PMI Quarterly on China Manufacturing

PMI 1Q24
Recovery in the manufacturing sector in March

Policy Outlook
China to step up policy support for the economy

2Q24 Forecasts
GDP growth to accelerate to 5.3% yoy while PMI to stay above 50.0

Fung Business Intelligence

Helen Chin
Vice President
helenchin@fung1937.com

William Kong
Senior Research Manager
williamkong@fung1937.com

China Federation of Logistics & Purchasing

Chen ZhongTao
czt@clic.org.cn

Issue 56

PMI points to recovery in the manufacturing sector in March

Helen Chin
Vice President
E: helenchin@fung1937.com

William Kong
Senior Research Manager
E: williamkong@fung1937.com

Fung Business Intelligence
11/F LiFung Tower
868 Cheung Sha Wan Road
Kowloon, Hong Kong
T: (852) 2300 2271
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: http://www.fbicgroup.com

Chen ZhongTao
czt@clic.org.cn
China Federation of Logistics & Purchasing

Our observations

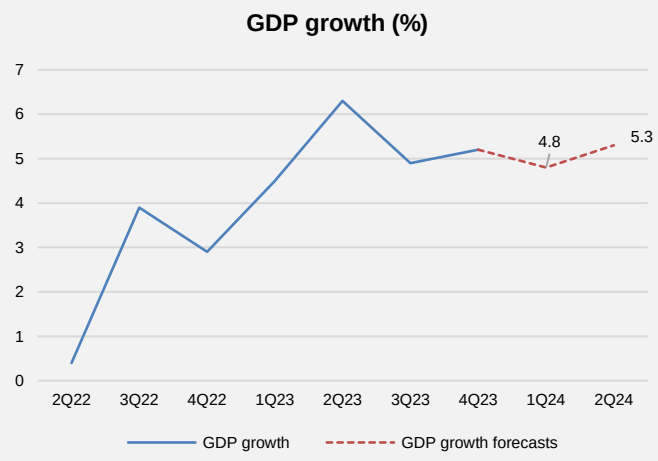
- Expansion of large enterprises accelerates while small and medium enterprises return to expansion.
- Manufacturing output resumes expansion in March.
- Overall market demand picks up in March.
- Manufacturers lower ex-factory prices of their products.
- Employment in manufacturing sector slightly decreases.

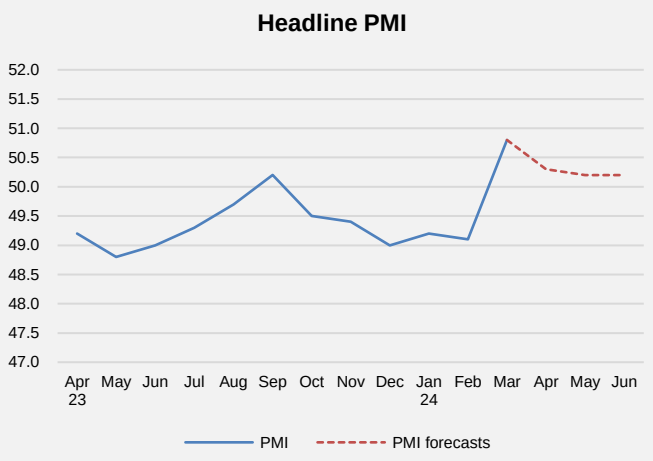
Policy outlook

- The Chinese government will continue to step up policy support for the economy.
- It will enhance the intensity and effectiveness of the proactive fiscal policy, leverage fiscal policy space, and improve the policy toolkit. It will also implement the prudent monetary policy in a flexible, appropriate, targeted, and effective way.

Our forecasts for 2Q24

- We project a steady growth in manufacturing production.
- Headline PMI will stay above 50.0.
- VAIO growth will register 5.0%-5.5% yoy.
- Real GDP growth will accelerate to 5.3% yoy.
- Exports will register a mid-single-digit year-on-year rise.
- Year-on-year growth rates for the purchaser price index and the PPI will go up, due to a recent rise in global commodity prices and a low comparison base in 2Q23.





IN THIS ISSUE:

PMI points to recovery in the manufacturing sector in March 4

What the PMI tells us about the performance of enterprises of different sizes 8

What the PMI tells us about manufacturing production 9

What the PMI tells us about the overall market demand 11

What the PMI tells us about upstream and midstream prices 13

What the PMI tells us about manufacturing employment 16

1. PMI points to recovery in the manufacturing sector in March

An improving domestic and external demand since the start of the year has boosted China's economic growth. We project that China's real GDP growth will come in at 4.8% yoy in 1Q24 and accelerate to 5.3% yoy in 2Q24.

China's manufacturing sector in 1Q24

After dropping from 49.2 in January to 49.1 in February as the Chinese New Year holiday suppressed factory activity in the month, China's manufacturing PMI rose to 50.8 in March, returning to the expansionary territory for the first time since September 2023. The March figure, although partly driven by seasonal factors, indicates a recovery in China's manufacturing sector. (See exhibit 1)

Manufacturing output has resumed its expansion lately, as the output index rose above the critical 50-mark to 52.2 in March. The growth in manufacturing output was mainly attributed to an increase in new orders: The new orders index returned to the expansionary territory in March, indicating a recent improvement in the overall market demand.

Prices of industrial products have continued to decline, as the ex-factory prices index has stayed below 50 since May 2022. Meanwhile, the prices of materials have increased recently: The input prices index has remained above the critical 50-mark throughout January to March.

Exhibit 2 shows the contributions of the sub-indices to the change in the headline PMI. The increase in the headline PMI in 1Q24 was due largely to the jump in the new orders index (which weighs 30% in the computation of the headline PMI) and the output index (which weighs 25%). Among the 12 sub-indices (i.e., excluding the suppliers' delivery time index), the indices of input prices and business expectations have stayed in the expansionary zone over the past three months. Meanwhile, the indices of backlogs of orders, stocks of finished goods, stocks of major inputs, ex-factory prices, and employment have stayed in the contractionary zone throughout the quarter. (See exhibit 3)

Policy outlook

Looking ahead, we expect that the Chinese government will continue 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 2024 at 'around 5%'. It reiterated the policy stance of carrying out a proactive fiscal policy and a prudent monetary policy. It pledged to enhance the intensity and effectiveness of the proactive fiscal policy, leverage fiscal policy space, and improve the policy toolkit. Meanwhile, it vowed to implement the prudent monetary policy in a flexible, appropriate, targeted, and effective way. It would maintain adequate liquidity at a proper level, and the aggregate financing and money supply should stay in step with the projected economic growth and price increase.

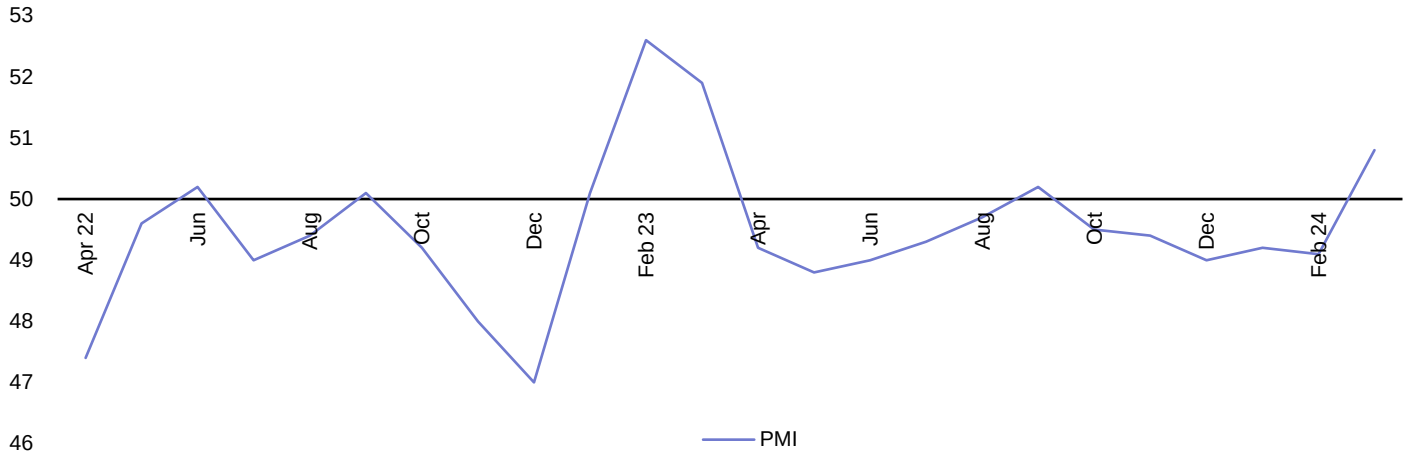
These signal that a more expansionary macro policy will be adopted in 2024, which will help alleviate the downward pressure on the Chinese economy, in our view.

