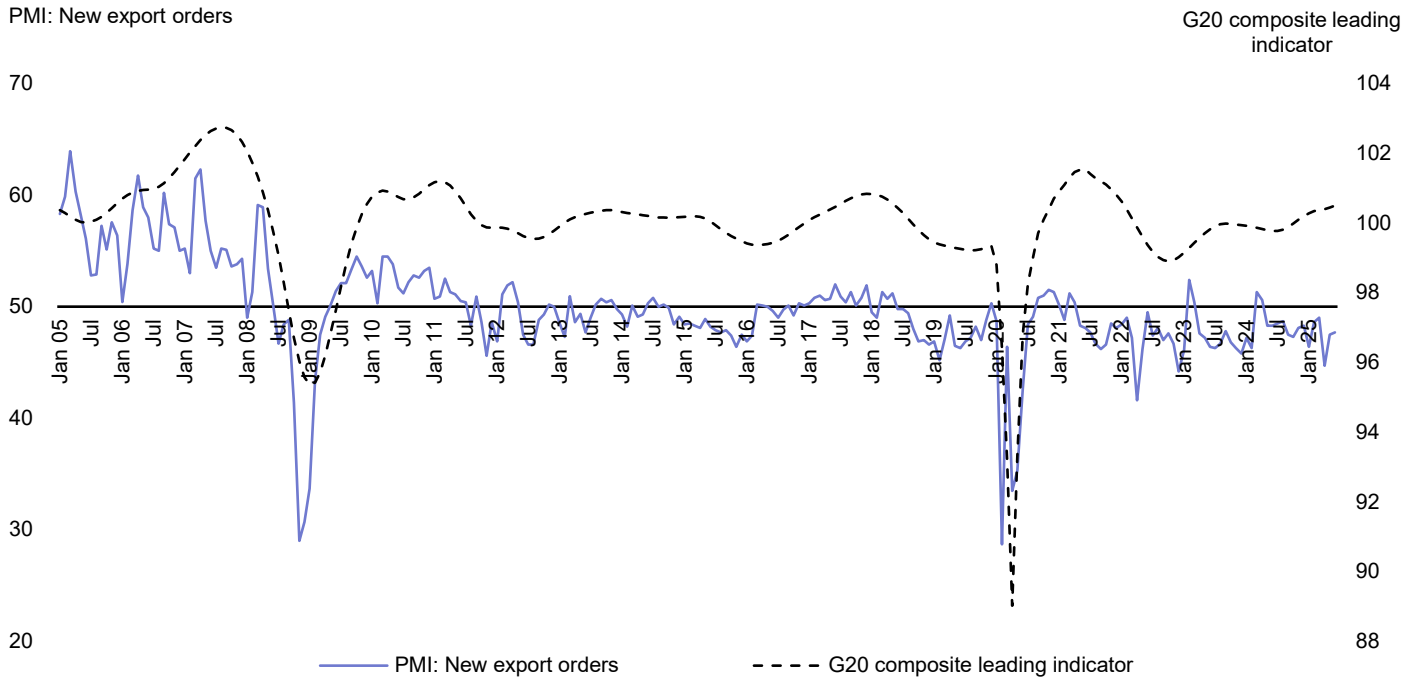
1 The G20 composite leading indicator, compiled by the Organization for Economic Cooperation and Development (OECD), is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity, and covers Australia, Brazil, Canada, China, France, Germany,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

## Exhibit 9: New export orders index and export growth, July 2020 to June 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 June 2025



