

# PMI Quarterly on China Manufacturing

## PMI 1Q23

A strong recovery in the manufacturing sector

## Policy Outlook

China to continue its policy support for economy

## 2Q23 Forecasts

Real GDP growth to surge to 8.0% yoy while PMI to stay above 50.0

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# PMI points to a strong recovery in the manufacturing sector in 1Q23

## Our observations

- Large enterprises continue to fare better than small and medium enterprises.
- Manufacturing output recovers at a robust pace.
- Overall market demand picks up fast.
- Manufacturers lower ex-factory prices of their products.
- Employment situation in manufacturing sector stabilizes.

## Policy outlook

- The Chinese government will continue its policy support for the economy.
- It will enhance the intensity and effectiveness of the proactive fiscal policy and improve preferential tax and fee policies. Meanwhile, it will implement the prudent monetary policy in a targeted way, and the M2 money supply and aggregate financing should increase generally in step with nominal economic growth to provide support for the real economy

## Our forecasts for 2Q23

- We project a broad-based recovery in domestic economic activity in 2Q23.
- Headline PMI will stay above 50.
- Real GDP growth will surge to 8.0% yoy.
- VAIO growth will rise above 7.0% yoy.
- Exports will stay flat compared with the same period last year.
- Year-on-year growth rates for the purchaser price index and the PPI will continue to fall, due mainly to a high comparison base in 2Q22.

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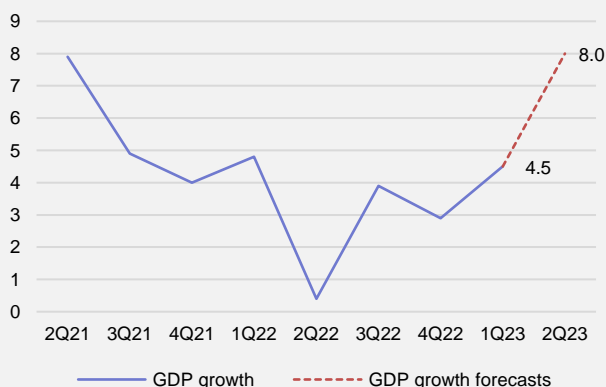


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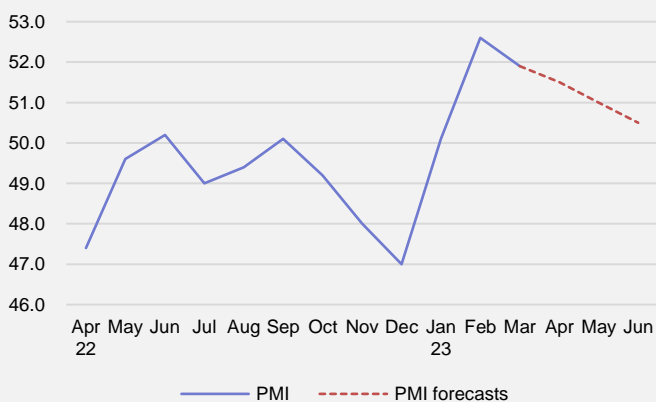
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China Federation of Logistics & Purchasing

GDP growth (%)



Headline PMI



## **IN THIS ISSUE:**

PMI points to a strong recovery in the manufacturing sector in 1Q23	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 a strong recovery in the manufacturing sector in 1Q23

## China's manufacturing sector in 1Q23

China's manufacturing PMI surged from 50.1 in January to an almost 11-year high of 52.6 in February, before retreating to 51.9 in March, still markedly above the watershed level of 50. The headline PMI readings have stayed high in the last couple of months, indicating a strong recovery in the manufacturing sector lately. (See exhibit 1)

Production activities have expanded at a rapid pace in recent months, as shown by the strong output index in February (56.7) and March (54.6). The expansion was supported by a fast growth in overall market demand: The new orders index has stayed high at around 54.0 in the last couple of months.

Prices of industrial products have declined lately, as the ex-factory prices index dropped to 48.6 in March. Meanwhile, the prices of materials have continued to increase 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 1Q23 was due largely to the rise in the output index (which weighs 25% in the computation of the headline PMI) and the new orders index (which weighs 30%). Among the 12 sub-indices (i.e., excluding the suppliers' delivery time index), the indices of new orders, purchases of inputs, input prices and business expectations have remained in the expansionary zone over the past three months. Meanwhile, the indices of backlogs of orders and stocks of major inputs have stayed in the contractionary zone over the same period. (See exhibit 3)

## Policy outlook

Looking ahead, we expect the Chinese government to continue its 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 2023 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 and called for improvement in preferential tax and fee policies. Meanwhile, it also vowed to implement the prudent monetary policy in a targeted way. The M2 money supply and aggregate financing should increase generally in step with nominal economic growth to provide support for the real economy.

These wordings signal that China will continue to adopt an expansionary macro policy in 2023, which will help promote the continued recovery of the Chinese economy, in our view.

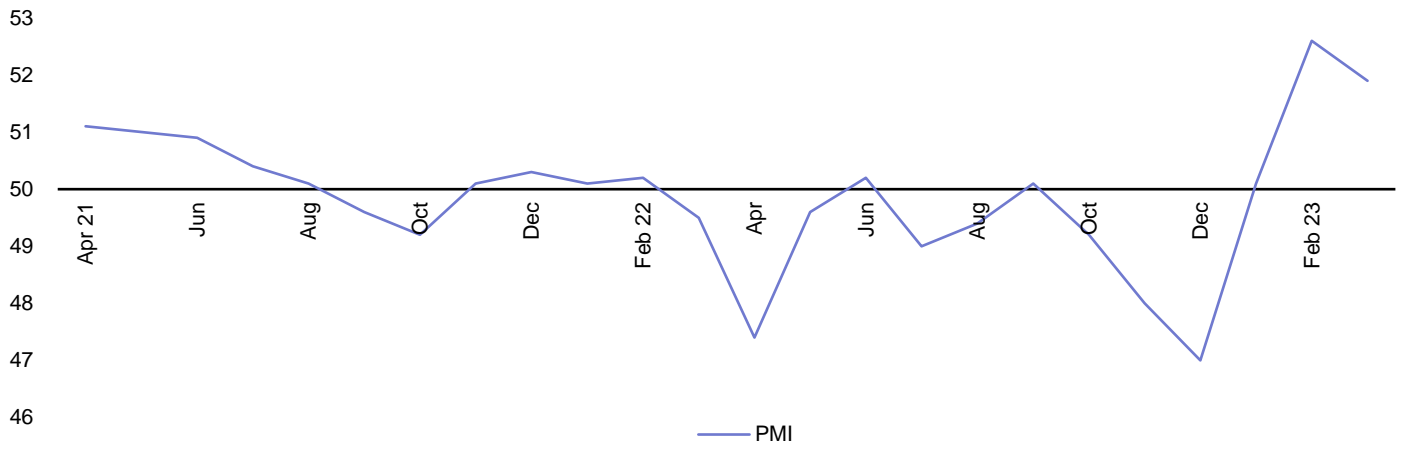
**We project that China's real GDP growth will rise to 8.0% yoy in 2Q23, boosted by a broad-based recovery in domestic economy activity and a low comparison base in 2Q22.**

**Forecasts for 2Q23**

China's economic activity has rapidly resumed since its reopening. Growth in industrial production is set to accelerate in the near term, boosted by a further recovery in domestic demand and a low comparison base in the same period last year. Overall, we predict that the headline PMI will stay above 50 in 2Q23, while industrial production growth will rise above 7.0% yoy.

Exhibit 4 plots the quarterly real GDP growth rates versus the monthly PMIs since January 2018. We project that China's real GDP growth will surge to 8.0% yoy in 2Q23, boosted by a broad-based recovery in domestic economic activity, from private consumption to industrial production and investment, as well as a low comparison base in 2Q22.