Forecasts for 2Q24

China's industrial production will continue its steady growth in the near term amid an improving demand. Overall, we predict that the headline PMI will stay above 50.0 in 2Q24, while industrial production growth will register 5.0%-5.5 yoy in April and 2Q24.

Exhibit 4 plots the quarterly real GDP growth rates versus the monthly PMIs since April 2019. We project that China's real GDP growth will come in at 4.8% yoy in 1Q24 and accelerate to 5.3% yoy in 2Q24, as the improving domestic and external demand since the start of the year has boosted growth.

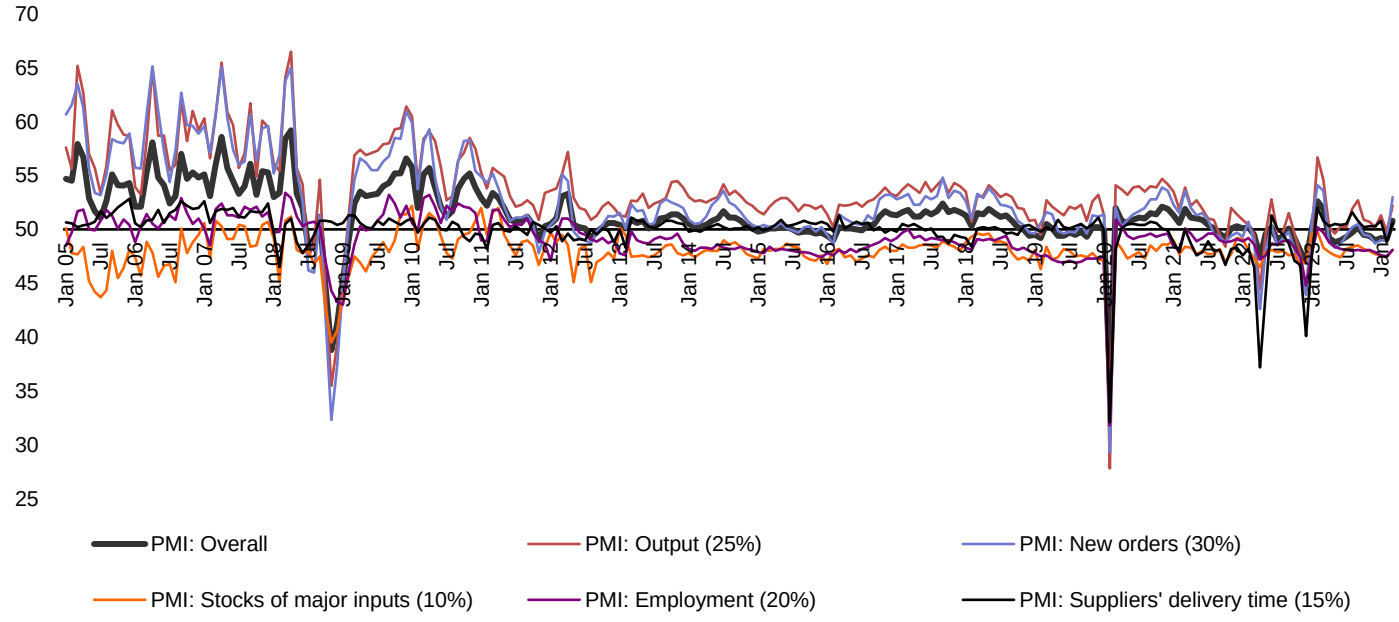
Exhibit 1: Headline PMI, April 2022 to March 2024



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

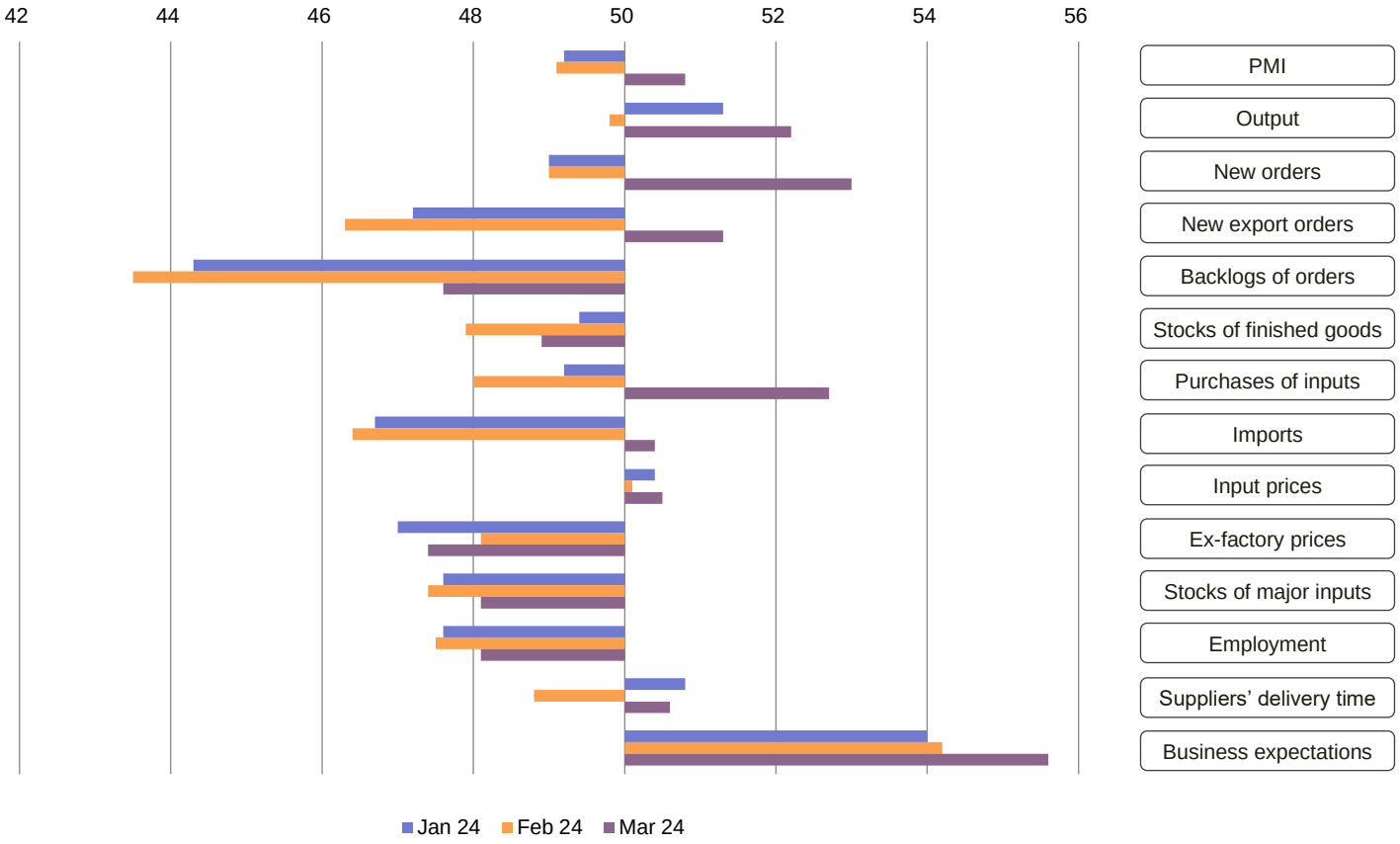
Exhibit 2: Headline PMI and sub-indices, January 2005 to March 2024

