

PMI Quarterly on China Manufacturing

PMI 3Q23

Recovery in the manufacturing sector in September

Policy Outlook

China to introduce more policies to support economic growth

4Q23 Forecasts

Real GDP growth to rise to 5.5% yoy while PMI to stay above 50.0

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PMI points to recovery in the manufacturing sector in September

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Our observations

- Large enterprises continue to fare better than small and medium enterprises.
- Manufacturing output growth speeds up.
- Overall market demand picks up.
- Manufacturers raise ex-factory prices of their products.
- Employment in manufacturing sector slightly decreases.

Policy outlook

- The Chinese government is likely to introduce more policies and measures to support economic growth.
- It will carry out macroeconomic regulation with precision and force, strengthen counter-cyclical regulation, and make more policy options available.

Our forecasts for 4Q23

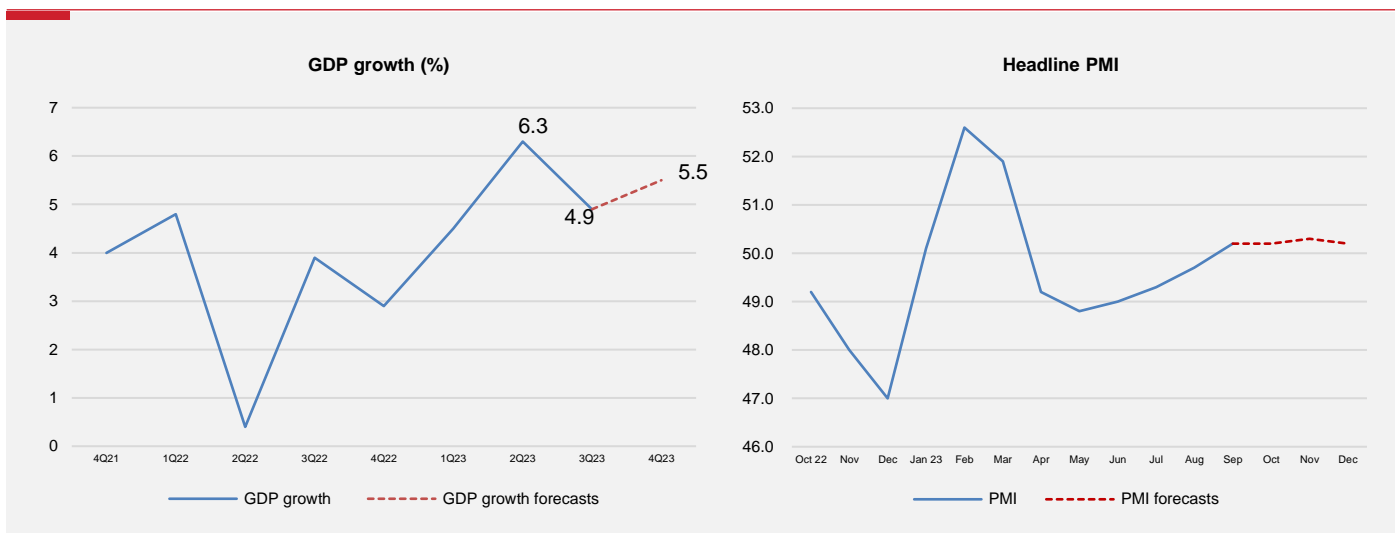
- We project a further recovery in manufacturing production in 4Q23.
- Headline PMI will stay above 50.
- Real GDP growth will increase to 5.5% yoy.
- VAIO growth will rise to 5.5% yoy.
- Exports will stay flat compared with the same period last year.
- Year-on-year growth rates for the purchaser price index and the PPI will go up further in 4Q23, due mainly to a recent rise in global commodity prices.

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

China's manufacturing sector in 3Q23

China's manufacturing PMI rebounded from 49.3 in July to 49.7 in August and 50.2 in September. The headline PMI reading has returned to the expansionary territory recently, indicating a recovery in China's manufacturing sector. (See exhibit 1)

Manufacturing output growth has accelerated lately, as the output index increased from 50.2 in July to 52.7 in September. The expansion was supported by a recent growth in overall new orders: The new orders index has stayed above 50 since August, indicating a steady pick up in the overall market demand lately.

