

PMI Quarterly on China Manufacturing

PMI 1Q26

Recovery after early slump in the manufacturing sector

Policy Outlook

China to maintain policy support in 2Q26

2Q26 Forecasts

GDP growth to reach 4.8% yoy while PMI to hover around 50.0

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PMI points to recovery after early slump in the manufacturing sector in 1Q26

Our observations

- Large enterprises are experiencing faster growth, while small and medium enterprises continue to contract, albeit at a slower pace.
- Manufacturing output has begun to expand again.
- Overall market demand is recovering.
- Manufacturers are raising ex-factory prices in response to rising input costs.
- Employment in the manufacturing sector has seen a slight decline.

Policy outlook

- The *Government Work Report* released in March reiterated a policy stance characterized by “more proactive and effective macro policies”.
- China will continue to implement a more proactive fiscal policy and an appropriately accommodative monetary policy.
- We expect the Chinese government to maintain policy support in 2Q26, which will help the economy navigate external challenges and sustain steady growth.

Our forecasts for 2Q26

- We project stable growth in manufacturing production. While higher crude prices are raising costs for downstream sectors, which hampers industrial capacity utilization, an improving external demand should benefit exports and industrial production.
- Headline PMI is likely to hover around 50.0.
- VAIO growth is expected to reach 5.0%-5.5% yoy.
- Real GDP growth is projected at 4.8% yoy.
- Exports are expected to see single-digit growth.
- Year-on-year growth rates for the purchaser price index and the PPI will continue to rise, driven by increases in global crude prices and a low comparison base in 2Q25.

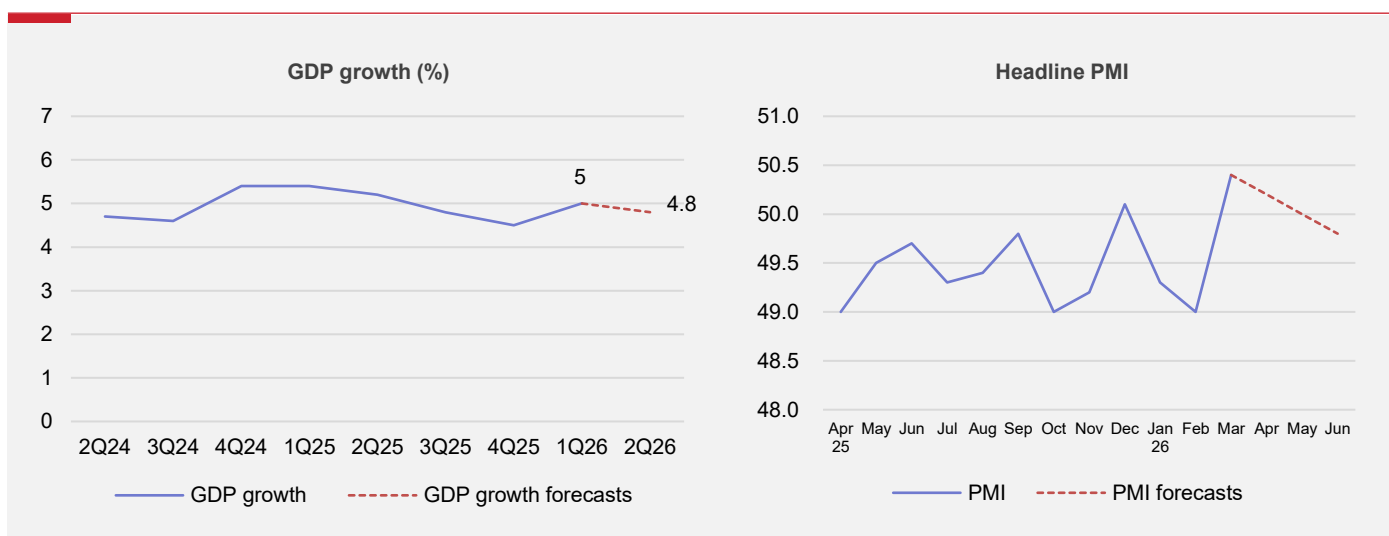
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1. PMI points to recovery after early slump in the manufacturing sector in 1Q26

China's manufacturing sector in 1Q26

After falling to 49.3 in January and 49.0 in February as the Chinese New Year holiday suppressed factory activity, China's manufacturing PMI increased to 50.4 in March. While partly influenced by seasonal factors, the return of the headline PMI to expansionary territory indicates a recovery in China's manufacturing sector. (See exhibit 1)

Following a slight contraction in February, manufacturing output has since recovered, with the output index climbing from 49.6 in February to 51.4 in March. This growth was propelled by improved overall market demand, as the new orders index jumped from 48.6 in February to a one-year high of 51.6 in March.

Prices of industrial products have seen an uptick: The ex-factory prices index has remained above the critical 50-mark since January, reaching a four-year high of 55.4 in March. This increase in product prices was mainly due to a surge in the prices of materials, with the input prices index soaring from 56.1 in January to 63.9 in March, its highest level since April 2022.

Exhibit 2 shows the contributions of various sub-indices to the change in the headline PMI. The rebound in the headline PMI in March was primarily driven by increases 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 (excluding the suppliers' delivery time index), the indices of input prices, ex-factory prices, and business expectations remained in expansionary zone throughout the quarter. In contrast, the indices of new export orders, backlogs of orders, stocks of finished goods, stocks of major inputs, imports, and employment remained in contractionary zone during the same period. (See exhibit 3)

Policy outlook

In the *Government Work Report* released in March, the Chinese government set the GDP growth target for 2026 at "4.5–5% while striving for better in practice". The report reiterated a policy stance characterized by "more proactive and effective macro policies" that are "more forward-looking, targeted, and coordinated". The government will continue to pursue progress while ensuring stability, improve both the quality and performance of growth, boost the synergy between existing policies and new ones, enhance counter- and cross-cyclical adjustments, and make macroeconomic governance more effective.

As part of a more proactive fiscal policy, this year's deficit-to-GDP ratio is set at "around 4%". Government spending will continue to be substantial. Fiscal funds will be used more cost-effectively, with priority given to boosting consumption, investing in people, and raising living standards.

We project that China's GDP growth will reach 4.8% yoy in 2Q26. This growth will be driven by continued expansion in exports and industrial production, despite uncertainties and higher crude prices due to the US–Israel war against Iran.

Meanwhile, the Chinese government will maintain an appropriately accommodative monetary policy. Promoting steady economic growth and an appropriate rebound in prices will be key considerations for the monetary policy. The government is committed to flexibly and effectively employing monetary policy instruments, including cuts to required reserve ratios and interest rates, and maintaining adequate liquidity, to ensure that aggregate financing and money supply rise in step with projected economic growth and general price levels.

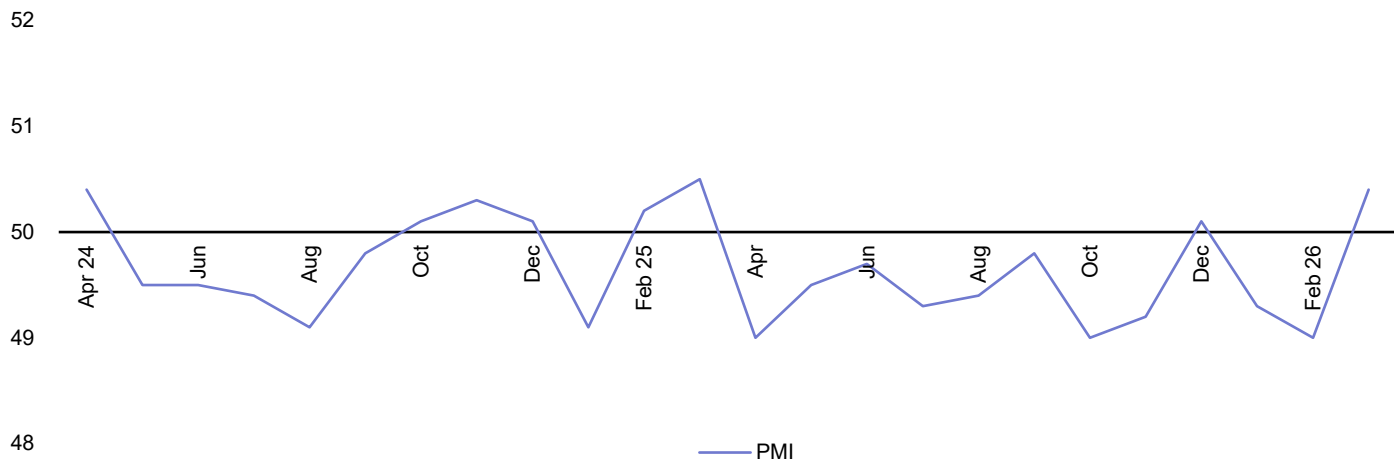
Looking ahead, we expect that the Chinese government will continue to provide policy support in 2Q26, which will help the economy navigate external challenges and sustain steady growth.

