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PMI Quarterly on China Manufacturing

PMI 2Q26
Sustained growth in the manufacturing sector

Policy Outlook
China to maintain policy support in 3Q26

3Q26 Forecasts
GDP growth to accelerate to 4.5% yoy while PMI to hover above 50.0

HKUST Li & Fung Supply Chain Institute

Helen Chin
helenchin@ust.hk

William Kong
williamkong@ust.hk

China Federation of Logistics & Purchasing

Chen ZhongTao
czt@clic.org.cn

Issue 65

PMI points to sustained growth in the manufacturing sector in 2Q26

Helen Chin
helenchin@ust.hk

William Kong
williamkong@ust.hk

HKUST Li & Fung Supply Chain Institute
LSK Business Building
The Hong Kong University of Science & Technology
Clear Water Bay
Kowloon, Hong Kong
E: ustlfsci@ust.hk

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

Our observations

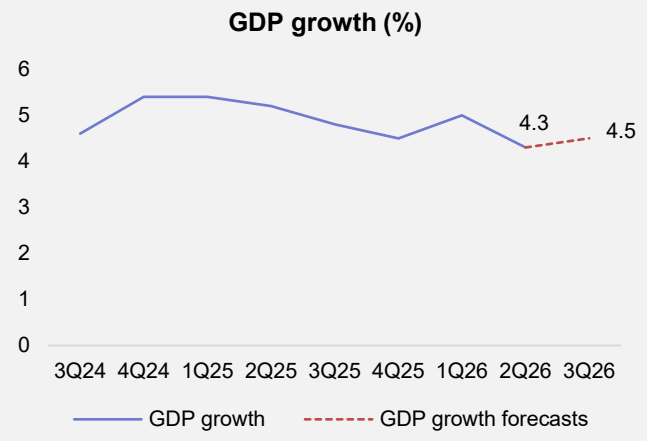
- Large and medium enterprises are experiencing growth, while small enterprises continue to contract.
- Manufacturing output expands steadily.
- Overall market demand is recovering.
- Manufacturers are lowering ex-factory prices despite rising input costs.
- Employment in the manufacturing sector is relatively stable.

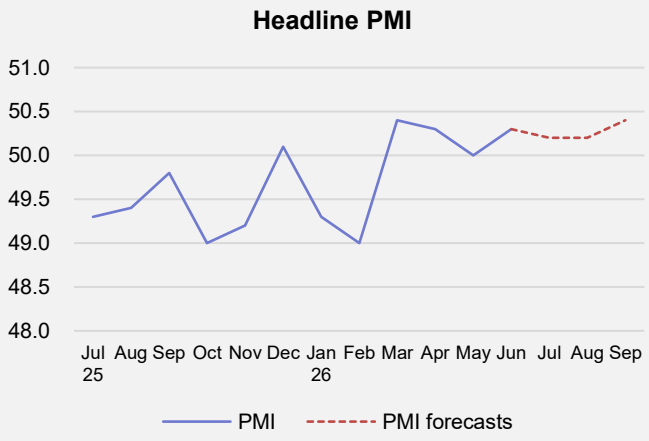
Policy outlook

- A meeting of the Political Bureau of the Communist Party of China Central Committee was held on 28 April. It emphasized the need to implement a more proactive fiscal policy and an appropriately accommodative monetary policy.
- We expect the Chinese government to maintain policy support in 3Q26, which will help the economy navigate external challenges and sustain steady growth.

Our forecasts for 3Q26

- We project stable growth in manufacturing production. While sluggish infrastructure and real estate investment as well as a global economic slowdown will weigh on China's industrial production, the global AI boom and ongoing energy transition will continue driving the production and export of AI-related and green-tech products.
- Headline PMI is likely to hover above 50.0.
- VAIO growth is expected to reach 4.5%-5.0% yoy.
- Real GDP growth is projected at 4.5% yoy.
- Exports are expected to see double-digit growth.
- Year-on-year growth rates for the purchaser price index and the PPI will remain elevated, due primarily to high global commodity prices and a low comparison base in 3Q25.





IN THIS ISSUE:

1. PMI points to sustained growth in the manufacturing sector in 2Q26

China's manufacturing sector in 2Q26

Following a dip from 50.3 in April to 50.0 in May, China's manufacturing PMI rebounded to 50.3 in June. The PMI has now remained at or above the critical 50-point threshold for four consecutive months, marking the longest such sustained period in over four years and indicating continued growth in China's manufacturing sector. (See exhibit 1)

From April to June, the output index fluctuated between 51.2 and 51.5. The index consistently remained above 50, reflecting ongoing expansion in manufacturing production. This growth was underpinned by an improvement in overall market demand, as the new orders index climbed from 49.9 in May to 51.2 in June.

Prices of industrial products declined, with the ex-factory prices index falling below the neutral level of 50 in June to a six-month low of 48.2. Meanwhile, input prices saw further increases. Despite a decline from 63.7 in April to 54.2 in June, the input prices index remained above 50 for the entire quarter, pointing to sustained rises in the prices of raw materials.

Exhibit 2 illustrates the contributions of various sub-indices to the change in the headline PMI. Among the 12 sub-indices (excluding the suppliers' delivery time index), the indices of output, input prices, and business expectations remained in expansionary territory throughout the quarter. In contrast, the indices of backlogs of orders, stocks of finished goods, stocks of major inputs, and employment remained in contractionary territory during the same period. (See exhibit 3)

Policy outlook

A meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee was held on 28 April. The meeting emphasized the need to implement a more proactive fiscal policy and an appropriately accommodative monetary policy, while ensuring that macroeconomic policies are fully utilized.

The meeting reiterated the importance of continuously optimizing the structure of fiscal expenditures and securing the bottom line for the "three guarantees" at the grassroots level (i.e., basic living needs, payment of salaries, and government operations). It also called for making monetary policy more forward-looking, flexible, and targeted, and maintaining ample liquidity.

These wordings signal that China will continue to pursue a proactive and expansionary macro policy in the second half of 2026. Looking ahead, we expect that the Chinese government will continue to offer policy support in 3Q26, which will help the economy navigate external challenges and sustain steady growth.

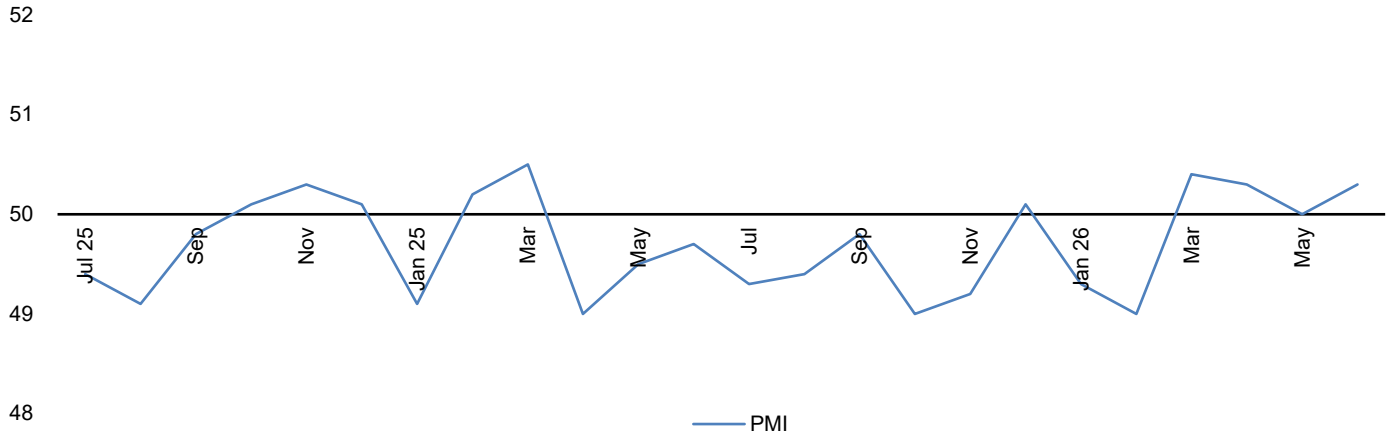
We project that China's GDP growth will accelerate to 4.5% yoy in 3Q26. This expansion will be largely driven by increased production and export of AI-related and green-tech products, capitalizing on the global AI boom and the ongoing energy transition. However, this growth will be tempered by sluggish domestic infrastructure and real estate investment, as well as a global economic slowdown.

