

# PMI Quarterly on China Manufacturing

## PMI 1Q22

Downward pressure on manufacturing sector

## Policy Outlook

China to step up policy support for economy

## 2Q22 Forecasts

Real GDP growth to ease to 3.5% yoy while PMI to fluctuate between 48.0 and 51.0

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# PMI points to downward pressure on manufacturing sector in 1Q22

## Our observations

- Large and medium enterprises continue to fare better than small enterprises.
- Manufacturing production contracts again.
- Overall market demand deteriorates.
- Manufacturers raise ex-factory prices of their products as input prices jump.
- Manufacturing employment remains steady.

## Policy outlook

- The Chinese government will actively step up policy support for the economy.
- The proactive fiscal policy should be more efficient, targeted and sustainable, while the prudent monetary policy should be both flexible and appropriate, to maintain reasonably ample liquidity.

## Our forecasts for 2Q22

- We project a slowdown in manufacturing production and economic activity in 2Q22.
- The headline PMI will fluctuate between 48.0 and 51.0.
- Real GDP growth will ease to 3.5% yoy.
- VAIO growth will drop to 3.5% yoy.
- Exports will register low single-digit year-on-year growth.
- Year-on-year growth rates for the purchaser price index and the PPI will not see an uptick due to a high comparison base in 2Q21.

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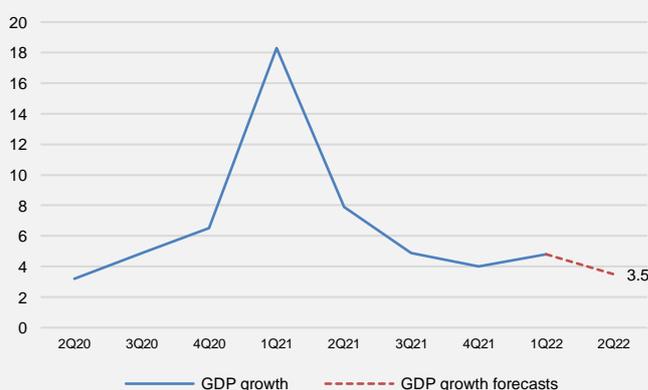
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Headline PMI



GDP growth (%)



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# 1. PMI points to downward pressure on manufacturing sector in 1Q22

## China's manufacturing sector in 1Q22

China's manufacturing PMI edged up from 50.1 in January to 50.2 in February, and then dropped to 49.5 in March. The latest headline PMI reading has slipped into the contractionary zone, indicating downward pressure on China's manufacturing sector and economy amid a recent resurgence of COVID-19 infections in various provinces and major cities. (See exhibit 1)

Manufacturing output has started to decline lately, as the output index in March dipped below the critical 50-mark for the first time since October last year. The contraction in manufacturing output was partly attributed to a reduction in new orders: The new orders index fell to 48.8 in March, indicating a deterioration in the overall market demand lately.

Prices of industrial products have risen at a fast pace lately: The ex-factory prices index rose from 50.9 in January to 56.7 in March. The jump in product prices was due partly to the surge in the prices of materials: The input prices index went up from 56.4 in January to 66.1 in March, well above the neutral level of 50.

Exhibit 2 shows the contributions of the sub-indices to the change in the headline PMI. The fall in the headline PMI in 1Q22 was due largely to the drop in the output index (which weighs 25% in the computation of the headline PMI) and the new orders index (which weighs 30%). Among the 12 sub-indices (i.e., excluding the suppliers' delivery time index), the indices of input prices, ex-factory prices and business expectations have remained in the expansionary zone over the past three months. Meanwhile, the indices of new export orders, backlogs of orders, stocks of finished goods, stocks of major inputs, imports, and employment have stayed in the contractionary zone over the same period. (See exhibit 3)

## Policy outlook

Looking ahead, we expect the Chinese government to actively step up policy support for the economy. According to the *Government Work Report* published in March this year, the Chinese government has set the GDP growth target for 2022 at 'around 5.5%'. It reiterated the policy stance of carrying out a proactive fiscal policy and a prudent monetary policy. The proactive fiscal policy should be more efficient, targeted and sustainable, while the prudent monetary policy should be both flexible and appropriate, to maintain reasonably ample liquidity. These policies should produce effects early on, and policy tools in reserve should be promptly deployed to ensure stable economic performance, according to the *Government Work Report*.

These wordings could mean a relatively expansionary and loose macro policy this year, which will help alleviate the downward pressure on the Chinese economy, in our view.

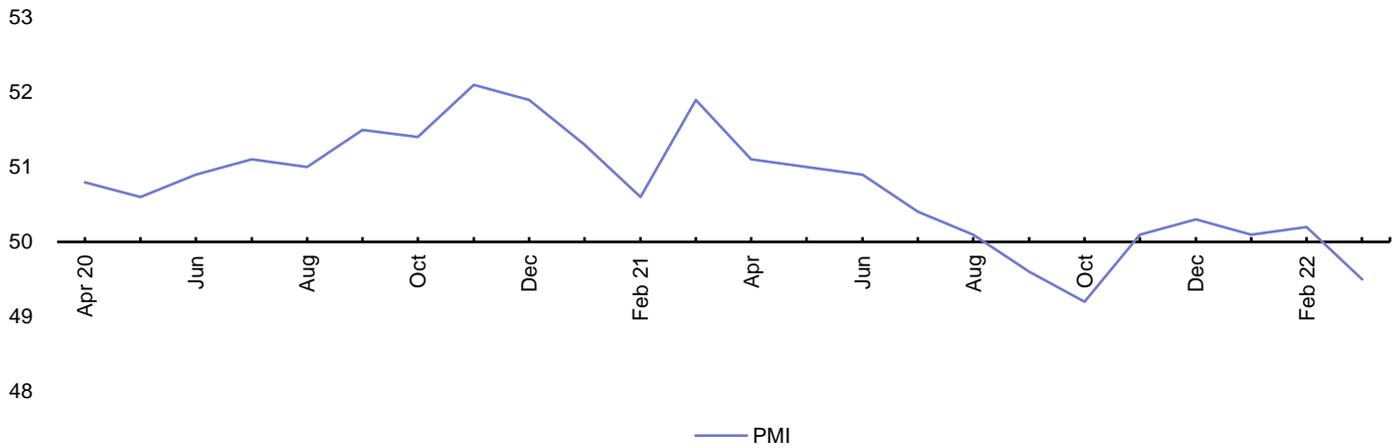
**We project that China's real GDP growth will ease to 3.5% yoy in 2Q22 due to weak manufacturing production and sluggish consumer spending amid a recent resurgence of COVID-19 infections in various provinces and major cities.**

## Forecasts for 2Q22

The growth in China's industrial production is set to slow in the near term, amid the recent resurgence of COVID-19 infections and the global economic slowdown caused by the Russia–Ukraine conflict. Overall, we predict that the industrial production (VAIO) growth will drop to 3.5% yoy in 2Q22, and the headline PMI will fluctuate between 49.0 and 50.5.

Exhibit 4 plots the quarterly real GDP growth rates versus the monthly PMIs since April 2017. We project that China's real GDP growth will ease to 3.5% yoy in 2Q22 due to weak manufacturing production and sluggish consumer spending amid the COVID-19 resurgence.

