

PMI Report on China Manufacturing

CFLP

中國物流與採購聯合會

China Federation of Logistics & Purchasing (CFLP) is the first 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. CFLP is also China's representative in the Asian-Pacific Logistics Federation (APLF) and the International Federation of Purchasing and Materials Management (IFPMM).

CLIC

中國物流信息中心

Administered by the State-owned Assets Supervision and Administration Commission, China Logistics Information Centre is also a sub-division of CFLP. CLIC collects logistics data and conducts researches on logistics enterprises, monitors and analyzes market situations of factors of production such as steel, oil, coal, aluminum and copper, promotes IT applications in the logistics and purchasing industry, and participates in the establishment and dissemination of the PMI.

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ESO

國家統計局企業調查總隊

Enterprise Survey Organization (ESO) is an organization under the National Bureau of Statistics (NBS) of China. It conducts regular statistical surveys on all kinds of enterprises in China, as well as on enterprise reforms and the development of market system. It also analyzes and researches on government economic decisions and corporate management related to enterprises and the market.

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PMI edged up to 55.7% in April

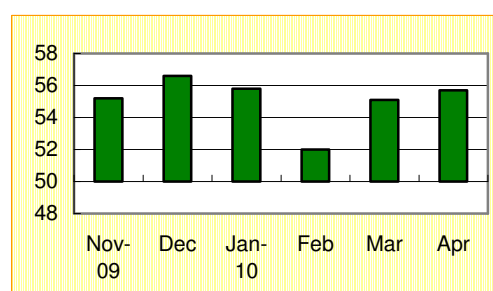
Output, New Orders, New Export Orders, Purchases of Inputs, Input Prices, Backlogs of Orders, Import, Stocks of Major Inputs, expanding.

Stocks of Finished Goods, contracting.

Suppliers' Delivery, faster.

CFLP China Manufacturing PMI, seasonally adjusted

09/10	PMI
Nov-09	55.2
Dec	56.6
Jan-10	55.8
Feb	52.0
Mar	55.1
Apr	55.7



China's manufacturing PMI edged up from 55.1% in March to 55.7% in April. The growth momentum of China's manufacturing sector has remained strong, supported by strengthening domestic and export demand. The headline PMI has already stayed above the expansionary 50-mark for fourteen consecutive months, showing that the economic recovery is on a firm footing. We believe the risk of the economic slowdown in 2H10 is low, although China's government has started to normalize its monetary policy since early 2010 and has taken tough measures to cool down the property sector since April.

Except stocks of finished goods index and imports index, all sub-indices were higher than or equal to their respective levels in the previous month. Output index remained high at 59.1% in April, indicating that industrial production will keep up the robust growth in the next few months. Boosted by strengthening demand, new orders index went up to 59.3% in April. New export orders index stood at 54.5% in April, suggesting that China's export growth is likely to continue in the near term.

Nevertheless, we are concerned about the impact of rising raw material prices on China's manufacturers. Input prices index increased sharply from 65.1% in March to 72.6% in April, the highest in twenty-two months. Some enterprises would find it difficult to pass through the higher cost to buyers, leading to reduced profit margins.

In April, 16 of the 20 industries surveyed recorded PMIs above 50%. Exceptions included *Oil refining & coking; Pharmaceuticals; Smelting of non-ferrous metals; and Tobacco*.

Output index rose from 58.4% in March to 59.1% in April. 17 of the 20 industries surveyed recorded expansion of output. Of which, 9 registered readings above 60%. Particularly noteworthy is that *Electrical machinery & equipment; and Metal products* registered readings above 70%.

New orders index was 59.3% in April, up from 58.1% in the previous month. 16 of the 20 industries surveyed registered expansion of new orders. Of which, 10 registered readings higher than 60%. The four industries with fewer new orders were: *Oil refining & coking; Pharmaceuticals; Smelting of non-ferrous metals; and Tobacco.*

New export orders index stayed unchanged at 54.5% in April, compared to the previous month. 15 of the 20 industries surveyed recorded expansion of new export orders. Of which, 2 registered index readings above 60%: *Metal products; and Wood processing & furniture.*

Backlogs of orders index went up to 53.4% in April, compared to 52.0% in the previous month. 12 of the 20 industries surveyed recorded expansion of backlogs of orders.