Forecasts for 2Q26

Despite global economic uncertainties and higher crude prices stemming from the US–Israel war against Iran, we expect steady growth in China’s exports and industrial production, given a continued improvement in external demand. Overall, we predict that China’s industrial production will increase by 5.0%-5.5% yoy in 2Q26. Meanwhile, the headline PMI is likely to hover around 50.0.

Exhibit 4 plots the quarterly real GDP growth rates alongside the monthly PMIs since April 2021. We project that China’s real GDP growth will reach 4.8% yoy in 2Q26.

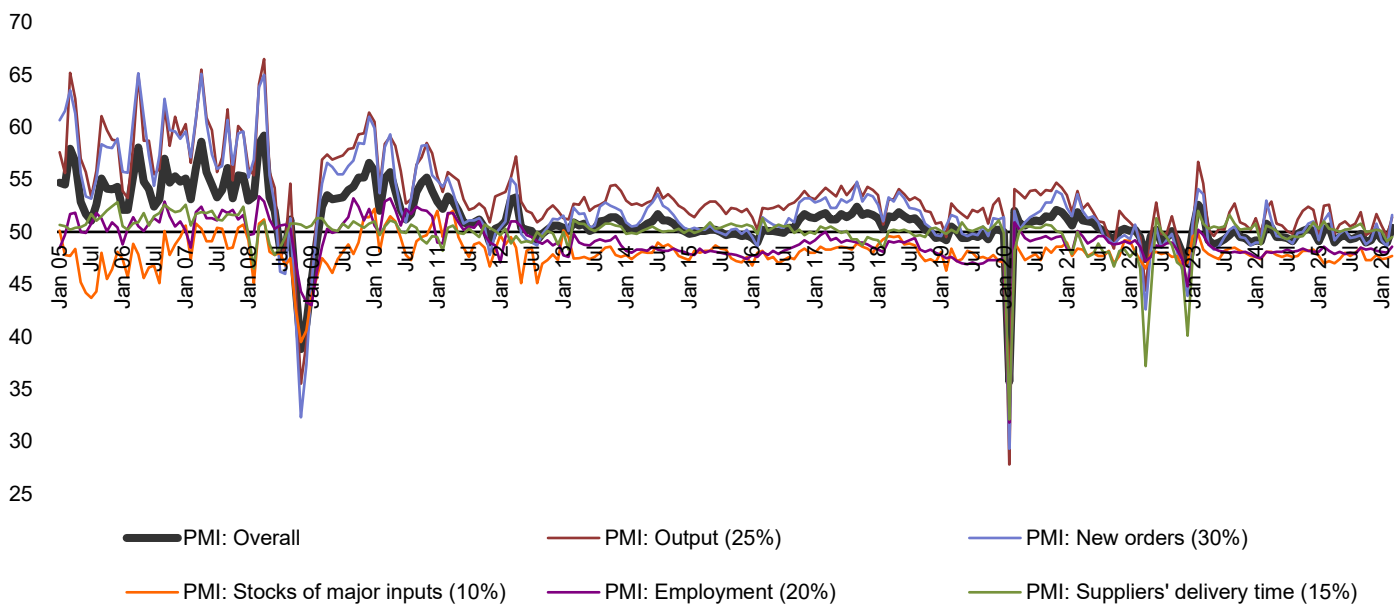
Exhibit 1: Headline PMI, April 2024 to March 2025



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

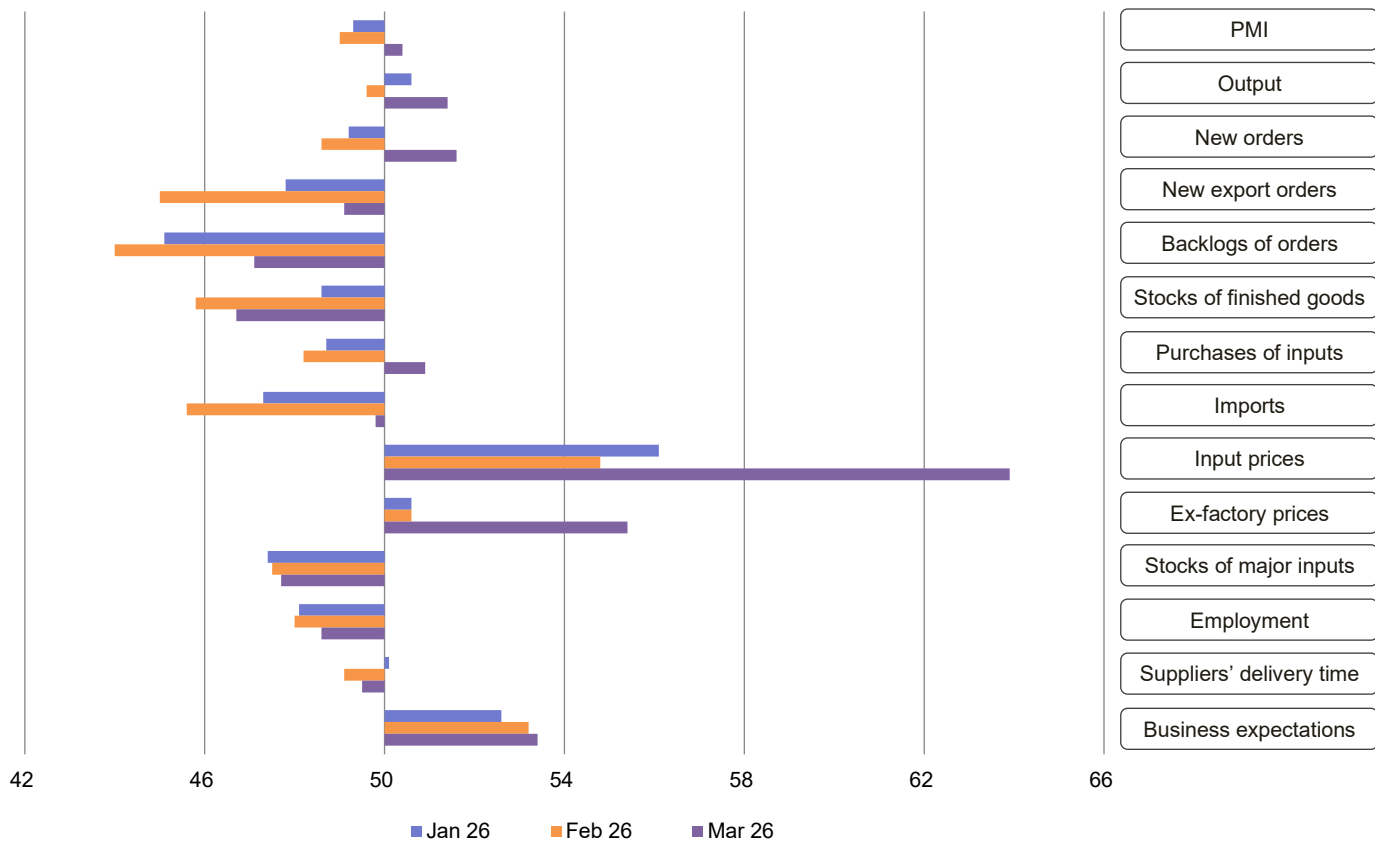
Exhibit 2: Headline PMI and sub-indices, January 2005 to March 2026