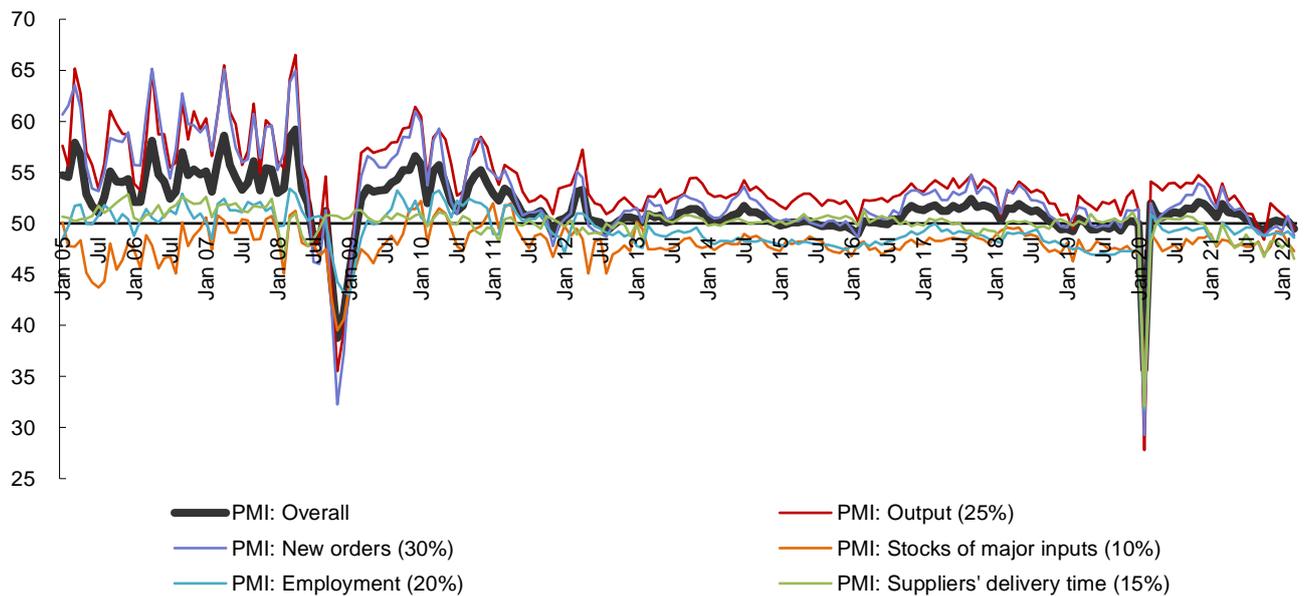
**Exhibit 1: Headline PMI, April 2020 to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

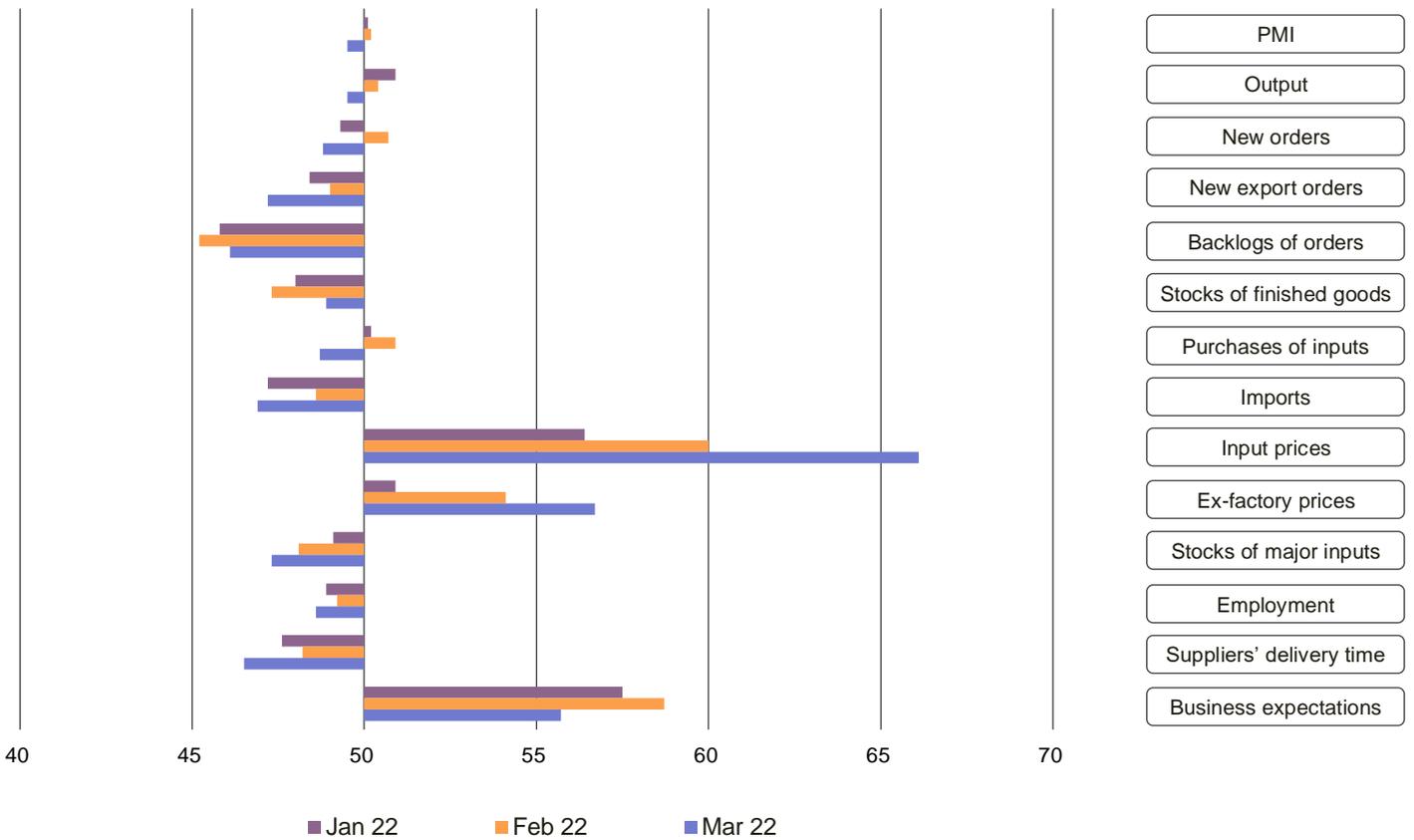
**Exhibit 2: Headline PMI and sub-indices, January 2005 to March 2022**

$$\text{PMI} = \text{Output} \times 25\% + \text{New Orders} \times 30\% + \text{Stocks of Major Inputs} \times 10\% + \text{Employment} \times 20\% + (100 - \text{Suppliers' Delivery Time}) \times 15\%$$



