

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 dropped marginally to 54.1% in June

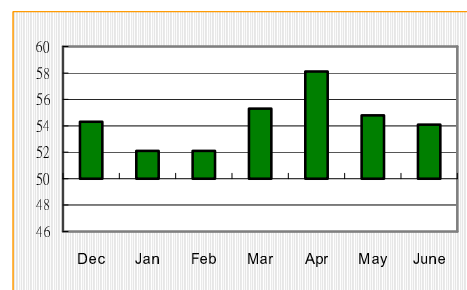
Output, New Orders, New Export Orders, Backlogs of Orders, Purchases of Inputs, Imports, Input Prices expanding.

Stocks of Finished Goods, Stocks of Major Inputs contracting.

Suppliers' Delivery faster.

CFLP China Manufacturing PMI

05/06	Index	S. Adj Index
Dec	55.1	54.3
Jan	51.3	52.1
Feb	48.3	52.1
Mar	61.7	55.3
Apr	58.2	58.1
May	54.7	54.8
June	54.6	54.1



The PMI stayed above 50% for the 18th consecutive month since the launch of PMI in January 2006. It dropped marginally to 54.1% in June, from 54.8% in May. Despite the drop, output, new orders and new export orders remained at a high level, suggesting a still buoyant manufacturing sector. Input price index remained at a high level, which is a major concern for manufacturers.

Output index remained at 58.7% in June. Except *Tobacco, Oil refining & coking* and *Transport equipment* industry, all industries registered readings of above 50%. In particular, index of *Electrical machinery & equipment* recorded reading of above 70%.

Although both new orders and new export orders index have dropped from the previous month, they were still well above 50%, indicating strong domestic and foreign demand for Chinese manufactures. New orders index continued to recede from its all-time high in April to 57.3% in June. 17 of the 20 industries surveyed recorded growth in orders.

New export orders index moderated to 58.0%, from 58.9% in May. 6 of the 20 industries surveyed registered readings of below 50% in new export orders. In particular, index of *Beverage* slipped to below 40%.

Backlogs of orders index stayed above the no change mark of 50%. It dropped slightly to 50.6%, from 50.9% in May. 15 of the 20 industries surveyed recorded growth in backlogs of orders.

Stocks of finished goods index rebounded from its record low in May to 46.8% in June, but were still below the 50% mark—Inventories have declined for 18 consecutive months. 12 industries recorded lower levels of inventories.

Purchases of inputs index dropped more than 3 ppts to 53.9% in June. The government's tightening measures and high raw material prices, as well as a transportation bottleneck caused by the raining season in southern China have limited manufacturers' purchasing activities. 11 of the 20 industries reported growth in purchases, compared to 18 industries of the previous month.

Imports index also dropped by more than 3ppts to 51.5%, from 54.8% in May. The drop indicates that manufacturers continued to increase their imports but at a slower pace. 13 industries reported lower imports as compared to the previous month. Of which, the Index of *Pharmaceutical* and *Oil refining & coking* registered reading of below 40%.

Input prices index (64.1%) remained above 60% for the 3rd consecutive month, supported by the high oil price and raw material prices. All surveyed industries recorded higher input prices. Of which, Index of *Chemical fiber, rubber & plastics, Smelting of ferrous metals* and *Metal products* recorded readings of above 70%.

Stocks of major inputs index rose slightly to 46.6% in June, from 45.6% in May. Inventory has been shrinking for 17 consecutive months, as high raw material prices continued to withhold manufacturers' purchasing activities. 15 industries have recorded readings of below 50%.

Employment index rose to 50.8% in June from 50.1% in May. Due to socio-economic and political reasons, employment index has not been fluctuating to the extent the PMI or economic cycles suggest. 13 of the 20 industries surveyed reported growth in employment.

Suppliers' delivery time index dropped by 1.2 ppts to 50.6% in June. It has never dipped below the 50% mark since January 2005. Over 90% of the surveyed enterprises reported no change to their suppliers' delivery time from the previous month, a same trend witnessed in May. 14 industries reported faster suppliers' delivery. In general, a reading above 50% implies faster delivery time and unfavourable economic outlook; below, slower delivery time and favourable economic outlook.

China Manufacturing at a Glance — June 2006

Index	S. Adj Index	Index Compared with the Previous Month	Direction
PMI	54.1	Lower	Expanding
Output	58.7	Same	Expanding
New Orders	57.3	Lower	Expanding
New Export Orders	58.0	Lower	Expanding
Backlogs of Orders	50.6	Lower	Expanding
Stocks of Finished Goods	46.8	Higher	Contracting
Purchases of Inputs	53.9	Lower	Expanding
Imports	51.5	Lower	Expanding
Input Prices	64.1	Higher	Expanding
Stocks of Major Inputs	46.6	Higher	Contracting
Employment	50.8	Higher	Expanding
Suppliers' Delivery Time	50.6	Lower	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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