Prices of industrial products have gone up lately: The ex-factory prices index rose from 48.6 in July to 52.0 in August and 53.5 in September. The rise in product prices was partly attributed to the jump in the prices of materials: The input prices index increased from 52.4 in July to 59.4 in September.

Exhibit 2 shows the contributions of the sub-indices to the change in the headline PMI. The increase in the headline PMI in 3Q23 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 output, input prices, and business expectations have stayed in the expansionary zone over the past three months. Meanwhile, the indices of new export orders, backlogs of orders, stocks of finished goods, stocks of major inputs, imports, and employment have stayed in the contractionary zone over the quarter. (See exhibit 3)

Policy outlook

Looking ahead, we expect that the central government is likely to introduce more policies and measures to support China's economic growth. A meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee was held on 24 July to make arrangements for the economic work for the second half of the year. The meeting called for carrying out macroeconomic regulation with precision and force, strengthening counter-cyclical regulation, and making more policy options available. It is necessary to stick to a proactive fiscal policy and a prudent monetary policy, extend and improve the implementation of tax and fee cuts, and give full play to the role of monetary tools, according to the meeting.

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

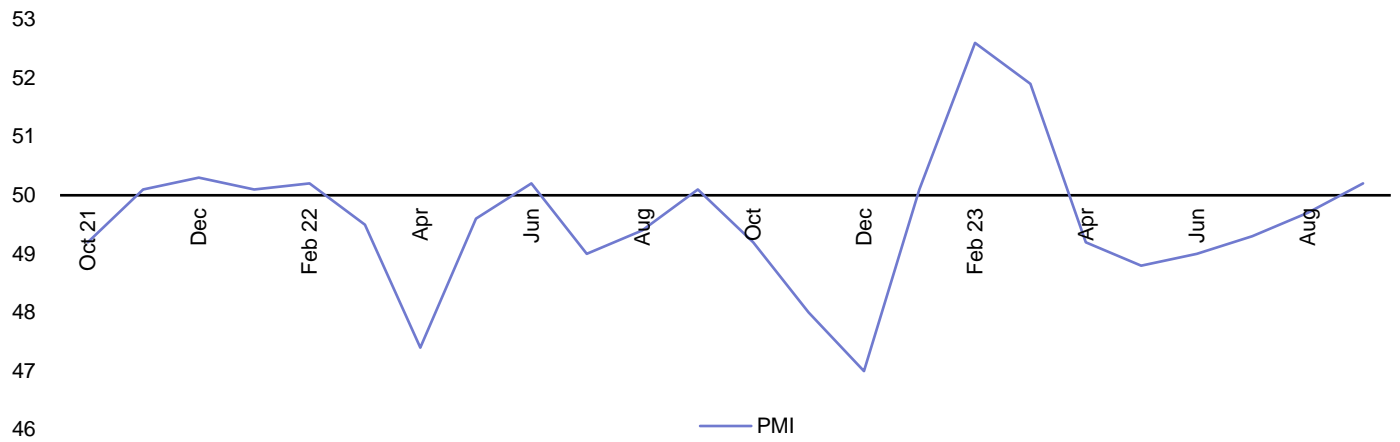
We project that China's real GDP growth will rise to 5.5% yoy in 4Q23 due to a further recovery in manufacturing production and consumer spending amid the expansionary macro policies, and a low comparison base.

Forecasts for 4Q23

The growth in China's industrial production is set to accelerate in the near term, amid an increase in infrastructure investment and a low comparison base. Overall, we predict that the headline PMI will stay above 50.0 in 4Q23, while industrial production growth will rise to 5.5% yoy in the quarter.

Exhibit 4 plots the quarterly real GDP growth rates versus the monthly PMIs since October 2018. We project that China's real GDP growth will increase to 5.5% yoy in 4Q23, due to a further recovery in manufacturing production and consumer spending amid the expansionary macro policies, and a low comparison base.

