PMI Quarterly on China Manufacturing

PMI 3Q24
Easing downward pressure on the manufacturing sector

Policy Outlook
China to step up policy support for the economy and announce policy details soon

4Q24 Forecasts
GDP growth to go up to 5.0% yoy while PMI to gradually rise above 50.0

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Issue 58

PMI points to easing downward pressure on the manufacturing sector in 3Q24

Our observations

- Large enterprises expand slowly while small and medium enterprises continue to contract but start to stabilize.
- Manufacturing output resumes expansion.
- Overall market demand starts to stabilize.
- Manufacturers lower ex-factory prices of their products amid falling input prices.
- Employment in manufacturing sector slightly decreases.

Policy outlook

- Starting with the release of a myriad of monetary policies in late September, China has rolled out a series of stimulus measures to boost economic growth.
- The Chinese government will continue to step up policy support for the economy and announce policy details soon.

Our forecasts for 4Q24

- We project a steady growth in manufacturing production.
- Headline PMI will gradually rise above 50.0.
- VAIO growth will register 5.0%-5.5% yoy.
- Real GDP growth will go up to 5.0% 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 rebound in global commodity prices and a low comparison base in 4Q23.

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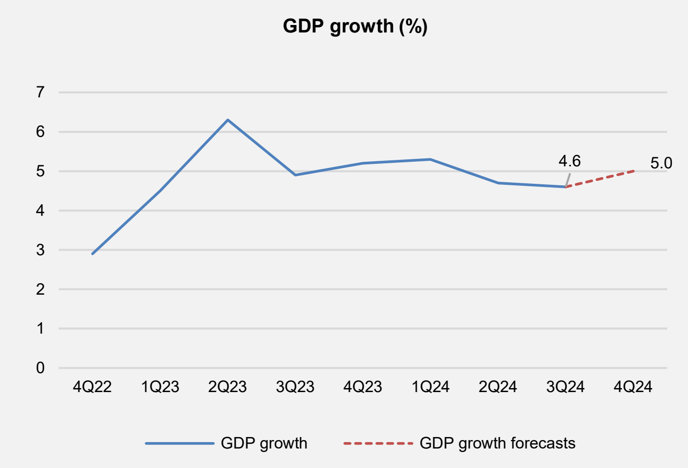
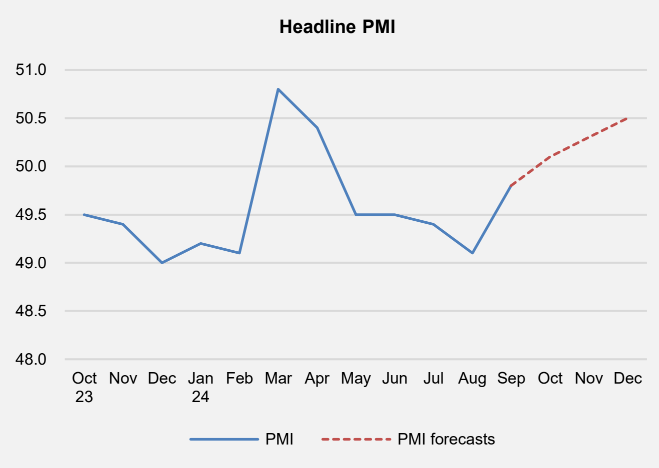




IN THIS ISSUE:

1. PMI points to easing downward pressure on the manufacturing sector in 3Q24

We project that China's real GDP growth will go up to 5.0% yoy in 4Q24, as the latest stimulus package will boost business confidence and help the Chinese economy pick up steam.

China's manufacturing sector in 3Q24

China's manufacturing PMI dropped from 49.4 in July to 49.1 in August, but then picked up to 49.8 in September. The index has remained below the neutral level of 50 for five consecutive months since May, pointing to continued downward pressure on China's manufacturing sector. However, the rebound in the September figure indicates that the downward pressure is easing. (See exhibit 1)

Manufacturing output has returned to expansion lately, as the output index rose from 49.8 in August to 51.2 in September. Improvement is also seen in the overall new orders: The new orders index rebounded from 48.9 in August to near the critical 50-mark in September, indicating that the overall market demand has started to stabilize.

Prices of industrial products continued to fall, as the ex-factory prices index remained below the watershed level of 50 throughout the quarter. The drop in product prices was partly attributed to the decline in the prices of materials: The input prices index dipped into contractionary territory in June and stayed there since then.

Exhibit 2 shows the contributions of the sub-indices to the change in the headline PMI. The rebound in the headline PMI in 3Q24 was mainly attributable to the increase 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), only the business expectations index has stayed in the expansionary zone over the past three months. Meanwhile, the indices of new orders, new export orders, backlogs of orders, stocks of finished goods, stocks of major inputs, purchase of inputs, imports, input prices, ex-factory prices, and employment have stayed in the contractionary zone throughout the quarter. (See exhibit 3)

Policy outlook

Starting with the release of a myriad of monetary policies in late September, China has rolled out a series of stimulus measures to boost economic growth.

On September 24, China's central bank, top securities regulator and financial regulator announced a raft of monetary stimulus and support measures for the property market and the capital market. These include cutting the reserve requirement ratio and short-term policy rate, lowering mortgage rates on existing home loans, and establishing new monetary programmes to encourage investment in the stock market.

Two days later, a meeting of the Political Bureau of the Communist Party of China Central Committee was held. Wording of the meeting shows a strong commitment to the annual economic growth targets of 5%, stabilization in the property market, and further development of the private sector, signalling a shift in policy attitude.

On 12 October, the Ministry of Finance outlined plans for fiscal stimulus, including the provision of one-off bond quotas to swap local governments' 'hidden debt', the issuance of local government special bonds to be used to purchase idle land and unsold homes from developers, etc. The central government is also exploring further increasing the budget deficit to boost the economy.

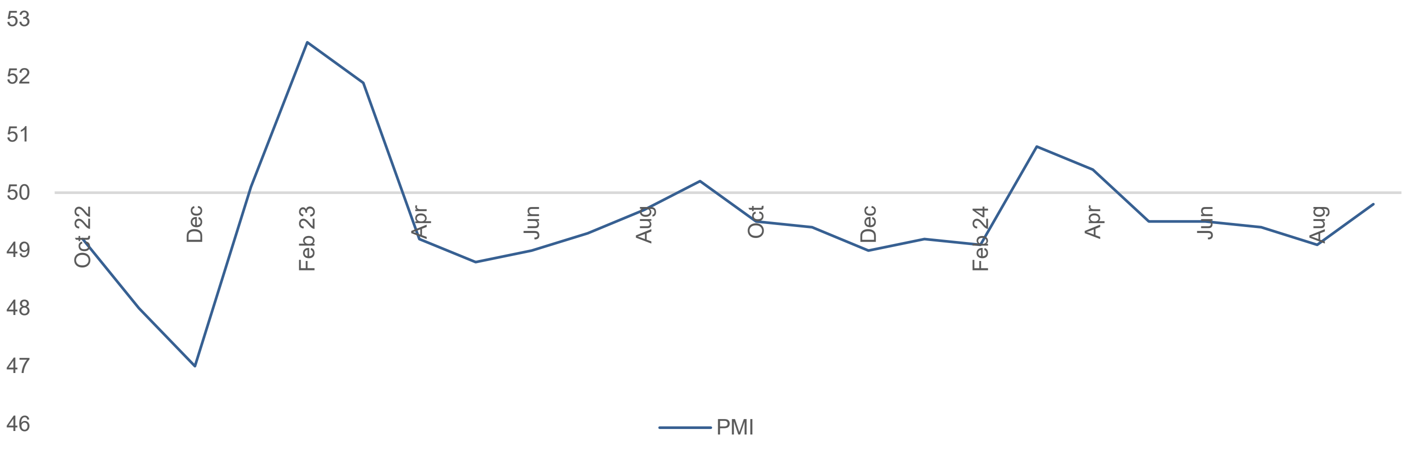
Looking ahead, we expect that the Chinese government will continue to step up policy support for the economy and announce policy details in the coming weeks, which will help alleviate the downward pressure on the Chinese economy, in our view.