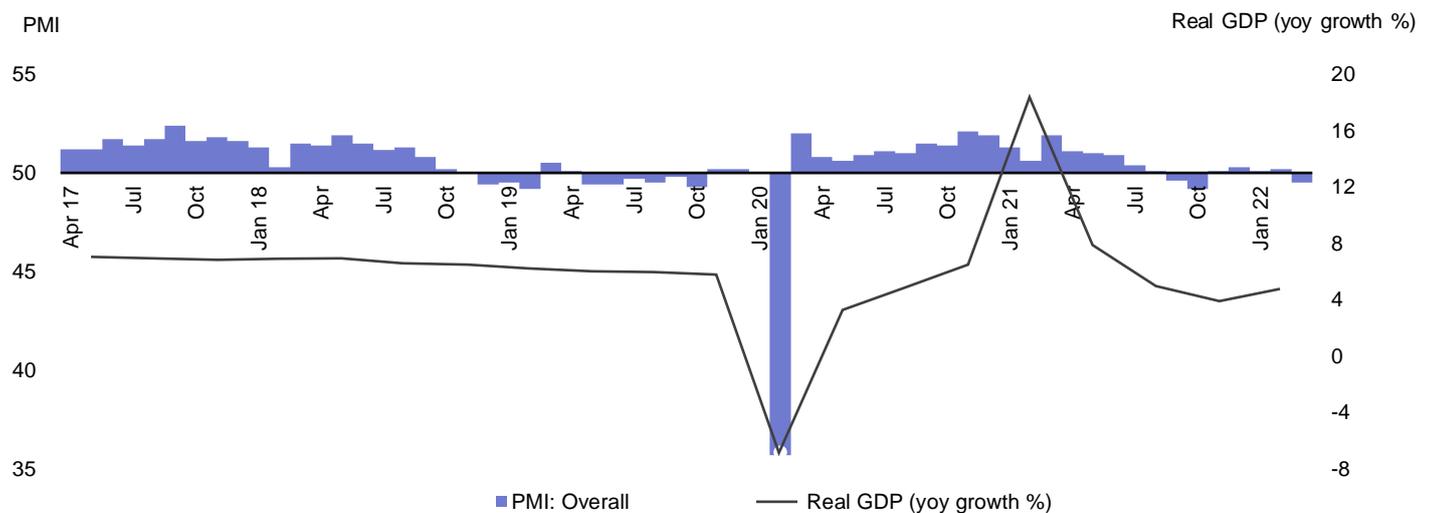
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

**Exhibit 3: Headline PMI and all sub-indices, January to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

**Exhibit 4: Headline PMI and real GDP growth, April 2017 to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

## 2. What the PMI tells us about the performance of enterprises of different sizes

### Large enterprises continue to expand

The PMI of 'large enterprises' stayed above the watershed mark of 50 throughout January to March, hovering within a narrow range of 51.3 to 51.8. The index readings show a continued expansion of 'large enterprises'. However, it remains to be seen whether large businesses could sustain their growth momentum in the coming months, amid the recent COVID-19 resurgence.

### Medium and small enterprises experience contraction

After rising from 50.5 in January to 51.4 in February, the PMI of 'medium enterprises' dropped below the critical 50-mark to 48.5 in March. Meanwhile, the PMI of 'small enterprises' hovered around 46.0 throughout the three-month period. The index readings indicate that small and medium enterprises have been facing difficulties in production and operations lately. (See exhibit 5)

**Large enterprises have continued to fare better than small and medium enterprises, but it remains to be seen whether large businesses could sustain their growth momentum in the coming months, amid the recent COVID-19 resurgence.**

**Exhibit 5: PMIs of large enterprises, medium enterprises and small enterprises, January to March 2022**



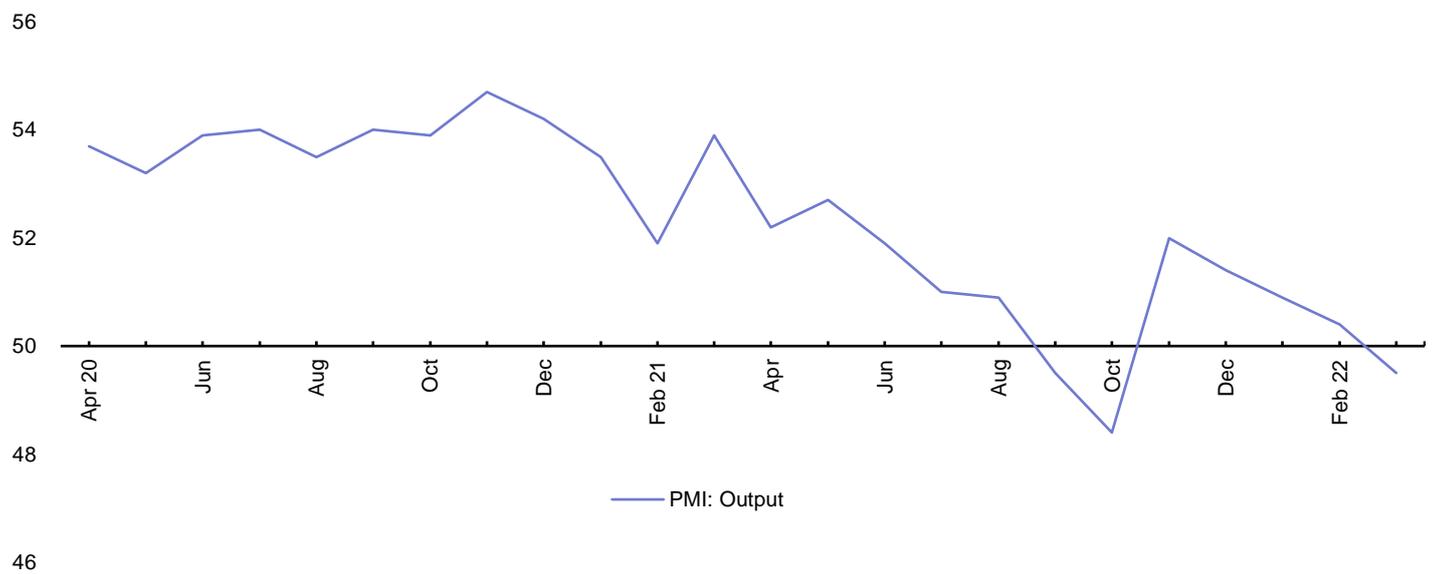
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

### 3. What the PMI tells us about manufacturing production

#### Manufacturing output contracts again

The output index went down from 50.9 in January to 50.4 in February, and then fell further to 49.5 in March. The latest index reading dipped into the contractionary zone for the first time since October last year, indicating a contraction in manufacturing output lately. (See exhibit 6)

**Exhibit 6: Output index, April 2020 to March 2022**



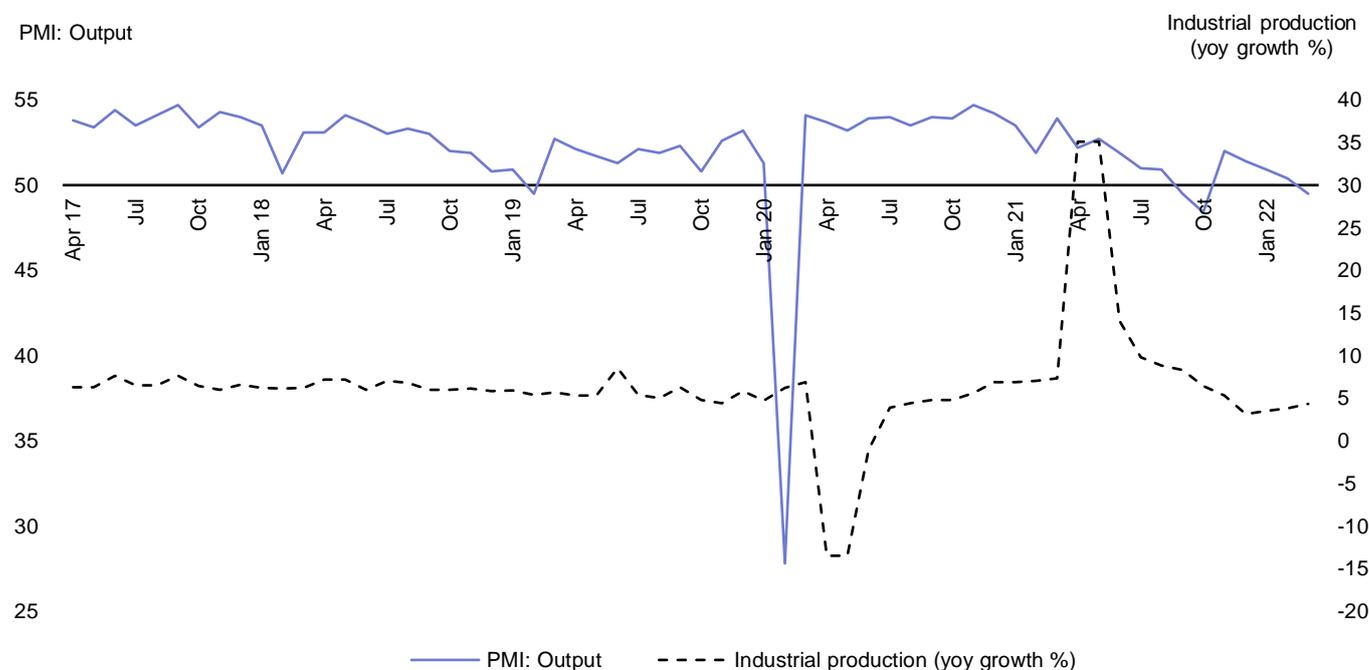
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