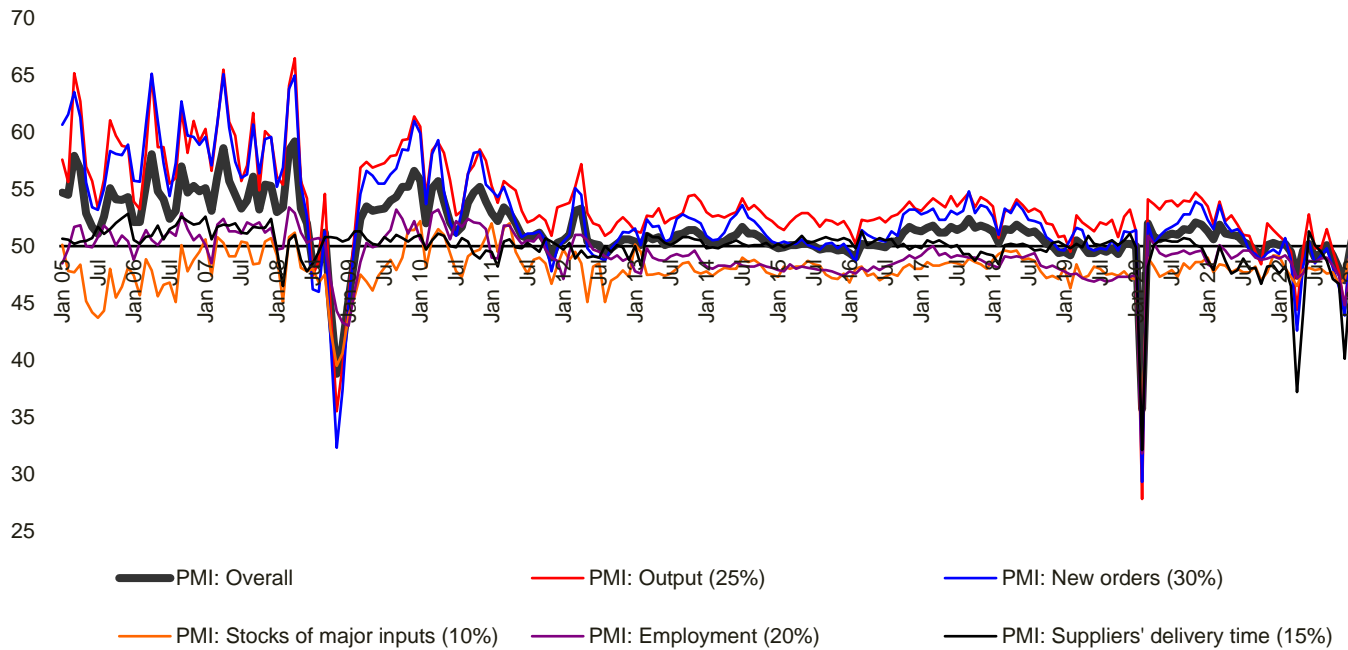
**Exhibit 1: Headline PMI, April 2021 to March 2023**



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

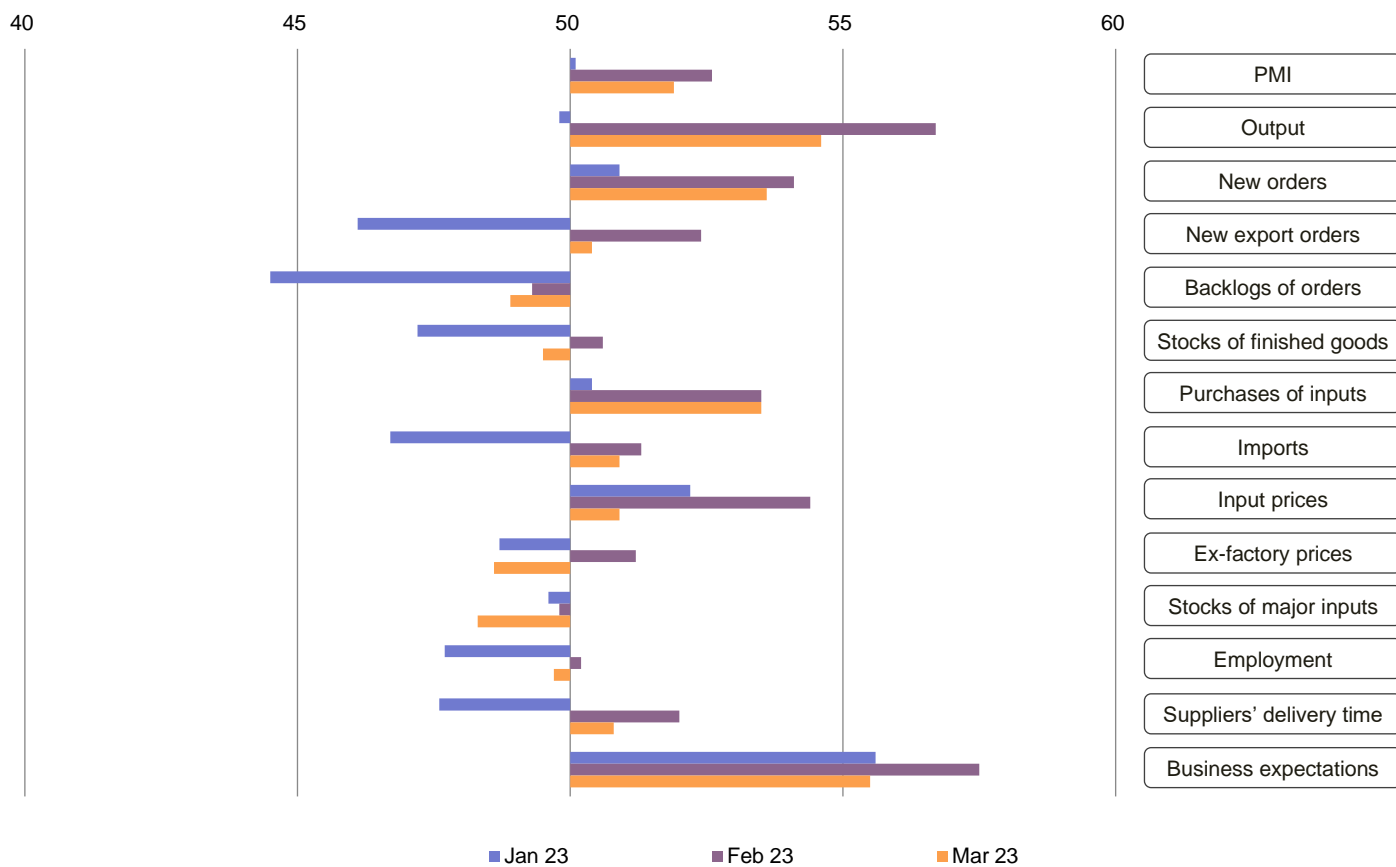
**Exhibit 2: Headline PMI and sub-indices, January 2005 to March 2023**