Forecasts for 4Q24

China's industrial production will continue its steady growth in the near term given an improving external demand and the latest stimulus measures to boost economic growth. Overall, we predict that the headline PMI will gradually rise above 50.0 in 4Q24, while industrial production growth will register 5.0%-5.5% yoy in 4Q24.

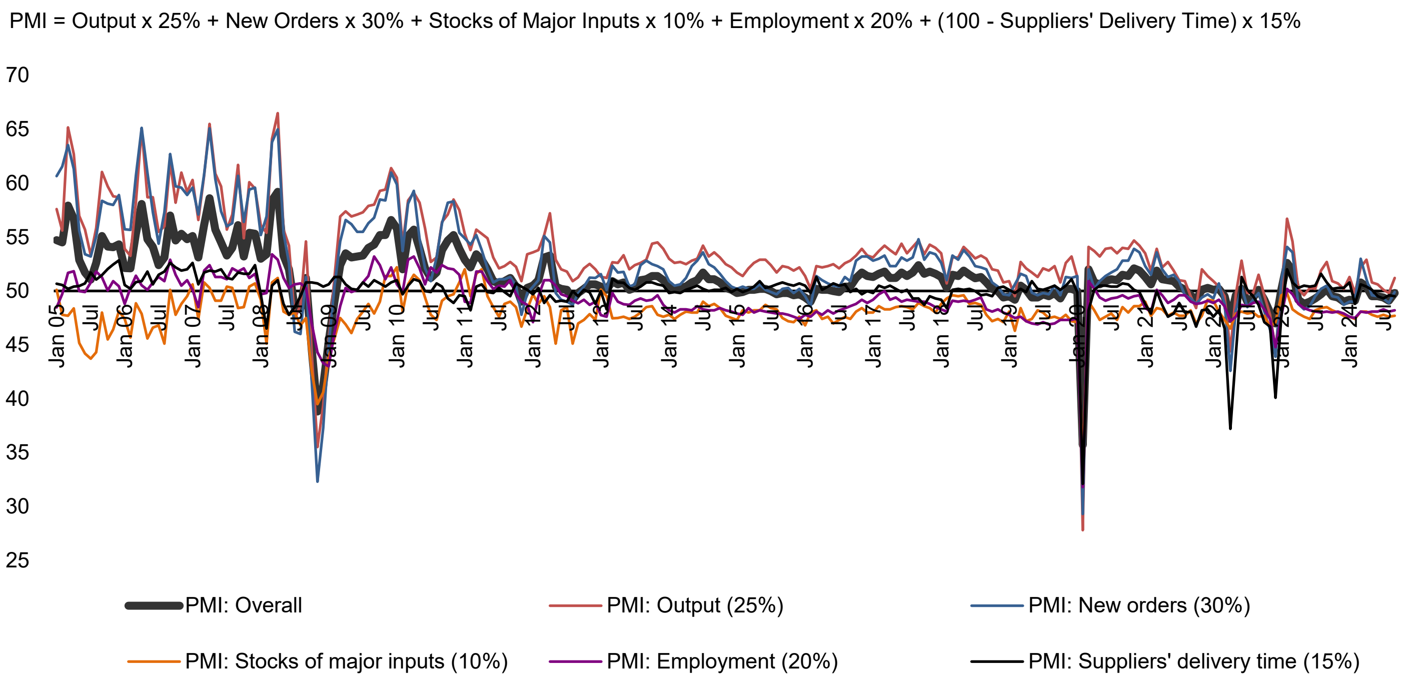
Exhibit 4 plots the quarterly real GDP growth rates versus the monthly PMIs since October 2019. We project that China's real GDP growth will go up to 5.0% yoy in 4Q24, as the latest stimulus package will boost business confidence and help the Chinese economy pick up steam.

Exhibit 1: Headline PMI, October 2022 to September 2024



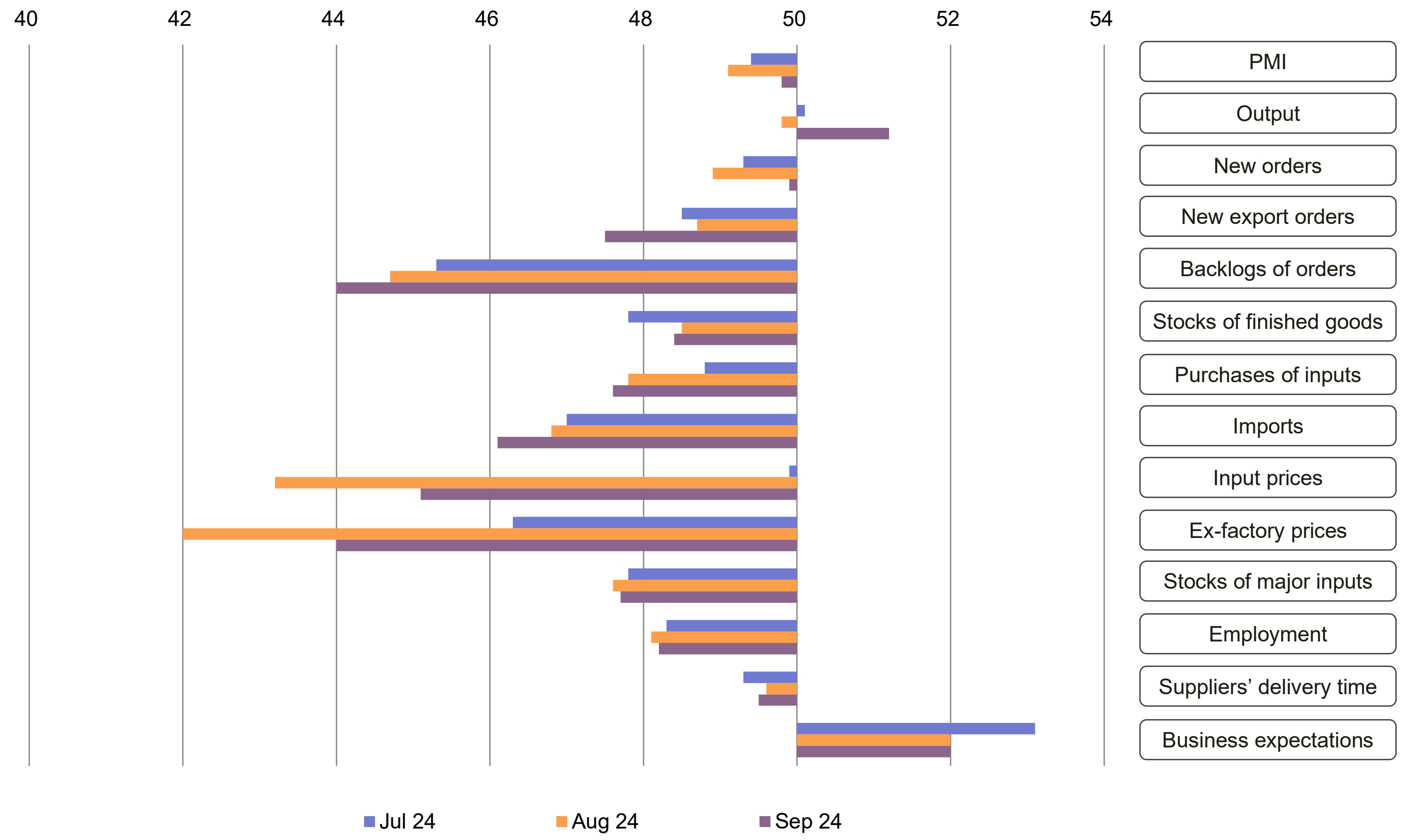
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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