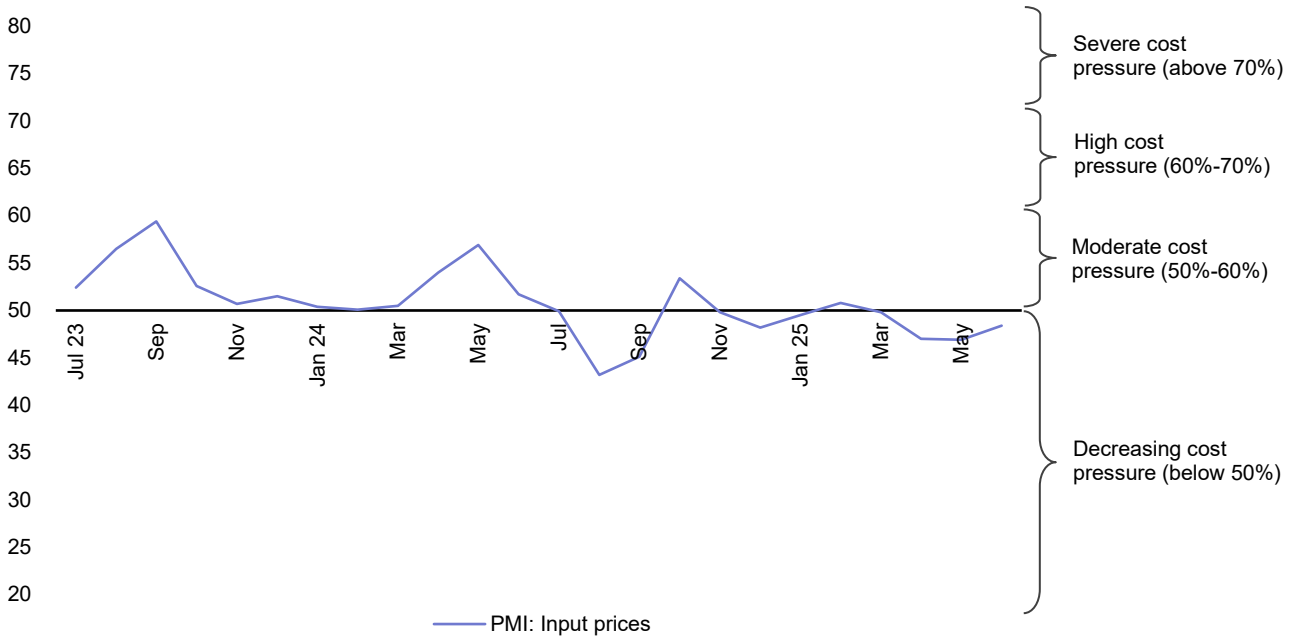

*Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Organization for Economic Cooperation and Development*

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

**Cost pressure on Chinese manufacturers eases amid falling upstream prices**

The input prices index edged down from 47.0 in April to 46.9 in May, before rebounding to 48.4 in June. The index readings have remained below the neutral level of 50 since March, indicating a persistent decline in production input prices lately. Manufacturers continued to experience a drop in the costs of major inputs.