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



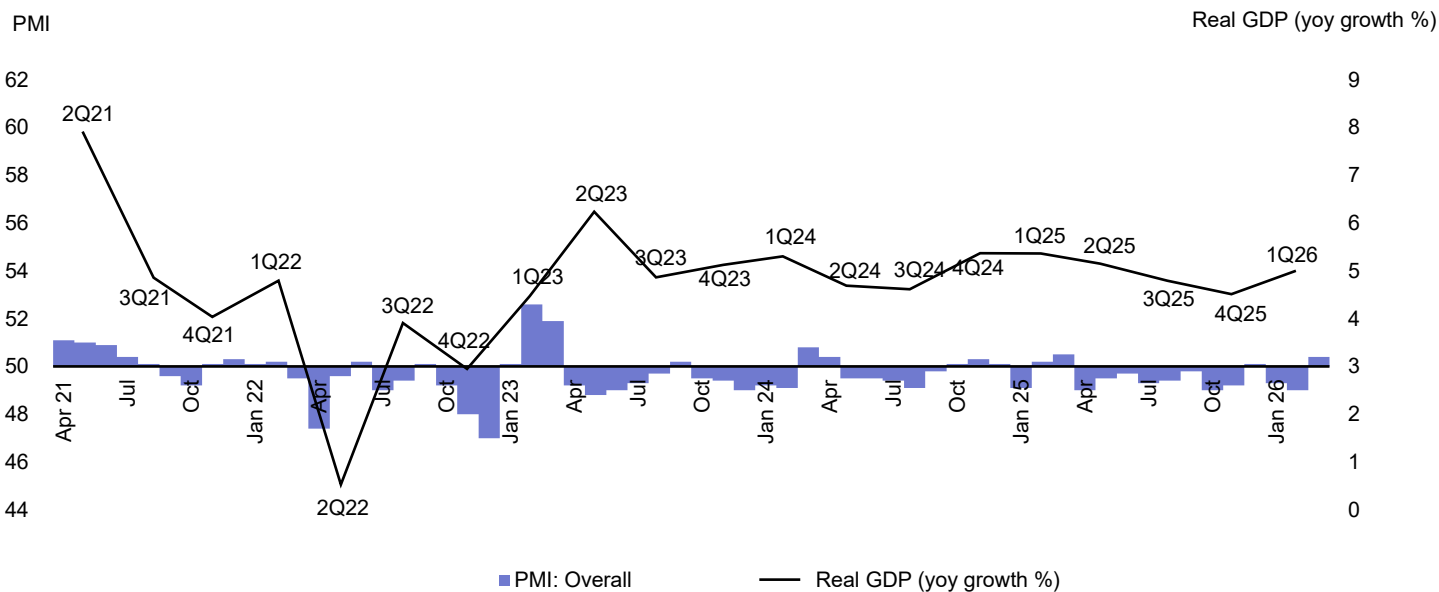
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 3: Headline PMI and all sub-indices, January to March 2026



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

Exhibit 4: Headline PMI and real GDP growth, April 2021 to March 2026



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 experience faster growth

The PMI of “large enterprises” remained above the critical threshold of 50 throughout 1Q26, climbing from 50.3 in January to 51.5 in February and hitting a one-year high of 51.6 in March. This upward trend indicates an acceleration in growth among “large enterprises”.

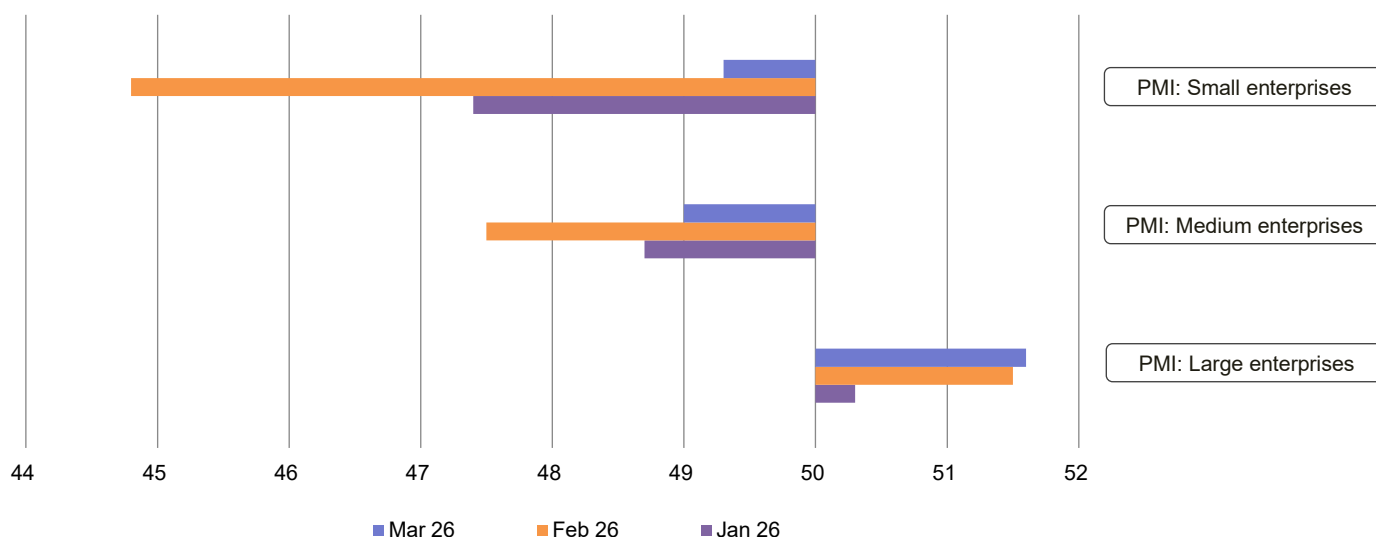
Small and medium enterprises face ongoing challenges

In contrast, the PMI of “medium enterprises” fell from 48.7 in January to 47.5 in February, before bouncing back to 49.0 in March. Similarly, the PMI of “small enterprises” declined from 47.4 in January to 44.8 in February, before rising to 49.2 in March.

Throughout the quarter, both “small enterprises” and “medium enterprises” recorded PMI readings below 50, indicating continued operational challenges and contraction. However, March saw the PMI of both “small enterprises” and “medium enterprises” reach three-month highs and inch close to the neutral level of 50, suggesting a significant slowdown in the pace of contraction. (See exhibit 5)

Large enterprises have consistently outperformed small and medium enterprises, and this trend has persisted for several years. We anticipate that it will continue in the near future.

Exhibit 5: PMIs of large enterprises, medium enterprises and small enterprises, January to March 2026



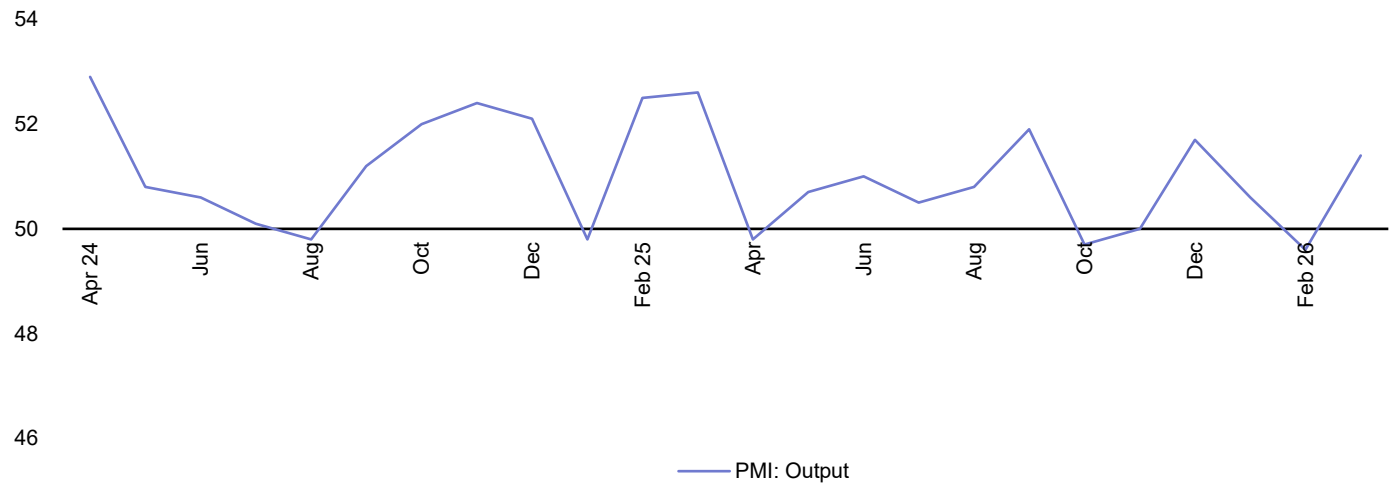
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