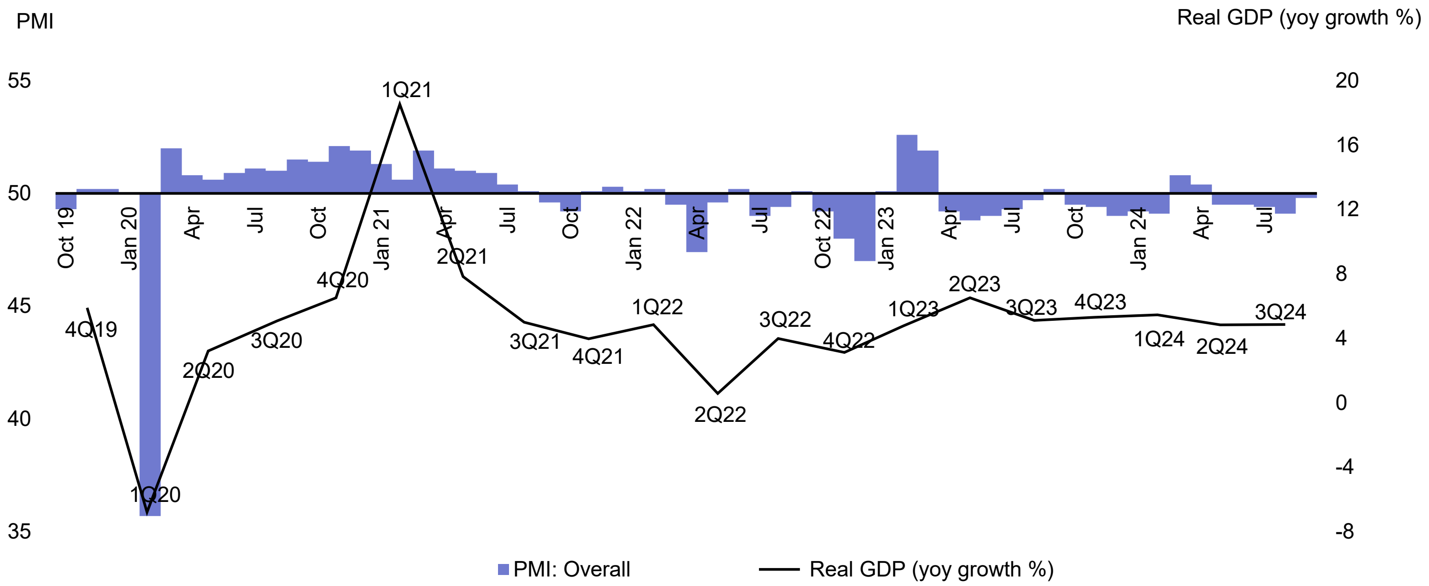
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 3: Headline PMI and all sub-indices, July to September 2024



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

Exhibit 4: Headline PMI and real GDP growth, October 2019 to September 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

Large enterprises continue to expand

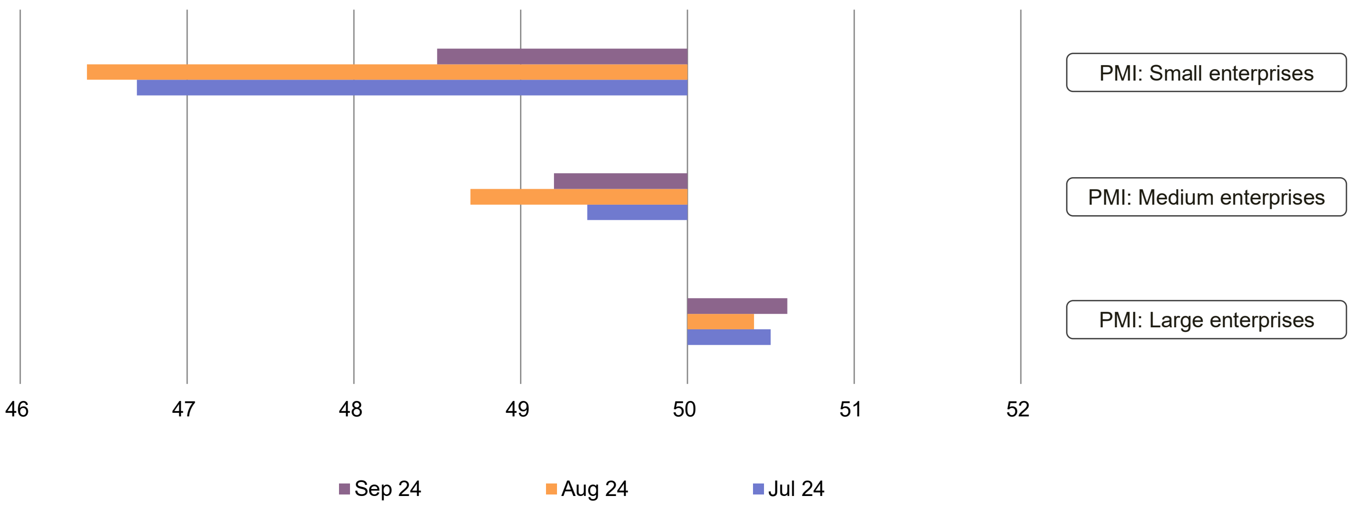
The PMI of 'large enterprises' stayed above the watershed mark of 50 throughout July to September, hovering within a narrow range of 50.4 to 50.6. The index readings show a continued, yet slow, expansion of 'large enterprises'.

Small and medium enterprises start to stabilize

The PMI of 'medium enterprises' fell from 49.4 in July to 48.7 in August, and then picked up to 49.2 in September. Meanwhile, the PMI of 'small enterprises' edged down from 46.7 in July to 46.4 in August, before rebounding to 48.5 in September. Although the index readings of both 'small enterprises' and 'medium enterprises' have stayed below 50 since May, which indicates a sustained contraction, the improvement in the September figures is a positive sign of stabilization. (See exhibit 5)

Although small and medium enterprises have experienced sustained contraction, the improvement in the September figures is a positive sign of stabilization.

Exhibit 5: PMIs of large enterprises, medium enterprises and small enterprises, July to September 2024



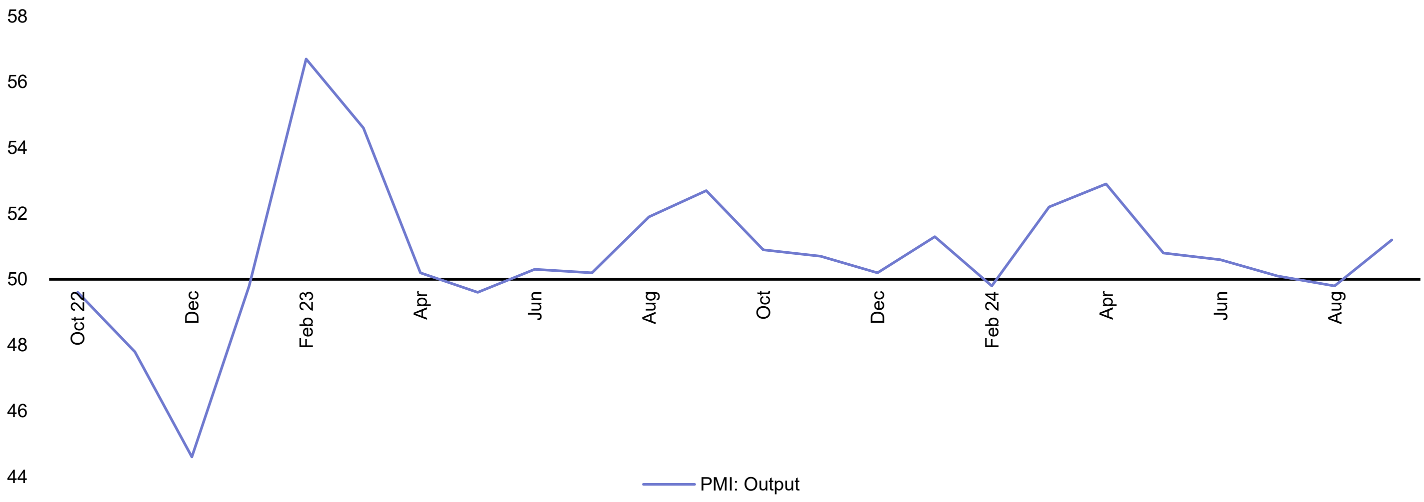
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