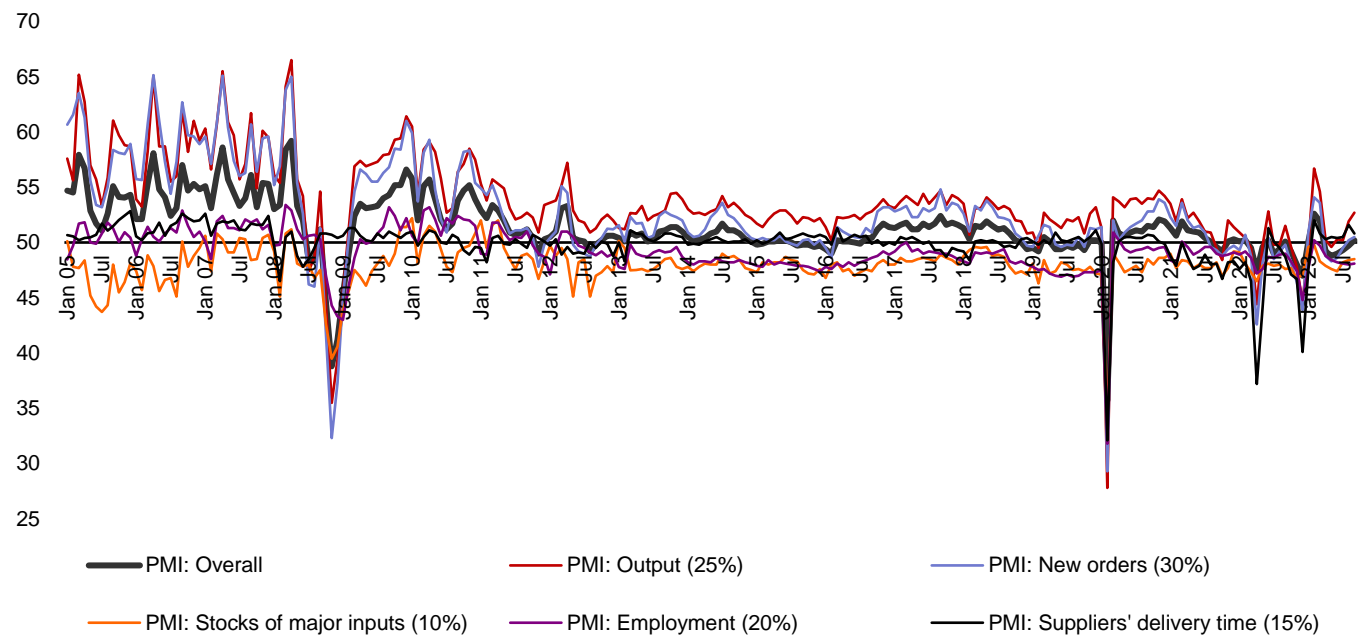
Exhibit 1: Headline PMI, October 2021 to September 2023



