

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 dipped to 53.3% in May

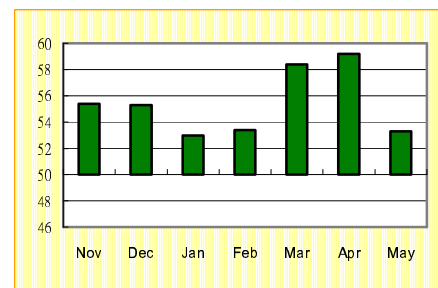
Output, New Orders, New Export Orders, Purchases of Inputs, Imports, Input Prices, expanding.

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

Suppliers' Delivery slower.

CFLP China Manufacturing PMI

07/08	Index	S. Adj
Nov	55.8	55.4
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



The PMI dipped to 53.3% in May 2008, down by 5.9 ppt. from the previous month. It is the largest drop since the PMI launched in January 2005. Except stocks of finished goods, all sub-indices recorded lower readings compared with the previous month. Of which, indices of output, new orders and purchases of inputs declined by about 10 ppt., indicating a moderating manufacturing sector. Note that input prices index remained above 70%, indicating the continuous upward cost pressures for manufacturers. The PMI has stayed above 50% for 41 consecutive months since its launch.

16 of the 20 industries surveyed recorded PMIs above 50%. 4 industries surveyed registered PMIs below 50%: *Smelting of non-ferrous metals; Tobacco; Transport equipment; and Wood processing & furniture.*

Output index dropped sharply from 66.5% in April to 55.7% in May. 15 of the 20 industries surveyed recorded expansion in outputs. 5 industries surveyed recorded output contraction: *Chemical fibres, rubber & plastics; Smelting of non-ferrous metals; Specialized machinery; Transport equipment; and Wood processing & furniture.*

In line with the deceleration of output expansion, new orders index dropped to 55.4% in May, down by 9.6 ppt. from the previous month. 5 of the 20 industries surveyed recorded contraction in new orders. *Wood processing & furniture* registered the lowest reading of 40.6% while the reading of *Electrical machinery & equipment* was as high as 70.3%.

New export orders index was down to 53.4% in May, compared to 58.9% in April. 13 of the 20 industries surveyed recorded expansion in new export orders. Of which, 2 of them recorded readings of above 60%: *General machinery; and Tobacco.*

In May, backlogs of orders contracted – the index fell by 4.1 ppt. from April to 49.3% in May. 11 of the 20 industries surveyed recorded contraction of backlogs of orders. Of which, *Wood processing & furniture* registered the lowest reading (36.4%).

Stocks of finished goods index climbed by 1.5 ppt. from April to 48.7% in May. Inventories have declined for 41 consecutive months. 13 of the 20 industries surveyed recorded lower levels of inventories, compared with the previous month. *Oil refining & coking* recorded the lowest reading of 40.7% whilst *Metal products* scored the highest reading of 63.1%.

Purchases of inputs index dropped by 10.9 ppt. from April to 53.7% in May, the lowest reading since August 2006. 14 of the 20 industries surveyed recorded expansion in purchases of inputs. Of which, 2 of them registered readings of above 60%: *Electrical machinery & equipment* (61.3%); and *Food* (61.9%).

Imports index declined to 50.3% in May, the lowest since September 2006. Of the 20 industries surveyed, 9 of them recorded contraction of imports, compared with the previous month. Note that *Non-metal minerals*; and *Wood processing & furniture* recorded readings of below 40%.

Input prices index dropped slightly to 73.9% in May, down by 1.2 ppt. from the previous month. All 20 industries surveyed recorded rising input prices. 13 of them registered readings of above 70%. Of which, *Oil refining & coking*; and *Smelting of ferrous metals* recorded particularly high readings of above 90%.

Stocks of major inputs index was 48.1% in May, down from 51.2% in April. Of the 20 industries surveyed, 11 of them recorded contraction, compared with April. Of which, *Wood processing & furniture* registered the lowest reading of 36.4 %.

Employment index was 51.2% in May, down from 52.9% 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. 10 of the 20 industries surveyed reported increases in employment whilst 5 of them remained unchanged.

Suppliers' delivery time index dropped from 51% in April to 48.8% in May. 13 of the 20 industries reported slower suppliers' delivery while only 5 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 — May 2008

Index	S. Adj Index	Index Compared with the Previous Month	Direction
PMI	53.3	Lower	Expanding
Output	55.7	Lower	Expanding
New Orders	55.4	Lower	Expanding
New Export Orders	53.4	Lower	Expanding
Backlogs of Orders	49.3	Lower	Contracting
Stocks of Finished Goods	48.7	Higher	Contracting
Purchases of Inputs	53.7	Lower	Expanding
Imports	50.3	Lower	Expanding
Input Prices	73.9	Lower	Expanding
Stocks of Major Inputs	48.1	Lower	Contracting
Employment	51.2	Lower	Expanding
Suppliers' Delivery Time	48.8	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.

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