3. What the PMI tells us about manufacturing production

Manufacturing output resumes expansion in September

After dropping from 50.1 in July to 49.8 in August, the output index rebounded to 51.2 in September, returning to the expansionary territory, which indicates a recovery in manufacturing production recently. (See exhibit 6)

Exhibit 6: Output index, October 2022 to September 2024



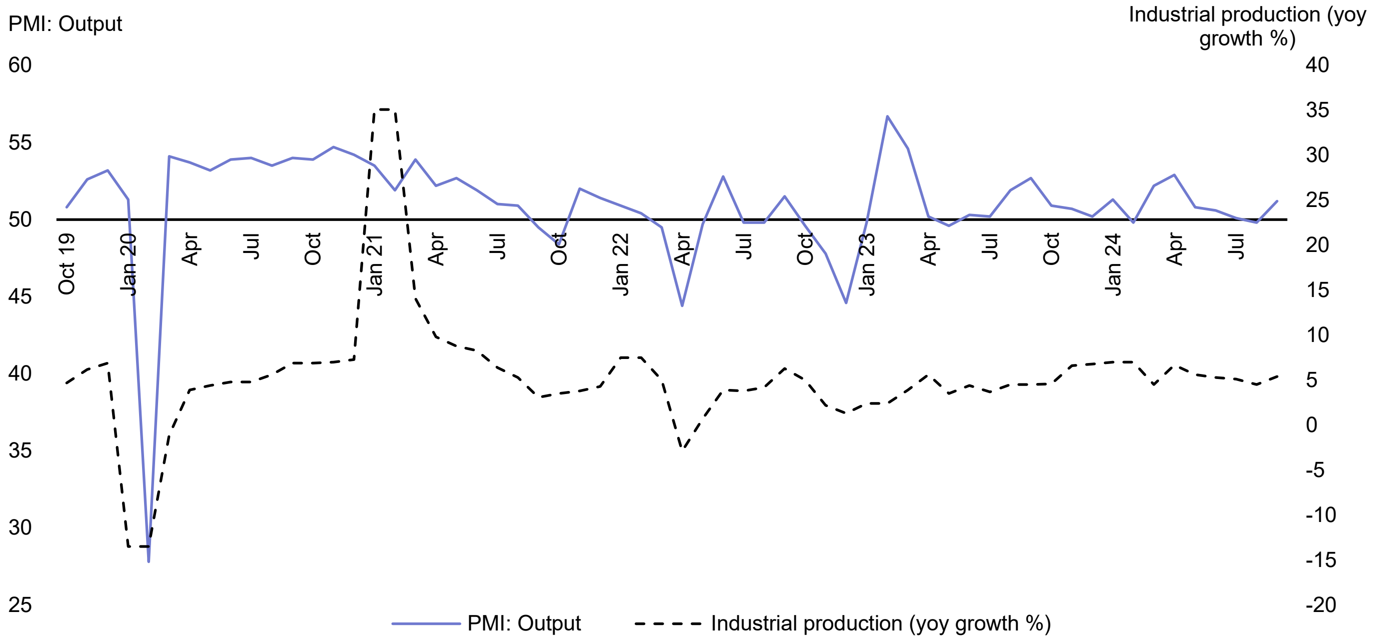
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Manufacturing production to maintain steady growth in 4Q24

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 external demand and the latest stimulus measures to boost economic growth, we project that China's VAIO will maintain a steady growth of 5.0%-5.5% yoy in 4Q24. 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% in 4Q24, given an improving external demand and the latest stimulus measures to boost economic growth.

Exhibit 7: Output index and industrial production growth, October 2019 to September 2024



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

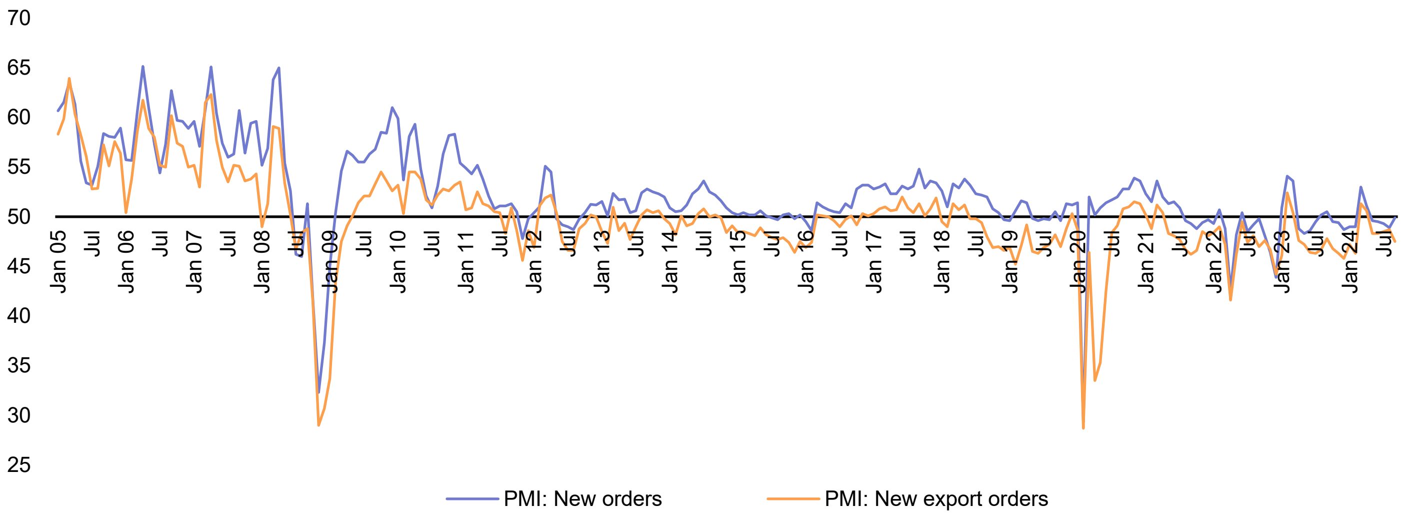
4. What the PMI tells us about the overall market demand

Overall market demand starts to stabilize

After falling from 49.3 in July to 48.9 in August, the new orders index picked up to 49.9 in September. Although the overall market demand has continued to contract, the new orders index rebounded to near the critical 50-mark in September, indicating that the overall market demand has started to stabilize.