3. What the PMI tells us about manufacturing production

Manufacturing output resumes expansion in March

After dropping from 50.6 in January to 49.6 in February, primarily due to the Chinese New Year holiday, the output index rebounded to 51.4 in March, returning to expansionary territory and indicating a recent recovery in manufacturing production. (See exhibit 6)

Exhibit 6: Output index, April 2024 to March 2026



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

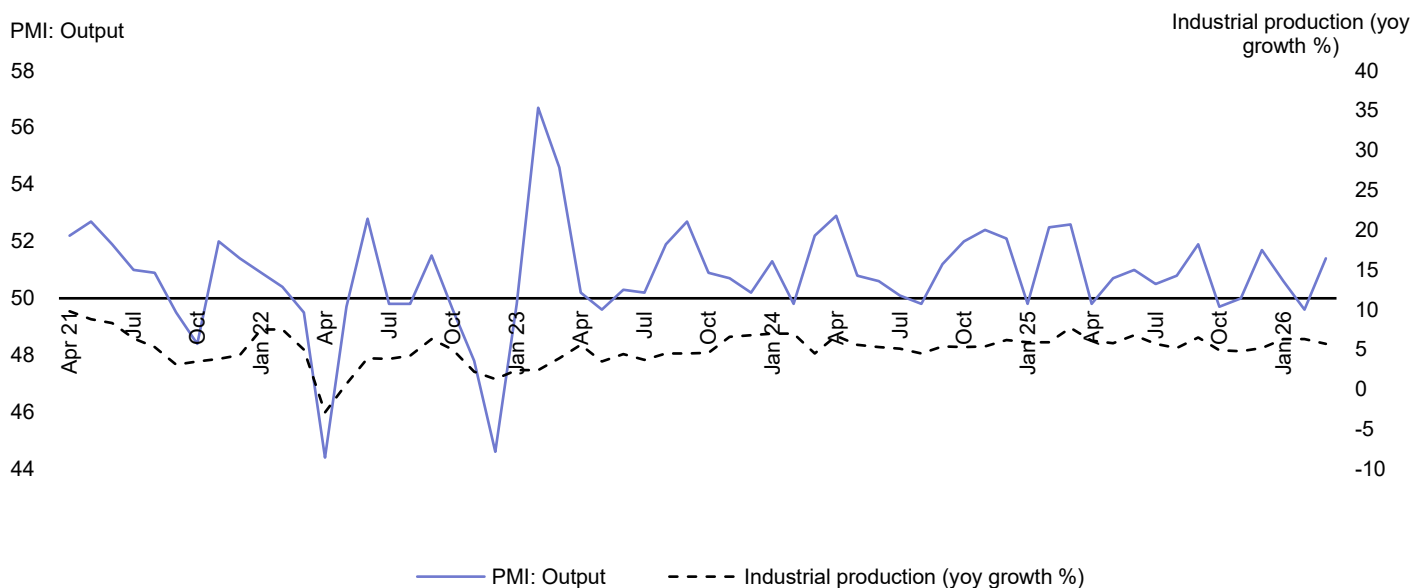
Stable growth in manufacturing production expected for 2Q26

Exhibit 7 illustrates the correlation (with some lags) between the output index and the year-on-year growth of value-added of industrial output (VAIO). Looking ahead, rising crude prices, driven by the US–Israel war against Iran, are raising energy and material costs for downstream sectors, which will dampen industrial capacity utilization. However, a continued improvement in external demand bodes well for China’s exports and industrial production. Overall, we project that China’s VAIO will maintain a steady growth of 5.0%-5.5% yoy in 2Q26.

Other challenges facing Chinese manufacturers include global economic uncertainties stemming from possible escalations in the Iran war and shifts in Donald Trump’s policies, efforts by the Chinese government to address overproduction in key sectors and reduce industrial carbon emissions, and intense competition in both domestic and international markets.

While higher crude prices are raising costs for downstream sectors, which will hamper industrial capacity utilization, an improving external demand is beneficial for exports and industrial production. Overall, we expect that China’s VAIO will maintain a steady growth of 5.0%-5.5% yoy in 2Q26.

Exhibit 7: Output index and industrial production growth, April 2021 to March 2026



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

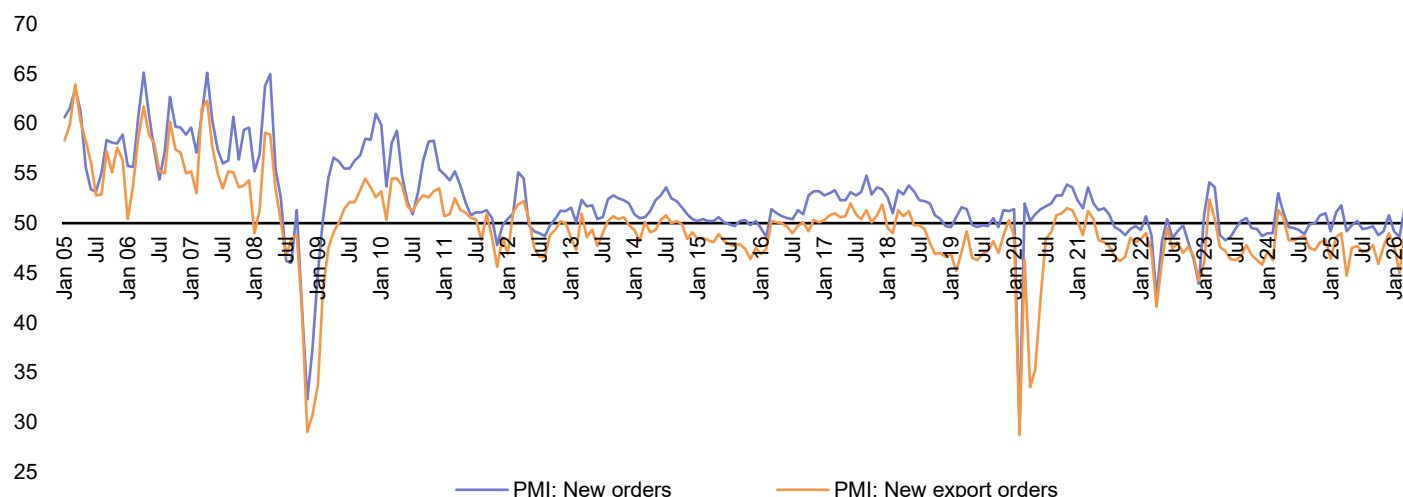
4. What the PMI tells us about overall market demand

Overall market demand picks up in March

Affected by the Chinese New Year holiday, the new orders index declined from 49.2 in January to 48.6 in February. However, it bounced back to 51.6 in March. The index readings returned to expansionary territory in March, indicating a recent recovery in overall market demand.

Meanwhile, after falling from 47.8 in January to 45.0 in February, the new export orders index rebounded to 49.1 in March. This latest index reading suggests that the decline in new export orders has eased. (See exhibit 8)

Exhibit 8: New orders index and new export orders index, January 2005 to March 2026



