

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.

(8610) 6839 2179

pmi@cflp.org.cn

<http://www.cflp.org.cn>

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

Timothy Cheung, Freda Tong

(852) 2635 5568

timothycheung@lf1937.com

fredatong@lf1937.com

PMI further dropped to 52% in June

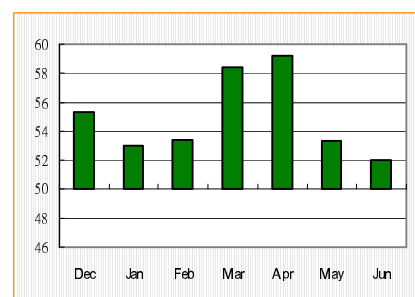
Output, New Orders, New Export Orders, Purchases of Inputs, Imports, Input Prices, expanding.

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

Suppliers' Delivery slower.

CFLP China Manufacturing PMI

07/08	Index	S. Adj
Dec	55.7	55.3
Jan	53.1	53.0
Feb	44.7	53.4
Mar	63.1	58.4
Apr	59.3	59.2
May	53.5	53.3
Jun	51.9	52.0



The June PMI registered the lowest reading since August 2005, further decreasing to 52%, down by 1.3 ppt. from the previous month. 8 of 11 sub-indices recorded lower readings compared with the previous month. This indicated a moderating manufacturing sector. Note that input prices index further rose to 75.7%, indicating the continuous upward cost pressures for manufacturers. The PMI has stayed above 50% for 42 consecutive months since its launch.

15 of the 20 industries surveyed recorded PMIs above 50%. No indicators registered a reading off above 60%. 5 industries surveyed registered PMIs below 50%: *Electrical machinery & equipment; Metal products; Tobacco; Transport equipment; and Wood processing & furniture.*

Output index dropped from 55.7% in May to 54.2% in June. 13 of the 20 industries surveyed recorded expansion in outputs. 5 of them registered readings higher than 60%. 7 industries surveyed recorded output contraction. Of which, reading of Electrical machinery & equipment was as low as 39.6%.

In line with the deceleration of output expansion, new orders index moderated to 52.6% in June, down by 2.8 ppt. from the previous month. 6 of the 20 industries surveyed recorded contraction in new orders. *Wood processing & furniture; and Tobacco* registered readings below 40% while *Garments, footwear & related products* recorded the highest reading of 61.5%.

New export orders index was down to 50.2% in June, compared to 53.4% in May. 12 of the 20 industries surveyed recorded expansion in new export orders. 8 industries faced contraction of new export orders. Of which, *Electrical machinery & equipment* recorded the lowest reading of 38.6%.

In June, backlogs of orders contracted – the index fell by 2.2 ppt. from May to 47.1% in June. 14 of the 20 industries surveyed recorded contraction of backlogs of orders. Of which, 3 industries recorded readings below 40%: *Chemical fibres, rubber & plastics*; *Metal products*; and *Non-metal minerals*.

Stocks of finished goods index further climbed by 0.8 ppt. from May to 49.5% in June. 9 of the 20 industries surveyed recorded lower stock level, while 8 industries had more stocks, compared with the previous month. *Chemical fibres, rubber & plastics* scored the highest reading of 61.7%.

Purchases of inputs index decreased by 0.2 ppt. from May to 53.5% in June, the lowest reading since August 2006. 16 of the 20 industries surveyed recorded expansion in purchases of inputs. Of which, 2 of them registered readings of above 60%: *Food* (64.5%); and *Smelting of ferrous metals* (60.9%).

Imports index rebounded slightly by 0.6 ppt. to 50.9% in June. Of the 20 industries surveyed, 9 of them recorded expansion of imports while 11 of them recorded contraction, compared with the previous month. Note that *Papermaking, printing, stationery & sporting goods*; and *Smelting of non-ferrous metals* registered readings of above 60%.

Input prices index rose slightly to 75.7% in June, up by 1.8 ppt. from the previous month. All 20 industries surveyed recorded rising input prices. 8 of them registered readings of above 80%. *Oil refining & coking*; and *Smelting of ferrous metals* recorded particularly high readings of above 90%.

Stocks of major inputs index was 47.8% in June, down from 48.1% in May. Of the 20 industries surveyed, 17 of them recorded contraction, compared with May. Of which, *Smelting of non-ferrous metals* registered the lowest reading of 39.9 %.

Employment index was 50.3% in June, down from 51.2% in the previous month. Due to socio-economic and political reasons, employment index did not follow closely the trends of the PMI or the economy. 7 of the 20 industries surveyed reported increases in employment whilst 2 of them remained unchanged.

Suppliers' delivery time index dropped from 48.8% in May to 47.8% in June. 12 of the 20 industries reported slower suppliers' delivery while only 3 industries recorded faster suppliers' delivery. In general, a reading above 50% implies faster delivery and a cooling-down economy; below, slower delivery time and a booming economy.

China Manufacturing at a Glance — June 2008

Index	S. Adj Index	Index Compared with the Previous Month	Direction
PMI	52.0	Lower	Expanding
Output	54.2	Lower	Expanding
New Orders	52.6	Lower	Expanding
New Export Orders	50.2	Lower	Expanding
Backlogs of Orders	47.1	Lower	Contracting
Stocks of Finished Goods	49.5	Higher	Contracting
Purchases of Inputs	53.5	Lower	Expanding
Imports	50.9	Higher	Expanding
Input Prices	75.7	Higher	Expanding
Stocks of Major Inputs	47.8	Lower	Contracting
Employment	50.3	Lower	Expanding
Suppliers' Delivery Time	47.8	Lower	Slackening

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.

727 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.

Li & Fung Research Centre.
13/F Li Fung Centre, 2 On Ping Street Hong Kong
Tel: (852) 2635 5563 Fax: (852) 2635 1598 E-mail: lfdc@lf1937.com

© Copyright 2008 Li & Fung Research Centre. All rights reserved.
Though Li & Fung Research Centre endeavours to ensure the information discussed in this material is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without Li & Fung Research Centre's prior written consent is prohibited.