

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 surged to 58.6% in April

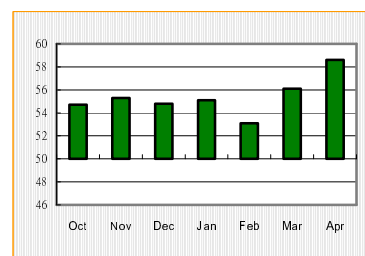
Output, New Orders, New Export Orders, Backlogs of Orders, Purchases of Inputs, Imports, Input Prices, Stocks of Major Inputs, expanding.

Stocks of Finished Goods, contracting

Suppliers' Delivery faster.

CFLP China Manufacturing PMI

| 06/07 | Index | S. Adj |
|-------|-------|--------|
| Oct | 54.5 | 54.7 |
| Nov | 55.8 | 55.3 |
| 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 |



The PMI jumped to 58.6% in April, up from 56.1% in March. It was the highest record ever since the launch of PMI in January 2005. For the second month in a row, PMI marked a rise more than 2.5 ppts. Except imports, stock of major inputs and backlogs of orders, all sub-indices recorded higher readings than the previous month. Output, new orders, input price, purchase of inputs and new export orders entered the above-60% territory. Among them, the former 4 sub-indices reached their record levels since January 2005. Overall, the PMI and its sub-indices indicated a buoyant manufacturing sector, rising domestic & foreign orders, increasing procurement activities and upward pressures on input prices. The PMI has stayed above 50% for the 28th consecutive month since its launch in January 2005.

Output index rose to 65.5% in April, from 60.7% in March. Except *Oil, refining & coking* and *Wood processing & furniture*, all industries recorded expansion. *Garment, footwear & related products* was the only industry with a reading above 80%. The most obvious rebound came from *Beverage*: its index surged to 65.3% in April, up from 40.4% in March. Note that *Oil, refining & coking* recorded contraction in the outputs, new orders and new export orders sub-indices.

After climbing higher in March, both new orders and new export orders indices rose further in April. New orders index surged to 65.1% in April, from 60.8% in March; new export orders index rose by 0.8 ppt to 62.3% in April. Of the 20 industries surveyed, 18 industries recorded expansion for both new orders and new export orders. In new orders index, *General machinery, Non-metal minerals, Electrical machinery & equipment*, and *Papermaking, printing & sporting goods* entered the above-70% territory. As for the new export orders index, *Garment, footwear & related products* recorded a reading above 80%, consistent with its notably high output index. *Oil, refining & coking* marked the lowest new export order reading among all industries at 38.4%.

Backlogs of orders index dropped to 53.3% in April, from 55.1% in March. 15 of the 20 industries surveyed recorded higher backlogs of

orders compared to the previous month. The biggest drop came from *Pharmaceutical*: it dipped to 36% in April, from 50.9% in March.

Stocks of finished goods index rose by 1.0 ppt to 46.8% in April. Inventories have declined by 28 consecutive months. 13 of the 20 industries recorded lower levels of inventories. Exceptions include *Metal products* and *Pharmaceutical*, which recorded indices of 63.2% and 59.5% respectively.

In line with record-high output and new orders, the purchasing activities of manufacturers grew at an accelerating rate in April. Purchases of inputs index rose by 2.9 ppts to 63.4%. All industries recorded growth in purchases. *Metal products*, *General machinery*, and *Garment, footwear & related products* were the industries with recordings above 70%.

Imports index marginally dropped by 0.1 ppt to 56.3% in April. Of the 20 industries surveyed, 15 of them registered a higher reading than the previous month. *Electrical machinery & equipment* recorded the highest index (68.6%) among all the industries in April. It was noteworthy that the central government would like to increase import to reduce the huge trade surplus. From 1 April onward, Chinese firms would see formerly crucial import license lifted for imported products in 338 categories. Moreover, in the Canton Fair (China Import and Export Fair), China's largest trade event held in April every year, the "imports section" was added in for the first time. In the past, the Canton Fair only focused on export. Given the government's determination to increase imports and to correct the trade imbalance, import is likely to rise steadily for the rest of 2007.

Input price index grew by 6.6 ppts and registered a record high of 64.9% in April, up from 58.3% in March, drawing attention that rising input prices would add burden to the manufacturers in the coming months. *Communication, IT & electronics equipment* was the only industry which recorded negative growth compared to the previous month. *Steel* marked the highest reading (79.8%) among 20 industries surveyed.

Although stocks of major inputs index decreased by 0.5 ppt in April, it was still in the expansion territory (50.3%). 12 of the 20 industries surveyed reported positive growth in stocks of major inputs.

Employment index rose by 0.5 ppt to 52.4% in April. Due to socio-economic and political reasons, employment index has not been moving to the extent the PMI or economic cycles suggest. 15 of the 20 industries surveyed reported growth in employment.

Suppliers' delivery time index mildly rose by 0.2 ppt to 51.9% in April. It has never dipped below the 50% mark since January 2005. 4 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 —April 2007

| Index | S. Adj Index | Index Compared with the Previous Month | Direction |
|--------------------------|--------------|--|-------------|
| PMI | 58.6 | Higher | Expanding |
| Output | 65.5 | Higher | Expanding |
| New Orders | 65.1 | Higher | Expanding |
| New Export Orders | 62.3 | Higher | Expanding |
| Backlogs of Orders | 53.3 | Lower | Expanding |
| Stocks of Finished Goods | 46.8 | Higher | Contracting |
| Purchases of Inputs | 63.4 | Higher | Expanding |
| Imports | 56.3 | Lower | Expanding |
| Input Prices | 64.9 | Higher | Expanding |
| Stocks of Major Inputs | 50.3 | Lower | Expanding |
| Employment | 52.4 | Higher | Expanding |
| Suppliers' Delivery Time | 51.9 | 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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