**Growth in manufacturing production to slow down in 2Q22**

Exhibit 7 demonstrates the correlation (with some lags) between the output index and the year-on-year growth of value-added of industrial output (VAIO). Looking ahead, China’s industrial production is set to moderate in the near term, as the recent resurgence of COVID-19 infections and the global economic downturn caused by the Russia–Ukraine conflict will continue to put a drag on China’s industrial activities in the coming months. We expect that China’s VAIO growth will slow to 3.5% yoy in 2Q22. Other challenges facing Chinese manufacturers include ongoing trade frictions between China and the US, intense competition in the international market, and strong government’s determination to reduce industrial carbon emissions.

**We expect the VAIO growth to slow to 3.5% yoy in 2Q22, amid the recent resurgence of COVID-19 infections and the global economic downturn caused by the Russia–Ukraine conflict.**

**Exhibit 7: Output index and industrial production growth, April 2017 to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

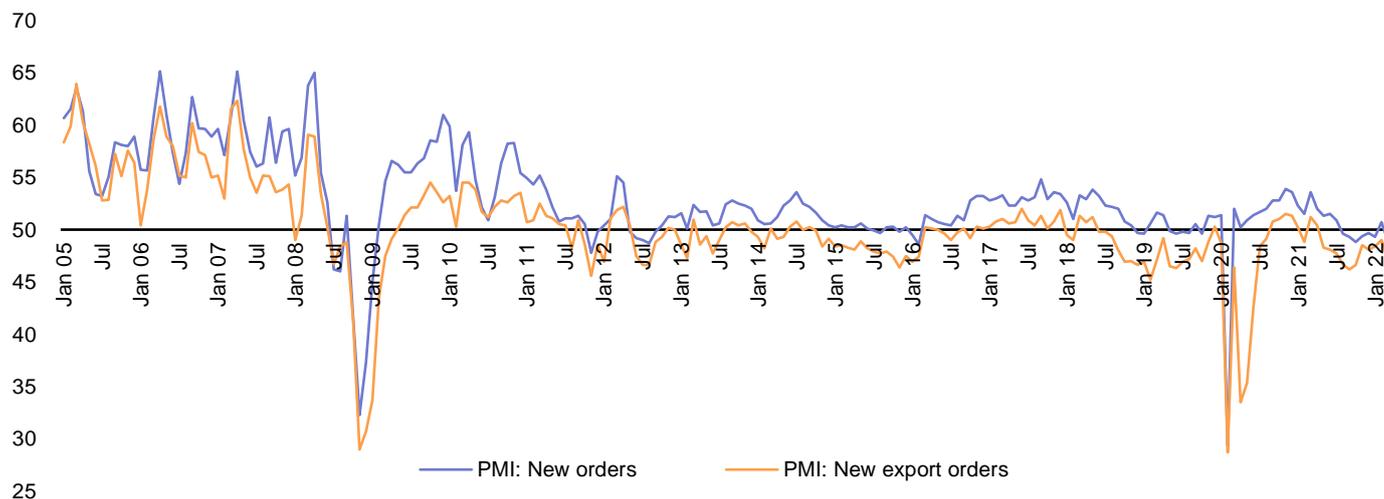
## 4. What the PMI tells us about the overall market demand

### Overall market demand deteriorates

After rebounding from 49.3 in January to 50.7 in February, the new orders index fell to 48.8 in March, indicating a reduction in new orders and a deterioration in the overall demand lately.

Meanwhile, after picking up from 48.4 in January to 49.0 in February, the new export orders fell again to 47.2, pointing to persistent downward pressure on China’s exports. (See exhibit 8)

**Exhibit 8: New orders index and new export orders index, January 2005 to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

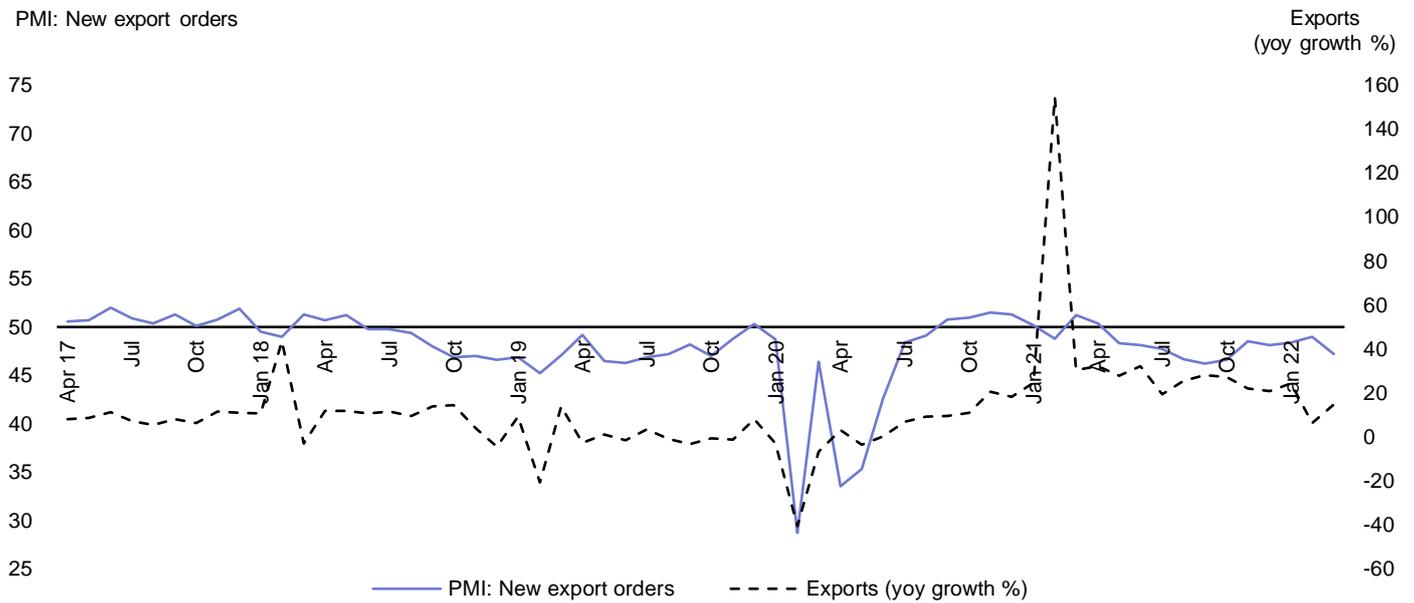
### China’s export growth to slow amid slowdown in global economy

Exhibit 9 plots the new export orders index against the year-on-year growth rates of China’s exports. From exhibit 10 we can see that the new export orders index has been strongly correlated to the external economies, especially the developed economies. The OECD composite leading indicator<sup>1</sup> has been on a downward trend since July last year, suggesting a moderation in the growth of the global economy. The Russia–Ukraine conflict is also likely to lead to a significant slowdown in global growth in the short term. All in all, we forecast that China’s exports will only register low single-digit year-on-year growth in 2Q22.