Stocks of finished goods index came in at 46.2% in April, down from 48.3% in March. Compared to the previous month, 13 of the 20 industries surveyed recorded lower stock level. Of which, *Chemicals; Smelting of ferrous metals; and Textiles* were the industries with index readings below 40%.

Purchases of inputs index gained 2.0 ppt from the previous month to reach 60.1% in April. 17 of the 20 industries surveyed recorded more purchasing activities. Exceptions included *Beverages; Oil refining & coking; and Pharmaceuticals.*

Imports index declined to 53.1% in April, compared to 53.7% in March. 13 of the 20 industries surveyed recorded expansion of imports. 5 industries recorded readings above 60%: *Electrical machinery & equipment; General machinery; Metal products; Non-metal minerals; and Papermaking, printing, stationery & sporting goods.*

Input prices index increased sharply to 72.6% in April, compared to 65.1% in March. All industries reported rising input prices. 16 of the 20 industries registered readings above 60%. *Electrical machinery & equipment; Metal products; Oil refining & coking; Smelting of ferrous metals; and Textiles* registered indices above 80%.

Stocks of major inputs index improved from 50.6% in March to 51.5% in April. Of the 20 industries surveyed, 10 recorded expansion. *Metal products* was the only industry with index reading above 60%.

Employment index was 53.2% in April, up from 52.9% in the previous month. 11 of the 20 industries surveyed reported increases in employment.

Suppliers' delivery time index edged up 0.6 ppt from the previous month to 51.1% in April. 13 of the 20 industries reported faster suppliers' delivery. In general, a reading above 50% implies faster delivery and a cooling-down economy; below 50%, slower delivery time and a booming economy.

China Manufacturing at a Glance — April 2010

Index	S. Adj Index	Index Compared with the Previous Month	Direction
PMI	55.7	Higher	Expanding
Output	59.1	Higher	Expanding
New Orders	59.3	Higher	Expanding
New Export Orders	54.5	Unchanged	Expanding
Backlogs of Orders	53.4	Higher	Expanding
Stocks of Finished Goods	46.2	Lower	Contracting
Purchases of Inputs	60.1	Higher	Expanding
Imports	53.1	Lower	Expanding
Input Prices	72.6	Higher	Expanding
Stocks of Major Inputs	51.5	Higher	Expanding
Employment	53.2	Higher	Expanding
Suppliers' Delivery Time	51.1	Higher	Quickening

About the CFLP China Manufacturing PMI:

The CFLP China Manufacturing Purchasing Managers' Index (PMI) provides an early indication each month of economic activities in the Chinese manufacturing sector. It is compiled by China Federation of Logistics & Purchasing (CFLP) and China Logistics Information Centre (CLIC), based on data collected by the National Bureau of Statistics (NBS). Li & Fung Research Centre is responsible for drafting and disseminating the English PMI report.

Every month questionnaires are sent to over 700 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.

727 manufacturing enterprises in 20 industries from Eastern, 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.

Survey responses reflect the change of each indicator, if any, in the current month compared to the previous month. There are 11 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, Employment and Suppliers' Delivery Times. For each of the indicators, this report shows the percentage of enterprises reporting each response, the difference between the percentage of responses in the positive economic direction and the negative economic direction, and the diffusion index. The diffusion index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates an overall positive change in that variable; below 50%, an overall negative change.

The PMI is a composite index based on the seasonally adjusted diffusion indices for five of the indicators with varying weights: New Orders—30%; Output—25%; Employment—20%; Suppliers' Delivery Times—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 22 countries and regions conducting the PMI survey and compilation, based on an internationally standardized methodology.

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