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

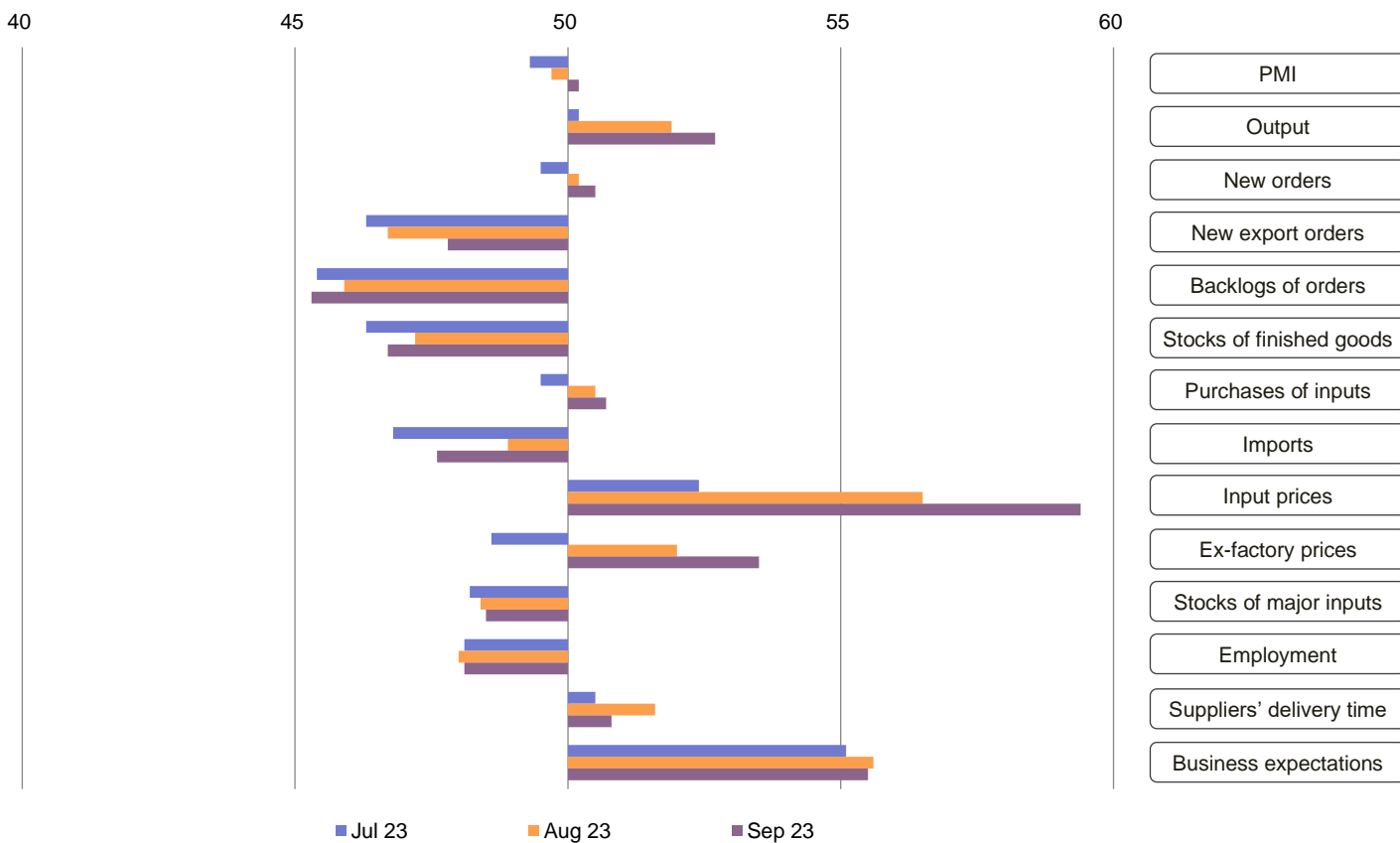
Exhibit 2: Headline PMI and sub-indices, January 2005 to September 2023

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



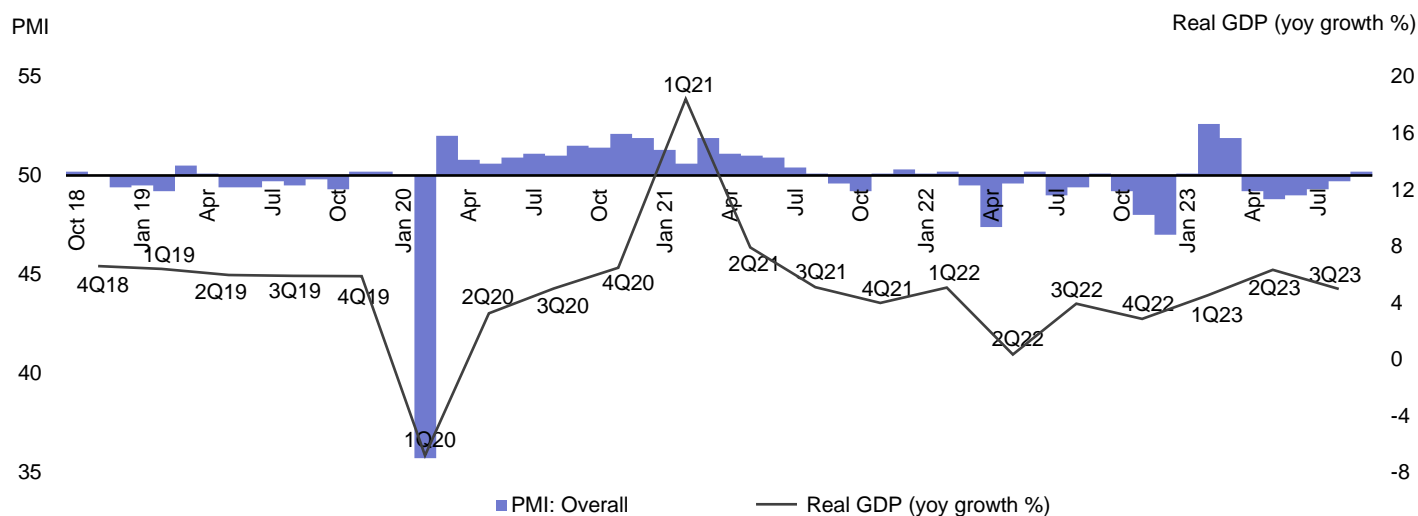
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Exhibit 3: Headline PMI and all sub-indices, July to September 2023



