

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.

Li & Fung Research Centre

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PMI dropped to 54.5% in June

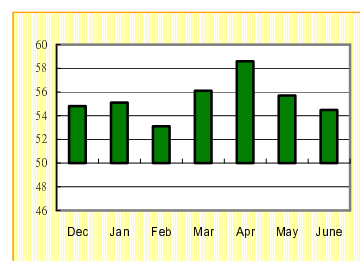
Output, New Orders, New Export Orders, Imports, Backlogs of Orders, Purchases of Inputs, Input Prices, expanding.

Stocks of Finished Goods, Stocks of Major Inputs, contracting.

Suppliers' Delivery faster.

CFLP China Manufacturing PMI

06/07	Index	S. Adj
Dec	55.3	54.8
Jan	55.2	55.1
Feb	42.4	53.1
Mar	61.3	56.1
Apr	58.9	58.6
May	55.6	55.7
Jun	54.9	54.5



The PMI dropped to 54.5% in June, down from 55.7% in May. Except imports, stock of finished goods and suppliers' delivery time, all sub-indexes recorded lower or equal readings compared with the previous month. Nonetheless, output, new orders and new export orders indices remained at relatively high levels, indicating a still buoyant manufacturing sector. Since the beginning of the year, input prices have continued to rise. Growth in input prices moderated in June but still remained in the above-60% territory, indicating continuous upward pressure on production cost. The PMI has stayed above 50% for the 30th consecutive month since its launch in January 2005.

Output index dropped to 59.7% in June, after staying above 60% in the previous three months. Of the 20 industries surveyed, all recorded expansion, of which, *Beverage* recorded a marked rebound: its index surged to 64.6% in June, up from 43.5% in May. Note that *Electrical machinery & equipment* is the only industry with a reading above 70%.

New orders index slipped to 57.4% in June, after climbing over 60% in the previous three months. In line the output expansion, all industries registered expansion in new orders than the previous month, as the only industry with contracting new orders in May, *oil refining & coking*, reversed its trend and its index rose to 53.1% in June. Note that *Electrical machinery & equipment* is again the only industry with a reading above 70%. New export orders index further dropped to 55.0%, after reaching 62.3% in April and moderating to 57.7% in May. Of the 20 industries surveyed, 16 of them recorded higher new export orders compared to the previous month. The biggest jump came from *Wood processing & furniture*: its index surged to 66.5% in June, up from 45.1% in May. As Chinese government eliminated or cut tax rebates for more than 2,800 export items effective from July 1, it is expected that the new export orders index will drop further in the coming month.

As both new orders and new export orders moderated, backlogs of orders index dropped to 50.3% in June. 10 of the 20 industries surveyed recorded lower backlogs of orders compared to the previous month. Note that *General machinery* is the only industry with a reading above 60%.

Stocks of finished goods index rose by 2.8 pts to 47.3% in June. Inventories have declined by 30 consecutive months. 12 of the 20 industries recorded lower levels of inventories. Note that *Metal products* is the only industry with a reading above 60%.

Purchases of inputs index moderated to 56.7% in June, down from 58.5% in May. The moderation in purchasing activities is in line with moderating output and new orders. 5 of the 20 industries recorded negative growths in purchases. Note that *Electrical machinery & equipment* is again the only industry with a reading above 70%.

Imports index rose by 2.1 pts to 53.6% in June. Of the 20 industries surveyed, 13 of them recorded higher imports than the previous month. *Garment, footwear & related products* and *General machinery* were the only 2 industries with readings above 60%. Given the government's determination to increase imports, avoid trade disputes and correct the trade balance, imports is likely to rise steadily in the second half of 2007. It is predicted that the increase in imports will focus more on the relatively high value-added products' industries such as advanced machineries and high-tech electronics, due to the policy encouragement of the government.

Inputs prices index dropped to 62.8% in June, after registering a record high of 65.9% in May. 18 of the 20 industries surveyed registered readings of above 50% than the previous month. *Wood processing & furniture*; and *Communication, IT & electronics equipment* were the only 2 industries that recorded negative growths in inputs prices. In June, *Food* registered an index of 73.1% while *Oil refining & coking* reached 71.2%, indicating upward cost pressures. It is generally believed that the food and energy prices will stay in higher levels in the coming months.

Stocks of major inputs index remained at 49.1% in June, below 50% for the second month in a row. 13 of the 20 industries surveyed recorded higher stocks than the previous month. *Papermaking, printing & sporting goods* marked the highest reading (59.3%) among the 20 industries surveyed.

Employment index stayed at 51.3% in June. Due to socio-economic and political reasons, employment index has not been moving to the extent the PMI or economic cycles suggest. 17 of the 20 industries surveyed reported growths in employment.

Suppliers' delivery time index mildly rose by 0.2 ppt to 52.0% in June. It has never dipped below the 50% mark since January 2005. 3 of the 20 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 — June 2007

Index	S. Adj Index	Index Compared with the Previous Month	Direction
PMI	54.5	Lower	Expanding
Output	59.7	Lower	Expanding
New Orders	57.4	Lower	Expanding
New Export Orders	55.0	Lower	Expanding
Backlogs of Orders	50.3	Lower	Expanding
Stocks of Finished Goods	47.3	Higher	Contracting
Purchases of Inputs	56.7	Lower	Expanding
Imports	53.6	Higher	Expanding
Input Prices	62.8	Lower	Expanding
Stocks of Major Inputs	49.1	Higher	Contracting
Employment	51.3	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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