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

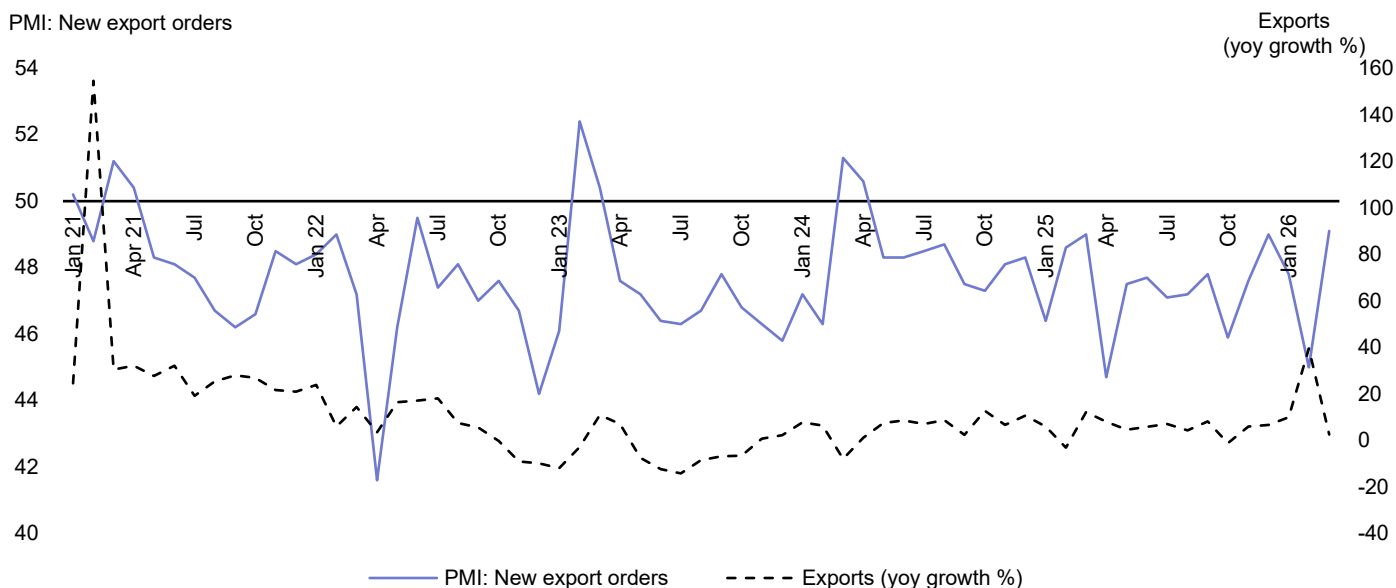
China’s exports expected to see single-digit growth in 2Q26

Exhibit 9 plots the new export orders index against the year-on-year growth rates of China’s exports. Exhibit 10 shows a strong correlation between the new export orders index and external economic conditions. The OECD’s G20 composite leading indicator¹ has seen a recent uptick, pointing to an improvement in external demand for China’s exports. However, China’s export prospects are complicated by the Israel–US war against Iran. On one hand, disruptions in the Strait of Hormuz could reduce China’s exports to the Middle East. On the other hand, some global buyers may shift orders to China in the short term due to the energy supply disruptions faced by other Asian countries, given China’s more complete supply system and stable energy supply. Overall, we forecast that China’s exports will see single-digit growth in 2Q26.

We forecast that China’s exports will see single-digit growth in 2Q26, driven by rising external demand from an improving global economy and shifts in orders from buyers moving away from other Asian countries. However, this growth is partly offset by disruptions in exports to the Middle East.

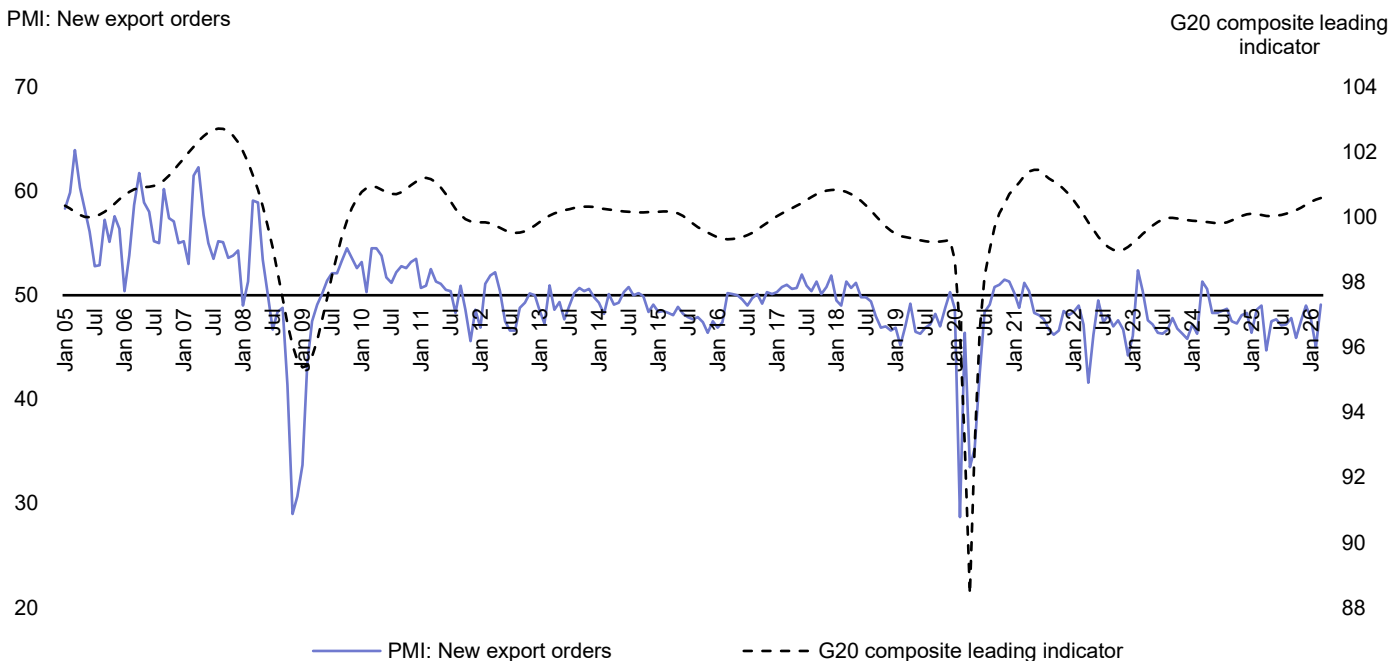
¹ The G20 composite leading indicator, compiled by the Organization for Economic Cooperation and Development (OECD), is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity, and covers Australia, Brazil, Canada, China, France, Germany,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

Exhibit 9: New export orders index and export growth, April 2021 to March 2026



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 2026



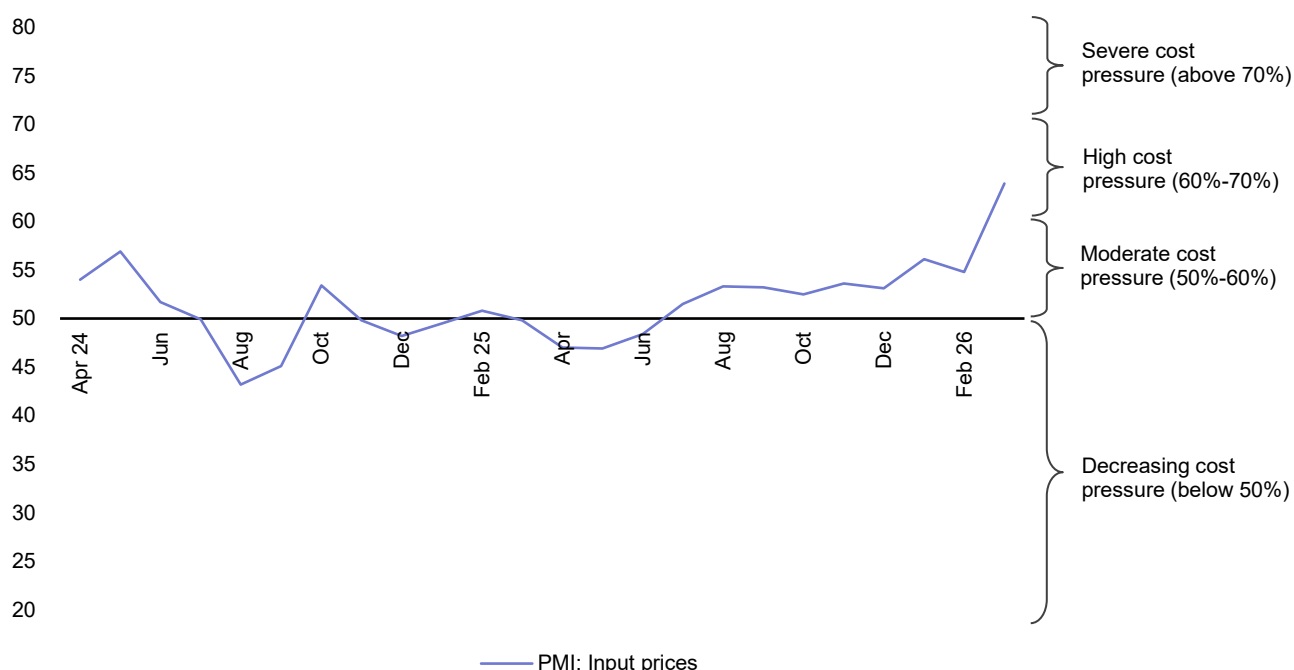
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Organization for Economic Cooperation and Development

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

Rising upstream prices exert significant cost pressure on manufacturers

After dropping from 56.1 in January to 54.8 in February, the input prices index surged to an almost four-year high of 63.9 in March. This upward trend signifies an accelerated increase in the prices of production inputs, leading to heightened cost pressure on Chinese manufacturers. (See exhibit 11).