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

Exhibit 4: Headline PMI and real GDP growth, October 2018 to September 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

Expansion of large enterprises accelerates

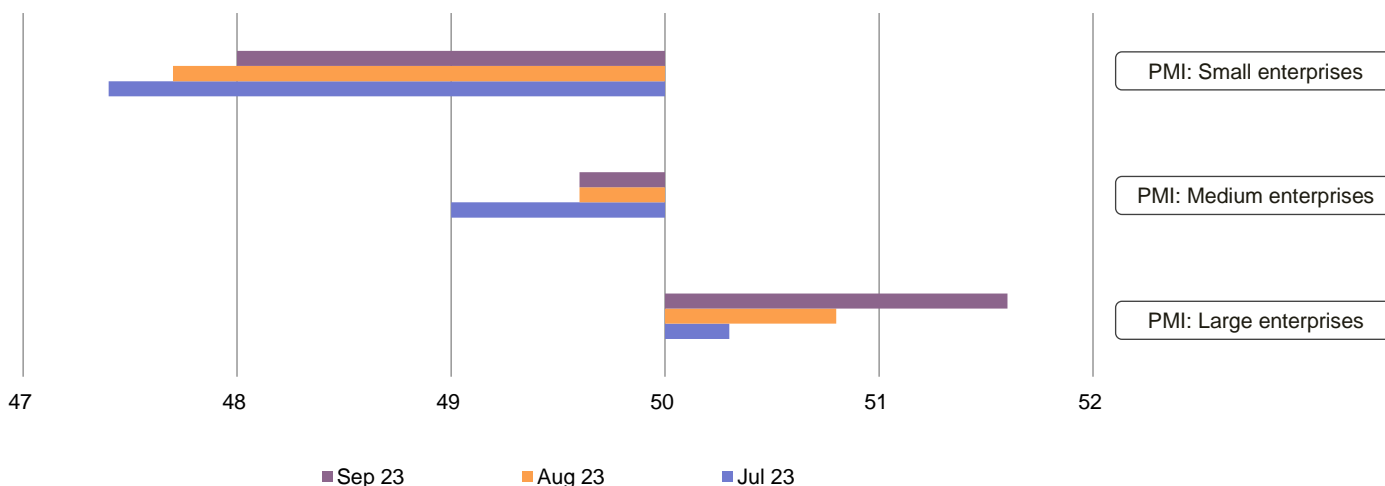
The PMI of 'large enterprises' stayed above the watershed mark of 50 throughout 3Q23 and went up from 50.3 in July to 51.6 in September, showing an accelerated expansion of 'large enterprises'.

Large enterprises have continued to fare better than small and medium enterprises, a trend that has started since the second half of 2020.

Small and medium enterprises continue to contract

The PMI of 'medium enterprises' picked up from 49.0 in July to 49.6 in August and September. Meanwhile, the PMI of 'small enterprises' went up from 47.4 in July to 47.7 in August and 48.0 in September. Despite the recent rebound, the index readings of both 'small enterprises' and 'medium enterprises' stayed below 50 throughout the quarter, indicating that small and medium enterprises have been facing difficulties in production and operations lately. (See exhibit 5)

Exhibit 5: PMIs of large enterprises, medium enterprises and small enterprises, July to September 2023