Forecasts for 3Q26

China's exports and industrial production are expected to show resilience, even amid sluggish domestic infrastructure and real estate investment and a global economic slowdown. The global artificial intelligence (AI) boom will keep driving demand for AI-related goods, while the ongoing energy transition will boost green-tech products. Overall, we predict that China's industrial production will grow by 4.5%-5.0% yoy in 3Q26, with the headline PMI likely hovering above 50.0.

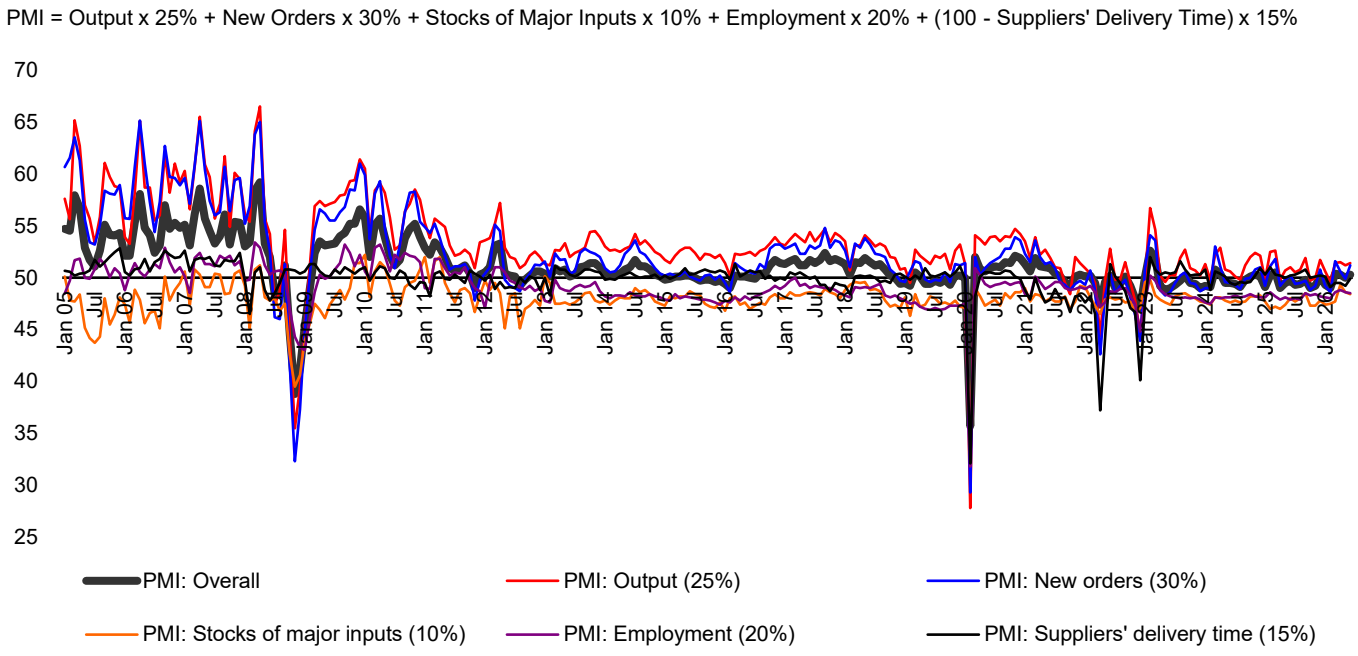
Exhibit 4 plots the quarterly real GDP growth rates alongside the monthly PMIs since July 2021. We project that China's real GDP growth will pick up to 4.5% yoy in 3Q26.

Exhibit 1: Headline PMI, July 2024 to June 2026



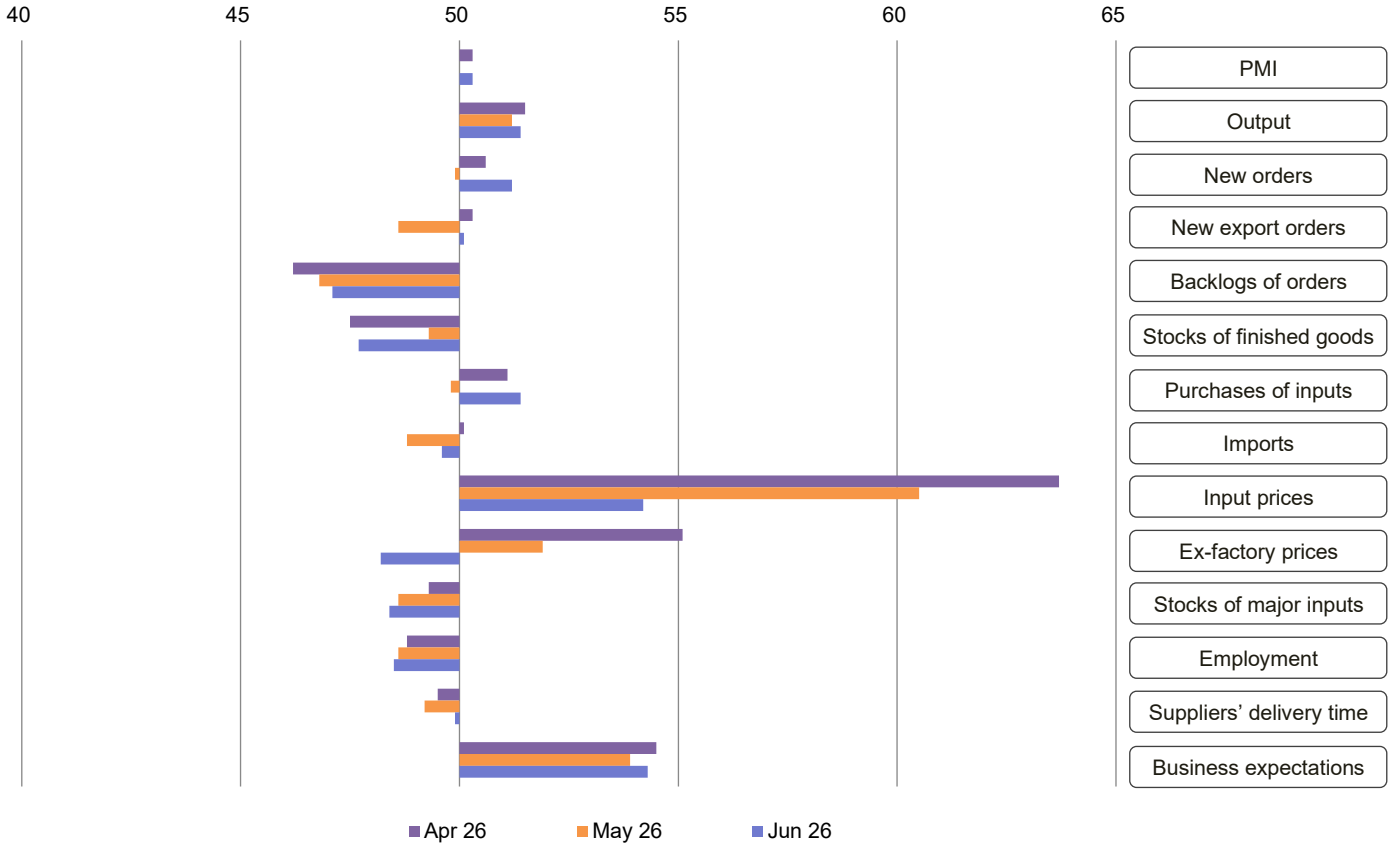
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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