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



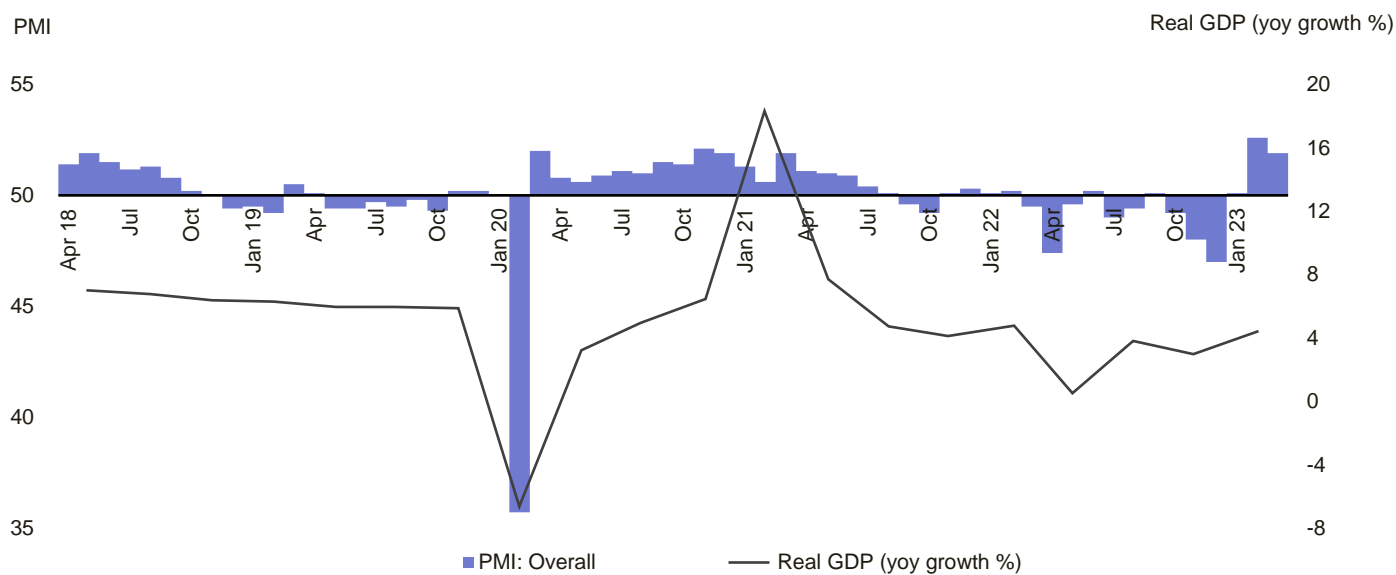
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

### Exhibit 3: Headline PMI and all sub-indices, January to March 2023



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

### Exhibit 4: Headline PMI and real GDP growth, April 2018 to March 2023



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

### PMIs of all types of enterprises rise above 50

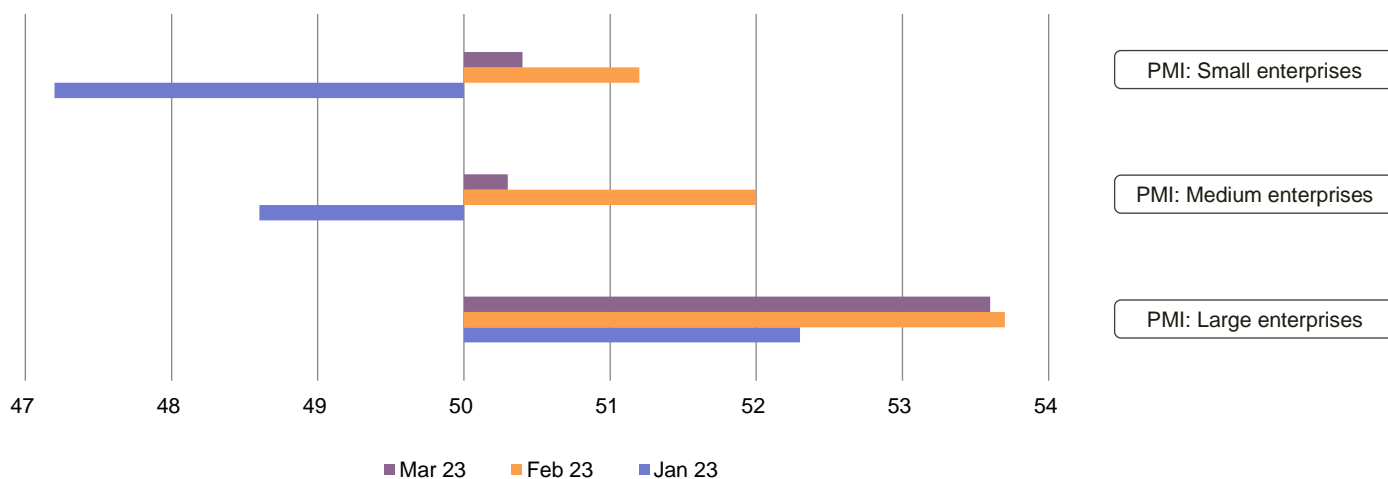
The PMI of 'large enterprises' increased from 52.3 in January to 53.7 in February, and then edged down to 53.6 in March. The PMI of 'medium enterprises' rose from 48.6 in January to 52.0 in February, before falling to 50.3 in March. The PMI of 'small enterprises' went up from 47.2 in January to 51.2 in February, and then dropped to 50.4 in March.

### Large enterprises continue to fare better than small and medium enterprises

The index readings of all types of enterprises have stayed in the expansionary territory since February, pointing to a sustained recovery in their production and operations lately. However, the PMI of 'large enterprises' continued to stay high in March while that of 'medium enterprises' and 'small enterprises' fell to only slightly above 50, indicating that large enterprises have continued to fare better than small and medium enterprises. (See exhibit 5)

**The PMI of 'large enterprises' continued to stay high in March while that of 'medium enterprises' and 'small enterprises' fell to only slightly above 50, indicating that large enterprises have continued to fare better than small and medium enterprises.**

**Exhibit 5: PMIs of large enterprises, medium enterprises and small enterprises, January to March 2023**



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

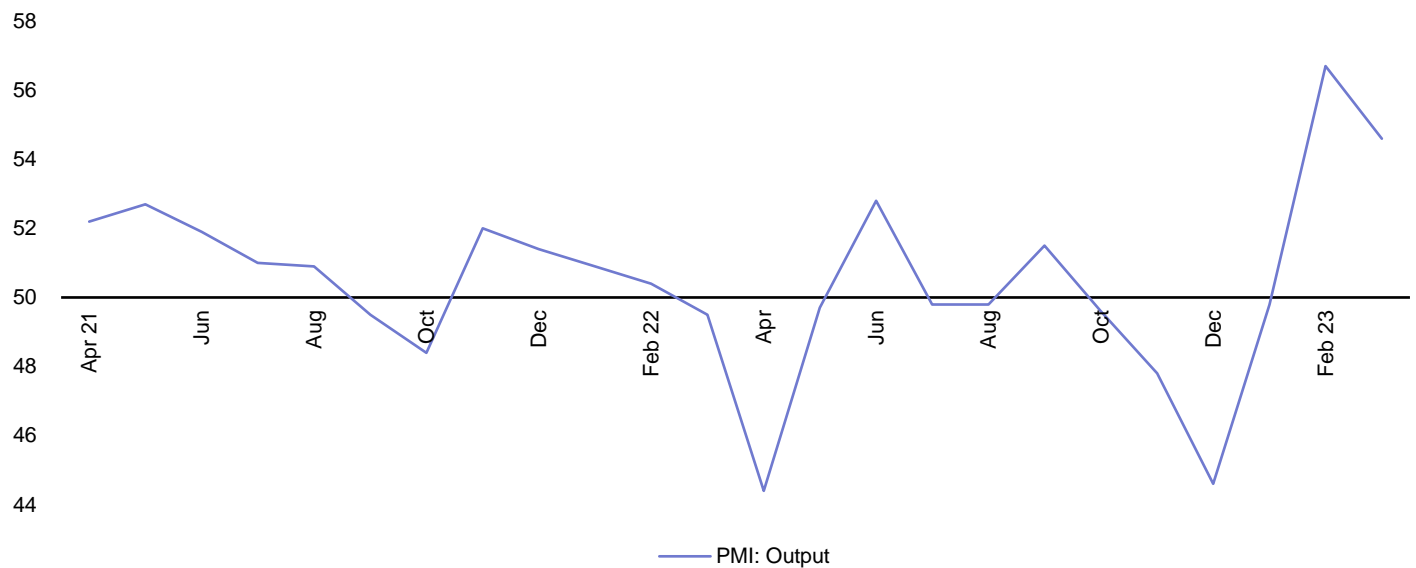


### 3. What the PMI tells us about manufacturing production

#### Manufacturing output recovers at a robust pace

The output index soared from 49.8 in January to 56.7 in February, the highest in almost 11 years, before retreating to 54.6 in March. The index has stayed high in the last couple of months, indicating that production activities have recovered at a robust pace lately. (See exhibit 6)