PMI = Output x 25% + New Orders x 30% + Stocks of Major Inputs x 10% + Employment x 20% + (100 - Suppliers' Delivery Time) x 15%



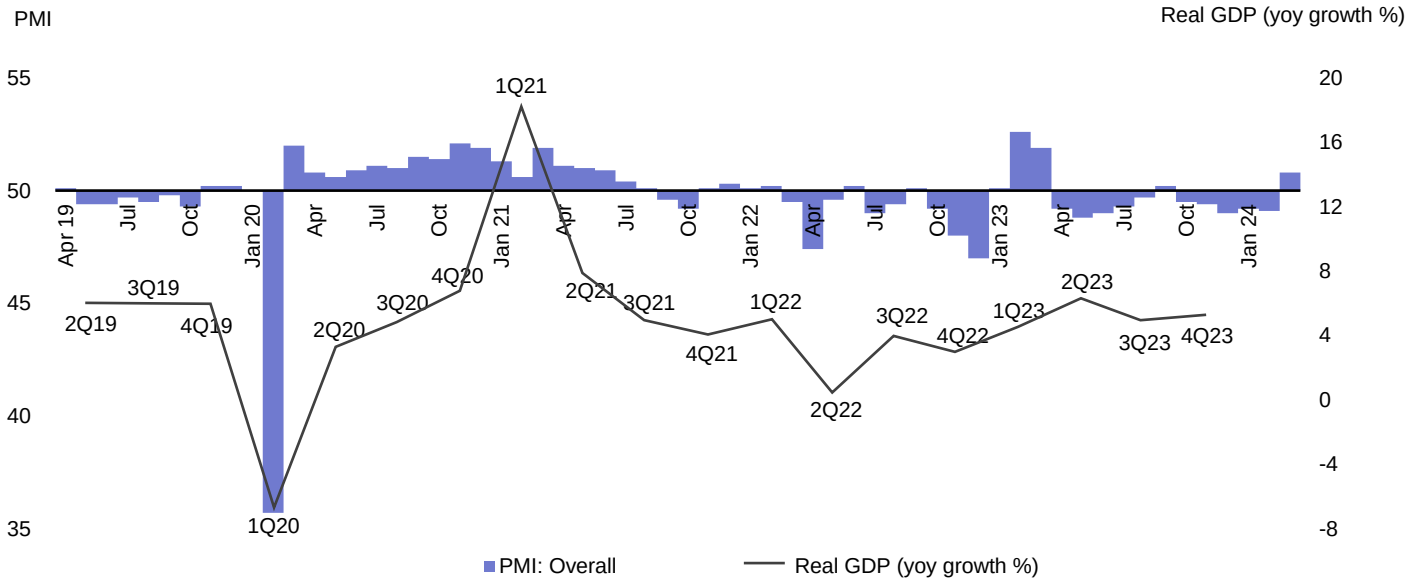
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 3: Headline PMI and all sub-indices, January to March 2024



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

Exhibit 4: Headline PMI and real GDP growth, April 2019 to March 2024



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

Expansion of large enterprises accelerates

The PMI of 'large enterprises' climbed from 50.4 in January and February to 51.1 in March, showing an accelerated expansion of 'large enterprises'.

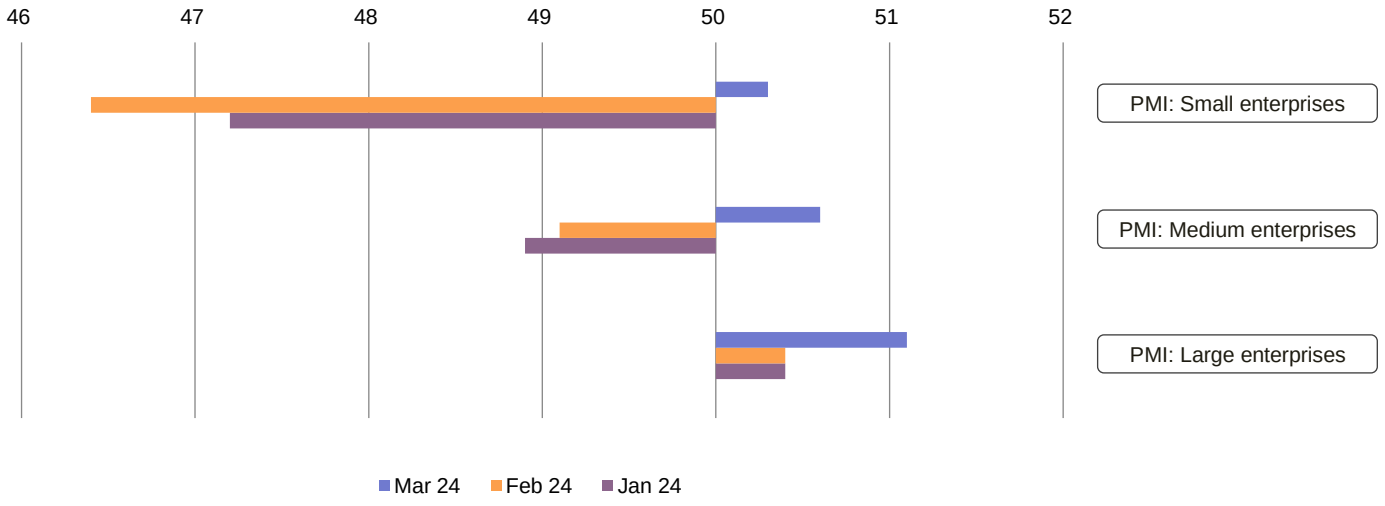
Small and medium enterprises return to expansion

The PMI of 'medium enterprises' picked up from 48.9 in January to 49.1 in February and then 50.6 in March, indicating that 'medium enterprises' have resumed its expansion lately. Meanwhile, after falling from 47.2 in January to 46.4 in February, the PMI of 'small enterprises' went up to 50.3 in March, returning to the expansionary zone for the first time since March last year.

Although it remains to be seen whether small businesses could sustain their growth momentum in the coming months, the marked improvement in March is a positive sign of recovery. (See exhibit 5)

Although it remains to be seen whether small businesses could sustain their growth momentum in the coming months, the marked improvement in March is a positive sign of recovery.

Exhibit 5: PMIs of large enterprises, medium enterprises and small enterprises, January to March 2024



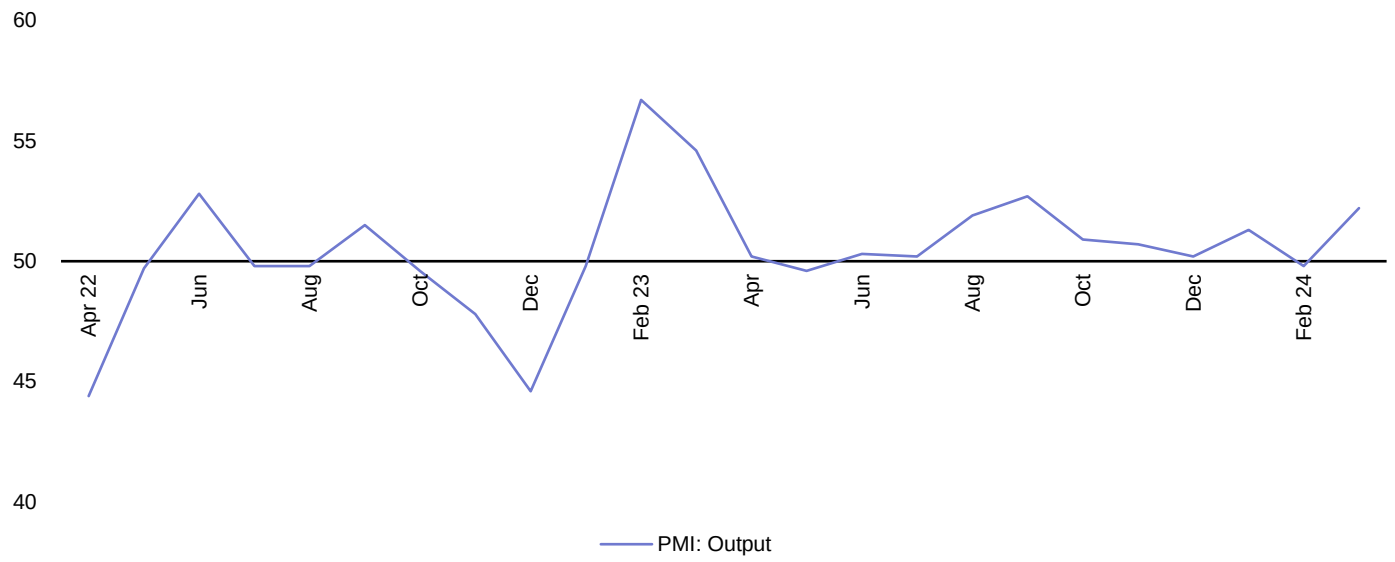
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