Meanwhile, after rising from 48.5 in July to 48.7 in August, the new export orders index went down to 47.5 in September, pointing to a persistent drop in new export orders recently. (See exhibit 8)

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



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

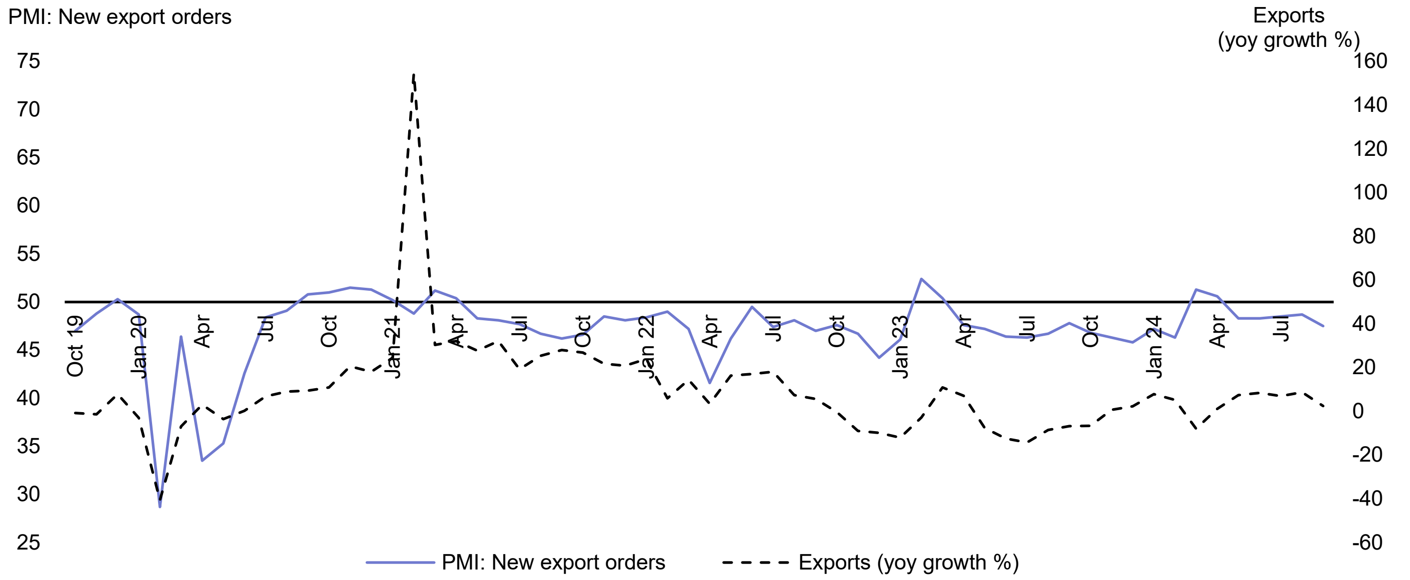
Sustained recovery in external demand bodes well for exports in 4Q24

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. All in all, we forecast that China's exports will register a mid-single-digit year-on-year rise in 4Q24.

We forecast that China's exports will register a mid-single-digit year-on-year rise in 4Q24 amid an improving external demand.

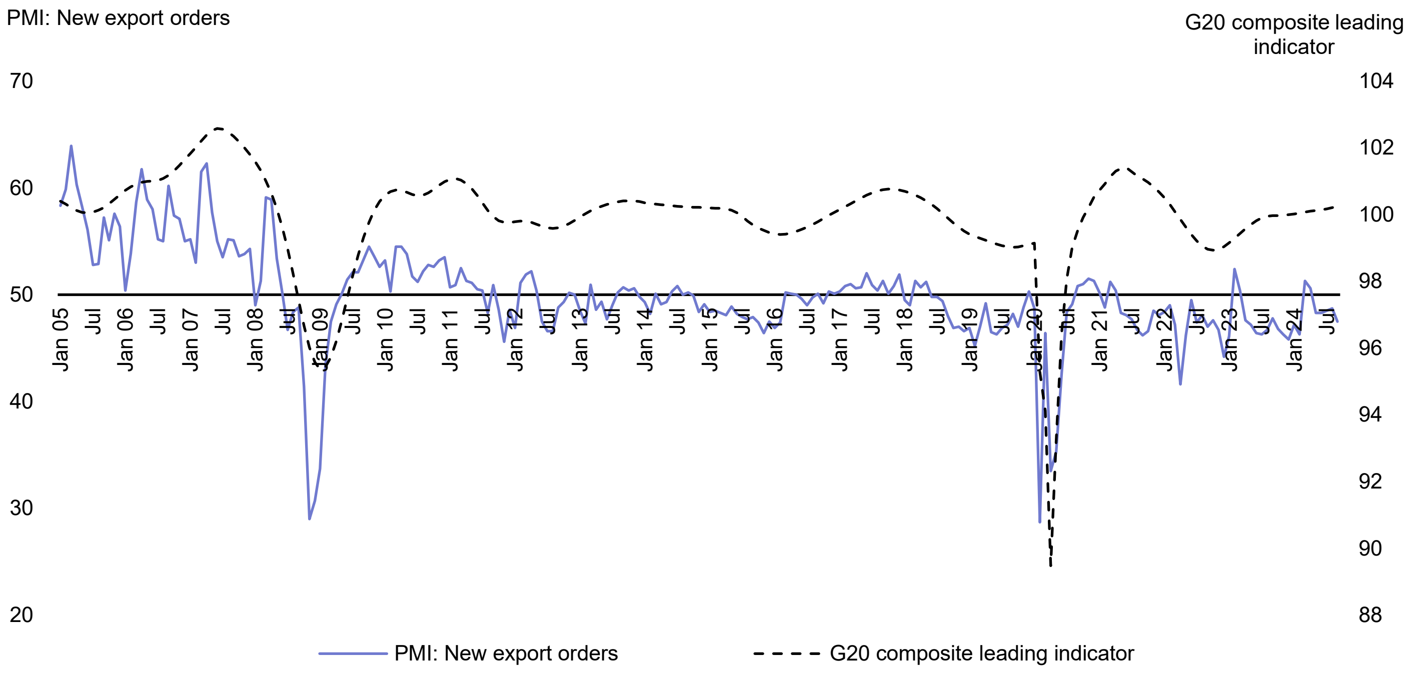
1 The G20 composite leading indicator, compiled by the Organization for Economic Cooperation and Development (OECD), is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity, and covers Australia, Brazil, Canada, China, France, Germany,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

Exhibit 9: New export orders index and export growth, October 2019 to September 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 September 2024



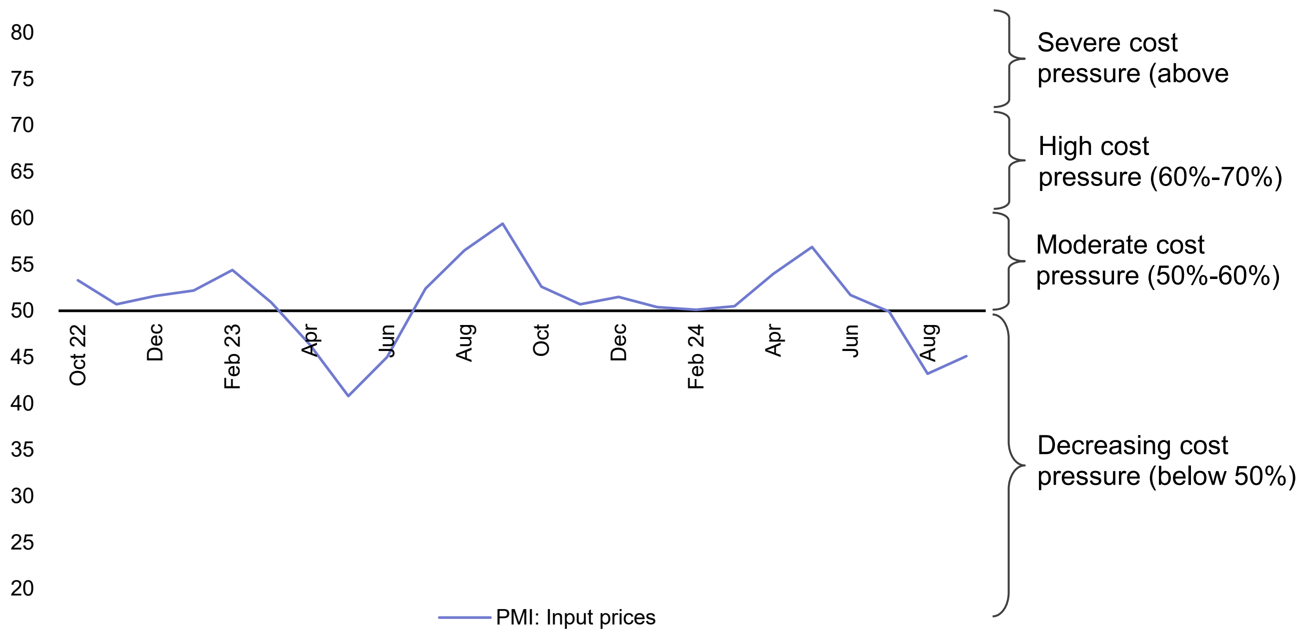
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Organization for Economic Cooperation and Development