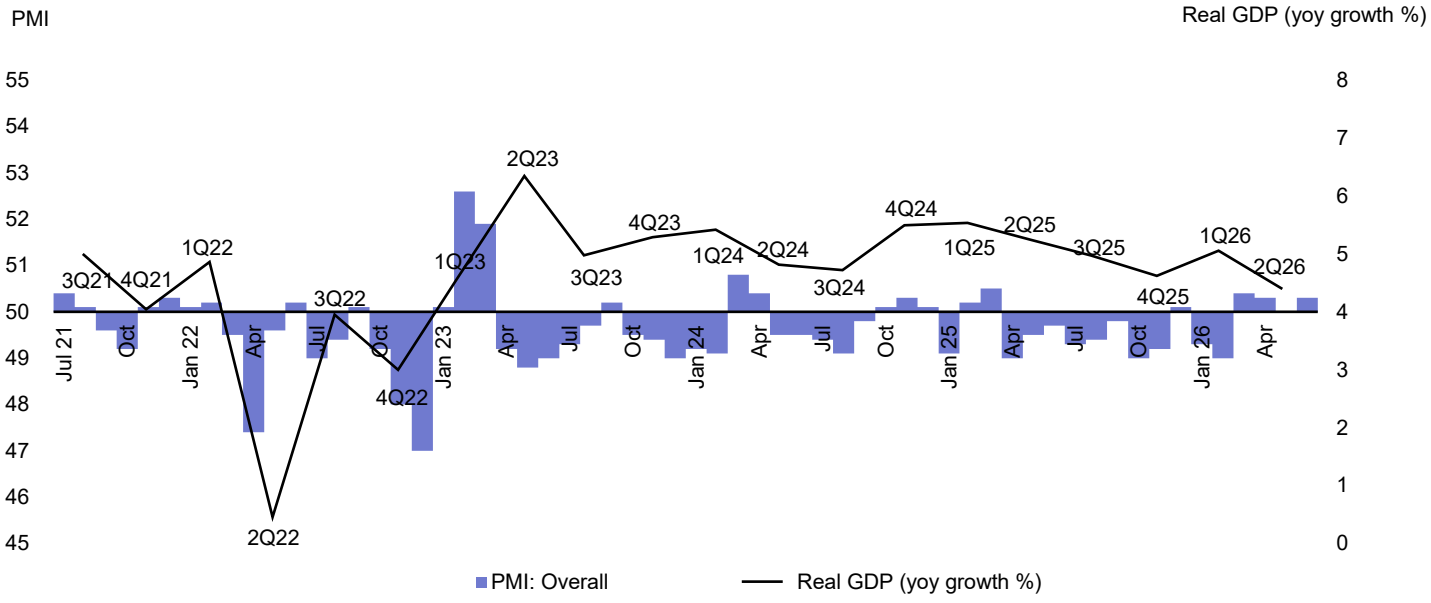
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 3: Headline PMI and all sub-indices, April to June 2026



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

Exhibit 4: Headline PMI and real GDP growth, July 2021 to June 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 and medium enterprises record growth

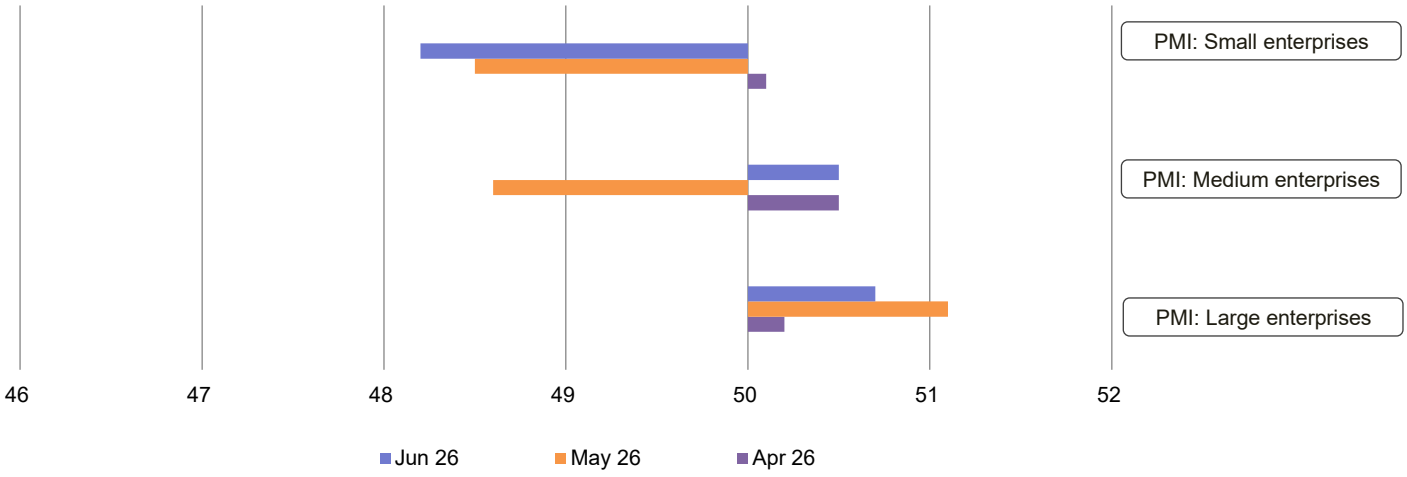
The PMI of "large enterprises" climbed from 50.2 in April to 51.1 in May, before retreating to 50.7 in June. The index readings remained above the critical threshold of 50 throughout 2Q26, indicating sustained growth among "large enterprises". Meanwhile, after dropping from 50.5 in April to 48.6 in May, the PMI of "medium enterprises" returned to expansionary territory and registered 50.5 in June, indicating a recent recovery among "medium enterprises".

Small enterprises face ongoing challenges

In contrast, the PMI of "small enterprises" declined from 50.1 in April to 48.5 in May and 48.2 in June, indicating continued operational challenges and contraction for "small enterprises". (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, April to June 2026



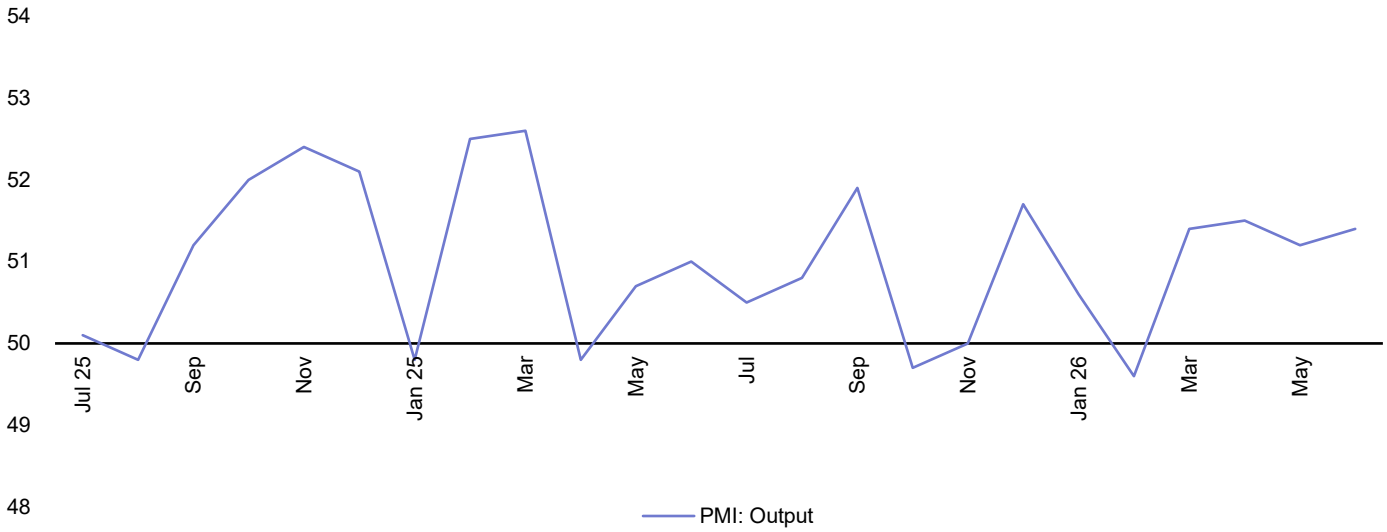
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

