

## 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.

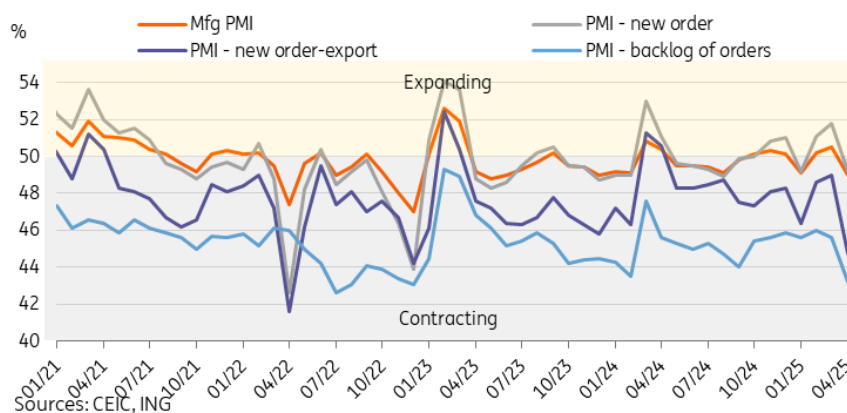
By category, it should come as no surprise that one of the biggest drops on the month was in new export orders, which fell to 44.7 from 49.0. This illustrates that tariff impacts are starting to register. Overall new orders subindex fell to 49.2, down from 51.8. The production subindex also fell into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

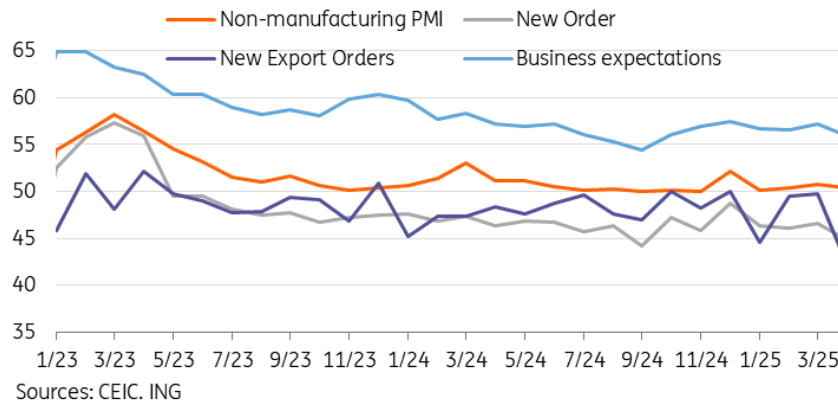
China's official non-manufacturing PMI saw only a modest drop to 50.4 from 50.8. While this was also a little lower than consensus forecasts for 50.6, it managed to avoid contraction for the 28th consecutive month.

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.

### Author

**Lynn Song**

Chief Economist, Greater China

[lynn.song@ing.com](mailto:lynn.song@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s).

as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).