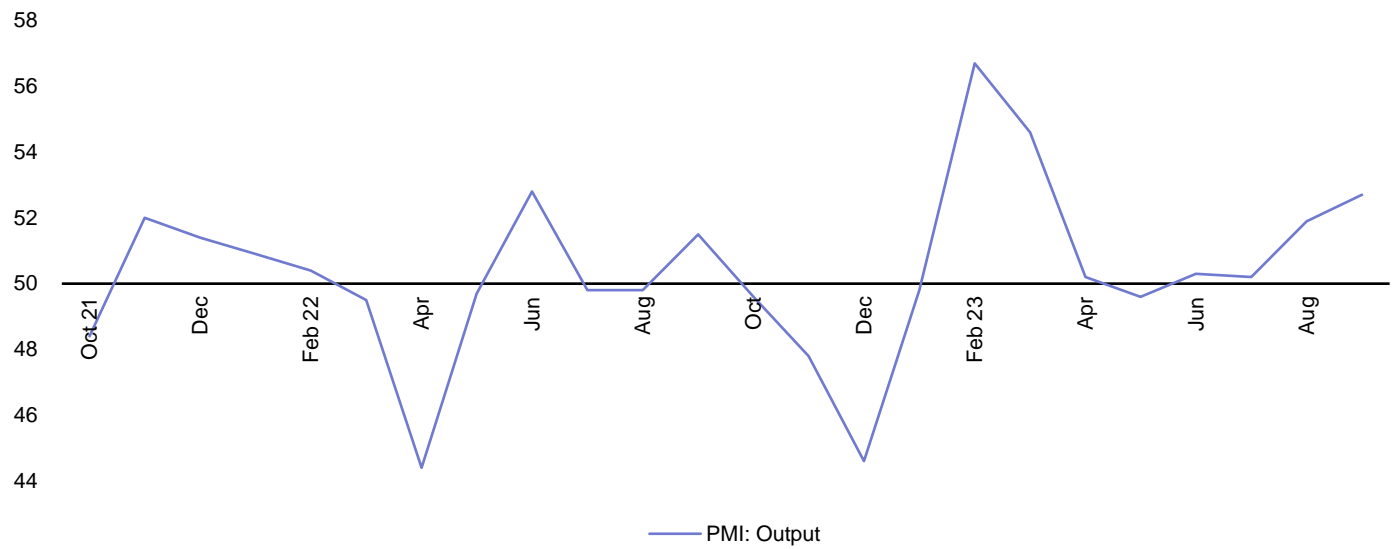
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

3. What the PMI tells us about manufacturing production

Manufacturing output growth speeds up

The output index increased from 50.2 in July to 51.9 in August and then 52.7 in September, indicating an acceleration in manufacturing output growth recently. (See exhibit 6)

Exhibit 6: Output index, October 2021 to September 2023



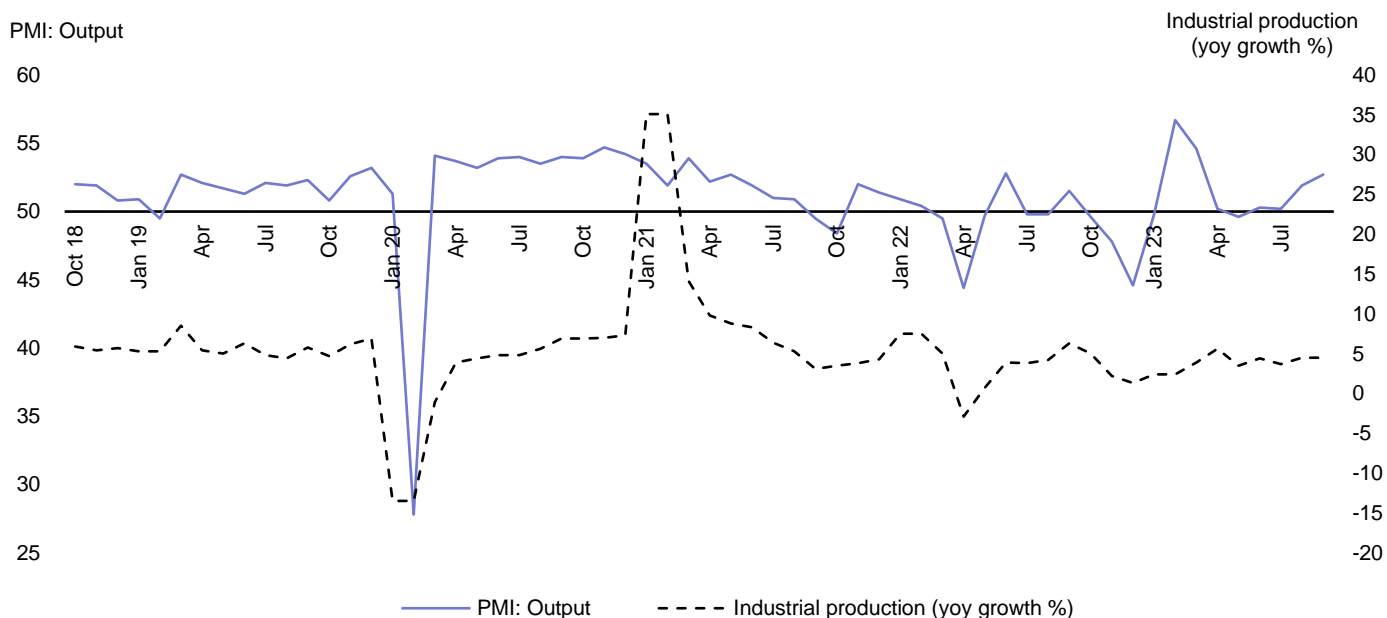
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