**Exhibit 6: Output index, April 2020 to March 2023**



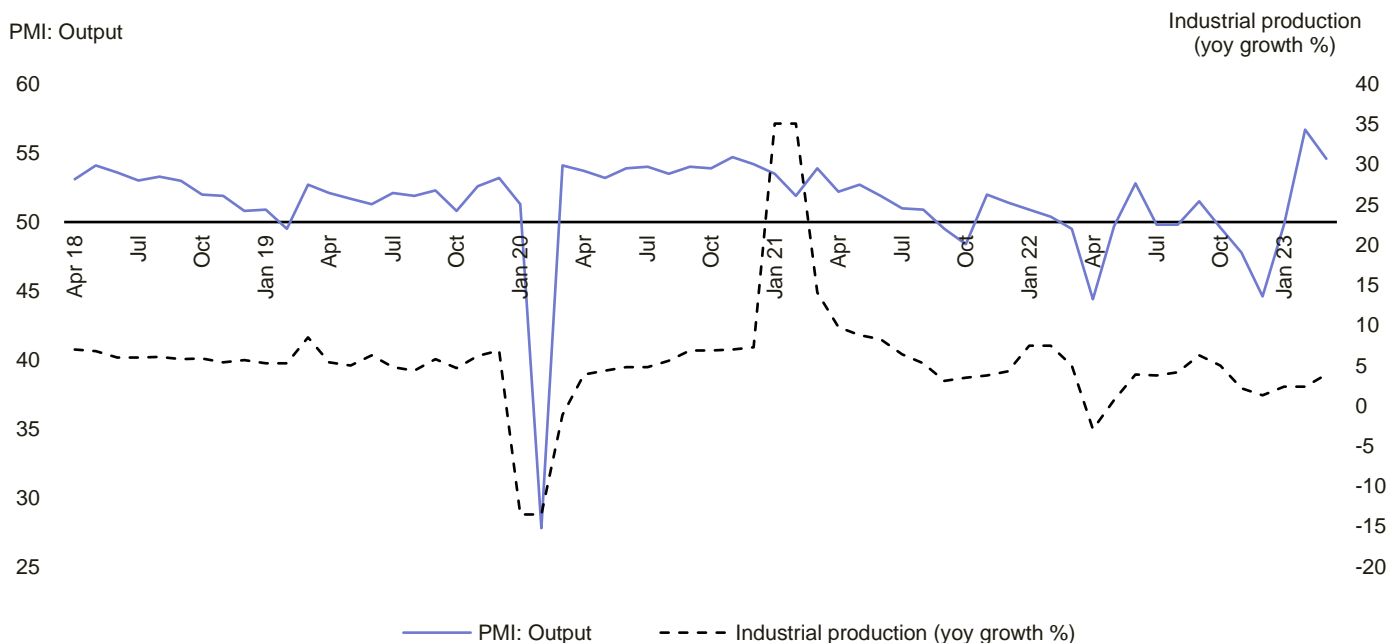
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

**Growth in manufacturing production to accelerate further in 2Q23**

Exhibit 7 demonstrates the correlation (with some lags) between the output index and the year-on-year growth of value-added of industrial output (VAIO). Looking ahead, we expect that China’s VAIO growth will climb above 7.0% yoy in 2Q23, given an improving domestic demand and a low comparison base in the same period last year. Still, challenges facing Chinese manufacturers include the global economic downturn, 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 expect that China’s VAIO growth will climb above 7.0% yoy in 2Q23, given an improving domestic demand and a low comparison base in the same period last year.**

**Exhibit 7: Output index and industrial production growth, April 2018 to March 2023**



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

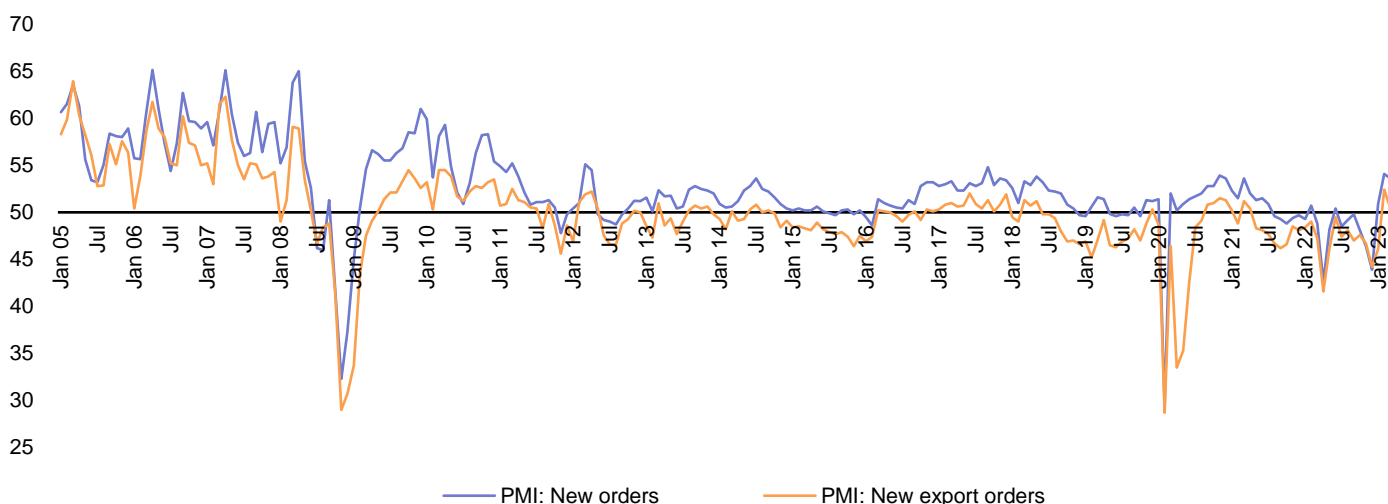
## 4. What the PMI tells us about the overall market demand

### Overall market demand picks up fast

The new orders index rose from 50.9 in January to 54.1 in February, and then edged down to 53.6 in March. The rapid growth of new orders since February indicates a fast pick up in overall market demand recently.

The new export orders index also went up from 46.1 in January to 52.4 in February, returning to the expansionary territory for the first time since April 2021. The index then fell to 50.4 in March, still above the watershed level. The latest figures indicate that new export orders have recovered lately. (See exhibit 8)