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

Cost pressure on Chinese manufacturers eases amid falling upstream prices

The input prices index dropped from 49.9 in July to 43.2 in August, before picking up to 45.1 in September. The index readings stayed below the neutral level of 50 throughout the quarter, indicating a persistent decline in the prices of production inputs lately. Manufacturers have continued to experience a drop in the costs of major inputs.

Exhibit 11: Input prices index, October 2022 to September 2024



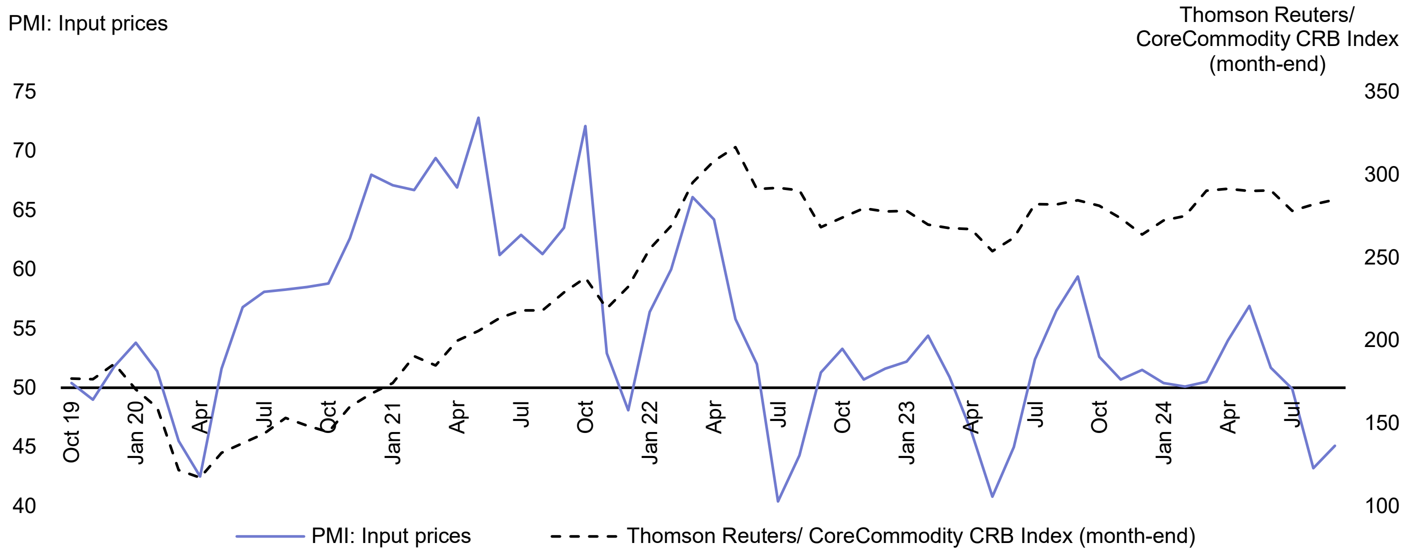
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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]

The decreasing input costs facing Chinese manufacturers are attributable to a retreat in global commodity prices, in particular crude oil prices, from early July to mid-September.

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, October 2019 to September 2024

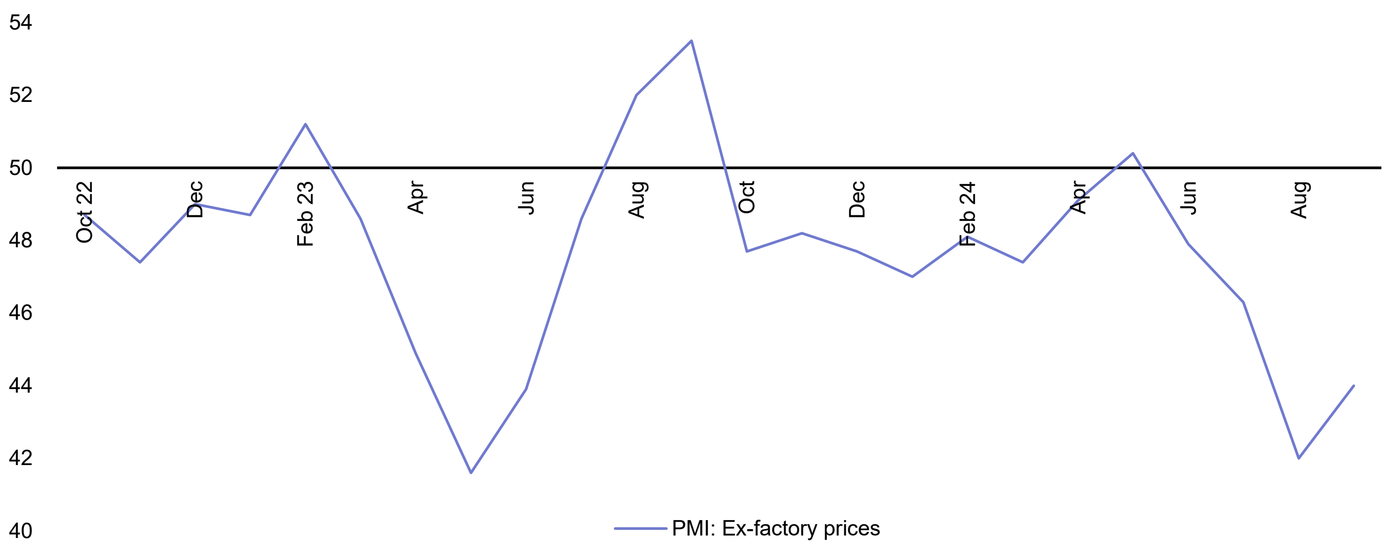


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Thomson Reuters

Manufacturers lower ex-factory prices of their products

After falling from 46.3 in July to 42.0 in August, the ex-factory prices index rebounded to 44.0 in September. The index readings have stayed in contractionary territory since June, indicating that Chinese manufacturers have been lowering the ex-factory prices of their finished products lately.[3]