**Exhibit 11: Input prices index, July 2023 to June 2025**

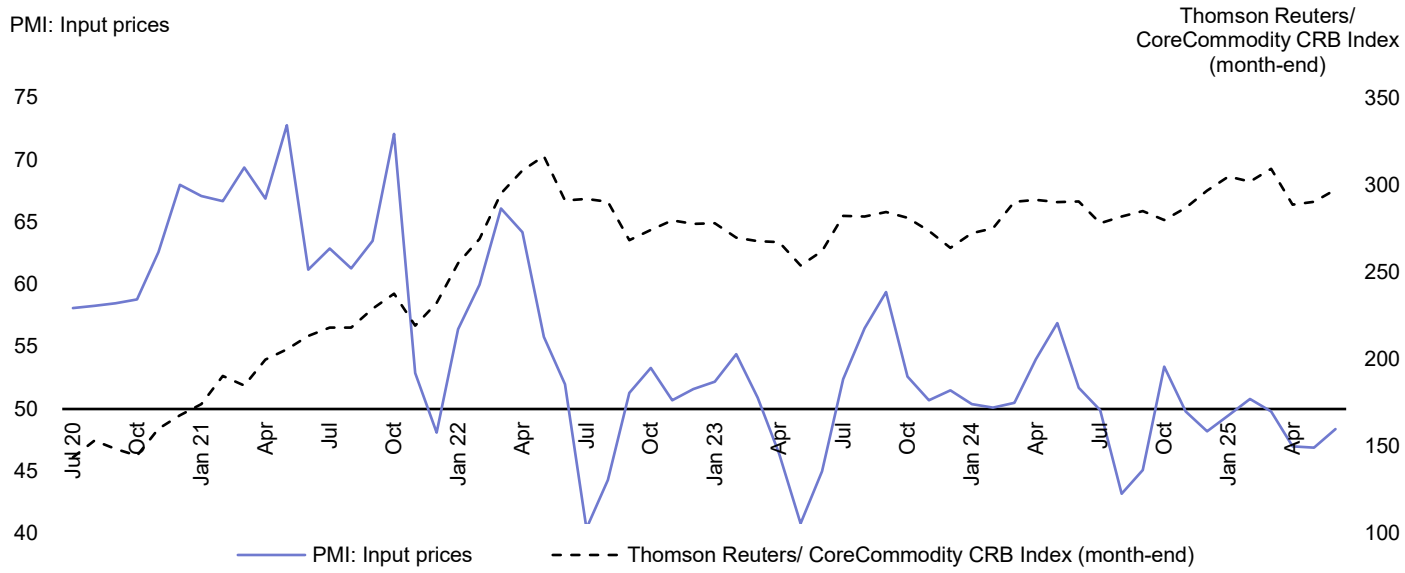



*Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics*

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, July 2020 to June 2025

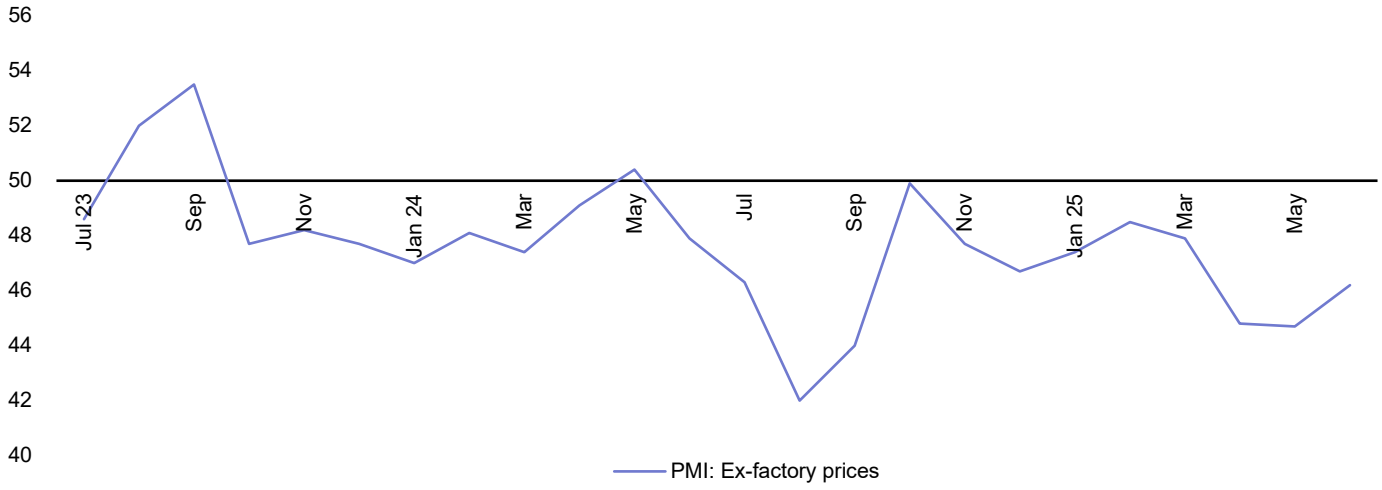



*Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Thomson Reuters*

**Manufacturers continue to lower ex-factory prices of their products**

The ex-factory prices index dropped from 44.8 in April to 44.7 in May, before picking up to 46.2 in June. The index readings have remained in the contractionary territory since June 2024, indicating that Chinese manufacturers have been continuously lowering the ex-factory prices of their finished products.[3]