3. What the PMI tells us about manufacturing production

Manufacturing output continues to expand

From April to June, the output index fluctuated within a narrow range between 51.2 and 51.5. With the index readings staying above the critical 50-mark, this reflects sustained expansion in manufacturing production recently. (See exhibit 6)

Exhibit 6: Output index, July 2024 to June 2026



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

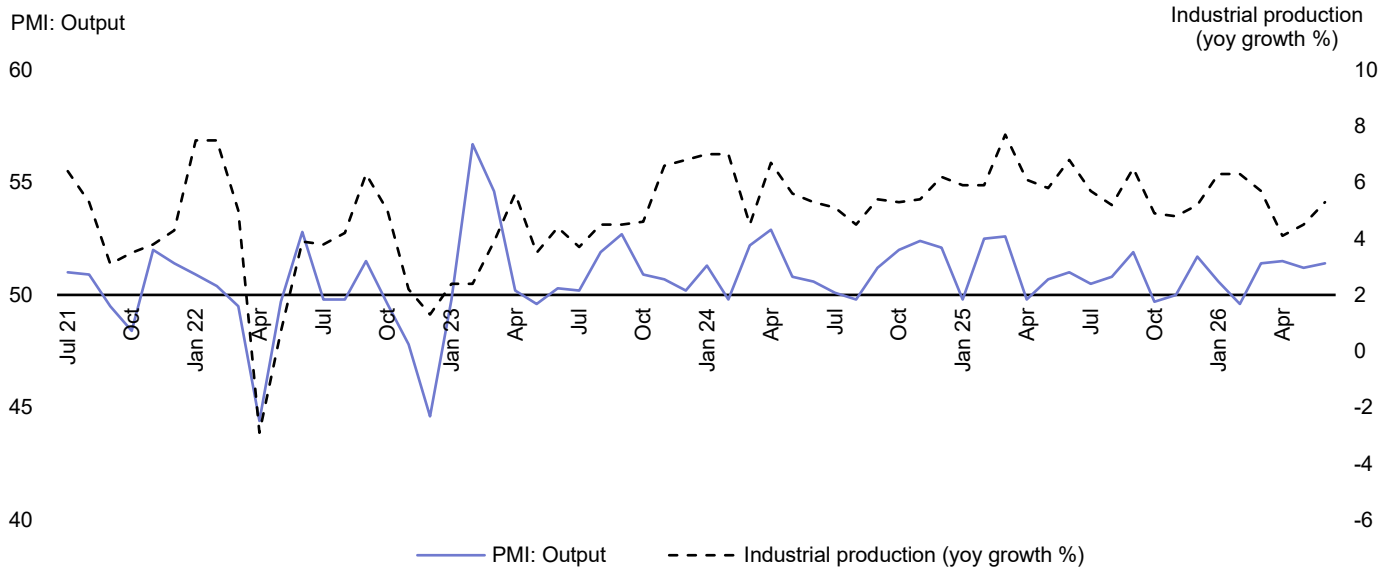
Stable growth in manufacturing production expected for 3Q26

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, the global AI boom is expected to continue driving China's production and export of AI-related goods, such as integrated circuits and automated data processing machines and parts. Furthermore, the ongoing energy transition, accelerated by the Iran War, will give a lift to green-tech products such as lithium-ion batteries and electric vehicles. On the other hand, sluggish domestic infrastructure and real estate investment will weigh on the production of cement, steel, and other industrial materials. A weakening in the global economy also presents a headwind for China's exports and industrial production. Overall, we project that China's VAIO will maintain a steady growth of 4.5%-5.0% yoy in 3Q26.

Other challenges facing Chinese manufacturers include geo-economic uncertainties stemming from the Iran war and US trade policy, government efforts to address overproduction in key sectors and reduce industrial carbon emissions, and intense competition in both domestic and international markets.

Sluggish infrastructure and real estate investment as well as a global economic slowdown will weigh on China's industrial production, but the global AI boom and ongoing energy transition will continue driving the production and export of AI-related and green-tech products. Overall, we expect that China's VAIO will maintain a steady growth of 4.5%-5.0% yoy in 3Q26.

Exhibit 7: Output index and industrial production growth, July 2021 to June 2026



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

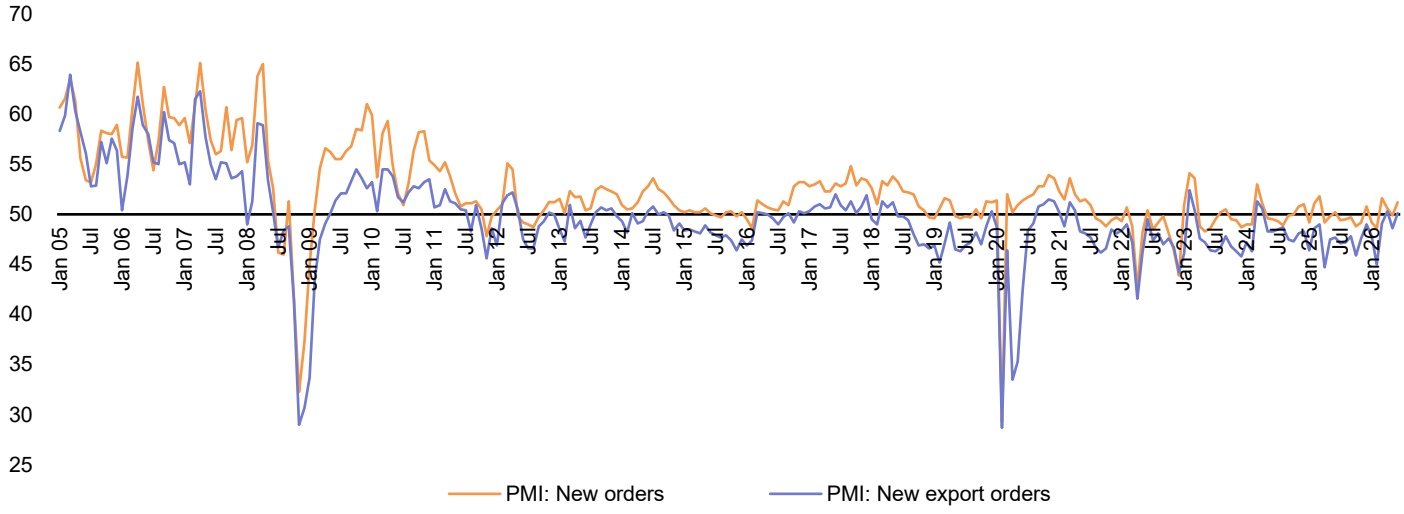
4. What the PMI tells us about overall market demand

Overall market demand recovers in June

The new orders index dropped from 50.6 in April to 49.9 in May but bounced back to 51.2 in June. The index reading returned to expansionary territory in June, indicating a recent recovery in overall market demand.