Exhibit 11: Input prices index, April 2025 to March 2026



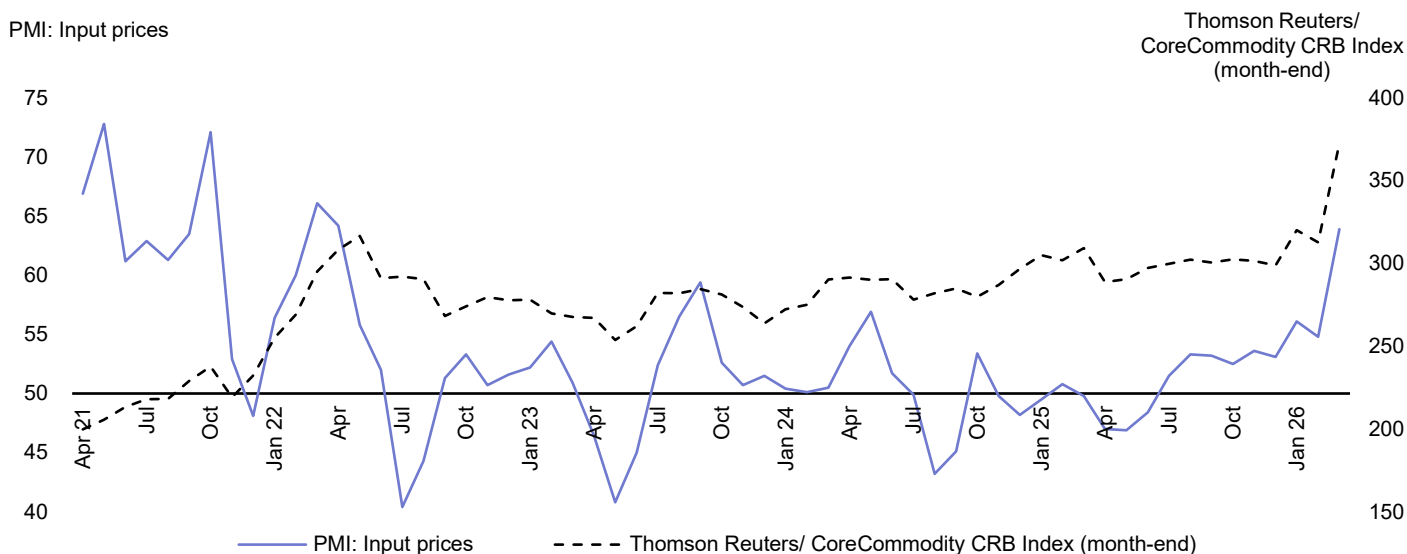
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

To illustrate how the input costs for Chinese manufacturers are affected by global commodity prices, exhibit 12 puts together the input prices index and the Thomson Reuters / CoreCommodity CRB index.²

The increasing input costs facing Chinese manufacturers are largely due to a recent surge in global commodity prices. The CRB index has reached the highest level since early 2008, driven by a spike in crude prices following outbreak of the US–Israel war against Iran in late February.

² The Thomson Reuters / CoreCommodity CRB Index, which comprises 19 commodities such as crude oil, aluminum, corn, cotton, gold, natural gas, soybeans, etc, is widely recognized as a key indicator of global commodity prices.

Exhibit 12: Input prices index and Thomson Reuters/ CoreCommodity CRB Index, April 2021 to March 2026

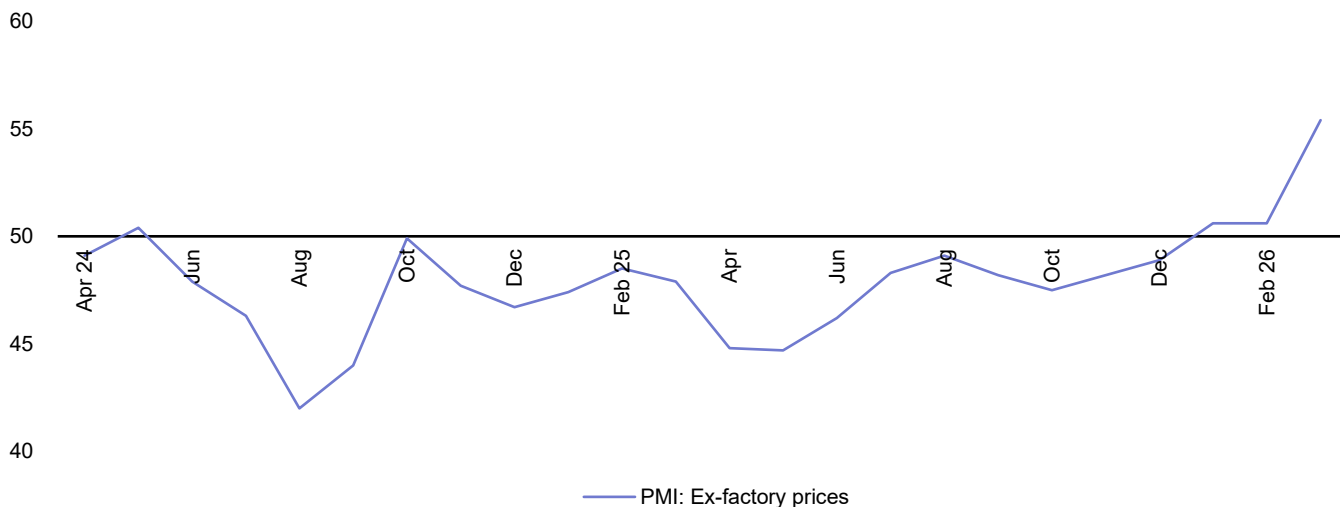


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Thomson Reuters

Manufacturers raise ex-factory prices

The ex-factory prices index went up from 50.6 in January and February to a four-year high of 55.4 in March. These index readings suggest that Chinese manufacturers continued to raise the ex-factory prices of their finished products in response to rising cost pressure. (See exhibit 13)

Exhibit 13: Ex-factory prices index, April 2024 to March 2026



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

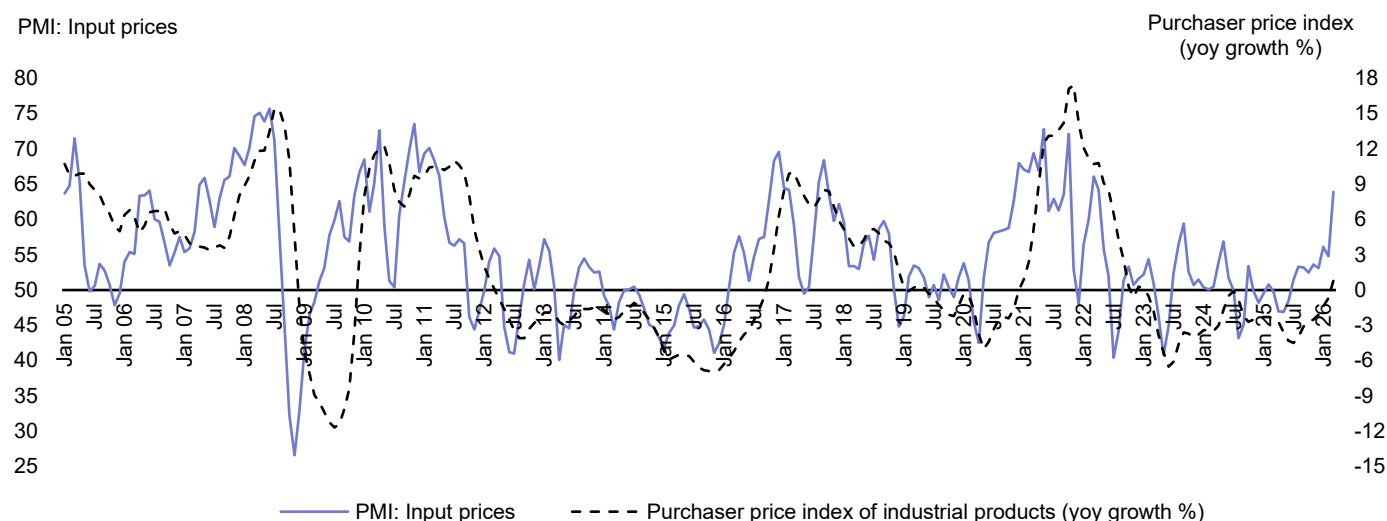
Input prices and ex-factory prices expected to rise further in 2Q26

Exhibit 14 illustrates that the input prices index is a useful leading indicator for upstream prices. To depict the relationship 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)³ in exhibit 15.