### Exhibit 13: Ex-factory prices index, July 2023 to June 2025




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

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

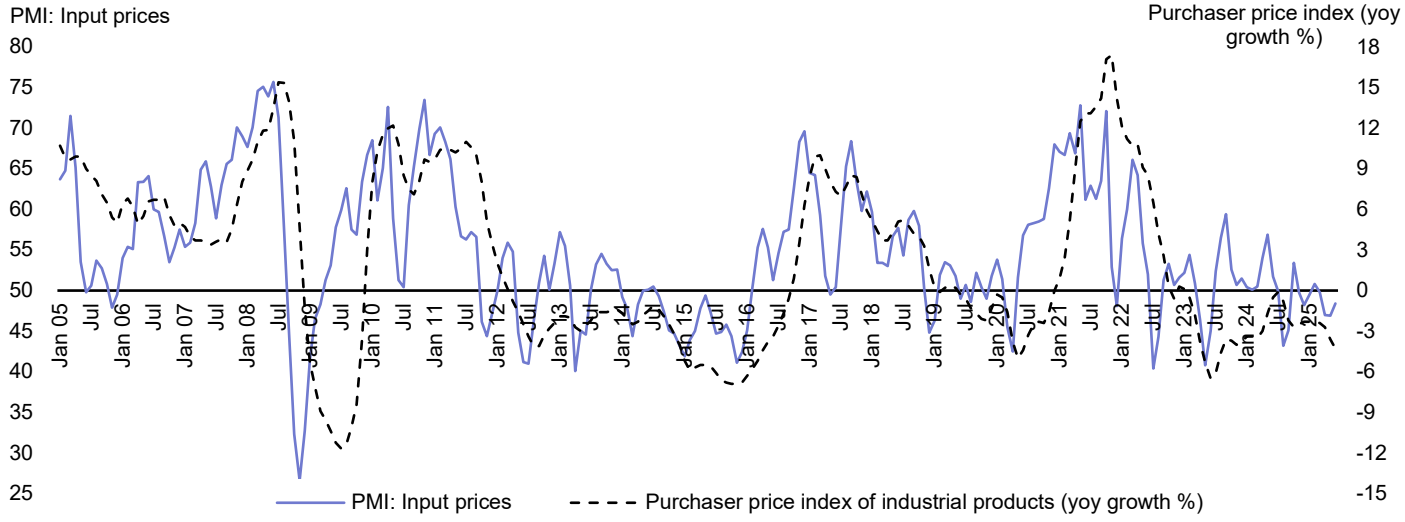
**Downward pressure on input prices and ex-factory prices to ease in 3Q25**

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 continue to be negative but slightly improve in 3Q25, as the Chinese government has made it a priority to address overproduction and unhealthy 'involution-style' competition in certain industries.

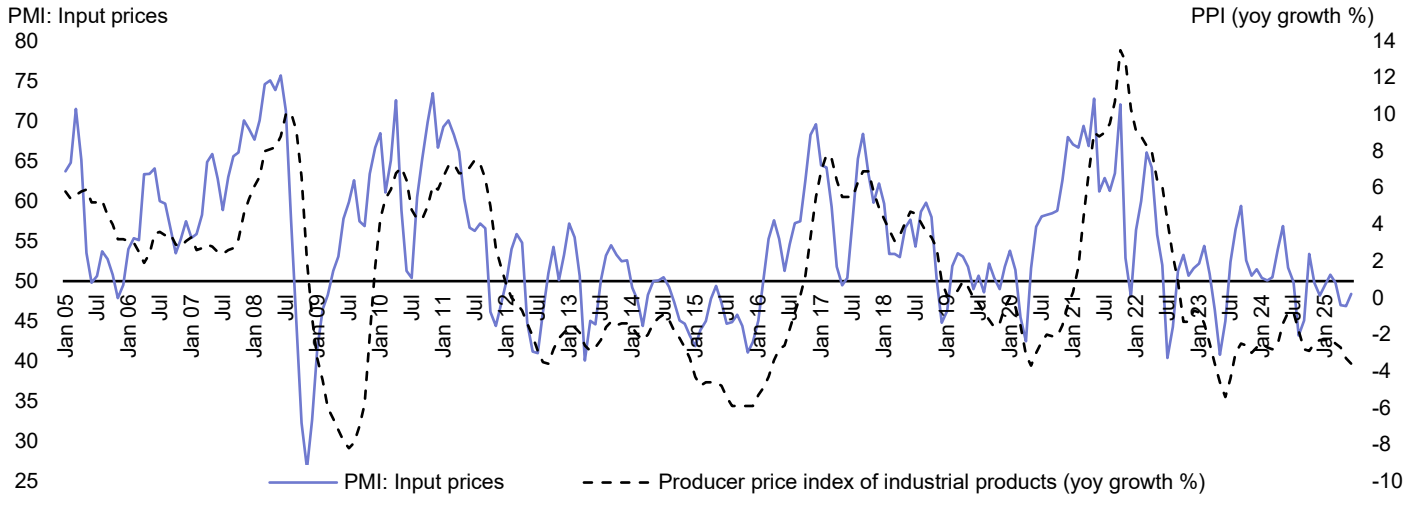
**We expect that the year-on-year growth rates for both the purchaser price index and the PPI will continue to be negative but slightly improve in 3Q25, as the government has prioritized addressing overproduction in certain industries.**