Exhibit 13: Ex-factory prices index, October 2022 to September 2024



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

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

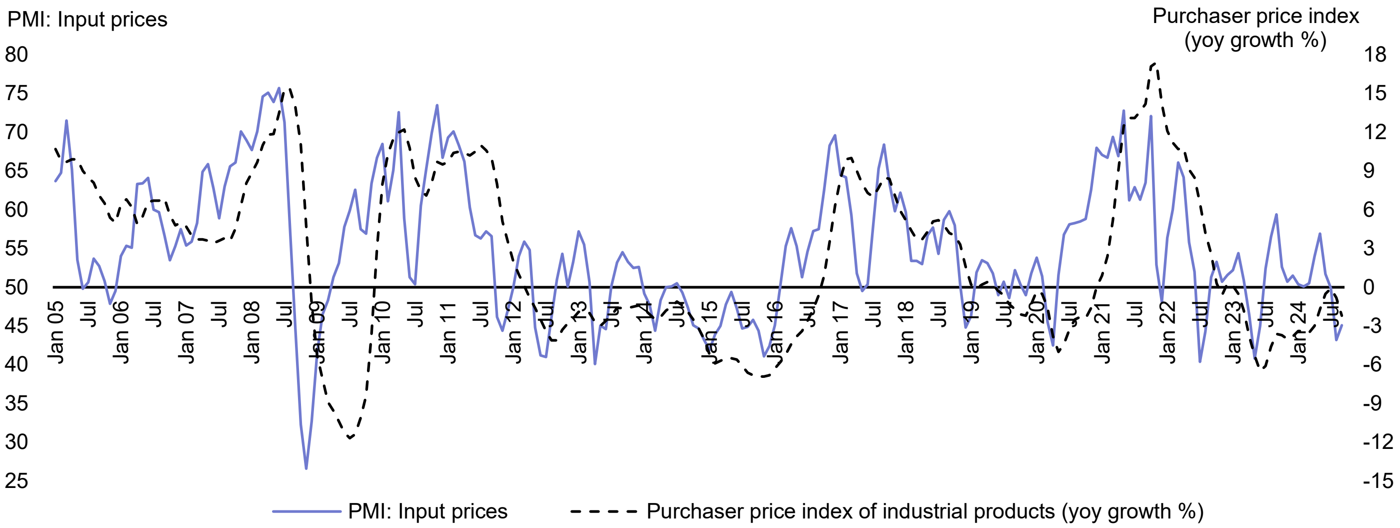
Growth in input prices and ex-factory prices to go up in 4Q24

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 4Q24, due to a recent rebound in global commodity prices and a low comparison base in 4Q23.

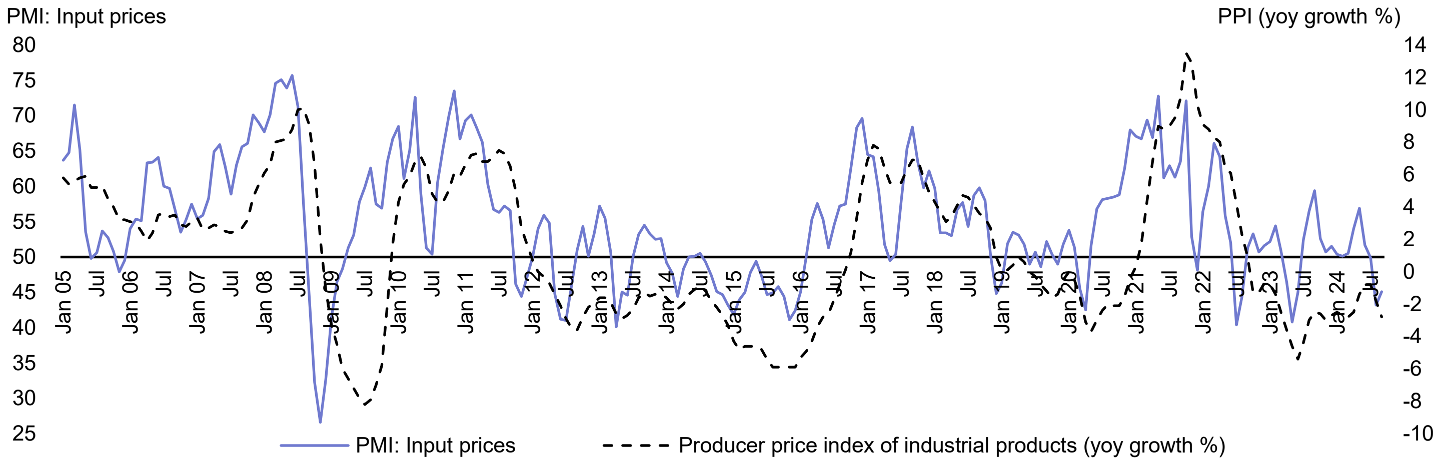
We expect that the year-on-year growth rates for both the purchaser price index and the PPI will go up in 4Q24, due to a recent rebound in global commodity prices and a low comparison base in 4Q23.

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



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

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



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

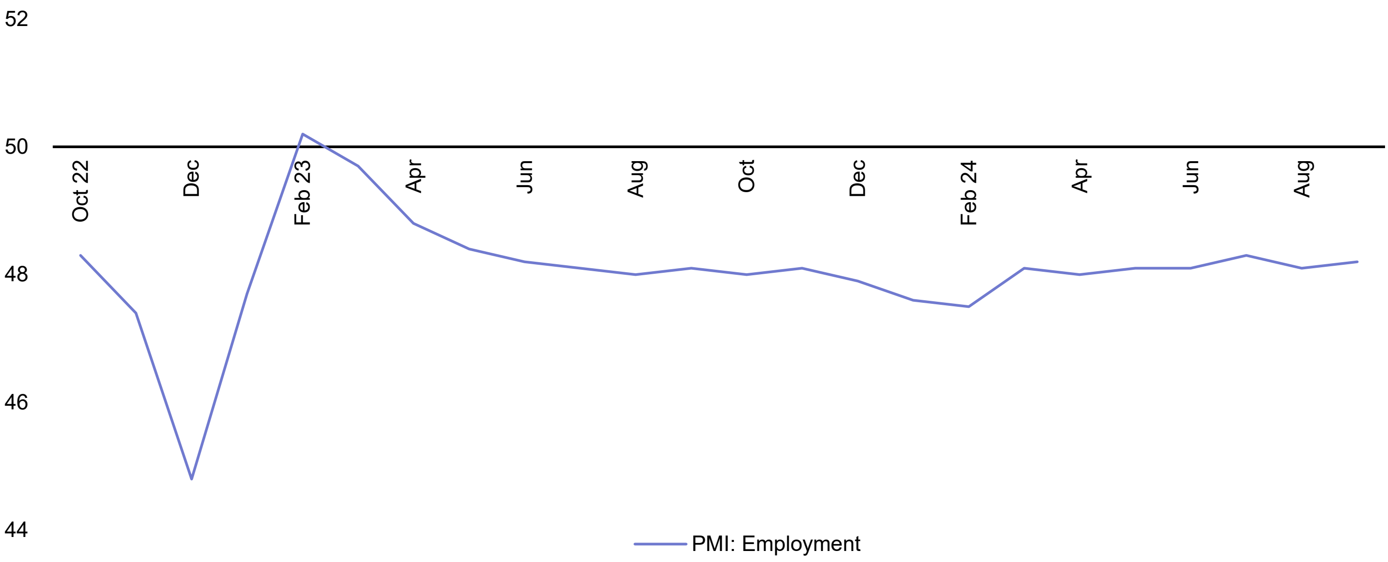
[4] The producer price index of industrial goods (PPI), compiled by China National Bureau of Statistics, measures the prices of industrial products when they are sold for the first time after production.

6. What the PMI tells us about manufacturing employment

Employment in the 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 recently. (See exhibit 16)

Exhibit 16: Employment index, October 2022 to September 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 the export sector and overall Chinese economy, we expect the employment situation in the manufacturing sector to stabilize in 4Q24.