3. What the PMI tells us about manufacturing production

Manufacturing output resumes expansion in March

After falling from 51.3 in January to 49.8 in February, the output index rebounded to 52.2 in March, returning to the expansionary territory, which indicates a recovery in manufacturing production lately. (See exhibit 6)

Exhibit 6: Output index, April 2022 to March 2024



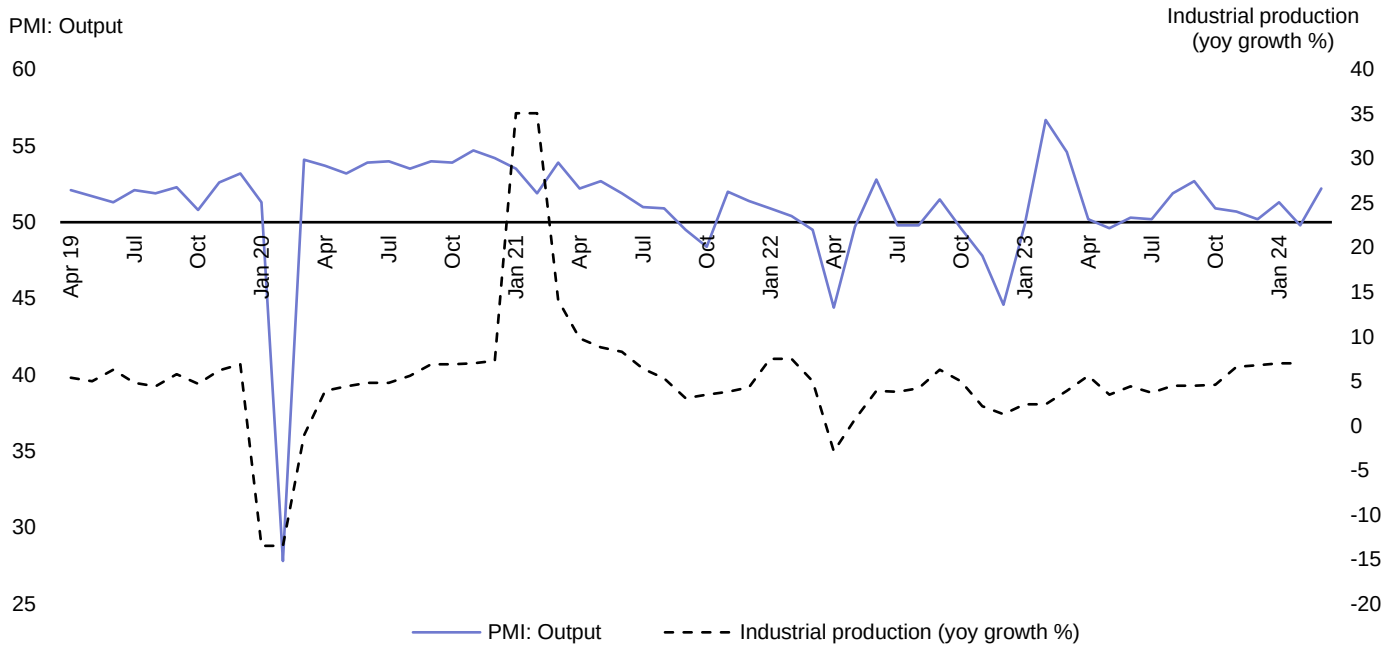
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Manufacturing production to maintain steady growth in 2Q24

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). Given an improving domestic and external demand and a low comparison base in the same period last year, we project that China's VAIO will maintain a steady growth of 5.0%-5.5% yoy in April and 2Q24. Still, challenges facing Chinese manufacturers include a sluggish growth in advanced economies, ongoing trade frictions between China and the US, strong government's determination to reduce industrial carbon emissions, and intense competition in the international market.

We project that China's VAIO will maintain a steady growth of 5.0%-5.5% yoy in April and 2Q24, amid an improving domestic and external demand and a low comparison base in the same period last year.

Exhibit 7: Output index and industrial production growth, April 2019 to March 2024



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

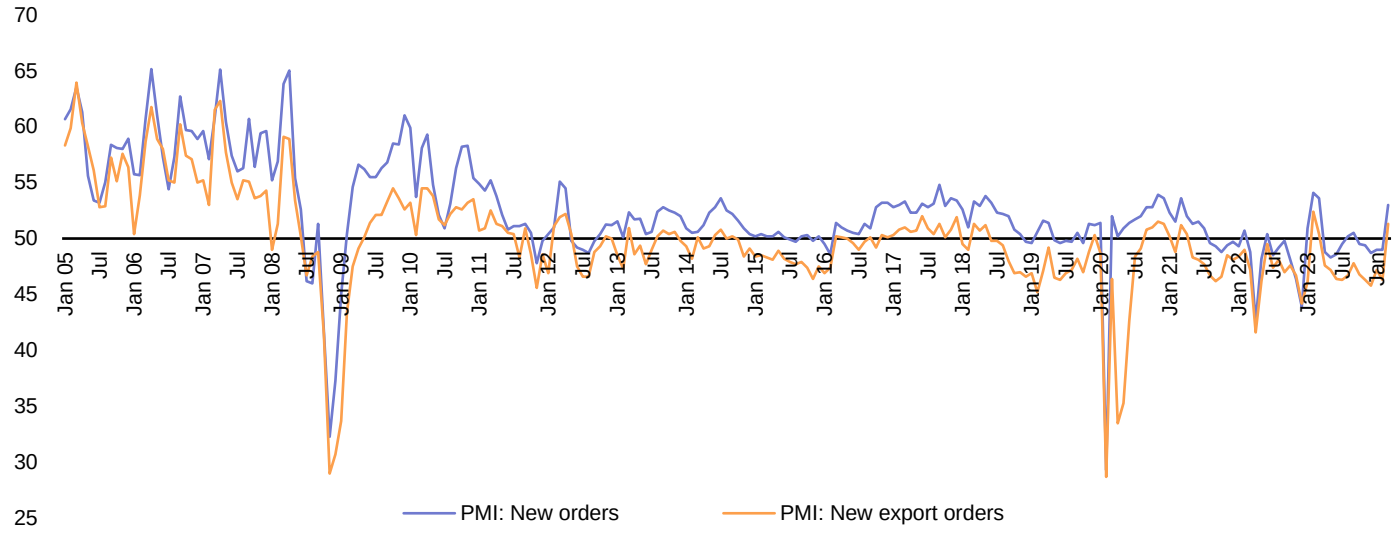
4. What the PMI tells us about the overall market demand

Overall market demand picks up in March

The new orders index increased from 49.0 in January and February to 53.0 in March. The latest index reading has returned to the expansionary territory, indicating an improvement in the overall market demand lately.