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




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

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




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

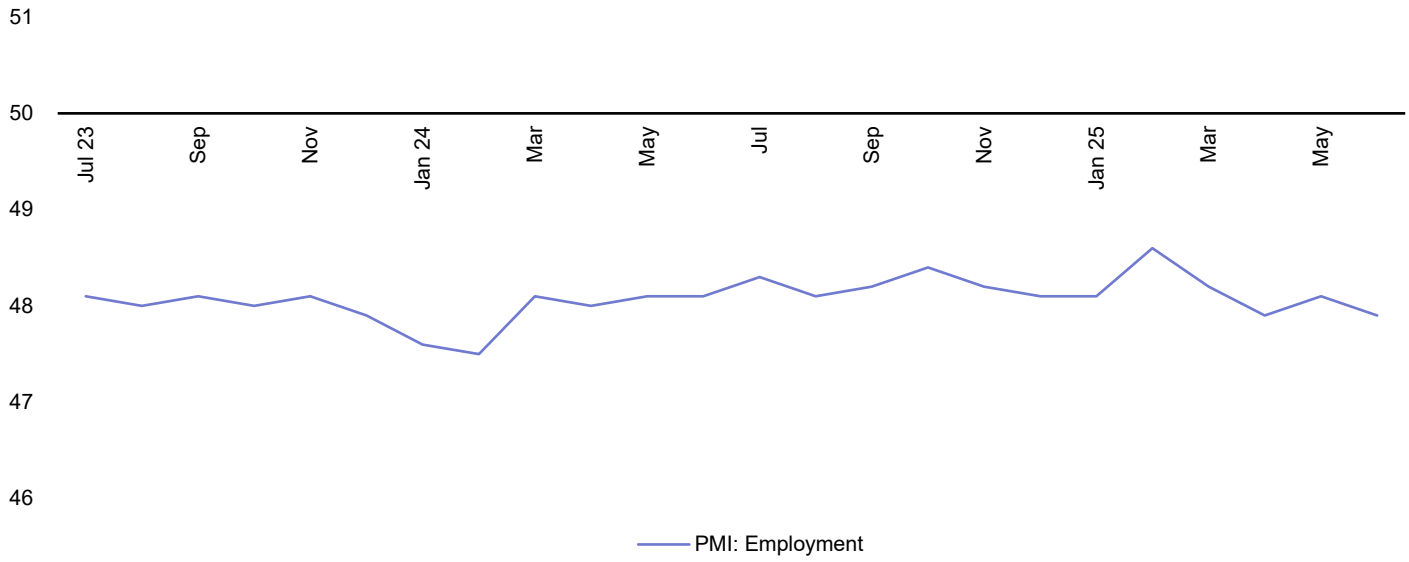
[4] The producer price index of industrial goods (PPI), compiled by China National Bureau of Statistics, measures the prices of industrial products when they are sold for the first time after production.