Meanwhile, the new export orders fell from 50.3 in April to 48.6 in May, before recovering to 50.1 in June. This suggests a recent stabilization in new export orders. (See exhibit 8)

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



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

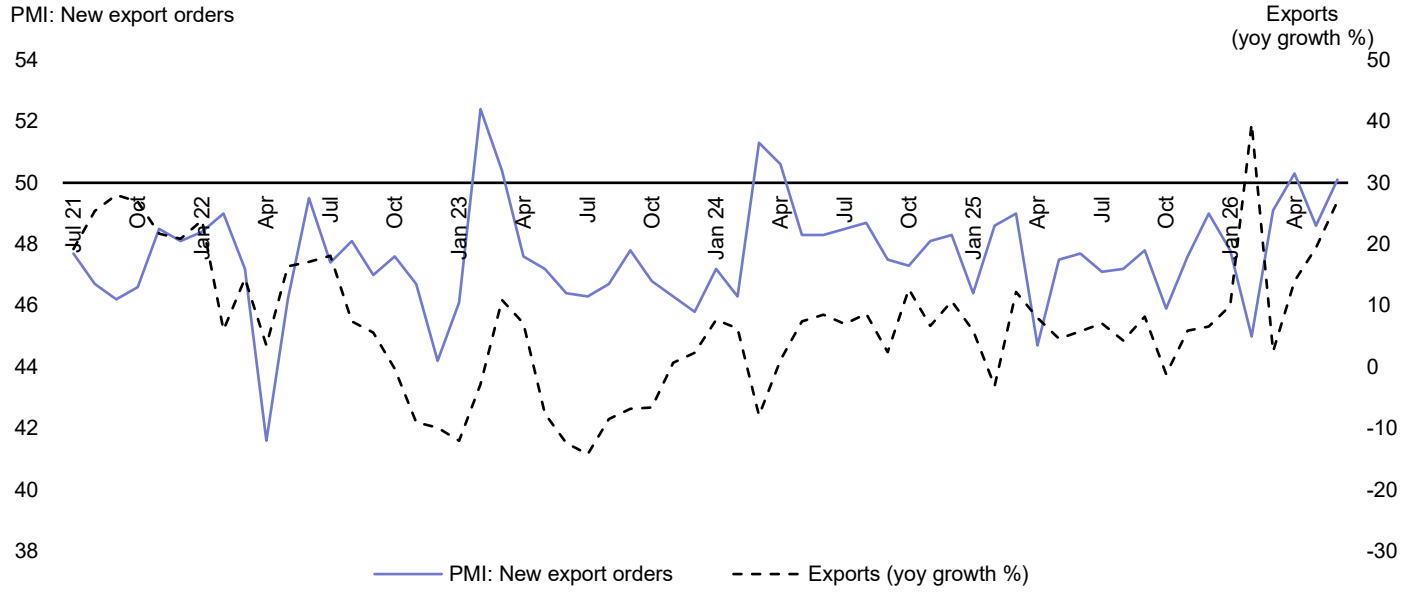
China's exports expected to see double-digit growth in 3Q26

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 indicator[1] has recently decreased, signalling a slowdown in the global economy. However, China's exports are poised for resilience. The global AI boom is boosting the exports of AI-related goods like integrated circuits and automated data processing machines and parts. Furthermore, the Iran War-accelerated global energy transition will drive demand for green-tech products such as lithium-ion batteries and electric vehicles. Overall, we forecast that China's exports will achieve double-digit growth of 10%-15% in 3Q26.

Driven by surging demand for AI-related goods and green-tech products, China's exports are expected to achieve double-digit growth in 3Q26, even in light of a global economic slowdown.

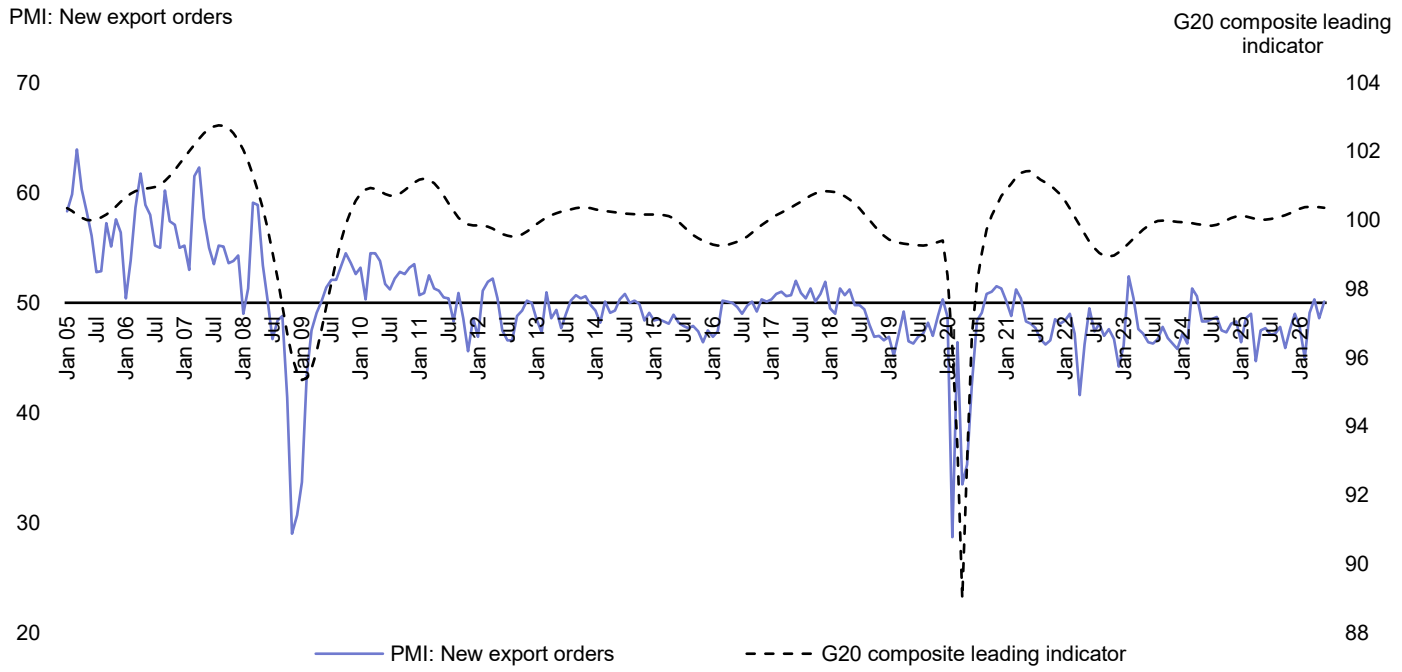
1 The G20 composite leading indicator, compiled by the Organization for Economic Cooperation and Development (OECD), is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity, and covers Australia, Brazil, Canada, China, France, Germany,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

Exhibit 9: New export orders index and export growth, July 2021 to June 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 June 2026



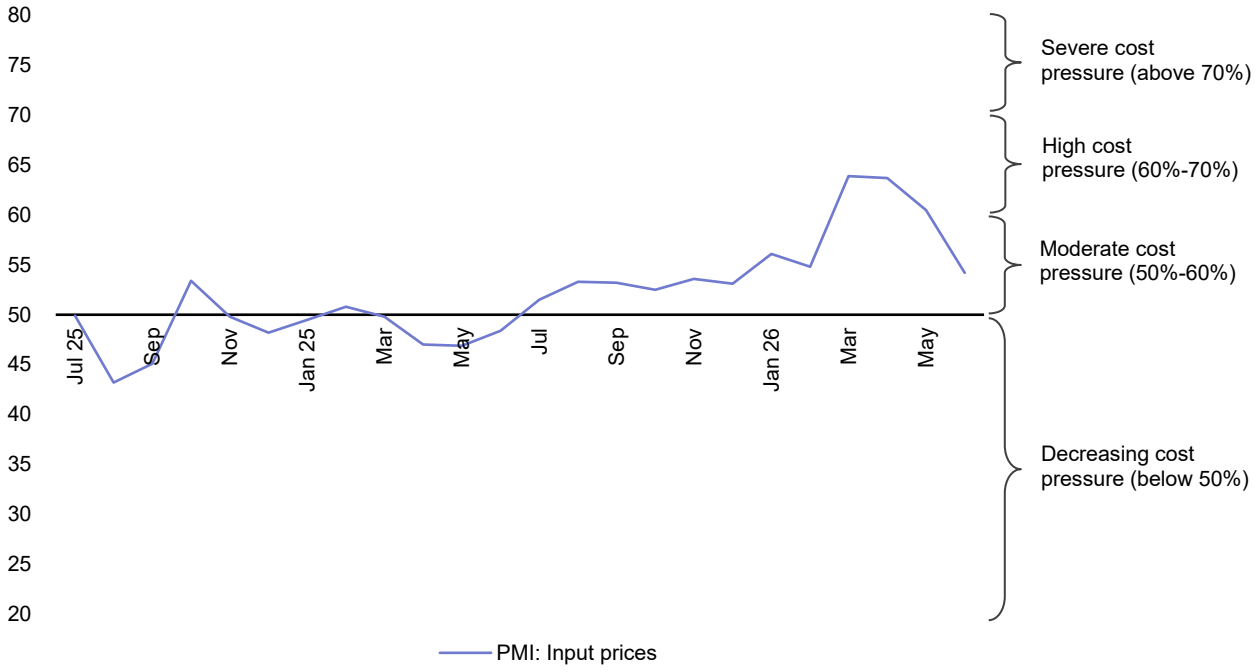
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Organization for Economic Cooperation and Development