**Exhibit 8: New orders index and new export orders index, January 2005 to March 2023**



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

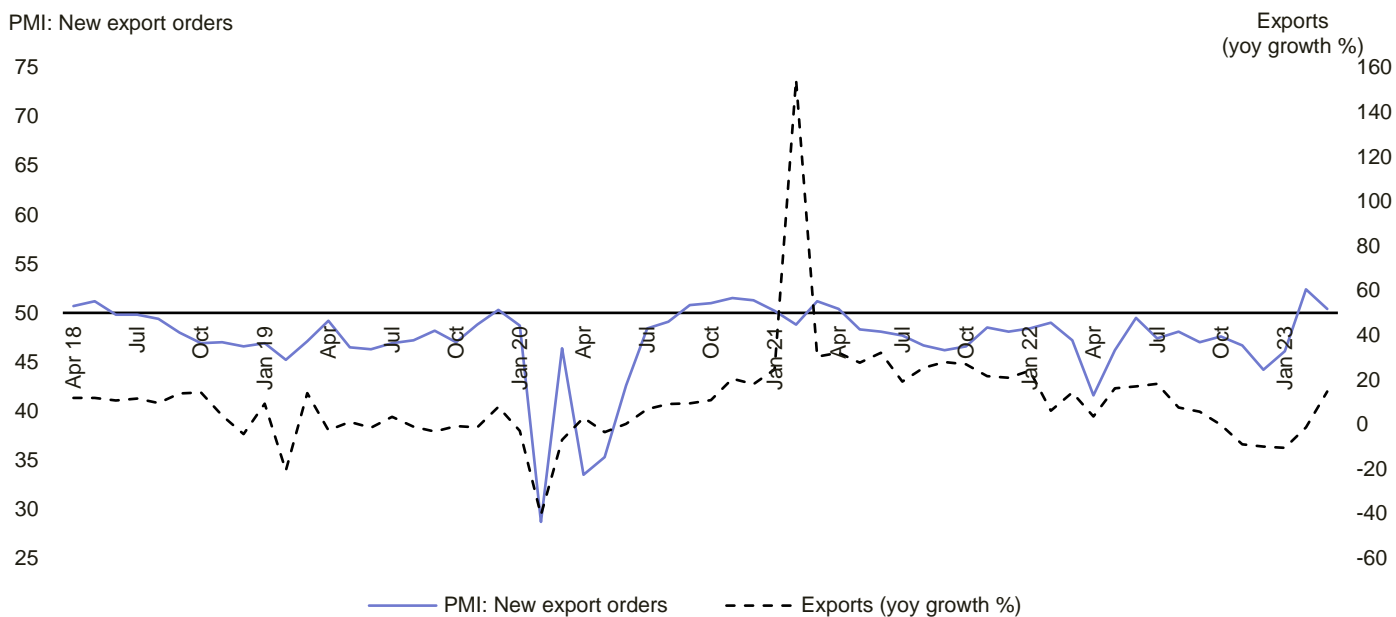
### China’s exports to stay flat in 2Q23 compared with the same period last year

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<sup>1</sup> has been on a downward trend, suggesting a moderation in the growth of the global economy. All in all, we forecast that China’s exports will stay flat in 2Q23 compared with the same period last year.

**With global growth slowing, we forecast that China’s exports will stay flat in 2Q23 compared with the same period last year.**

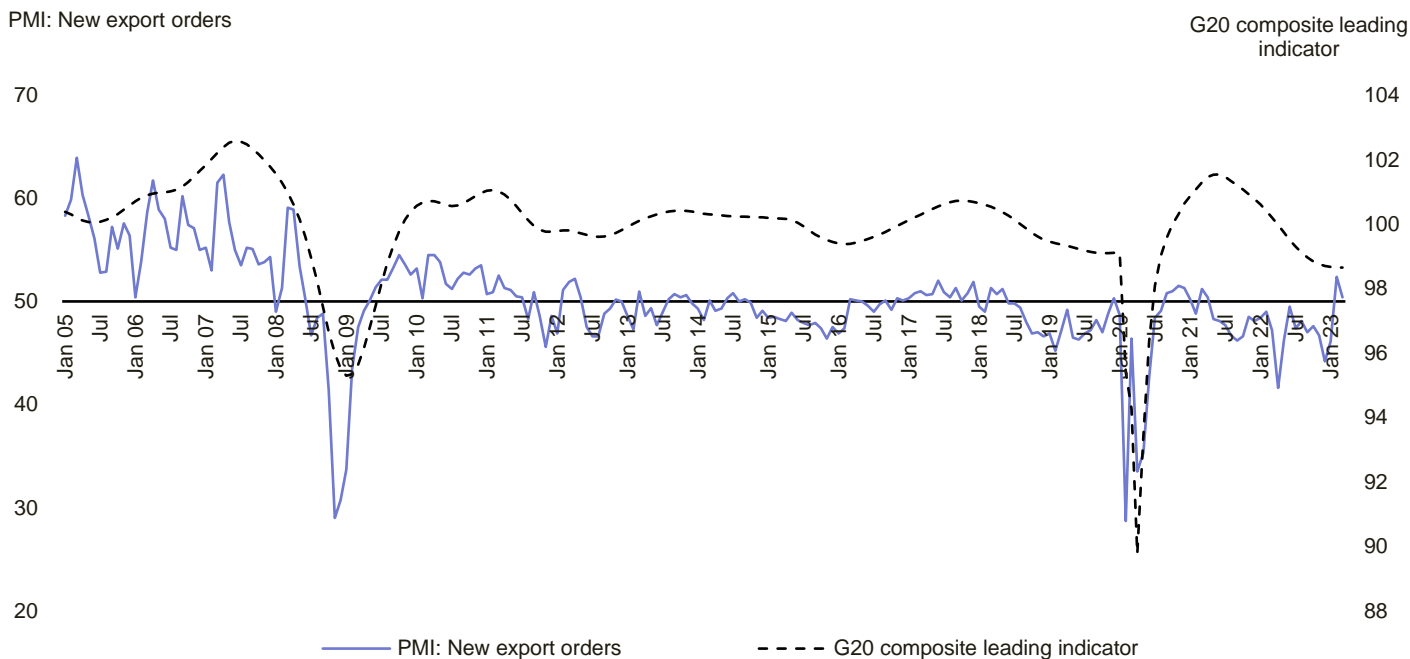
<sup>1</sup> The G20 composite leading indicator, compiled by the Organization for Economic Cooperation and Development (OECD), is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity, and covers Australia, Brazil, Canada, China, 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 2018 to March 2023**



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 2023**



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

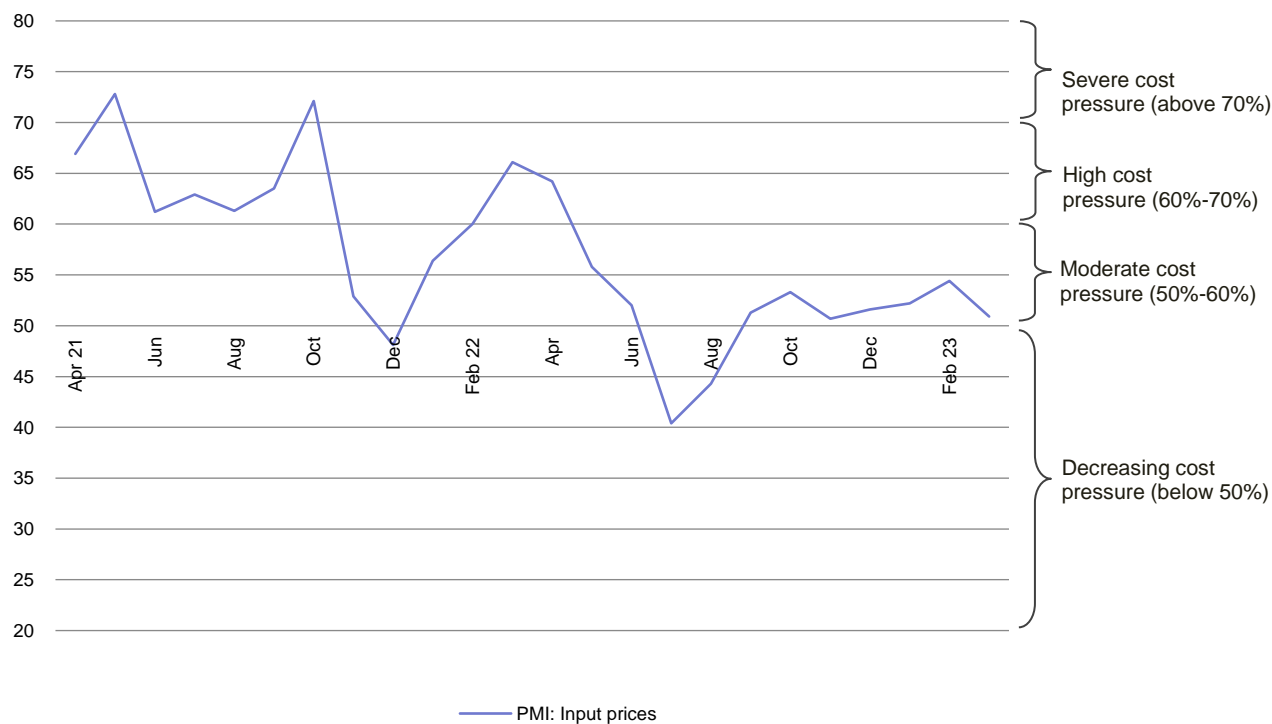
## 5. What the PMI tells us about upstream and midstream prices

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

After rising from 52.2 in January to 54.4 in February, the input prices index went down to 50.9 in March. The index readings have stayed above the critical 50-mark, indicating a sustained increase in the prices of production inputs recently, which would continue to exert moderate cost pressure on Chinese manufacturers.