Meanwhile, after falling from 47.2 in January to 46.3 in February, the new export orders index rebounded to 51.3 in March, pointing to a recovery in new export orders recently. (See exhibit 8)

Exhibit 8: New orders index and new export orders index, January 2005 to March 2024



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

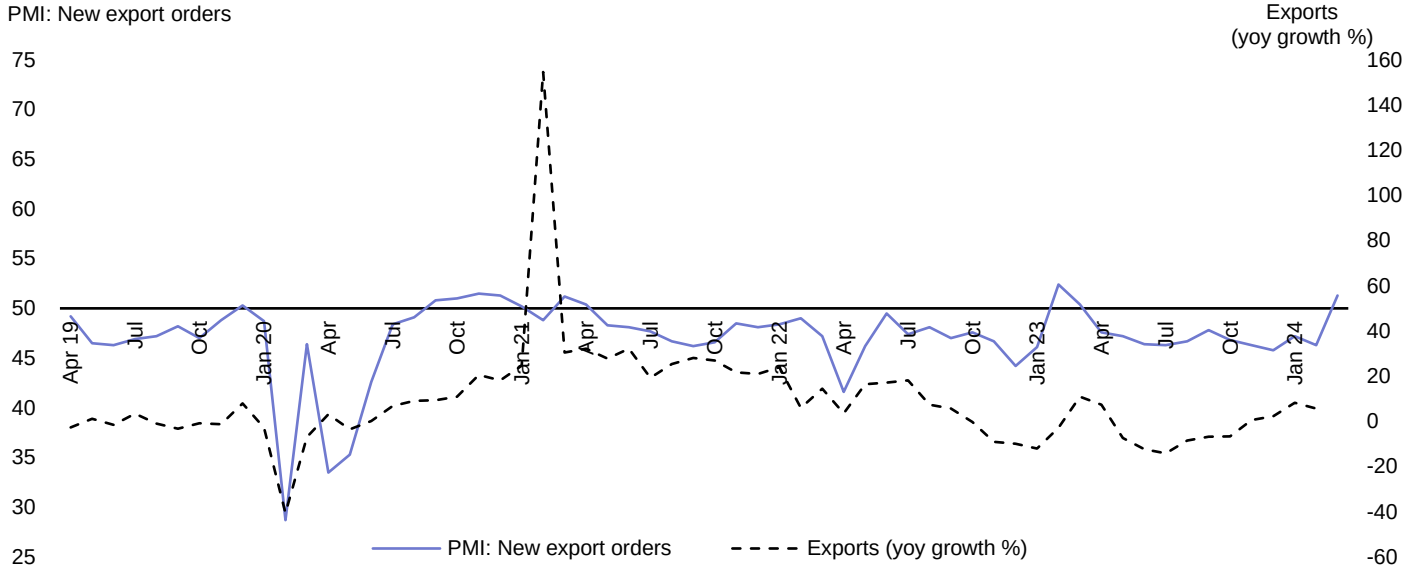
Sustained recovery in external demand bodes well for exports in 2Q24

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. The OECD's G20 composite leading indicator[1] has continued to go up in recent months, suggesting a sustained recovery in external demand for China's exports. Combined with a lower base for comparison in the same period last year, we forecast that China's exports will register a mid-single-digit year-on-year rise in 2Q24.

We forecast that China's exports will register a mid-single-digit year-on-year rise in 2Q24 amid an improving external demand.

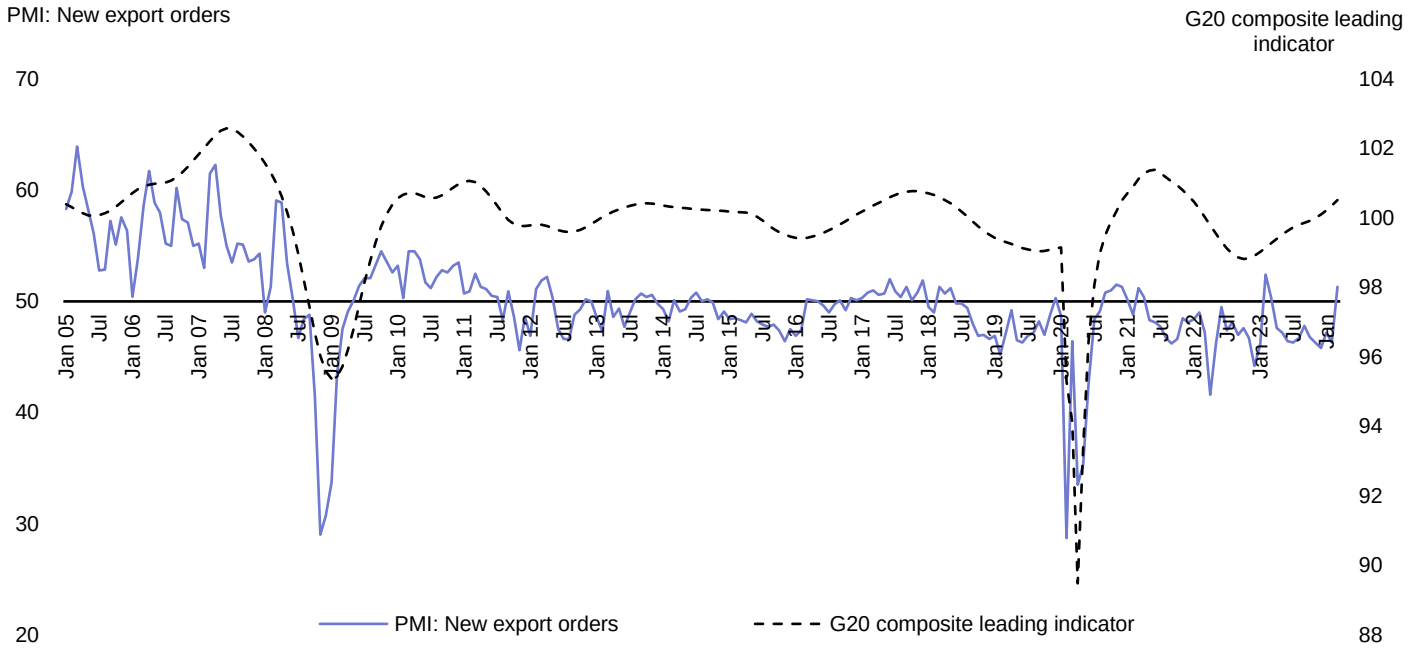
1 The G20 composite leading indicator, compiled by the Organization for Economic Cooperation and Development (OECD), is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity, and covers Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, South Africa, Turkey, UK, and the US.

Exhibit 9: New export orders index and export growth, April 2019 to March 2024



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

Exhibit 10: New export orders index and G20 composite leading indicator, January 2005 to March 2024



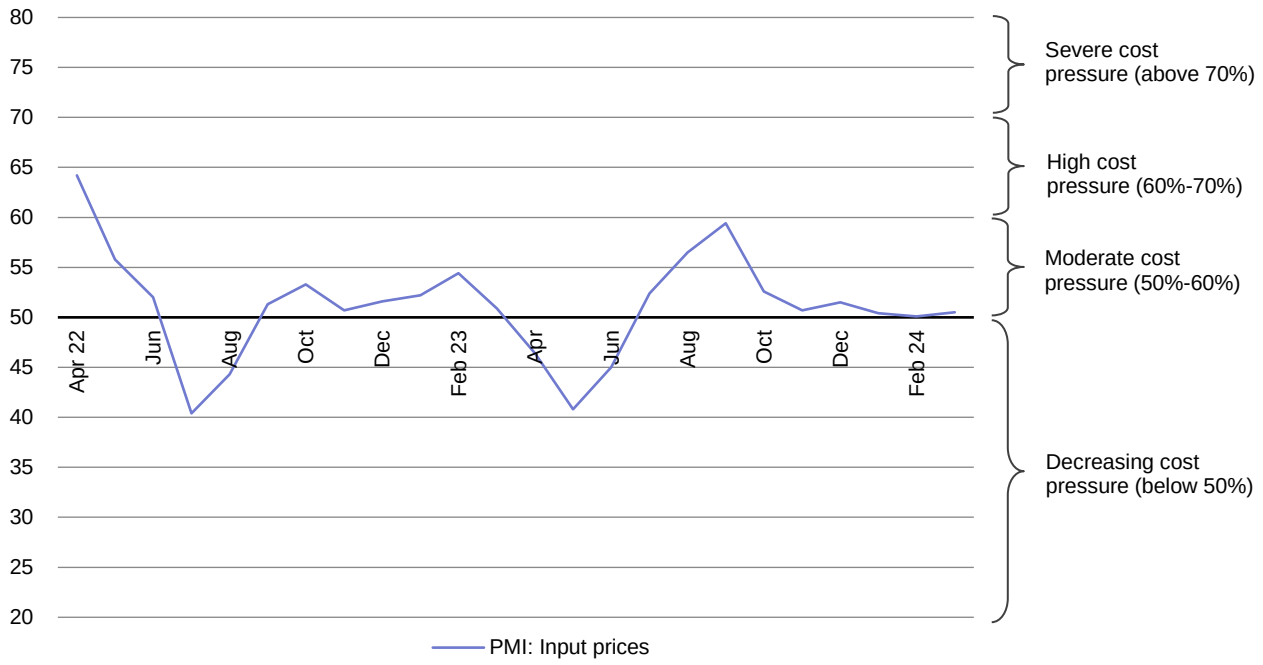
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Organization for Economic Cooperation and Development