# 6. What the PMI tells us about manufacturing employment

**Employment in the manufacturing sector slightly decreases**

The employment index has stayed low, hovering around 48.0 in recent months. This suggests that employment in the manufacturing sector has slightly decreased lately. (See exhibit 16)

**Exhibit 16: Employment index, July 2023 to June 2025**

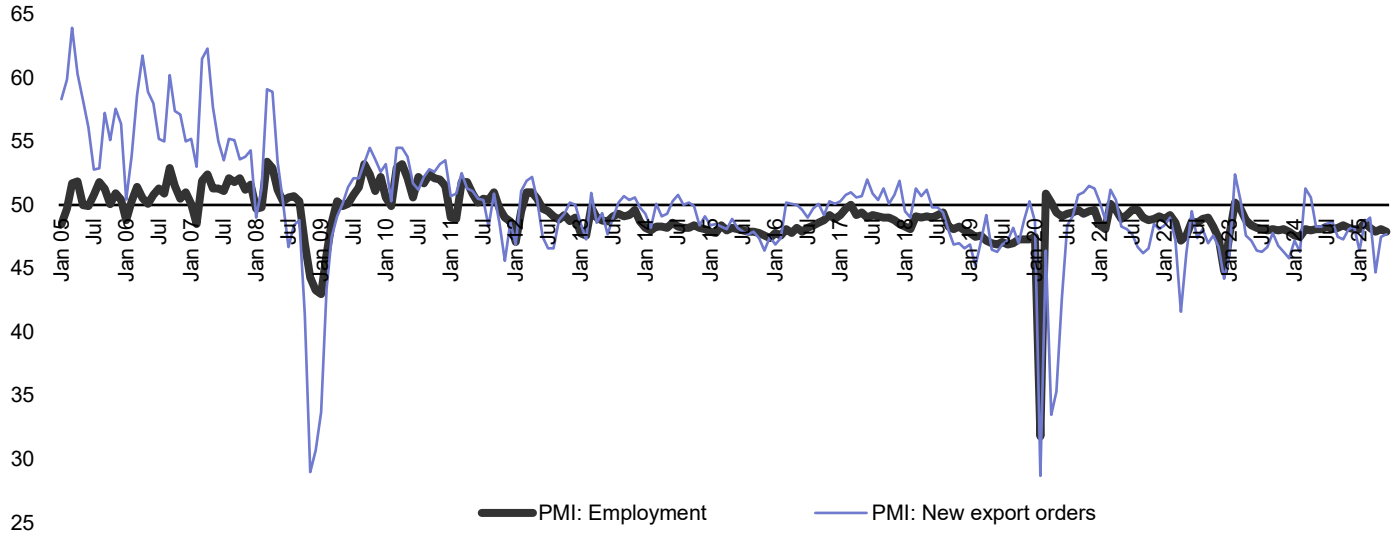



*Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics*

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. With a slowdown expected in exports and the overall Chinese economy, we believe that manufacturing employment will remain weak in 3Q25.

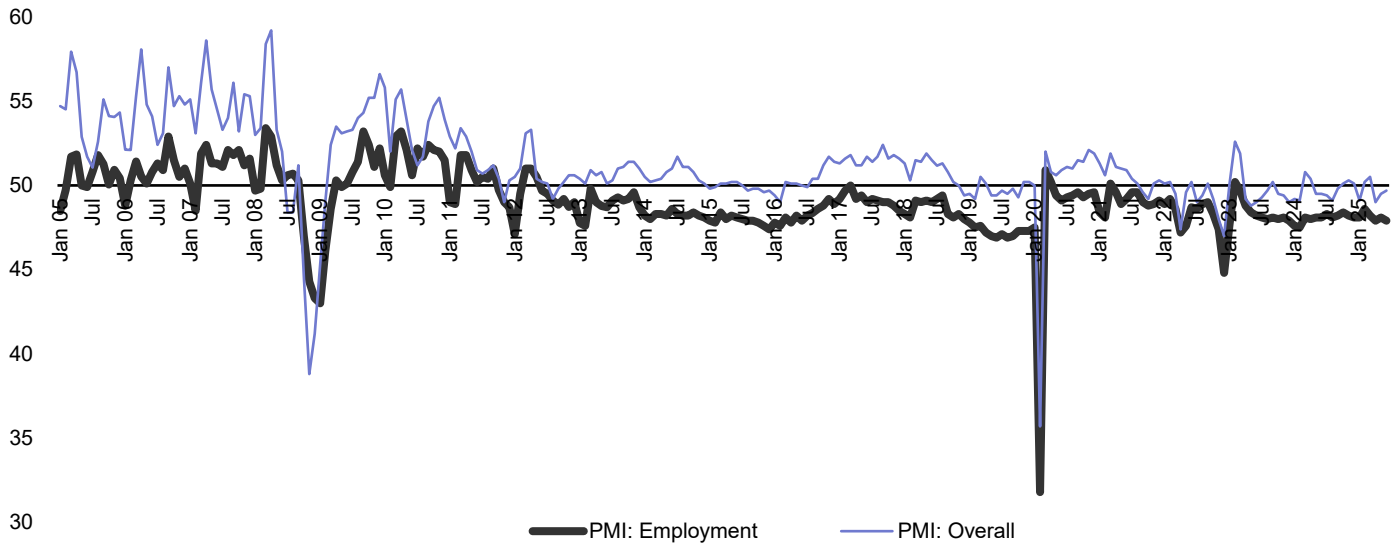
**With a slowdown expected in the export sector and the overall Chinese economy, we believe that manufacturing employment will remain weak in 3Q25.**