Looking ahead, we expect that the year-on-year growth rates for both the purchaser price index and the PPI will continue to rise in 2Q26, driven by increases in global crude prices due to the US–Israel war against Iran, as well as a low comparison base in 2Q25.

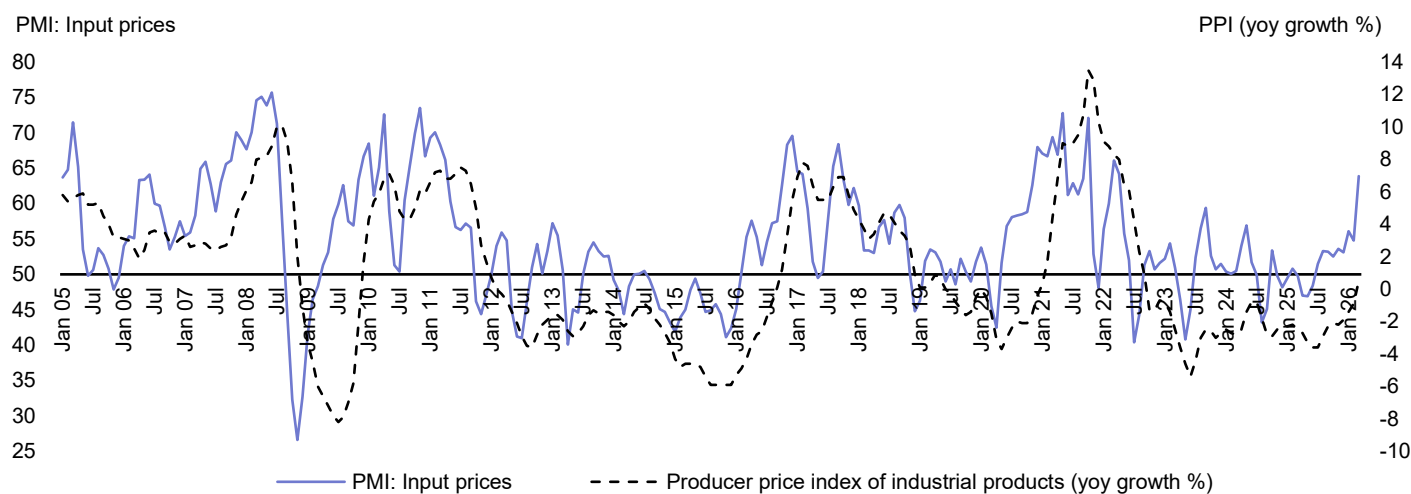
We expect that the year-on-year growth rates for both the purchaser price index and the PPI will continue to rise in 2Q26, driven by increases in global crude prices and a low comparison base in 2Q25.

Exhibit 14: Input prices index and purchaser price index of industrial products, January 2005 to March 2026



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

Exhibit 15: Input prices index and producer price index, January 2005 to March 2026



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

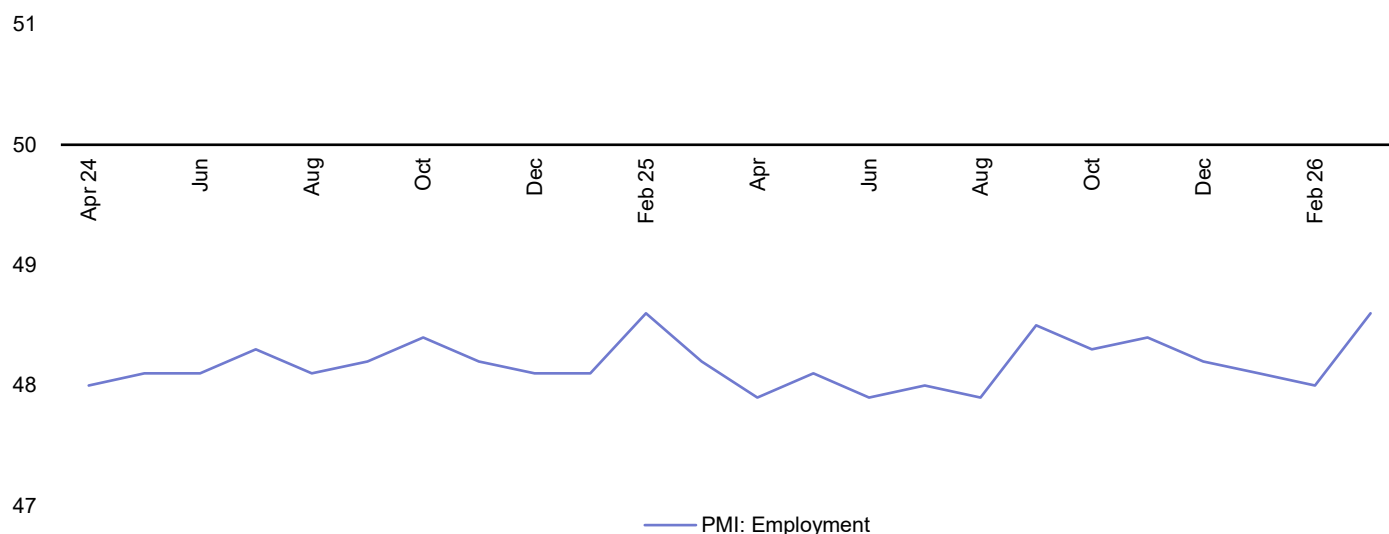
³ The producer price index of industrial goods (PPI), compiled by China National Bureau of Statistics, measures the prices of industrial products when they are sold for the first time after production.

6. What the PMI tells us about manufacturing employment

Employment in the manufacturing sector slightly declines

The employment index remained low, fluctuating between 48.0 and 48.6 from January to March. This suggests a slight decrease in employment within the manufacturing sector. (See exhibit 16)