**Exhibit 11: Input prices index, April 2021 to March 2023**

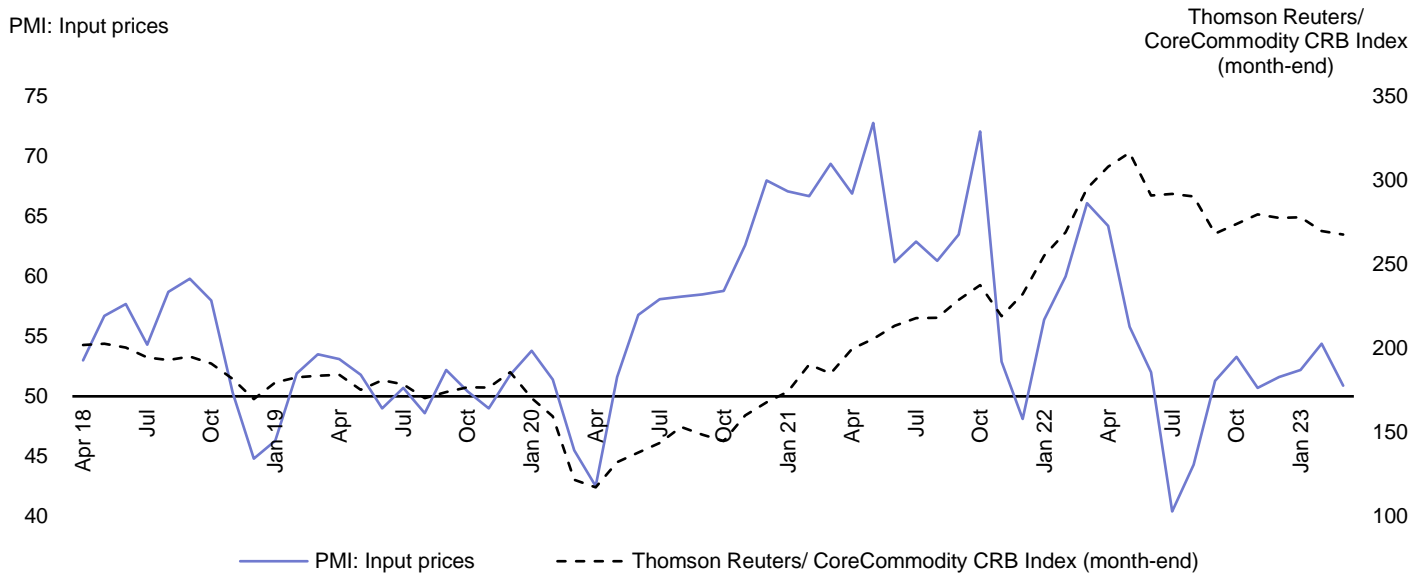
To see the extent to which input costs of Chinese manufacturers are affected by global commodity prices, exhibit 12 puts together the input prices index and the Thomson Reuters/ CoreCommodity CRB index.<sup>2</sup>



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

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

**Exhibit 12: Input prices index and Thomson Reuters/ CoreCommodity CRB Index, April 2018 to March 2023**

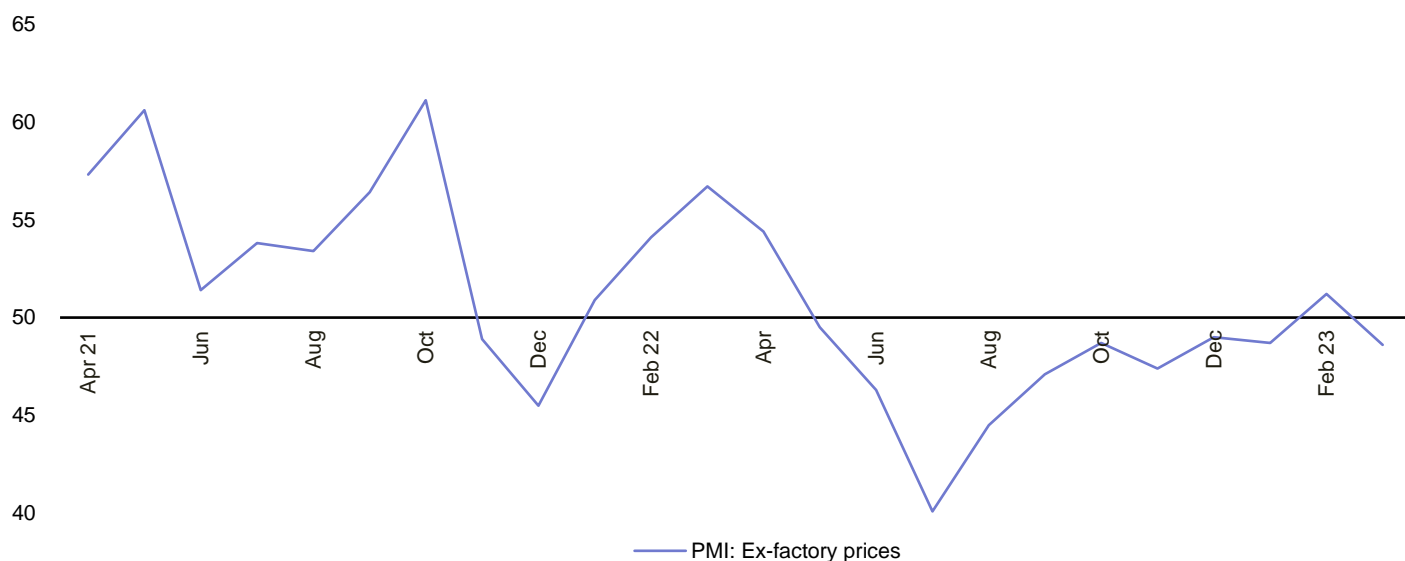


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Thomson Reuters

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

After rising from 48.7 in January to 51.2 in February, the ex-factory prices index fell to 48.6 in March. The latest index reading indicates that Chinese manufacturers have been lowering the ex-factory prices of their finished products lately.<sup>3</sup>

