

# 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 (IFPM).

## 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.

### Li & Fung Research Centre

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## PMI rose to 55.1% in January

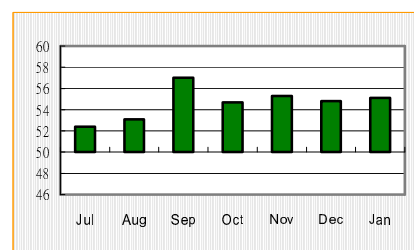
**Output, New Orders, New Export Orders, Backlogs of Orders, Purchases of Inputs, Imports, Input Prices, Stocks of Major Inputs, expanding.**

**Stocks of Finished Goods contracting.**

**Suppliers' Delivery faster.**

### CFLP China Manufacturing PMI

06/07	Index	S. Adj
Jul	52.7	52.4
Aug	53.8	53.1
Sep	58.7	57.0
Oct	54.5	54.7
Nov	55.8	55.3
Dec	55.3	54.8
Jan	55.2	55.1



The PMI in January rose marginally to 55.1%, from 54.8% in December. Output and new orders indices remained at high level, suggesting a still buoyant manufacturing sector. Input prices and stock of finished goods indices reported lower readings compared to the previous month. The former was in line with the lower level of oil prices. The PMI has stayed above 50% for the 25<sup>th</sup> consecutive month since its launch in January 2005.

Output index re-entered the above-60% territory in January. It rose from 59.2% in December to 60.3% in January. 18 of the 20 industries surveyed recorded higher output. In particular, *Tobacco* and *Beverage* registered readings of over 80%.

New orders index and new export orders index both rebounded in January. New orders index rose to 59.6% in January, from 58.9% in December; new export orders index rose by 0.2 ppt to 55.2% in January. There were 16 industries and 15 industries surveyed with increased new orders and new export orders respectively. Both indices indicated that strong domestic and foreign demand remained. *Textile* and *Smelting of non-ferrous metals* were the only industries with reductions in both new orders and new export orders.

Accompanying the increase in new orders and export orders, backlogs of orders index rose to 52.0% in January. 14 of the 20 industries surveyed recorded higher backlogs of orders compared to the previous month.

Stocks of finished goods index dropped by 1.0 ppt to 45.5% in January. Inventories have declined for 25 consecutive months. 13 of the 20 industries surveyed recorded lower level of inventories. Of which, *Wood processing & furniture* recorded reading of below 10%.

With increasing output, new orders and export orders, manufacturers increased their purchasing activities in January. Purchases of inputs index rose by 2.8 ppts to 59.7%. *Textile, Oil refining & coking* and *Communication, IT & electronics equipment* were the only industries with negative growth in purchases.

Imports index rose to 55.0% in January. 17 of the 20 industries surveyed recorded higher imports. In particular, *Beverage, Metal products, Non-metal minerals, Wood processing & furniture* and *Electrical machinery & equipment* recorded readings of above 60%.

Input prices index dropped by 2.1 ppts to 55.4% in January, after rising for two consecutive months. The drop was most likely due to decreasing oil prices, as oil prices have dropped from the previous high level of above US\$ 60 per barrel to around US\$ 55 per barrel in January. As a result, oil-dependent industry such as *Oil refining & coking* recorded lower input prices. Note that the input prices for machinery and equipment, in general, have decreased: *General machinery, Transport equipment, Electrical machinery & equipment* and *Communication, IT & electronics equipment* all recorded readings of below 50%. Input prices index has stayed above 50% since December 2005.

Stocks of major inputs index rose further to 50.6% in January. This is only the third time since the launch of PMI in January 2005 that stocks of major inputs index has recorded readings beyond 50%. 11 industries had higher inputs inventory compared to the previous month. The index has increased for the 3<sup>rd</sup> consecutive month.

Employment index dropped by 0.9 ppt to 50.1% in January. Due to socio-economic and political reasons, employment index has not been moving to the extent the PMI or economic cycles suggest. 9 of the 20 industries surveyed reported growth in employment.

Suppliers' delivery time index rose slightly to 52.6% in January. It has never dipped below the 50% mark since January 2005. Only 2 industries reported slower suppliers' delivery. In general, a reading above 50% implies faster delivery time and a cooling-down economy; below, slower delivery time and a booming economy.

### China Manufacturing at a Glance — January 2007

Index	S. Adj Index	Index Compared with the Previous Month	Direction
PMI	55.1	Higher	Expanding
Output	60.3	Higher	Expanding
New Orders	59.6	Higher	Expanding
New Export Orders	55.2	Higher	Expanding
Backlogs of Orders	52.0	Higher	Expanding
Stocks of Finished Goods	45.5	Lower	Contracting
Purchases of Inputs	59.7	Higher	Expanding
Imports	55.0	Higher	Expanding
Input Prices	55.4	Lower	Expanding
Stocks of Major Inputs	50.6	Higher	Expanding
Employment	50.1	Lower	Expanding
Suppliers' Delivery Time	52.6	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.

725 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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