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

Rising upstream prices exert cost pressure on manufacturers

The input prices index dropped from 63.7 in April to 60.5 in May and 54.2 in June. Despite this retreat, the index readings remained in expansionary territory through the quarter. The persistent increase in the prices of production inputs led to heightened cost pressure on Chinese manufacturers. (See exhibit 11).

Exhibit 11: Input prices index, July 2024 to June 2026



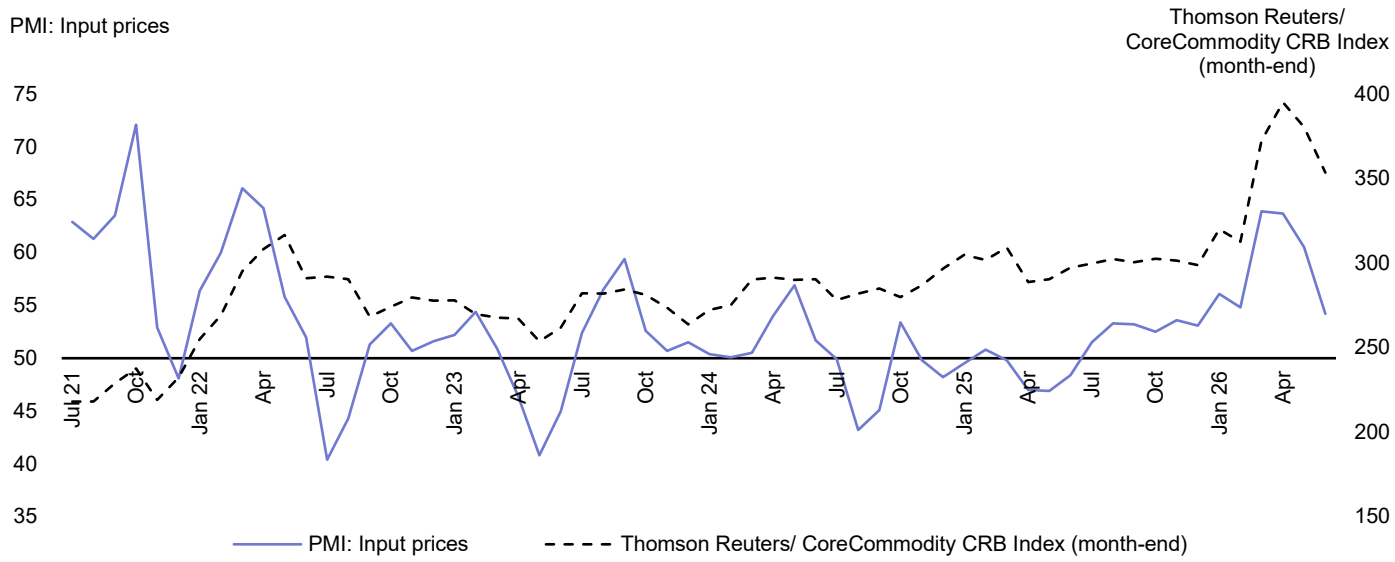
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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 rising input costs for Chinese manufacturers are largely attributed to elevated global commodity prices. Although the CRB index has fallen from an 18-year high in April, commodity prices, particularly crude oil prices, remain above pre-Iran War levels.

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, July 2021 to June 2026

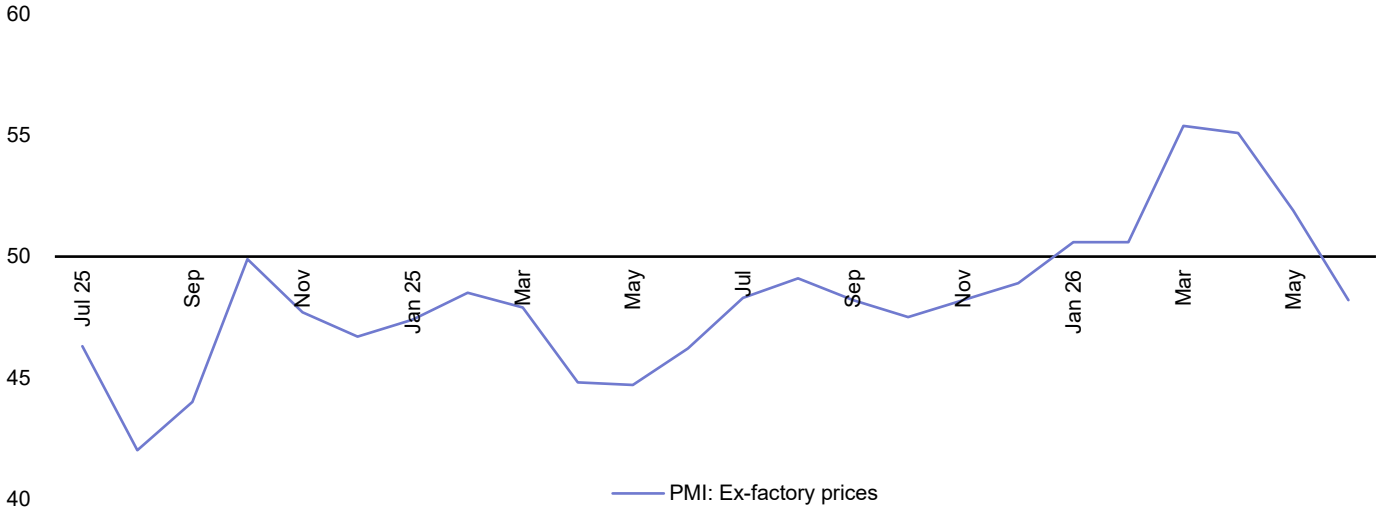


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Thomson Reuters

Manufacturers lower ex-factory prices

The ex-factory prices index declined from 55.1 in April to 51.9 in May and 48.2 in June. The index readings dipping below 50 in June signifies that Chinese manufacturers have begun to lower the ex-factory prices for their finished products. Coupled with rising input costs, this suggests that profit margins for manufacturers are shrinking. (See exhibit 13)

