

## China's April manufacturing PMI falls back into contraction amid trade war

In our first official look at the impact of President Trump's reciprocal tariffs, China's manufacturing purchasing managers' index fell to a 16-month low in April as the impact of tariffs started hitting producers



# 49.0

 China's April manufacturing PMI

Lower than expected

### Manufacturing PMI fell back into contraction as tariffs surged

China's official April manufacturing PMI fell to 49.0 from 50.5, marking a 16-month low. The reading was below consensus forecasts of 49.7. Yet, the range of consensus forecasts was quite a bit wider than normal, given uncertainty over tariffs. Forecasts ranged between 47.5 and 50.5.

The April reading represents a noticeable slowdown, but it's far from a shock of the kind seen during the Covid-era shocks, where we saw the manufacturing PMI slump to as low as 35.7

during lockdowns.

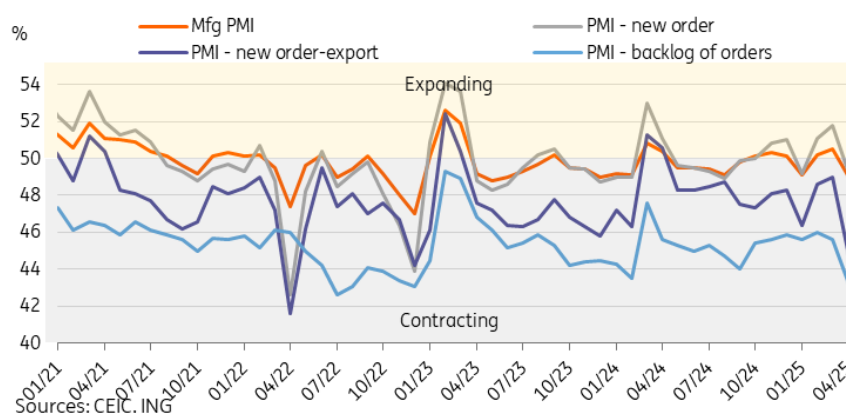
By category, it should come as no surprise that one of the biggest drops on the month was in new export orders, which fell to 44.7 from 49.0. This illustrates that tariff impacts are starting to register. Overall new orders subindex fell to 49.2, down from 51.8. The production subindex also fell into contraction at 49.8.

The employment subindex was in contraction territory at 47.9, only a little lower than 48.2 in March. There's not too much to glean from this data yet, which has been in contraction for much of the past three years. It's worth monitoring, though, as the key pain point for China in the current [test of endurance](#) between China and the US is the health of the job market. Policymakers have vowed to support exporters and employment in their effort to weather the impact.

The PMI data suggests that deflationary pressures could strengthen. The ex-factory price subindex fell to a seven-month low of 44.8. The raw materials purchase prices subindex declined to 47.0, a 22-month low. Also, the import subindex of 43.4 hit the lowest level since January 2023. If manufacturers see US demand drop off significantly as a result of tariffs, it could lead to further price competition.

A silver lining was a better-than-expected Caixin PMI read, which surprisingly remained in expansion at 50.4. Markets had been expecting this gauge to underperform. This is because the survey sample size traditionally has a larger proportion of exporters and private firms.

## New orders slumped noticeably after tariffs took effect



## Non-manufacturing PMI more insulated from tariff headwinds

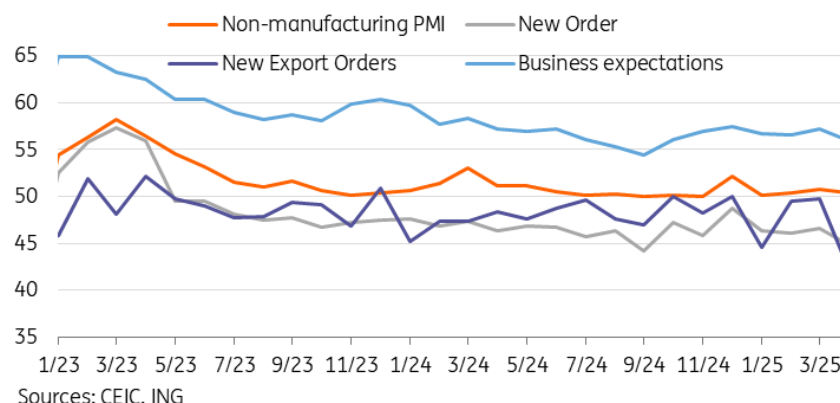
China's official non-manufacturing PMI saw only a modest drop to 50.4 from 50.8. While this was also a little lower than consensus forecasts for 50.6, it managed to avoid contraction for the 28th consecutive month.

The new export order component saw a very steep decline, down to 42.2 from 49.8. But China's services sector is still primarily focused on its domestic market, insulating it from tariff developments.

That said, the domestic side of the equation softened, with total new orders and business expectations falling to seven-month lows of 44.9 and 56.0, respectively.

The services sector is one of the featured areas to promote domestic demand this year. But more policy rollouts may be necessary before we see this translate into stronger activity. Consumer confidence still remains relatively downbeat.

## Non-manufacturing PMI held up relatively well in comparison



## China appears to be holding up well in early stages of the tariff test of endurance

Tariffs are a lose-lose proposition, and the PMI data is our first official look at how it's affecting China. Our take is that there's a clear negative shock taking place. But, all things considered, survey data suggests the shock may be less than what the more bearish market participants feared.

We expect that April's trade to show the biggest decline in terms of China's exports to the US. This is because importers have been in wait-and-see mode, hoping trade talks might lead to lower tariffs. The import frontloading in the first quarter of the year likely enables companies to do this for some time, with varying estimates on how long these inventories would last. However, once inventories are depleted, assuming there's no easy substitution product available, companies will face a choice between paying tariffs or discontinuing sales. Many extra costs are already starting to be passed on to US consumers. How this is communicated to the consumer is already sparking some contention.

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