**Exhibit 13: Ex-factory prices index, April 2021 to March 2023**



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

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

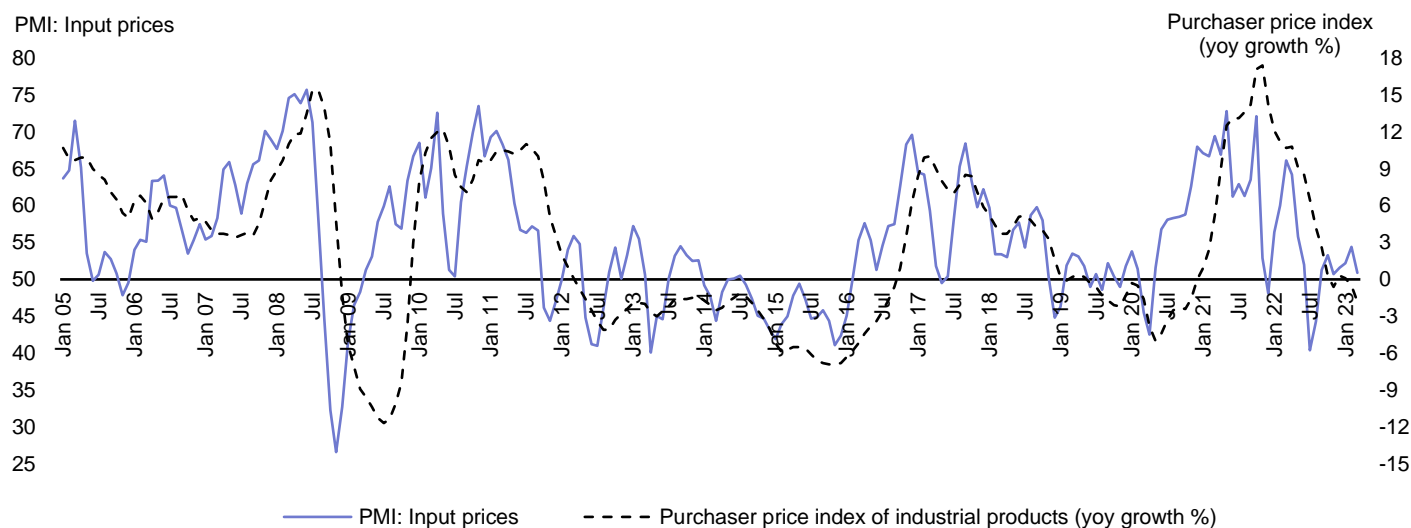
**Growth in input prices and ex-factory prices to fall in 2Q23**

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)<sup>4</sup> in exhibit 15.

Going forward, we expect that the year-on-year growth rates for both the purchaser price index and the PPI will continue to fall in 2Q23, due mainly to a high comparison base in 2Q22.

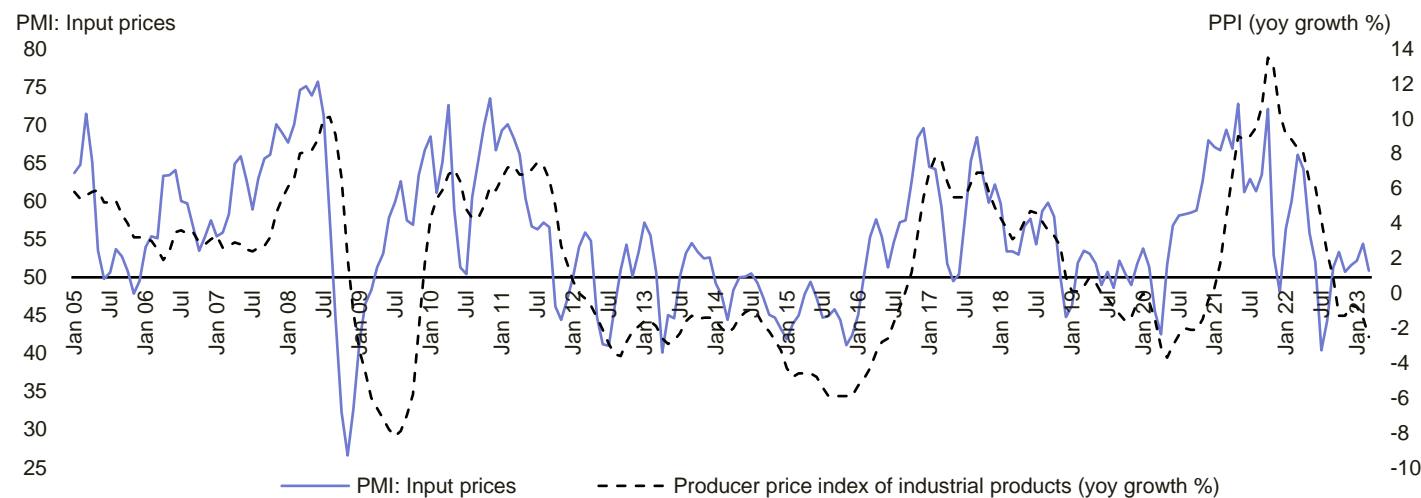
**We expect that the year-on-year growth rates for both the purchaser price index and the PPI will continue to fall in 2Q23, due mainly to a high comparison base in 2Q22.**

**Exhibit 14: Input prices index and purchaser price index of industrial products, January 2005 to March 2023**



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

**Exhibit 15: Input prices index and producer price index, January 2005 to March 2023**



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

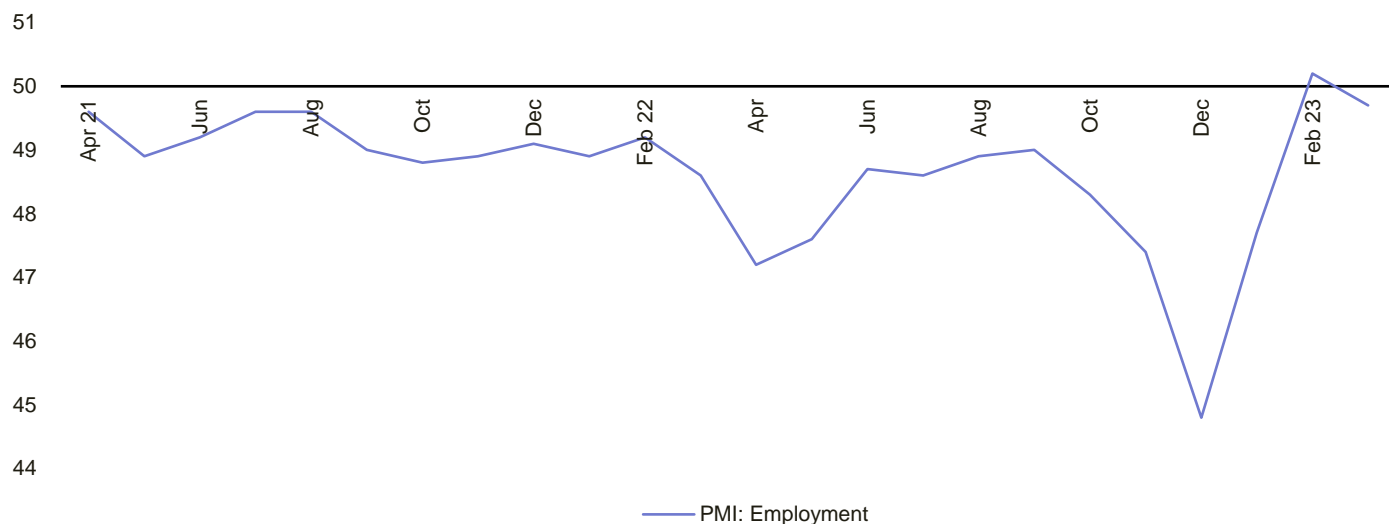
<sup>4</sup> The producer price index of industrial goods (PPI), compiled by China National Bureau of Statistics, measures the prices of industrial products when they are sold for the first time after production.