Exhibit 13: Ex-factory prices index, July 2024 to June 2026



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

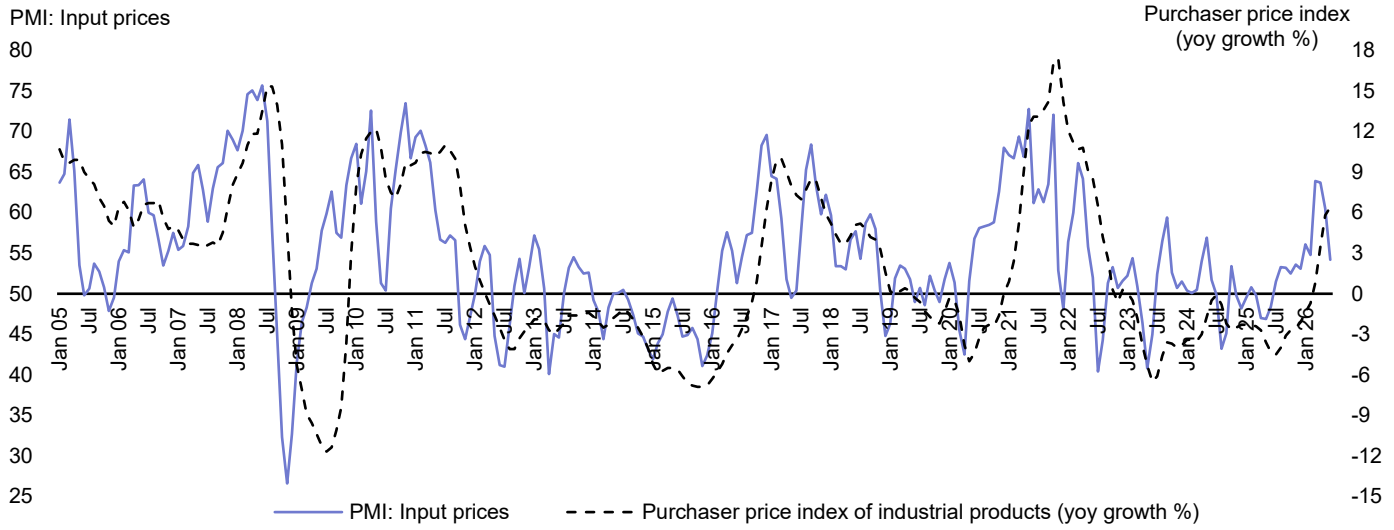
Growth in input prices and ex-factory prices expected to remain elevated in 3Q26

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 producer price index (PPI)[3] in exhibit 15.

Looking ahead, we expect the year-on-year growth rates for both the purchaser price index and the PPI to remain elevated in 3Q26, due primarily to high global commodity prices and a low comparison base in 3Q25.

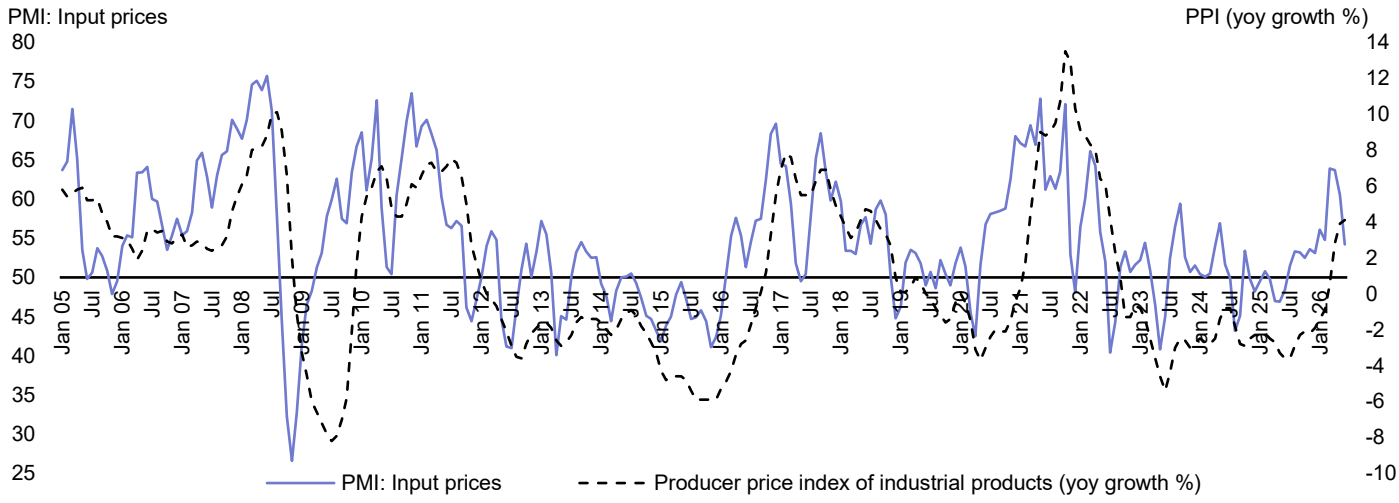
We expect that the year-on-year growth rates for both the purchaser price index and the PPI will remain elevated in 3Q26, due primarily to high global commodity prices and a low comparison base in 3Q25.

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



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

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



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

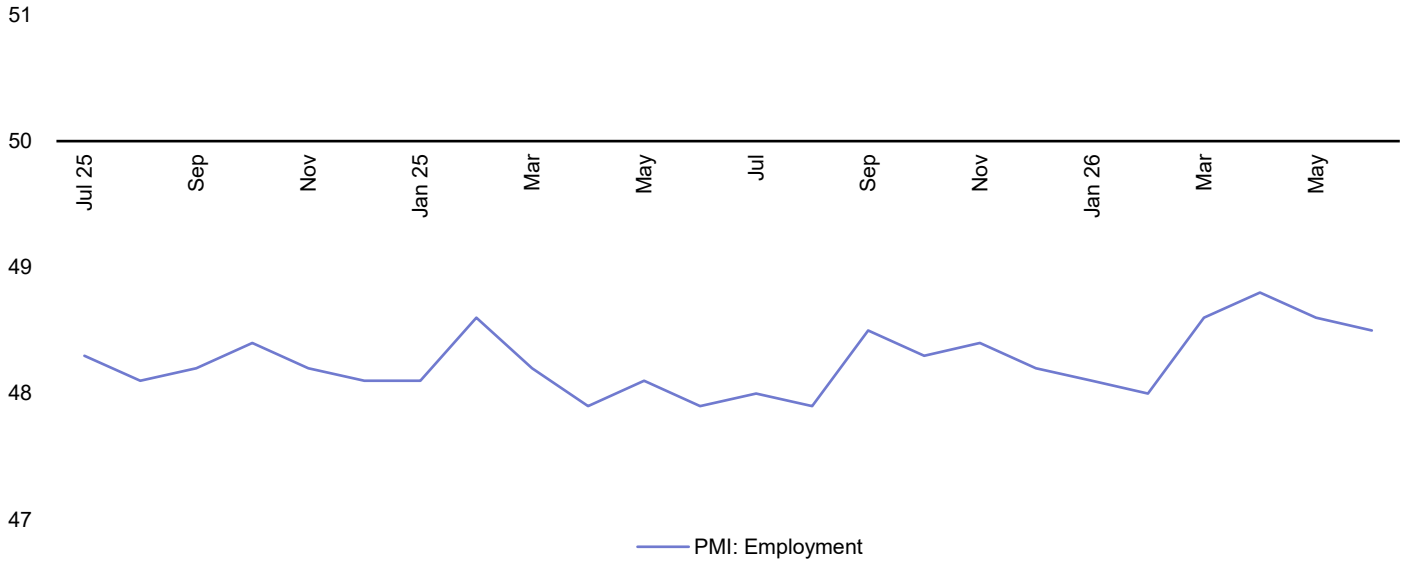
[3] The producer price index of industrial goods (PPI), compiled by China National Bureau of Statistics, measures the prices of industrial products when they are sold for the first time after production.

6. What the PMI tells us about manufacturing employment

Employment in the manufacturing sector remains relatively stable

From April to June, the employment index remained steady within a narrow range of 48.5 to 48.8. This level marks a high point over the last three years, suggesting that manufacturing employment has been relatively stable recently. (See exhibit 16)

Exhibit 16: Employment index, July 2024 to June 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. Given a steady growth in exports and the broader Chinese economy, we expect manufacturing employment to stay relatively stable in 3Q26.