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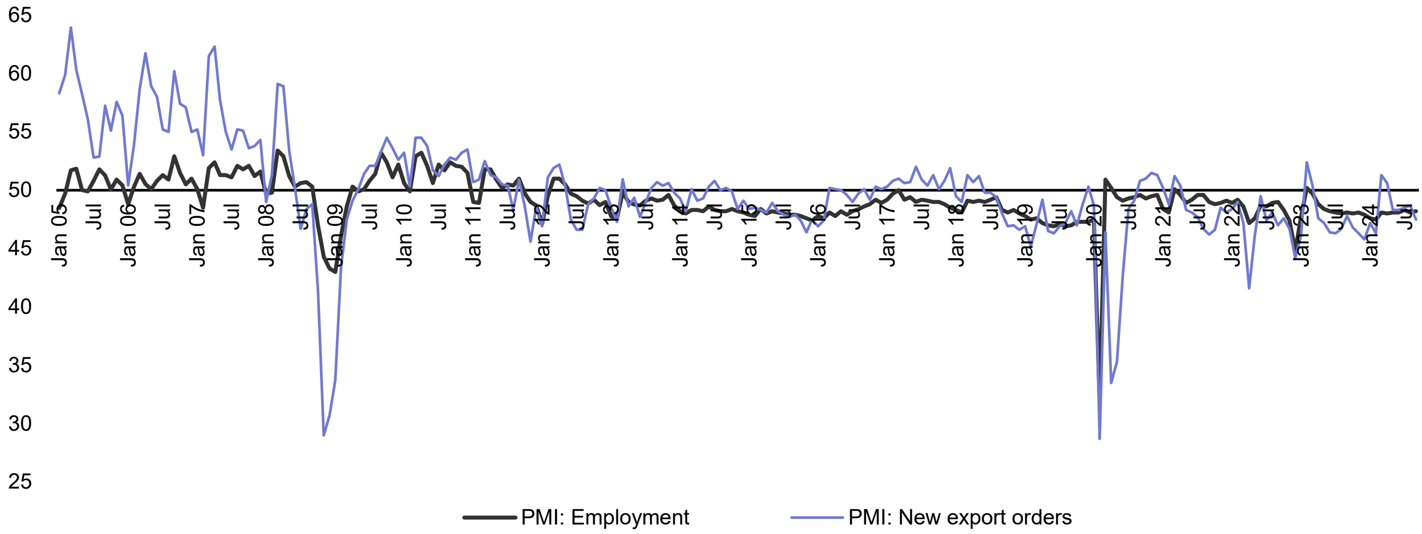
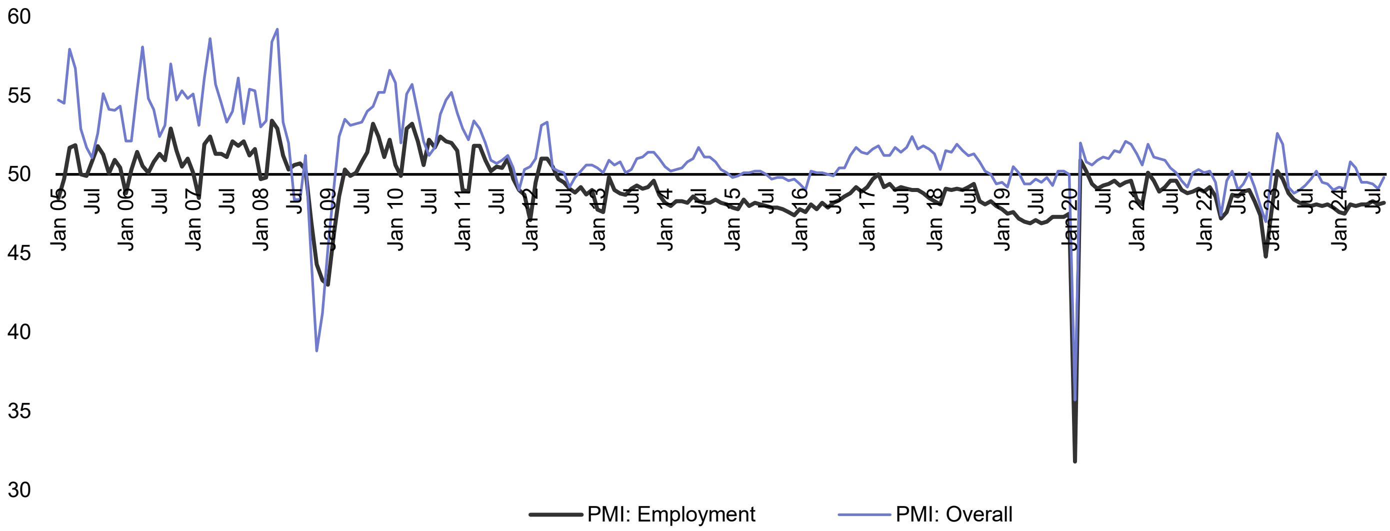
Exhibit 17: Employment and new export orders, January 2005 to September 2024



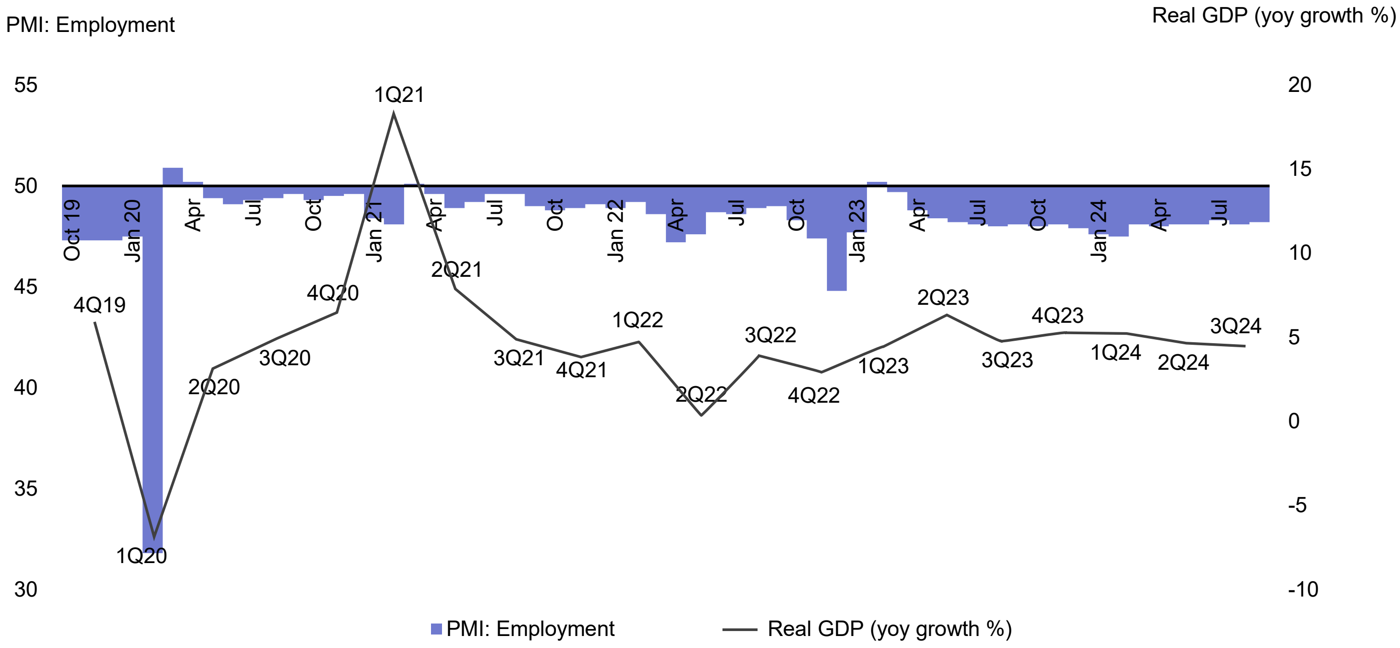
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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



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

Exhibit 19: Employment index and real GDP growth, October 2019 to September 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.