

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 moderated to 54.8% in December

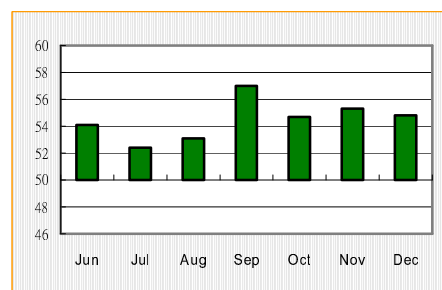
Output, New Orders, New Export Orders, Backlogs of Orders, Purchases of Inputs, Imports, Input Prices, expanding.

Stocks of Finished Goods, Stocks of Major Inputs contracting.

Suppliers' Delivery faster.

CFLP China Manufacturing PMI

2006	Index	S. Adj Index
Jun	54.6	54.1
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



The PMI in December moderated to 54.8%, with output, new orders, new export orders and purchases of inputs recorded lower readings than the previous month. The moderation comes in line with other economic data that indicate the Chinese economy is slowing down. The PMI has stayed above 50% for the 24th consecutive month since its launch in January 2005. Note that input prices continued its upward trend for the 2nd consecutive month.

Output index dropped to 59.2% in December, after reaching 60% in the previous month. 17 of the 20 industries surveyed recorded higher output. In particular, *Wood Processing & Furniture* and *Garment, footwear & related products* registered reading of over 70%.

New orders and new export orders index both dropped for the 3rd consecutive month. New orders dipped to 58.9% in December, from a high of 62.7% in September; new export orders dropped to 55.0% in December, from 60.2% in September. Despite the drop, both indexes are still well above 50%, which indicates strong domestic and foreign demand remained. *Non-metal minerals* and *Smelting of ferrous metals* were the only industries with decreased new orders. *There are 14* industries surveyed with decreased new export orders.

Despite the moderation of new orders and export orders, backlogs of orders index rose to 50.3% in December. 11 of the 20 industries surveyed recorded higher backlogs of orders compared to the previous month.

Stocks of finished goods index rose further to 46.5% in December, from 44.0% in October. Nevertheless, inventories have declined for 24 consecutive months. 13 of the 20 industries surveyed recorded lower level of inventories. Of which, *Wood processing & furniture* recorded reading of below 20%.

With moderating output, new orders and export orders, manufacturers decreased their purchasing activities in December. Purchases of inputs index dipped 3.0 ppts to 56.9%. Tobacco and *Communication, IT & electronics equipment* were the only industries with negative growth in purchases.

Imports index rose slightly to 52.4% in December. 12 of the 20 industries surveyed recorded higher imports. In particular, Food, *Garment, footwear & related products* and Wood processing & furniture recorded readings of above 60%.

Input prices index rebounded further in December. After dropping for 4 consecutive months to 53.5% in October, input prices index rebounded in November and rose further to 57.5% in December. The rise is most likely the result of high oil price. Oil price has stayed above US\$ 60 per barrel in recent months. Input prices index has stayed above 50% since December last year. Only 3 industries recorded readings of below 50%.

Stocks of major inputs index rose further to 49.5% in December, edging closer to the 50% mark. It has only recorded above 50% reading in 2 of the 24 months since the launch of PMI in January 2005. 14 industries had lower inputs inventory compared to the previous month.

Employment index climbed to 51.0% in December. Due to socio-economic and political reasons, employment index has not been moving to the extent the PMI or economic cycles suggest. 16 of the 20 industries surveyed reported growth in employment.

Suppliers' delivery time index rose slightly to 52.0% in December. 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 — December 2006

Index	S. Adj Index	Index Compared with the Previous Month	Direction
PMI	54.8	Lower	Expanding
Output	59.2	Lower	Expanding
New Orders	58.9	Lower	Expanding
New Export Orders	55.0	Lower	Expanding
Backlogs of Orders	50.3	Higher	Expanding
Stocks of Finished Goods	46.5	Higher	Contracting
Purchases of Inputs	56.9	Lower	Expanding
Imports	52.4	Higher	Expanding
Input Prices	57.5	Higher	Expanding
Stocks of Major Inputs	49.5	Higher	Contracting
Employment	51.0	Higher	Expanding
Suppliers' Delivery Time	52.0	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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