**With global growth slowing, we forecast that China’s exports will only register low single-digit year-on-year growth in 2Q22.**

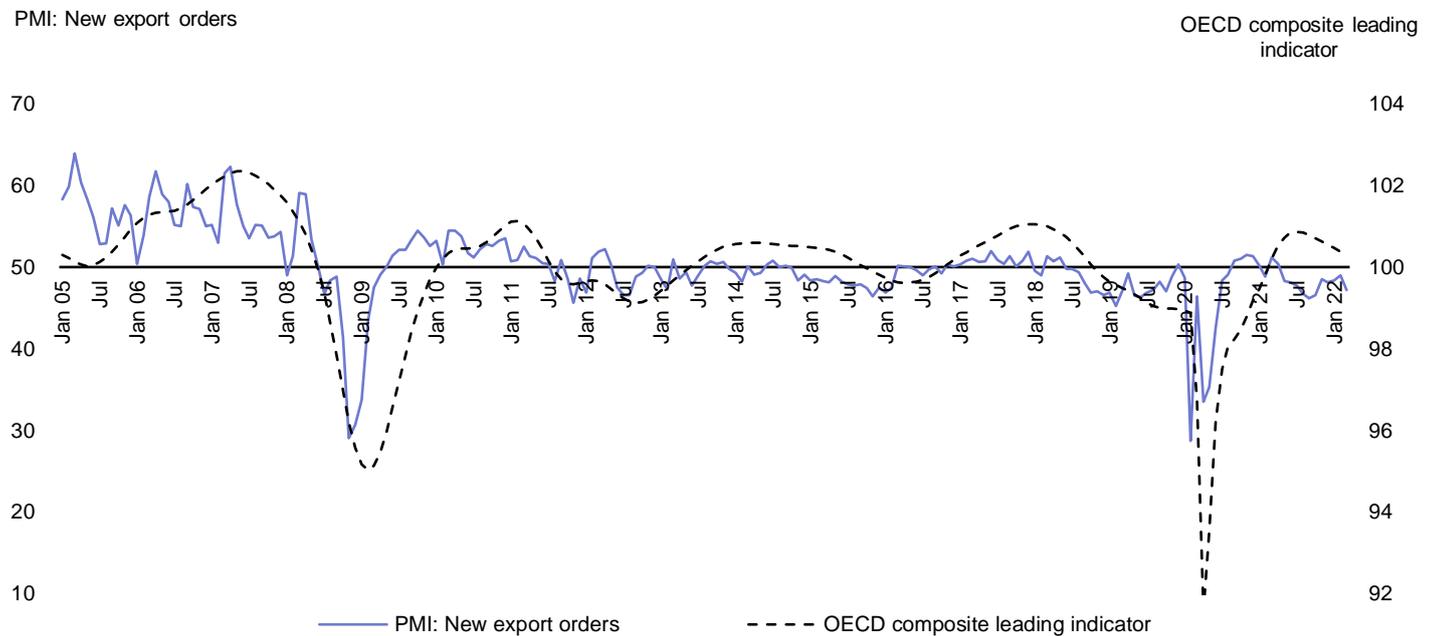
<sup>1</sup> The OECD composite leading indicator, compiled by the Organization for Economic Cooperation and Development, is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity, and covers Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.

**Exhibit 9: New export orders index and export growth, April 2017 to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, China Customs

**Exhibit 10: New export orders index and OECD composite leading indicator, January 2005 to March 2022**



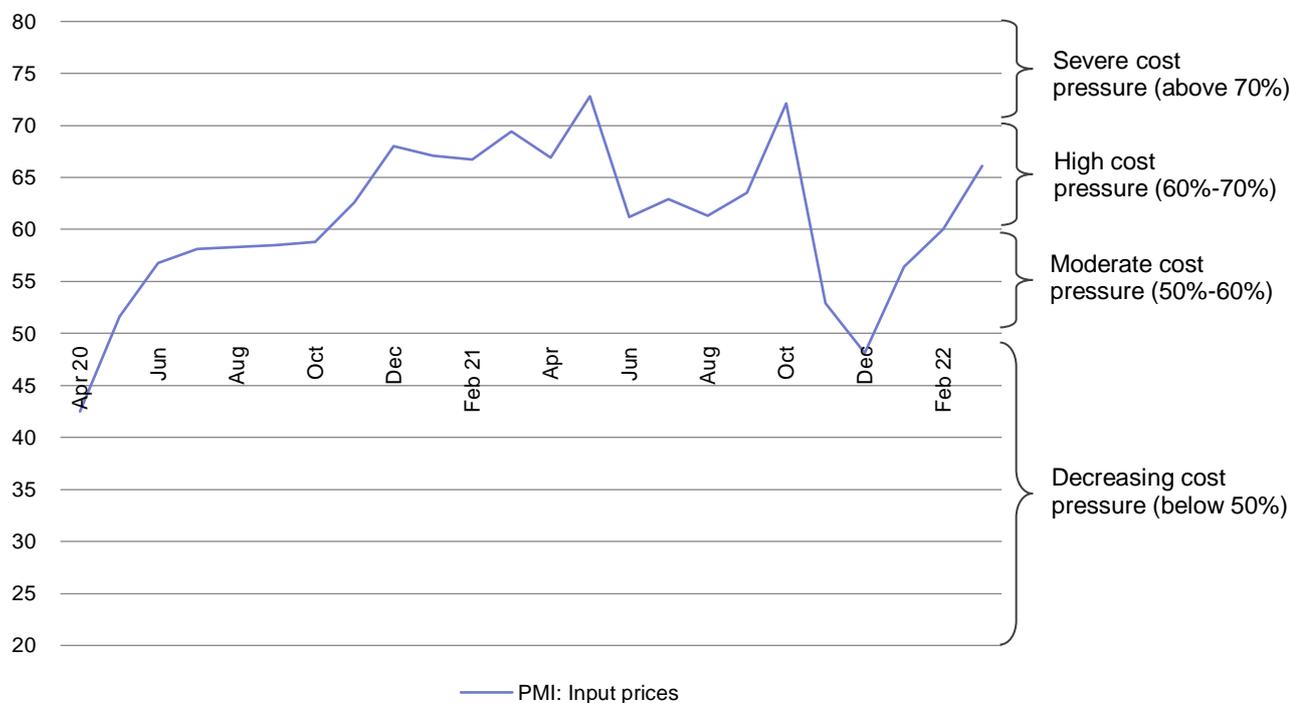
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Organization for Economic Cooperation and Development

## 5. What the PMI tells us about upstream and midstream prices

### Rising upstream prices exerts high cost pressure on manufacturers

The input prices index jumped from 56.4 in January to 60.0 in February and further to 66.1 in March. The index readings were well above the critical 50-mark, indicating a rapid increase in the prices of production inputs lately, which would raise the cost pressure on manufacturers. (Exhibit 11)