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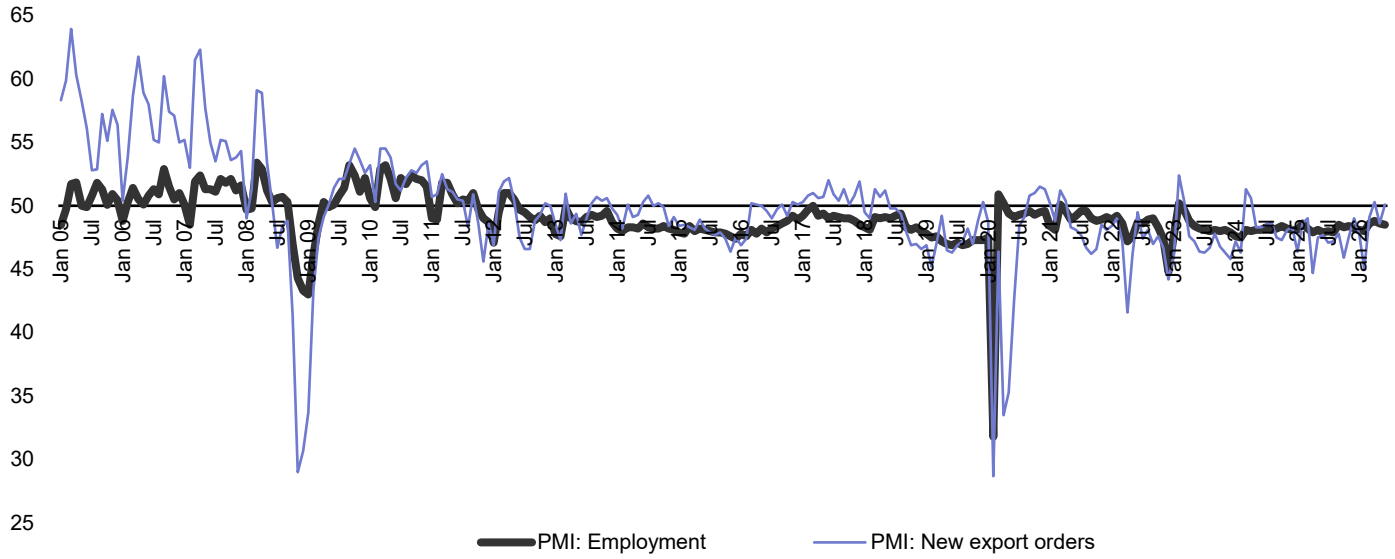
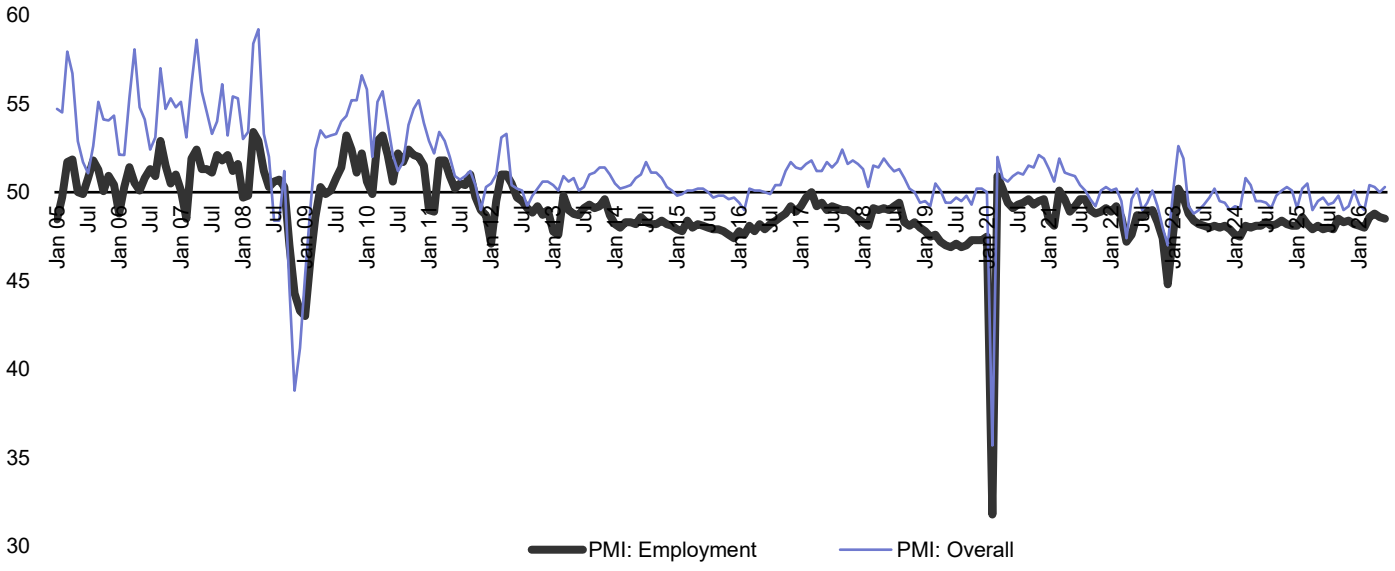
Exhibit 17: Employment and new export orders, January 2005 to June 2026



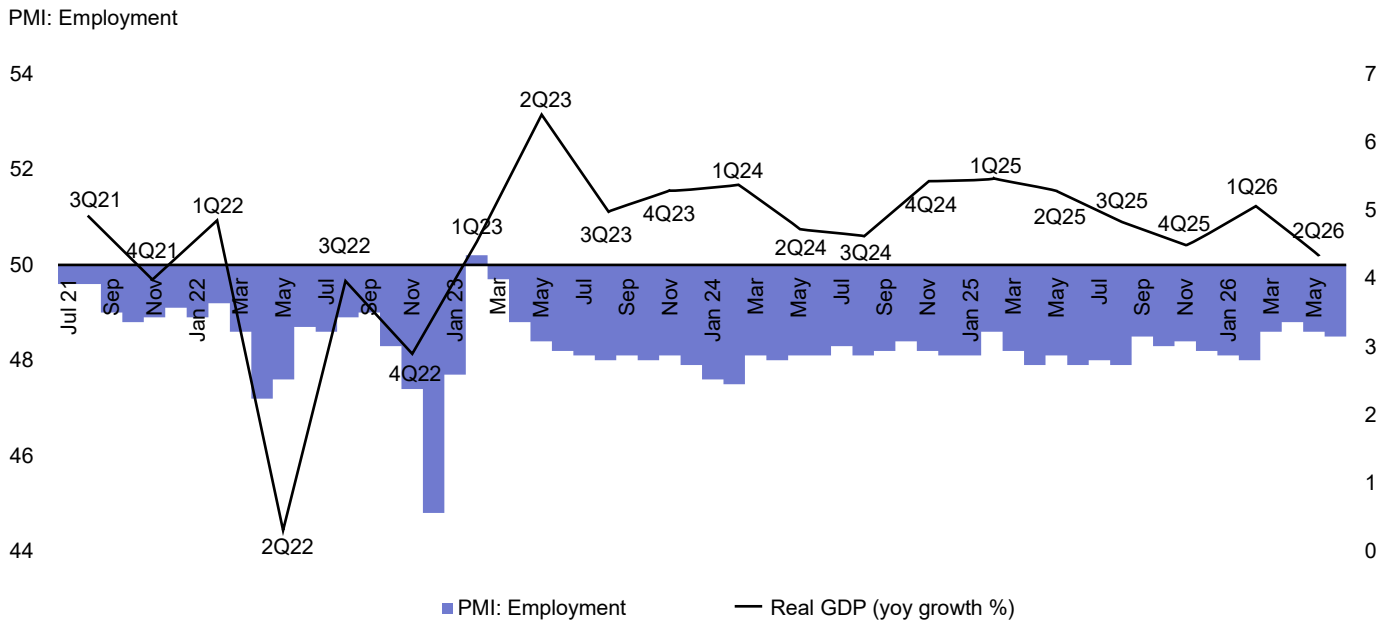
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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



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

Exhibit 19: Employment index and real GDP growth, July 2021 to June 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.