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



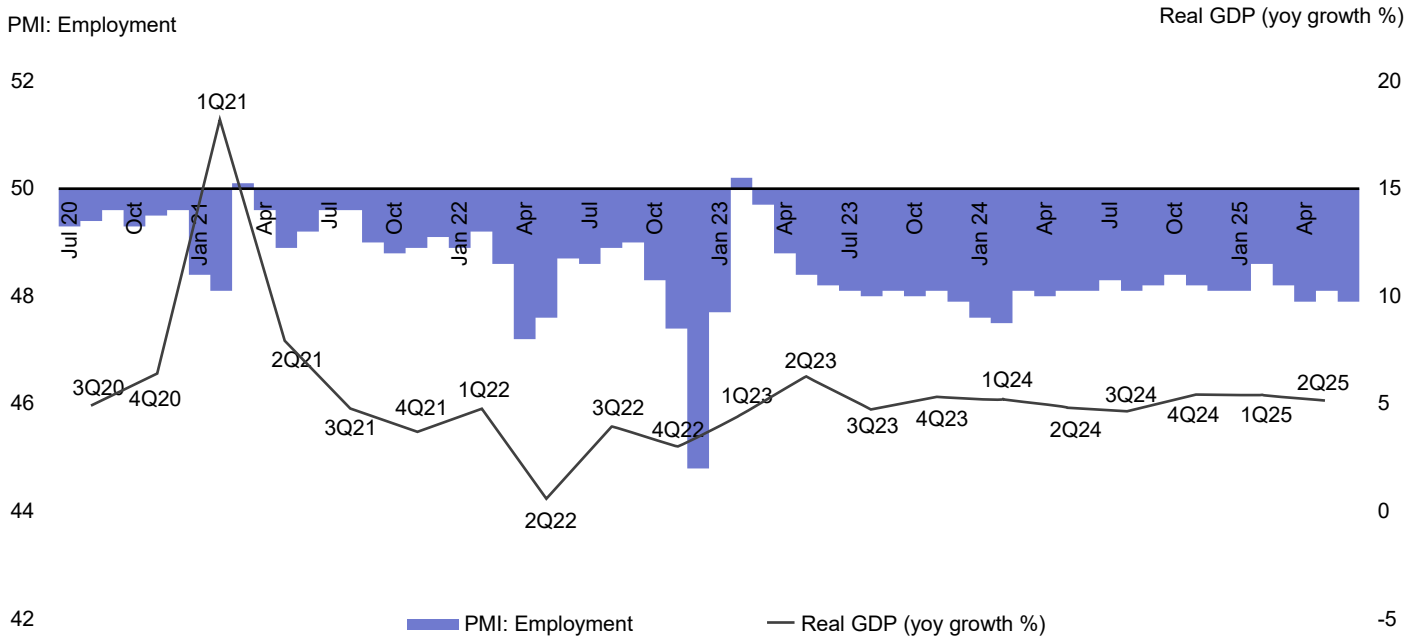

*Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics*

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




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

## Exhibit 19: Employment index and real GDP growth, July 2020 to June 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.