**Exhibit 11: Input prices index, April 2020 to March 2022**



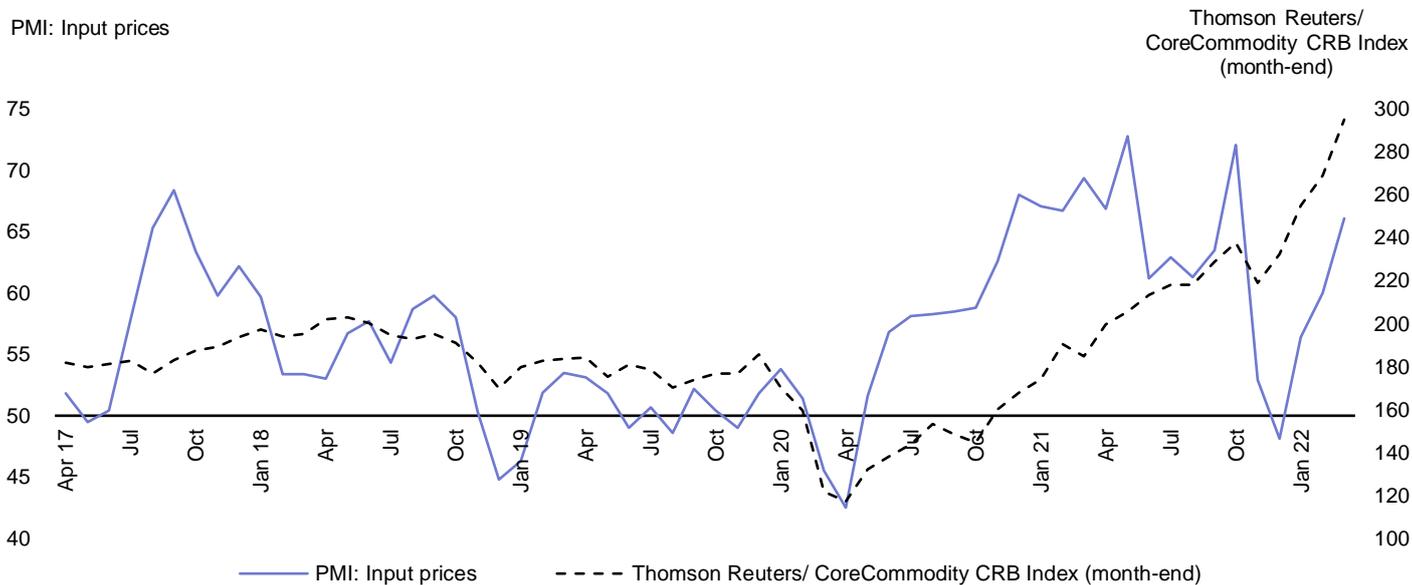
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

To see the extent to which input costs of Chinese manufacturers are affected by global commodity prices, exhibit 12 puts together the input prices index and the Thomson Reuters/ CoreCommodity CRB index.<sup>2</sup>

The increasing input costs facing Chinese manufacturers are attributable to the surge in global commodity prices: The CRB index is now at an eight-year high, driven by escalations in prices of commodities ranging from crude oil to copper, and to cotton, etc.

<sup>2</sup> The Thomson Reuters/ CoreCommodity CRB Index, which comprises 19 commodities such as crude oil, aluminum, corn, cotton, gold, natural gas, soybeans, etc, has served as one of the most recognized measures of global commodity prices.

**Exhibit 12: Input prices index and Thomson Reuters/ CoreCommodity CRB Index, April 2017 to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Thomson Reuters

**Manufacturers raise ex-factory prices of their products**

The ex-factory prices index went up from 50.9 in January to 54.1 in February and 56.7 in March. The index readings indicate that Chinese manufacturers have continued to raise the ex-factory prices of their finished products lately amid rising cost pressure.<sup>3</sup> (Exhibit 13)

**Exhibit 13: Ex-factory prices index, April 2020 to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

<sup>3</sup> The ex-factory prices index has been released since January 2017.

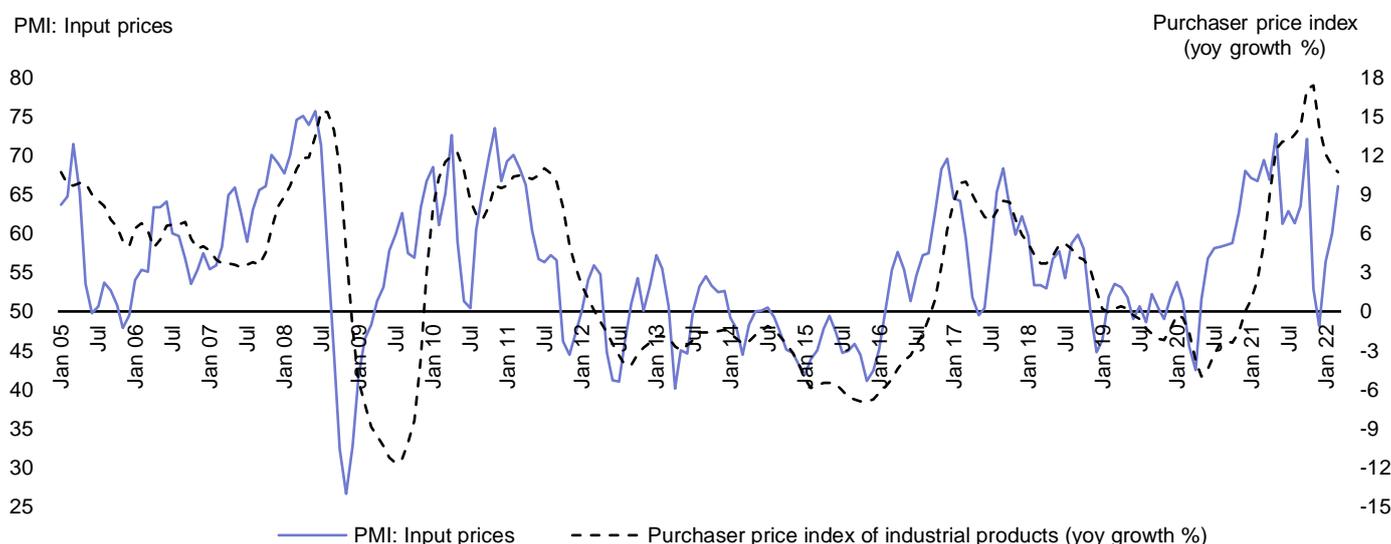
### Input prices and ex-factory prices to stay high in 2Q22

Exhibit 14 shows that the input prices index is useful as a leading indicator of upstream prices. To show the association between the input prices index and ‘midstream’ prices, we plot the input prices index against the year-on-year growth of the purchaser price index (PPI)<sup>4</sup> in exhibit 15.

Going forward, we expect both input prices and ex-factory prices to stay high in 2Q22 in view of escalations in global commodity prices. However, we do not expect an uptick in the year-on-year growth rates in the purchaser price index and the PPI due to a high base for comparison in 2Q21.

