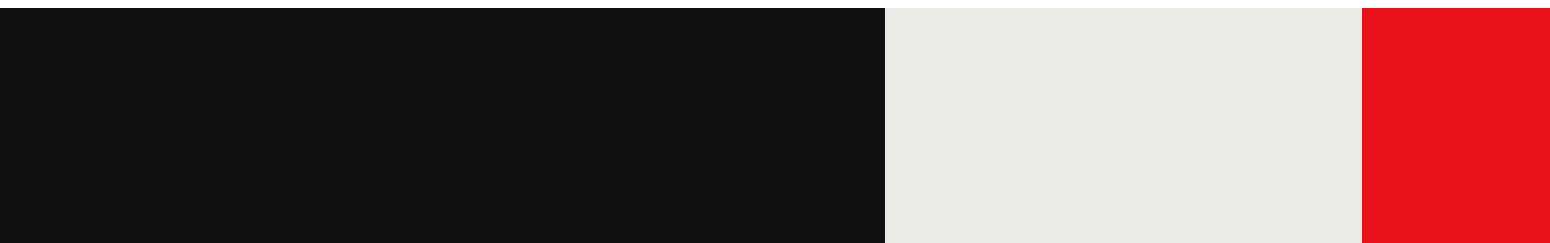



Economic worries overshadow China's Lunar New Year prospects

Article



The news: China's factory activity unexpectedly contracted in January ahead of the Lunar New Year holiday, underscoring the [fragility of the world's second-largest economy](#) as it struggles to emerge from a prolonged slump.

- The manufacturing purchasing managers index (PMI) fell to 49.1, below the threshold for expansion. That's the lowest level in five months and marks an end to a three-month expansion streak.
- New export orders dropped to 46.4 from 48.3 in December—potentially indicating weaker global demand as [tariff threats](#) force businesses to rethink their sourcing.

Zoom out: While the contraction in factory activity is a worrying sign for a country dependent on manufacturing, it's not out of the ordinary. January activity tends to dip as workers return home to celebrate the Lunar New Year.

Travel demand is particularly high this year, in part because Beijing extended the public holiday period by an extra day.

- An estimated 9 billion trips will be made across China between January 14 and February 22, according to government officials. That's an increase of nearly 7% YoY.
- Consumers are taking advantage of the longer holiday to travel further, both domestically and internationally. The number of cross-border journeys is expected to rise 10% YoY as tourists take advantage of visa-free travel and favorable exchange rates.

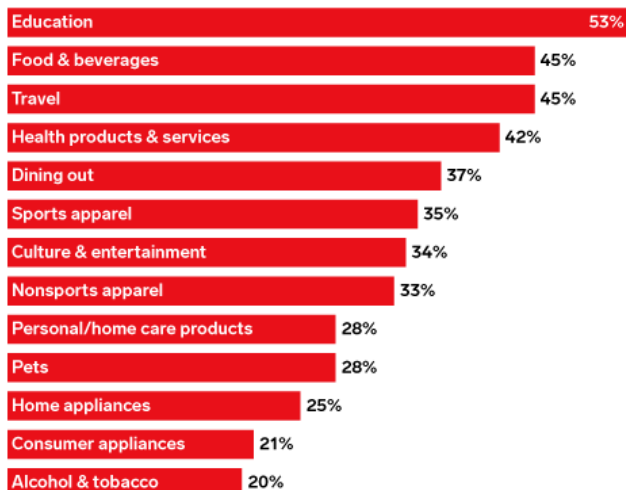
Our take: The decline in manufacturing may be just a seasonal blip, but [China faces serious challenges](#) as it tries to navigate the Trump administration while rekindling consumers' interest in spending.

Solid travel demand is a positive sign for Beijing, but it's unclear whether that momentum will continue past the holiday season—or whether lingering economic uncertainty will push households to tighten their grip on their wallets.

Consumers in China Will Prioritize Spending on Services Over Physical Goods

% of consumers in China who expect to increase spending in the next 12 months, by product category, July 2024

Q: In the next 12 months, how do you expect your household's spending in the following categories to change?



Note: n=11,930; only responses of "increase spending" shown
Source: McKinsey & Company, "Getting Granular: In Search of Pockets of Growth in China," July 9, 2024

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