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

Rising upstream prices exert moderate cost pressure on manufacturers

After falling from 50.4 in January to 50.1 in February, the input prices index went up to 50.5 in March. The index readings have stayed above the critical 50-mark throughout January to March, indicating a continued increase in the prices of production inputs lately. This would raise the cost pressure on Chinese manufacturers.

Exhibit 11: Input prices index, April 2022 to March 2023

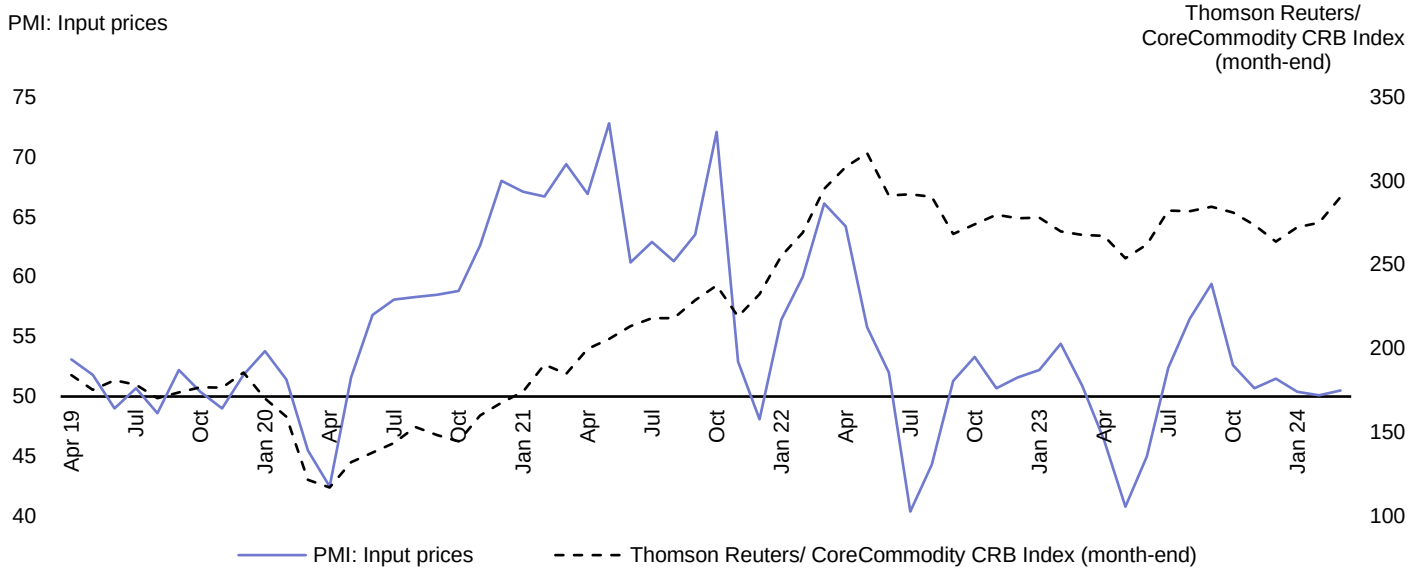


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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.[2]

2 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 2019 to March 2024

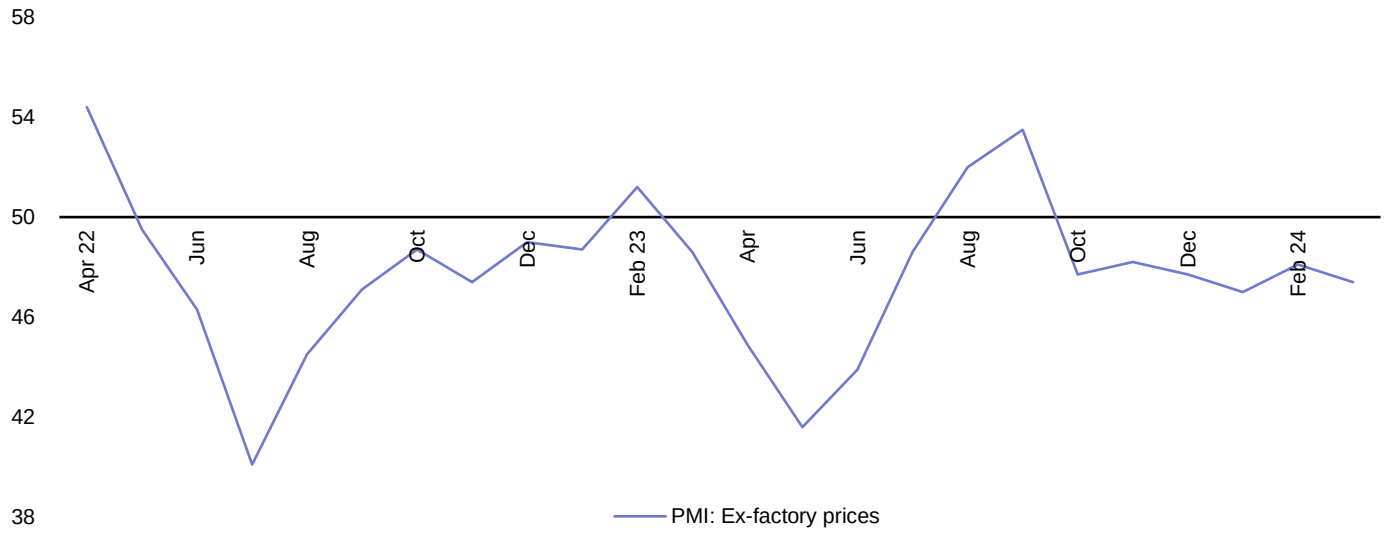


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Thomson Reuters

Manufacturers lower ex-factory prices of their products

After rising from 47.0 in January to 48.1 in February, the ex-factory prices index dropped to 47.4 in March. The index readings indicate that Chinese manufacturers have been lowering the ex-factory prices of their finished products lately.[3]