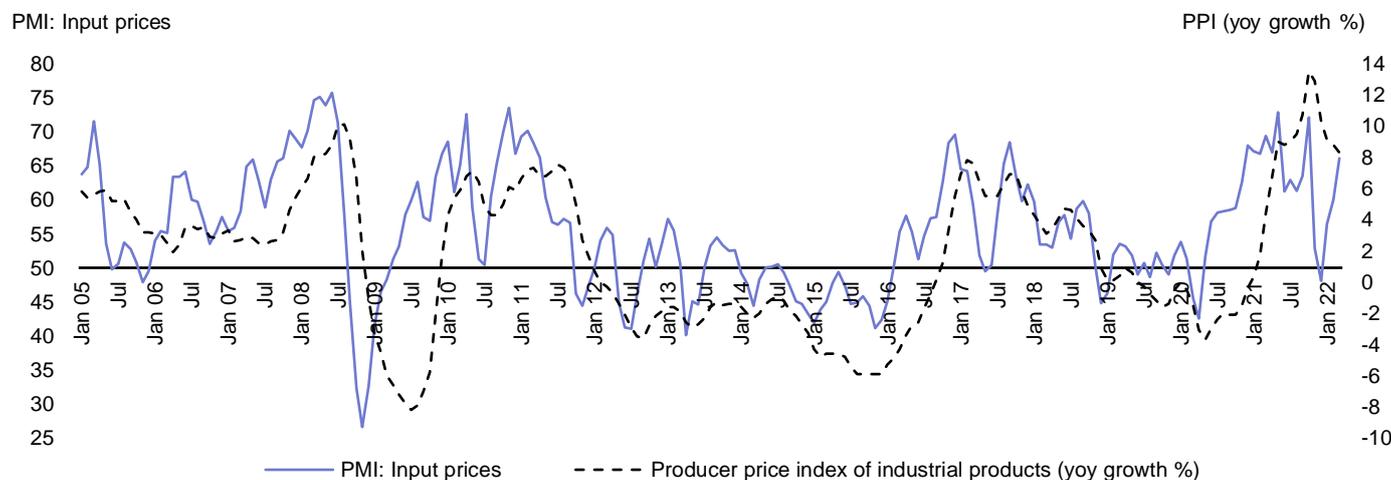
**We do not expect an uptick in the year-on-year growth rates in the purchaser price index and the PPI in 2Q22 due to a high base for comparison in the previous year.**

**Exhibit 14: Input prices index and purchaser price index of industrial products, January 2005 to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

**Exhibit 15: Input prices index and producer price index, January 2005 to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

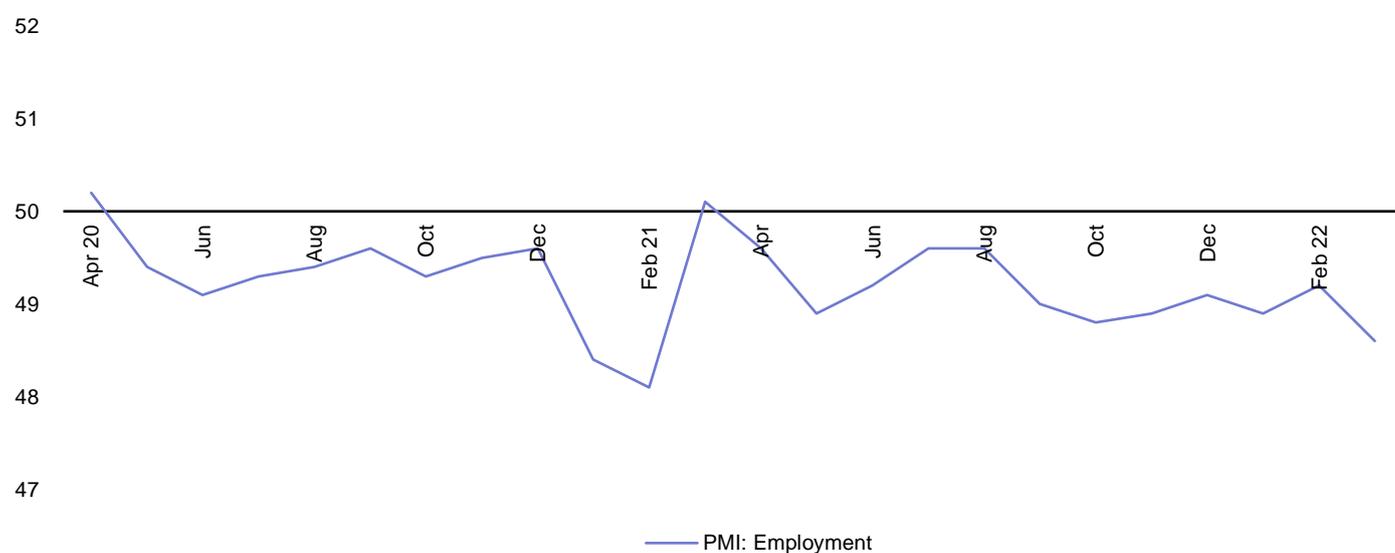
<sup>4</sup> The producer price index of industrial goods (PPI), compiled by China National Bureau of Statistics, measures the prices of industrial products when they are sold for the first time after production.

## 6. What the PMI tells us about manufacturing employment

### Stabilization of employment index indicates steady manufacturing employment

The employment index registered 48.9 in January, 49.2 in February, and 48.6 in March. The index has stabilized around 49.0, indicating a steady employment situation in the manufacturing sector in the past few months. (Exhibit 16)

**Exhibit 16: Employment index, April 2020 to March 2022**

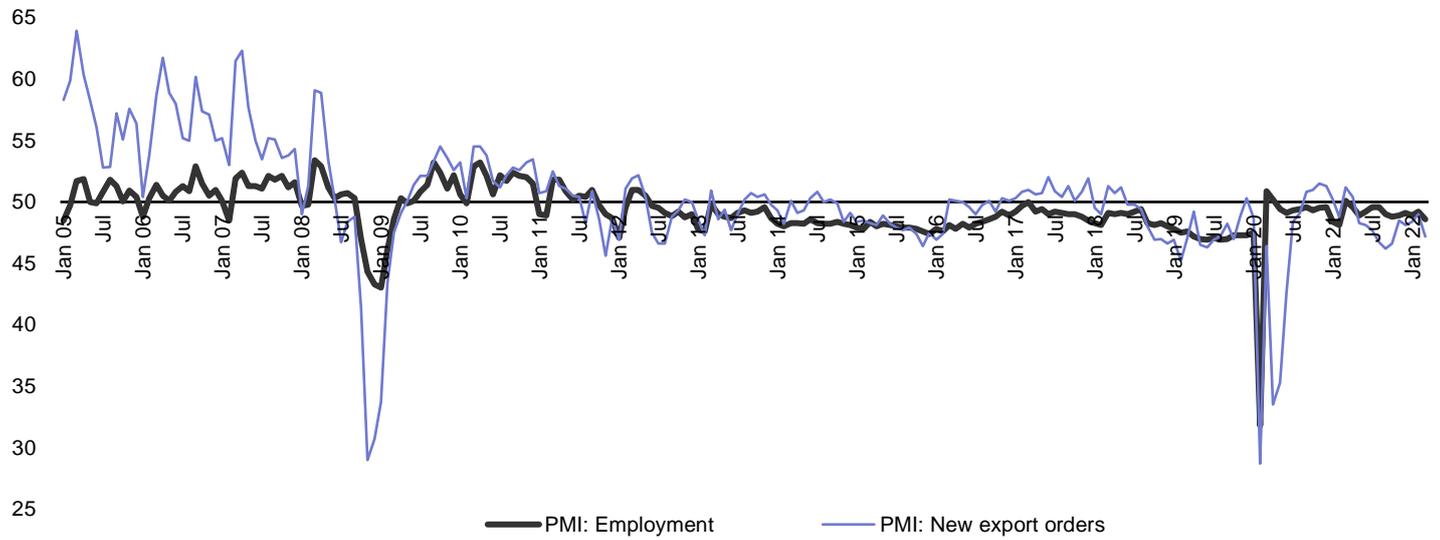


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 17 shows that the employment in China’s manufacturing sector has relied heavily on the export sector. Exhibit 19 and 20 give our readers some ideas about the extent to which the employment situation improves or deteriorates with the manufacturing sector and the overall economy. Given a slowdown in the export sector and the overall economy, we expect that the employment situation in the manufacturing sector will deteriorate in 2Q22.