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

### Employment situation in manufacturing sector stabilizes

The employment index increased from 47.7 in January to 50.2 in February, returning to the expansionary territory for the first time since March 2021. The index then dropped to 49.7 in March. The latest index readings indicate that the employment situation in the manufacturing sector has stabilized lately. (Exhibit 16)

**Exhibit 16: Employment index, April 2020 to March 2023**



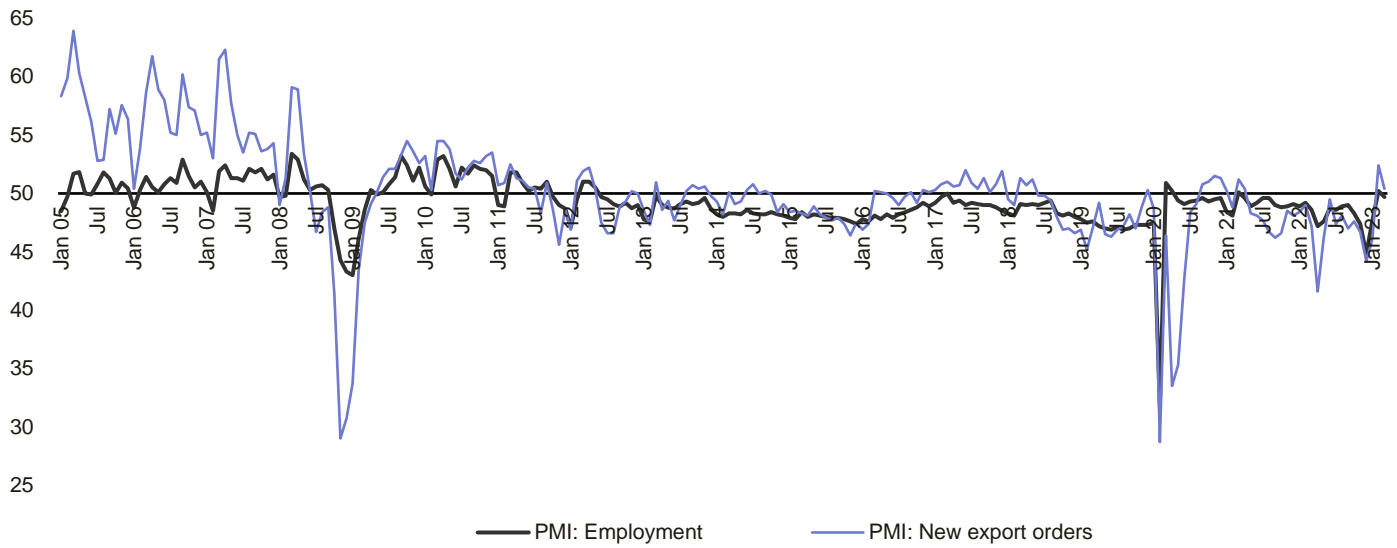
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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 strong recovery in overall Chinese economy, we expect that the employment situation in the manufacturing sector will remain steady in 2Q23.

**Given a strong recovery in overall Chinese economy, we expect that the employment situation in the manufacturing sector will remain steady in 2Q23.**

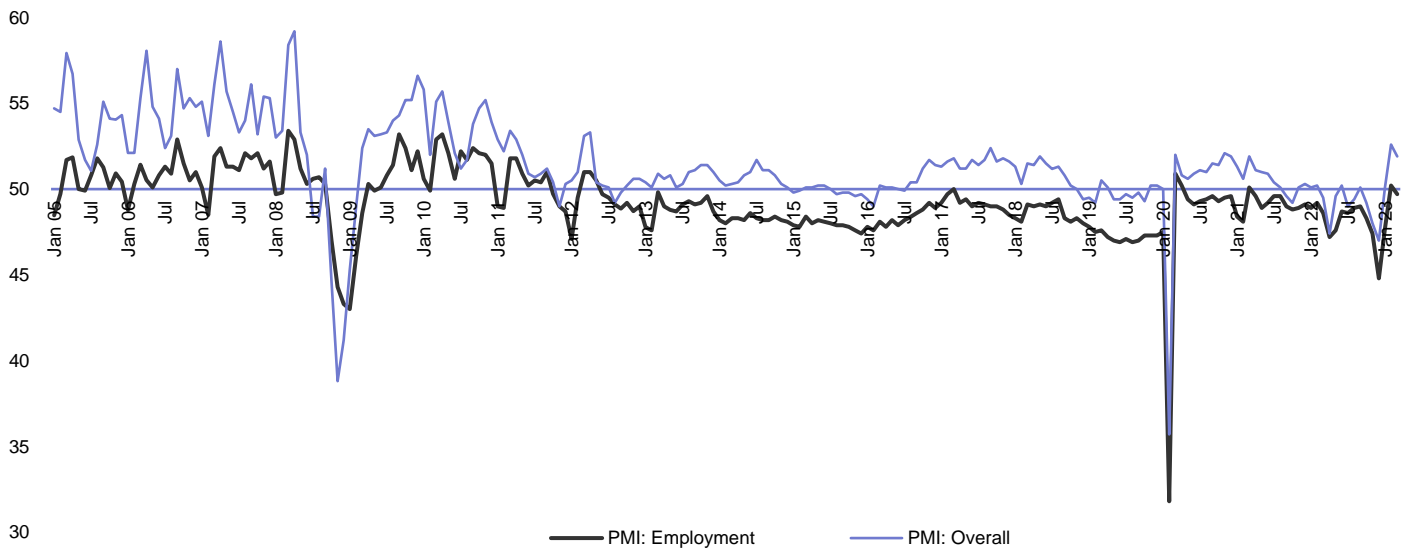


### Exhibit 17: Employment and new export orders, January 2005 to March 2023



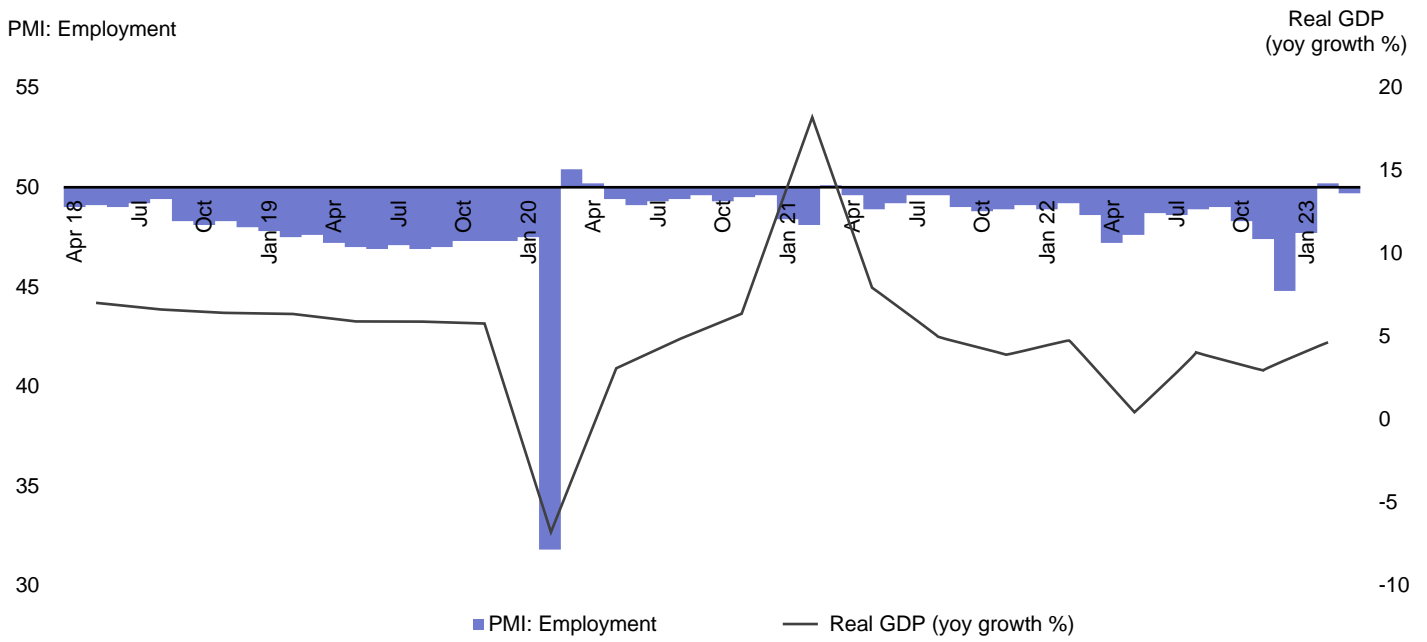
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

### Exhibit 18: Employment index and headline PMI, January 2005 to March 2023



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

**Exhibit 19: Employment index and real GDP growth, January 2018 to March 2023**



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 26,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

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

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