Exhibit 13: Ex-factory prices index, April 2022 to March 2024



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

3 The ex-factory prices index has been released since January 2017.

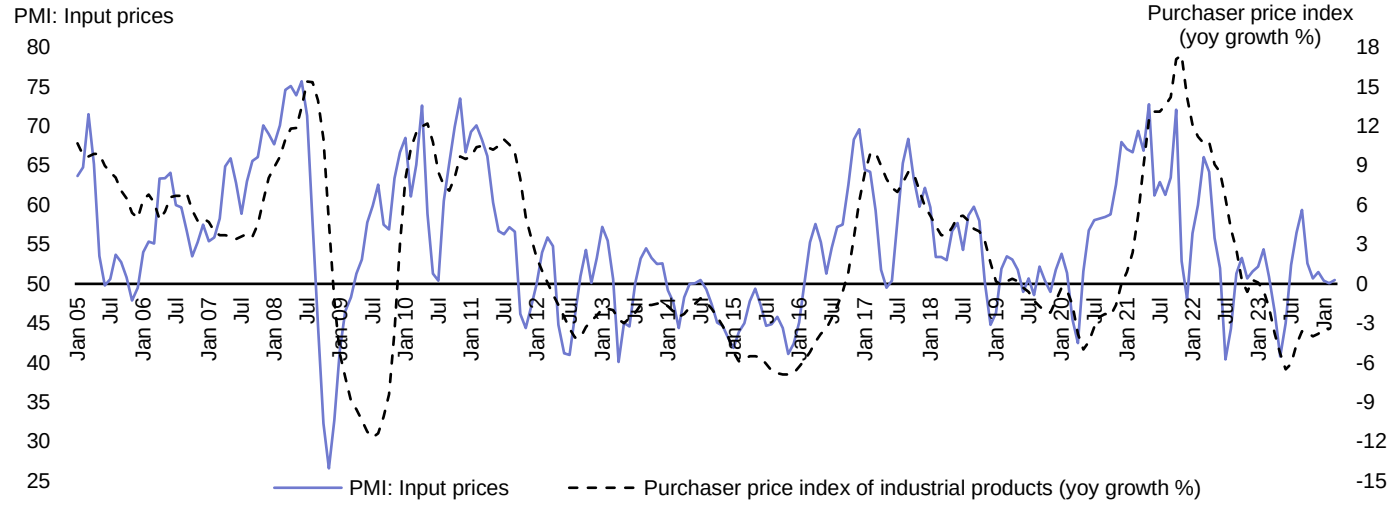
Growth in input prices and ex-factory prices to go up in 2Q24

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 producer price index (PPI)[4] in exhibit 15.

Going forward, we expect that the year-on-year growth rates for both the purchaser price index and the PPI will go up in 2Q24, due to a recent rise in global commodity prices and a low comparison base in 2Q23.

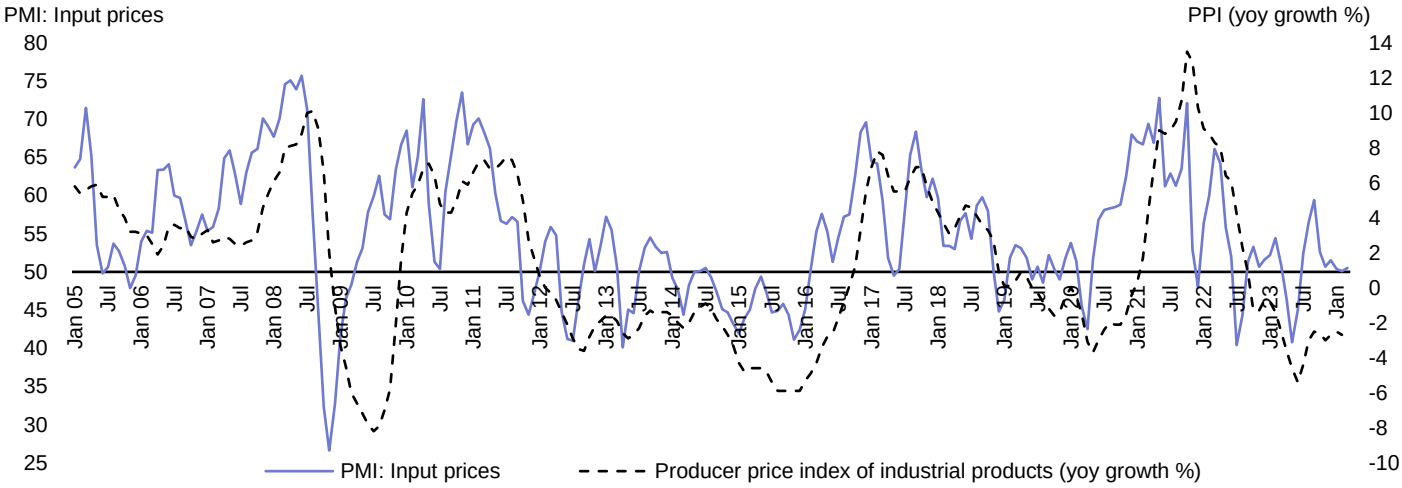
We expect that the year-on-year growth rates for both the purchaser price index and the PPI will go up in 2Q24, due to a recent rise in global commodity prices and a low comparison base in 2Q23.

Exhibit 14: Input prices index and purchaser price index of industrial products, January 2005 to March 2024



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

Exhibit 15: Input prices index and producer price index, January 2005 to March 2024



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

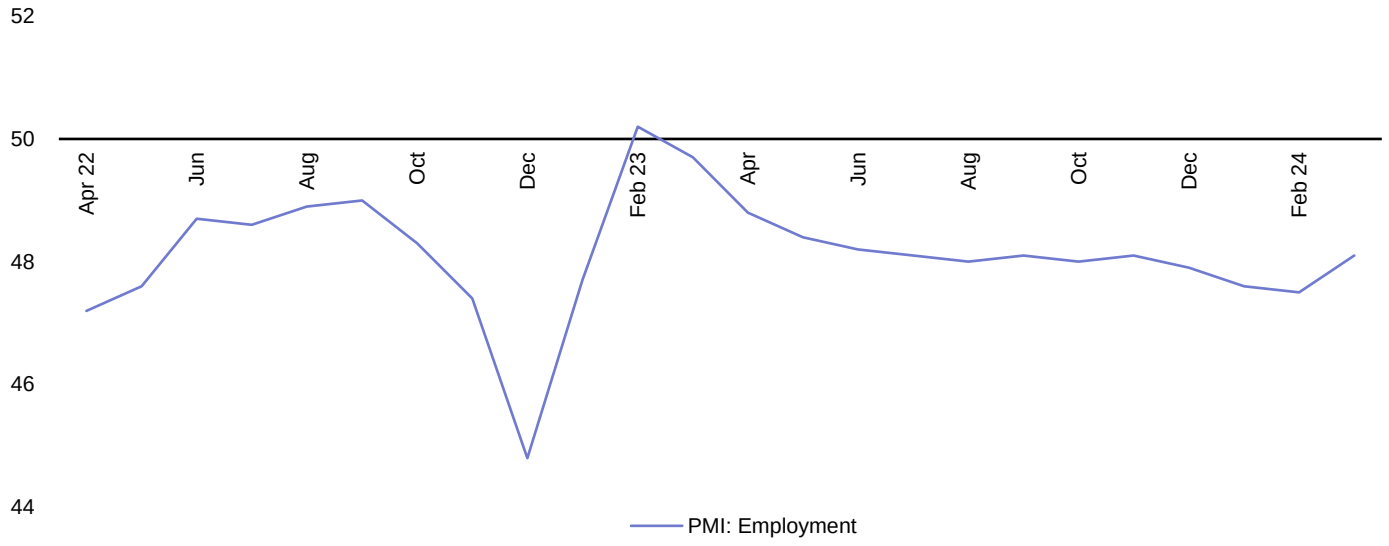
[4] The producer price index of industrial goods (PPI), compiled by China National Bureau of Statistics, measures the prices of industrial products when they are sold for the first time after production.