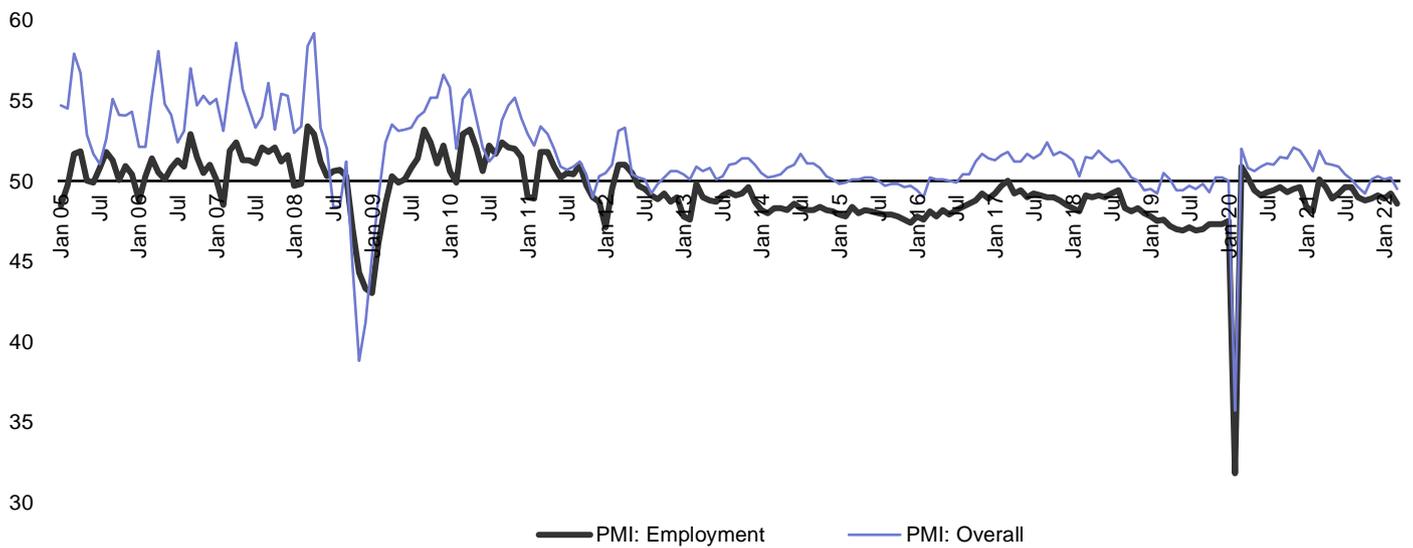
**Given a slowdown in the export sector and the overall economy, we expect that the employment situation in the manufacturing sector will deteriorate in 2Q22.**

**Exhibit 17: Employment and new export orders, January 2005 to March 2022**



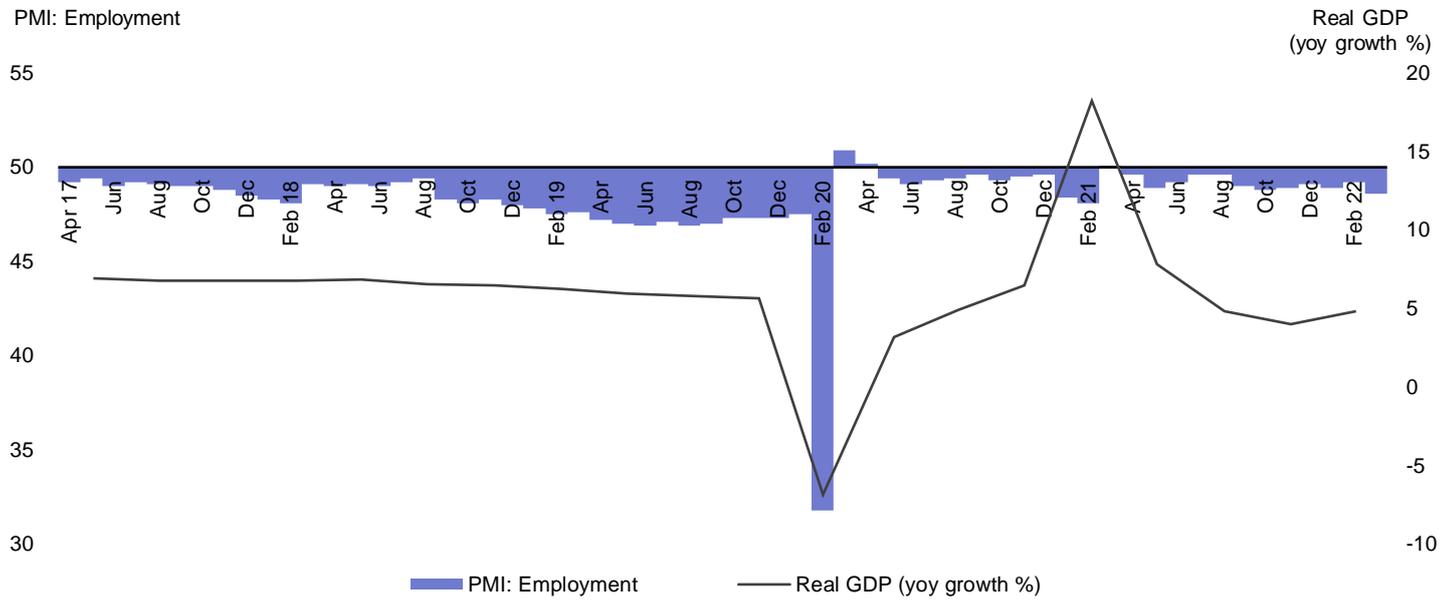
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

**Exhibit 18: Employment index and headline PMI, January 2005 to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

**Exhibit 19: Employment index and real GDP growth, April 2017 to March 2022**



Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

## About China Manufacturing PMI:

China Manufacturing Purchasing Managers' Index (PMI) provides an early indication each month of economic activities in the Chinese manufacturing sector. It is jointly published by China Federation of Logistics & Purchasing (CFLP) and the National Bureau of Statistics (NBS). Fung Business Intelligence is responsible for drafting and disseminating the English PMI report.

Every month questionnaires are sent to 3,000 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.

3,000 manufacturing enterprises in 31 industries from Eastern, Northeastern, 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.

There are 13 sub-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, Ex-factory Prices, Employment, Suppliers' Delivery Time and Business Expectations. An index reading above 50 indicates an overall positive change in a sub-indicator; below 50, an overall negative change.

The PMI is a composite index based on the seasonally adjusted indices for five of the sub-indicators with varying weights: New Orders—30%; Output—25%; Employment—20%; Suppliers' Delivery Time—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 more than twenty countries and regions conducting the PMI survey and compilation, based on an internationally standardized methodology.

## About the Organizations:

### China Federation of Logistics & Purchasing

China Federation of Logistics & Purchasing (CFLP) is the 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. The government authorizes the CFLP to produce industry statistics and set industry standards. CFLP is also China's representative in the Asian-Pacific Logistics Federation (APLF) and the International Federation of Purchasing and Supply Management (IFPSM).

### Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

### Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises over 26,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Global Brands Group Holding Limited (SEHK: 00787) and Convenience Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

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