

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 rose to 57.0% in September

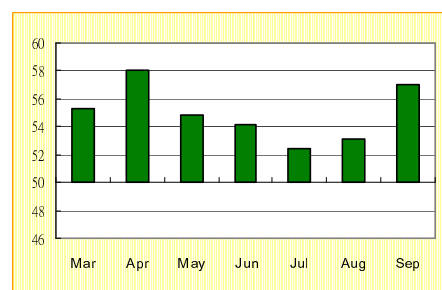
Output, New Orders, New Export Orders, Backlogs of Orders, Purchases of Inputs, Imports, Input Prices, Stocks of Major Inputs expanding.

Stocks of Finished Goods, contracting.

Suppliers' Delivery faster.

CFLP China Manufacturing PMI

2006	Index	S. Adj Index
Mar	61.7	55.3
Apr	58.2	58.1
May	54.7	54.8
Jun	54.6	54.1
Jul	52.7	52.4
Aug	53.8	53.1
Sep	58.7	57.0



The September PMI rose to 57.0%, with index of output, new orders, new export orders, purchases of inputs, imports and stocks of major inputs increased by more than 5 pts. Input prices index was the only index with lower reading compared to the previous month, mostly due to falling oil and raw material prices. Nevertheless, high level of input prices, liquidity constraint and transportation bottleneck remained major concerns for manufacturers.

With rising orders, output index rose to 62.0%, from 56.0% in August. *Oil refining & coking* was the only industry with lower output.

Both new orders and new export orders rose to above 60%, indicating strong domestic and foreign demand. New orders index rose to 62.7%, from 57.3% in August. *Oil refining & coking* and *Chemical fiber, rubber & plastics* were the only industries surveyed with negative growth in new orders.

After dropping for four consecutive months, new export orders index rebounded strongly to 60.2% in September, from 55.0% in August. 17 of the 20 industries surveyed registered readings of above 50% in new export orders, of which, indices of *Timber processing/ furniture manufacturing* and *Communication, IT & electronics equipment* registered readings of above 70%.

Backlogs of orders index rose to 53.2% in September, as new orders and new export orders picked up. 14 of the 20 industries surveyed recorded higher backlogs of orders compared to the previous month.

Stocks of finished goods index increased marginally to 44.7%, from 44.5% in August. Inventories have declined for 21 consecutive months. 16 industries recorded lower levels of inventories. In particular, *Timber processing/ furniture manufacturing* recorded readings of below 30%.

Purchases of inputs index rose by 6.8 pts to 61.7% in September, the highest reading since March 2005, as rising output and orders prompted manufacturers to increase their purchases. *Metal products* was the only industry with negative growth in purchases.

After dropping to below 50% for the first time since January 2006 in August, imports index rebounded strongly to 54.8% in September. 13 of the 20 industries surveyed recorded higher imports.

With oil and raw material prices dropped over the last month, input prices index descended to 56.7% in September, after staying at above or near the 60% mark for five consecutive months. *Oil refining & coking, Smelting of non-ferrous metals* and *Specialized machinery* were the only industries recorded lower input prices.

Stocks of major inputs index rose to above 50% for the first time since January 2005. It increased by 5 pts to 50.1% in September. Manufacturers reported that rising demand and orders were their main reasons to increase input inventories. 11 industries have recorded readings of below 50%.

Employment index increased to 52.9% in September, the highest reading recorded since December 2005, as manufacturers expanded their workforce to cope with rising orders. 17 of the 20 industries surveyed reported growth in employment.

Suppliers' delivery time index rose to 52.6%, from 51.8% in August. It has never dipped below the 50% mark since January 2005. 17 industries reported faster 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 — September 2006

Index	S. Adj Index	Index Compared with the Previous Month	Direction
PMI	57.0	Higher	Expanding
Output	62.0	Higher	Expanding
New Orders	62.7	Higher	Expanding
New Export Orders	60.2	Higher	Expanding
Backlogs of Orders	53.2	Higher	Expanding
Stocks of Finished Goods	44.7	Higher	Contracting
Purchases of Inputs	61.7	Higher	Expanding
Imports	54.8	Higher	Expanding
Input Prices	56.7	Lower	Expanding
Stocks of Major Inputs	50.1	Higher	Expanding
Employment	52.9	Higher	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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