

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

Helen Chin, Oscar Yiu

(852) 2635 5595

helenchin@lf1937.com

oscaryiu@lf1937.com

PMI dipped to 52.4% in July

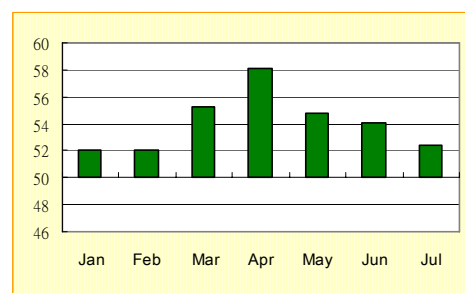
Output, New Orders, New Export Orders, Purchases of Inputs, Imports, Input Prices expanding.

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

Suppliers' Delivery faster.

CFLP China Manufacturing PMI

06	Index	S. Adj Index
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
Jun	54.6	54.1
Jul	52.7	52.4



The latest PMI indicated that the manufacturing sector continued to grow but at a slower rate. PMI dipped to 52.4% in July, from 54.1% in June, as output, new orders and new export orders all recorded lower growth from the previous month. The PMI stayed above 50% for the 19th consecutive month since its launch in January 2006. Note that rising input price remains a major concern for manufacturers.

Output index lowered to 55.5% in July, from 58.7% in June. 15 of the 20 surveyed industries recorded higher output. In particular, Garment, footwear & related products registered reading of over 70%.

Both new orders and new export orders index further moderated from their previous high in April, indicating lower growth in domestic and foreign demand for Chinese manufactures. New orders index dropped 2.9 ppts to 54.4% in July, a 12 month's low. 13 of the 20 industries surveyed recorded growth in orders.

New export orders index dropped 2.8 ppts to 55.2% in July. 14 of the 20 industries surveyed registered readings of above 50% in new export orders. In particular, indices of Food, Garment, footwear & related products, Wood processing & furniture, Papermaking, printing, stationeries & sporting goods, and Communication, IT & electronics equipment registered readings of above 60%.

After staying above 50% for four consecutive months, Backlogs of orders index dropped 2.6 ppts to 48.0 in July. 13 of the 20 industries surveyed recorded lower backlogs of orders compared to the previous month.

Stocks of finished goods index continued to rebound from its record low in May to 48.0% in July, but were still below the 50% mark — inventories have declined for 19 consecutive months. 12 industries recorded lower levels of inventories. In particular, Specialized machinery, Wood processing & furniture and Papermaking, printing, stationeries & sporting goods recorded readings of below 40%.

Purchases of inputs index dropped further to 52.1% in July, from a high of 62.7% in April. It has dropped for three consecutive months, as the government's tightening measures and high raw material prices, as well as the transportation bottleneck caused by the raining season in southern China continued to limit manufacturers' purchasing activities. 13 of the 20 industries reported growth in purchases.

Imports index dropped to 50.4% in July, 1.1 ppts lower than the previous month. It has dropped for three consecutive months, indicating that manufacturers continued to increase their imports but at a slower pace. 12 industries reported lower imports as compared to the previous month.

Input prices index dropped 4.1 ppts to 60.0% in July. Despite the drop, it has been above 60% for four consecutive months, driven by the high oil price and raw material prices, Except Specialized machinery, all surveyed industries recorded higher input prices.

Stocks of major inputs index rose slightly to 46.8% in June, a 0.2 ppt rise from the previous month. Inventory has been shrinking for 18 consecutive months, as high oil and raw material prices discourage manufacturers to pile up input inventories. 17 industries have recorded readings of below 50%.

Employment index rose to 51.3% in July from 50.8% in June. Due to socio-economic and political reasons, employment index has not been fluctuating to the extent the PMI or economic cycles suggest. 11 of the 20 industries surveyed reported growth in employment.

Suppliers' delivery time index rose 0.9 ppt to 51.5% in July. It has never dipped below the 50% mark since January 2005. 16 industries reported faster 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 — July 2006

Index	S. Adj Index	Index Compared with the Previous Month	Direction
PMI	52.4	Lower	Expanding
Output	55.5	Lower	Expanding
New Orders	54.4	Lower	Expanding
New Export Orders	55.2	Lower	Expanding
Backlogs of Orders	48.0	Lower	Contracting
Stocks of Finished Goods	48.0	Higher	Contracting
Purchases of Inputs	52.1	Lower	Expanding
Imports	50.4	Lower	Expanding
Input Prices	60.0	Lower	Expanding
Stocks of Major Inputs	46.8	Higher	Contracting
Employment	51.3	Higher	Expanding
Suppliers' Delivery Time	51.5	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.

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: lfrc@lf1937.com

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