Exhibit 16: Employment index, April 2024 to March 2026

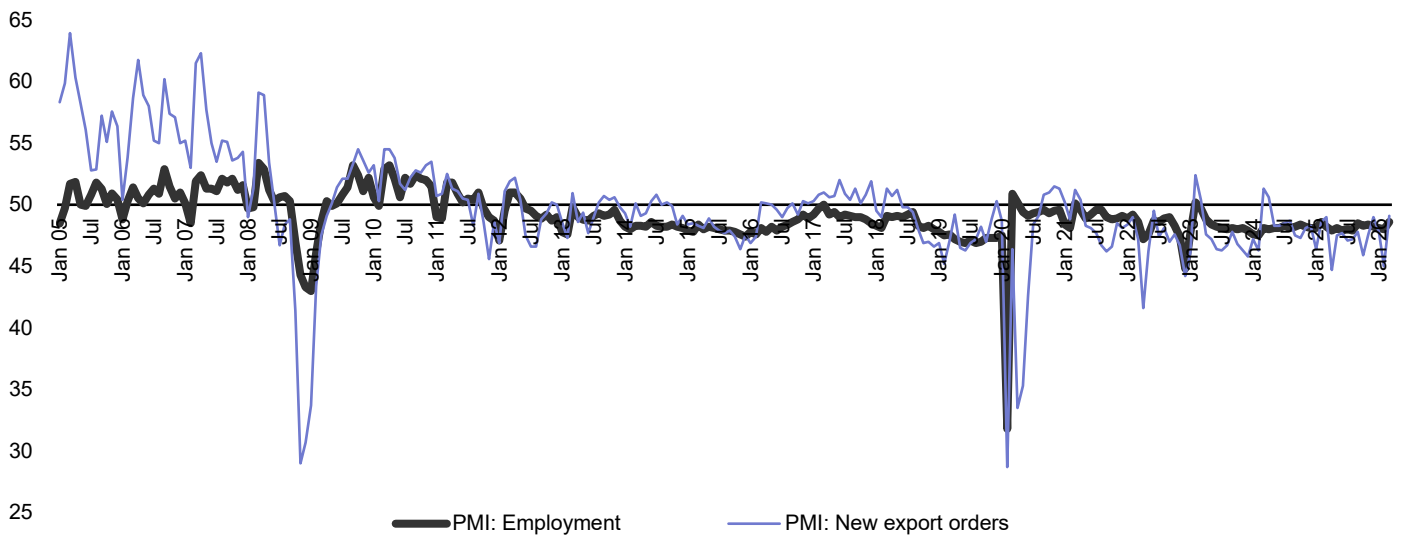


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 17 shows that employment in China's manufacturing sector is heavily reliant on the export sector. Exhibit 18 and 19 provide insights into how the employment situation improves or deteriorates in relation to the manufacturing sector and the overall economy. While a steady growth in exports and the broader Chinese economy can provide support, the ongoing shift towards automation and advanced manufacturing has a negative impact on employment. Overall, we anticipate a slight decline in manufacturing employment in 2Q26.

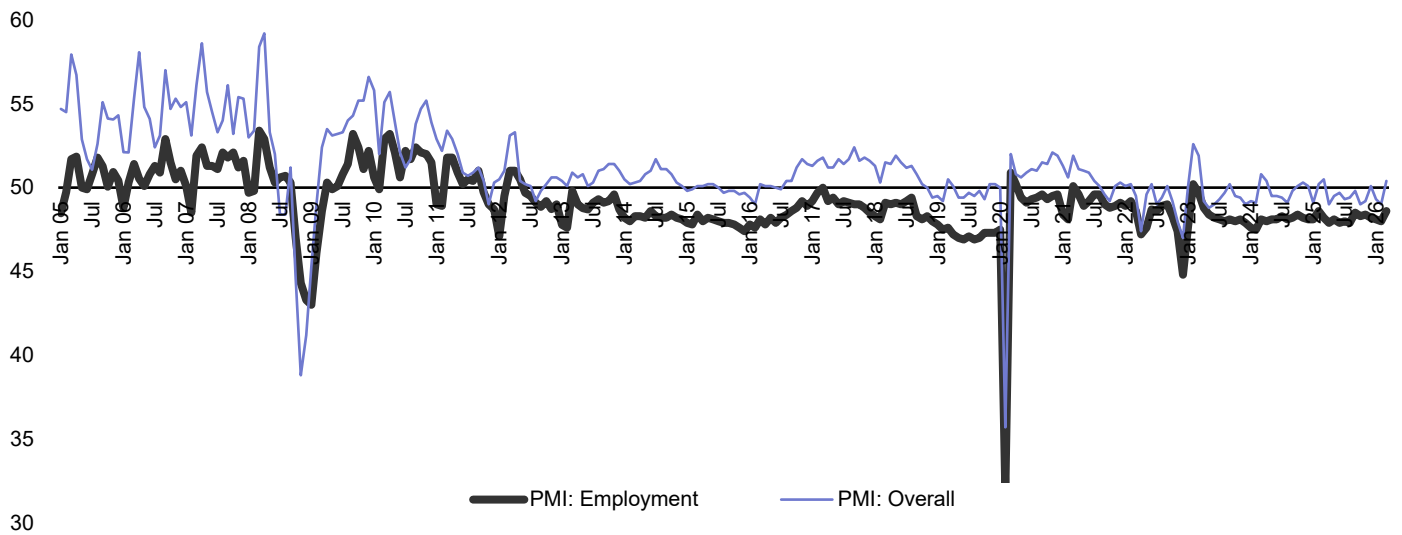
We anticipate a slight decline in manufacturing employment in 2Q26, as the ongoing shift towards automation and advanced manufacturing offsets the support provided by a steady economic growth.

Exhibit 17: Employment and new export orders, January 2005 to March 2026



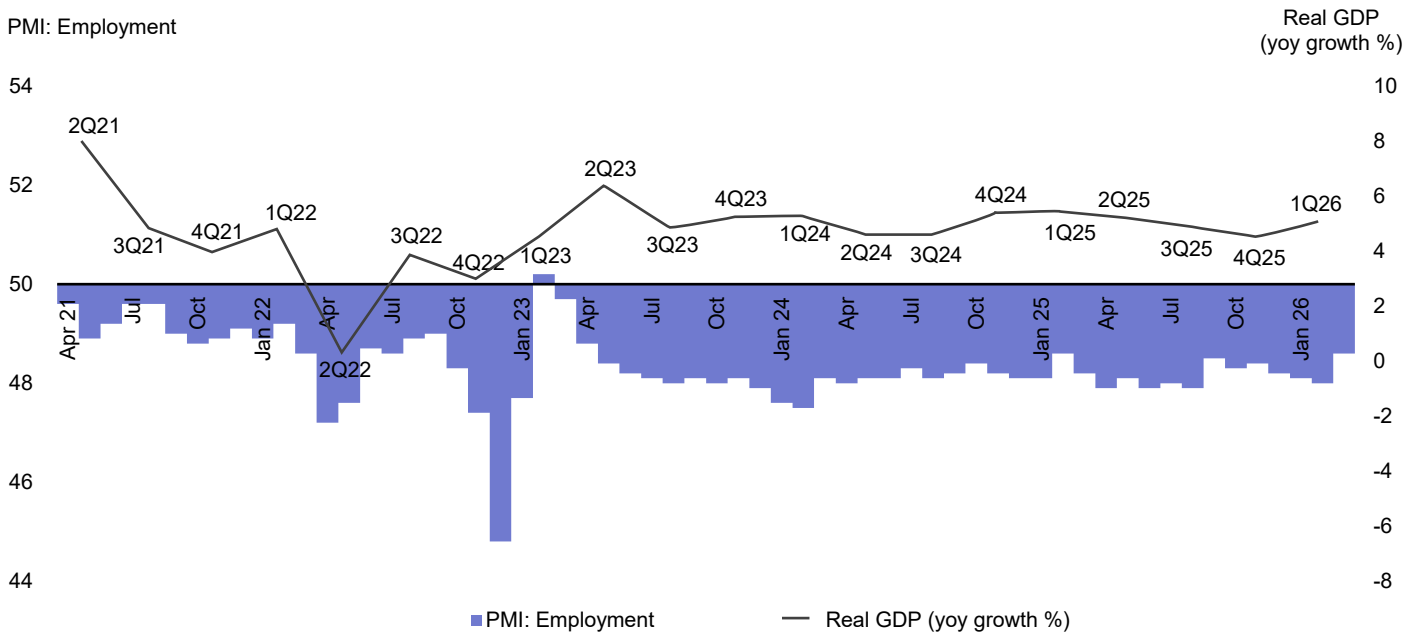
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 18: Employment index and headline PMI, January 2005 to March 2026



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

Exhibit 19: Employment index and real GDP growth, April 2021 to March 2026



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 the National Bureau of Statistics (NBS) and China Federation of Logistics & Purchasing (CFLP). The HKUST Li & Fung Supply Chain Institute 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).

HKUST Li & Fung Supply Chain Institute

The HKUST Li & Fung Supply Chain Institute (Institute) accelerates the creation, global dissemination, and practical application of new knowledge for managing tomorrow's supply chains.

The Institute seeks to develop local and international talent in supply chain management through teaching, professional development, and exchanges at specialist conferences. It brings together leaders in industry, academia, and the public sector in a new collaboration for research, executive education and practice focused on innovation in business models, sustainable supply chain design, process re-engineering, and the rapid adoption of new technologies. These outcomes are vital in addressing the need for visionary, innovative supply chain management in the face of rapid technological advancements, disruption from geopolitical tensions, and concerns related to sustainability and climate.

Jointly established by HKUST and supply chain industry leader Li & Fung, the Institute brings together research excellence and industry expertise in supply chain management to drive real-world impact across the Greater Bay Area, Greater China, Asia, and globally, while contributing to Hong Kong's development as a multinational supply chain management center.

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