6. What the PMI tells us about manufacturing employment

Employment in manufacturing sector slightly decreases

The employment index stayed low and fluctuated around 48.0 over the past few months. The index readings indicate that employment in the manufacturing sector has slightly decreased lately. (See exhibit 16)

Exhibit 16: Employment index, April 2022 to March 2024

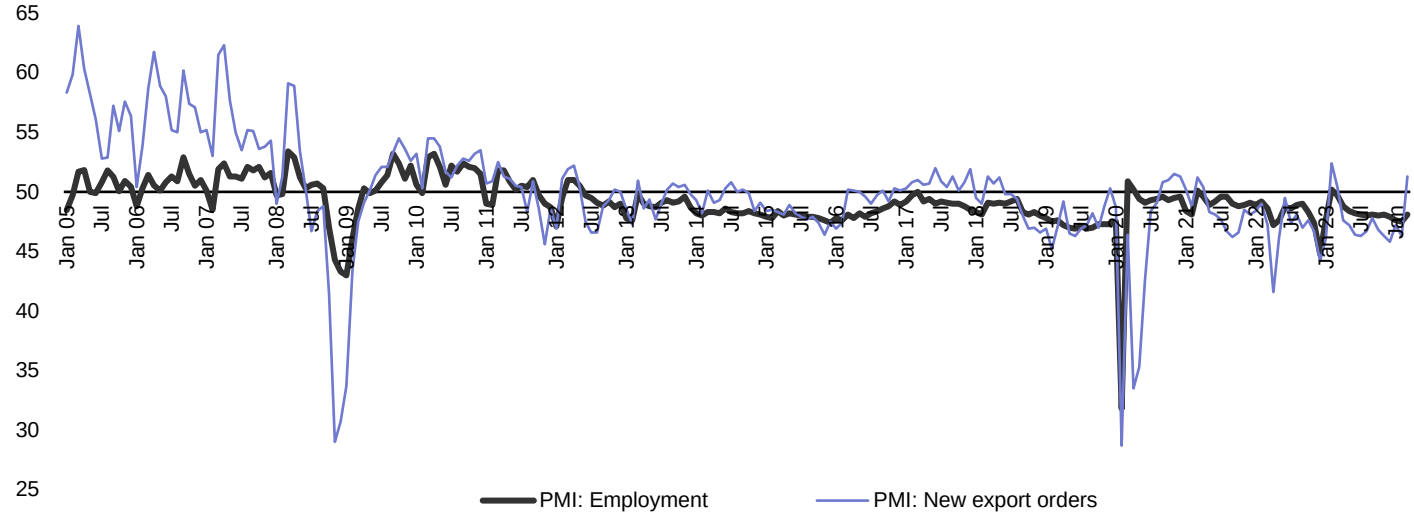


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 17 shows that the employment in China's manufacturing sector has relied heavily on the export sector. Exhibit 18 and 19 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 steady growth in overall Chinese economy, we expect the employment situation in the manufacturing sector to stabilize in 2Q24.

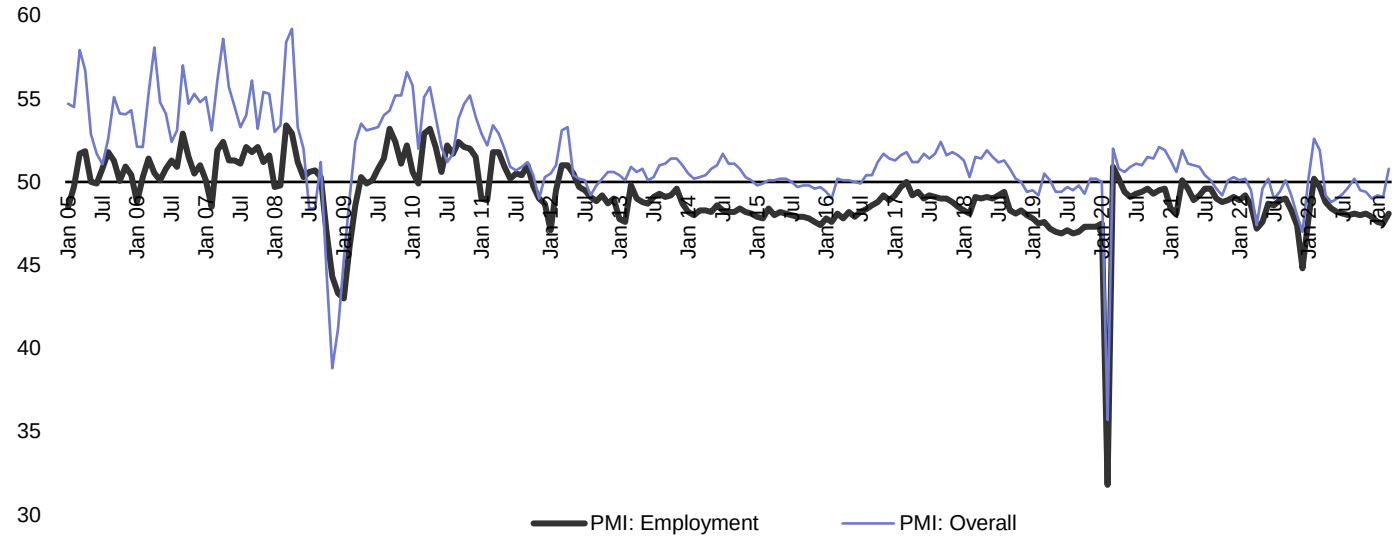
Given a steady growth in overall Chinese economy, we expect the employment situation in the manufacturing sector to stabilize in 2Q24.

Exhibit 17: Employment and new export orders, January 2005 to March 2024



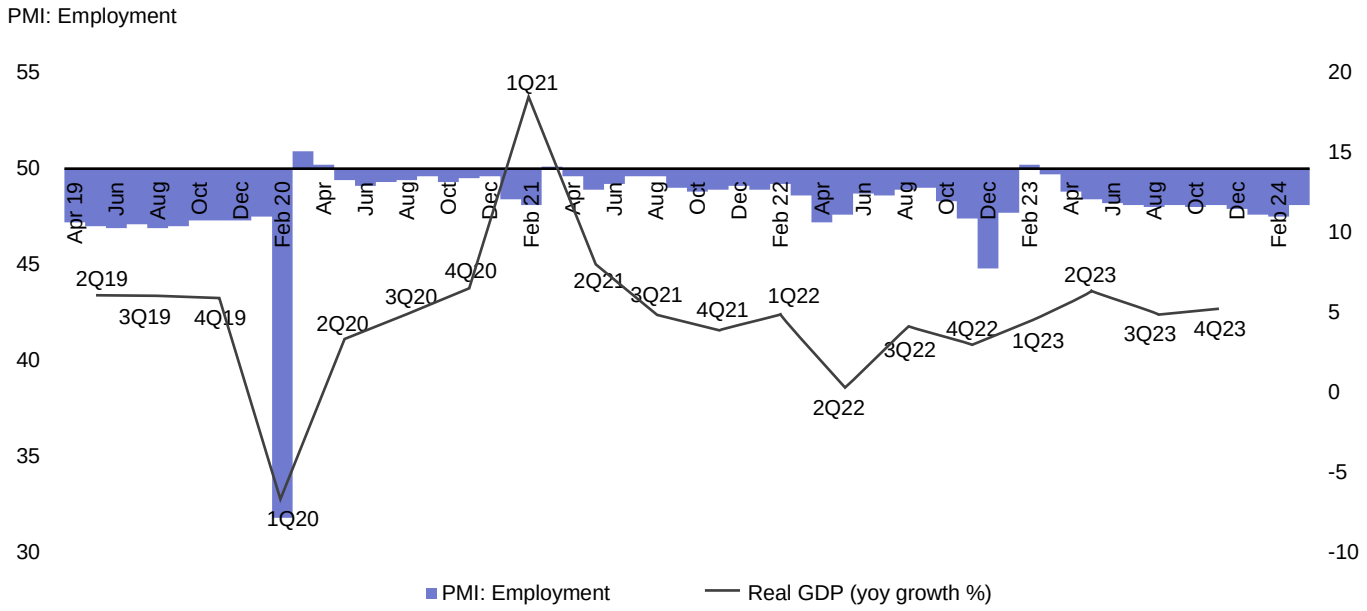
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 18: Employment index and headline PMI, January 2005 to March 2024



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

Exhibit 19: Employment index and real GDP growth, April 2019 to March 2024



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 3,200 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.

3,200 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 15,000 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.

For more information, please visit http://www.funggroup.com.

© Copyright 2024 Fung Business Intelligence. All rights reserved.
Though Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of Fung Business Intelligence is prohibited.