Growth in manufacturing production to accelerate in 4Q23

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). We expect the VAIO growth to rise to 5.5% yoy in 4Q23, given an increase in infrastructure investment and a low comparison base in 4Q22. 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 China’s VAIO growth to rise to 5.5% yoy in 4Q23, given an increase in infrastructure investment and a low comparison base in 4Q22.

Exhibit 7: Output index and industrial production growth, October 2018 to September 2023



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

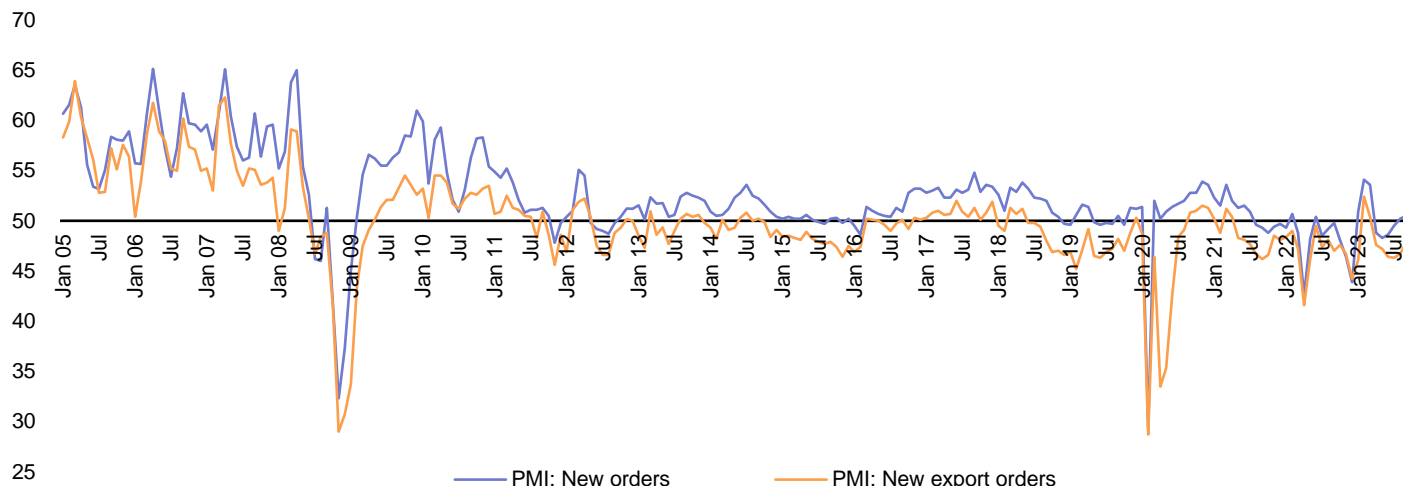
4. What the PMI tells us about the overall market demand

Overall market demand picks up

The new orders index increased from 49.5 in July to 50.2 in August and 50.5 in September. The latest index readings have returned to the expansionary zone, indicating a steady pick up in the overall market demand lately.

Meanwhile, the new export orders index rebounded from 46.3 in July to 46.7 in August and further to 47.8 in September, pointing to a continued yet smaller drop in new export orders lately. (See exhibit 8)

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



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

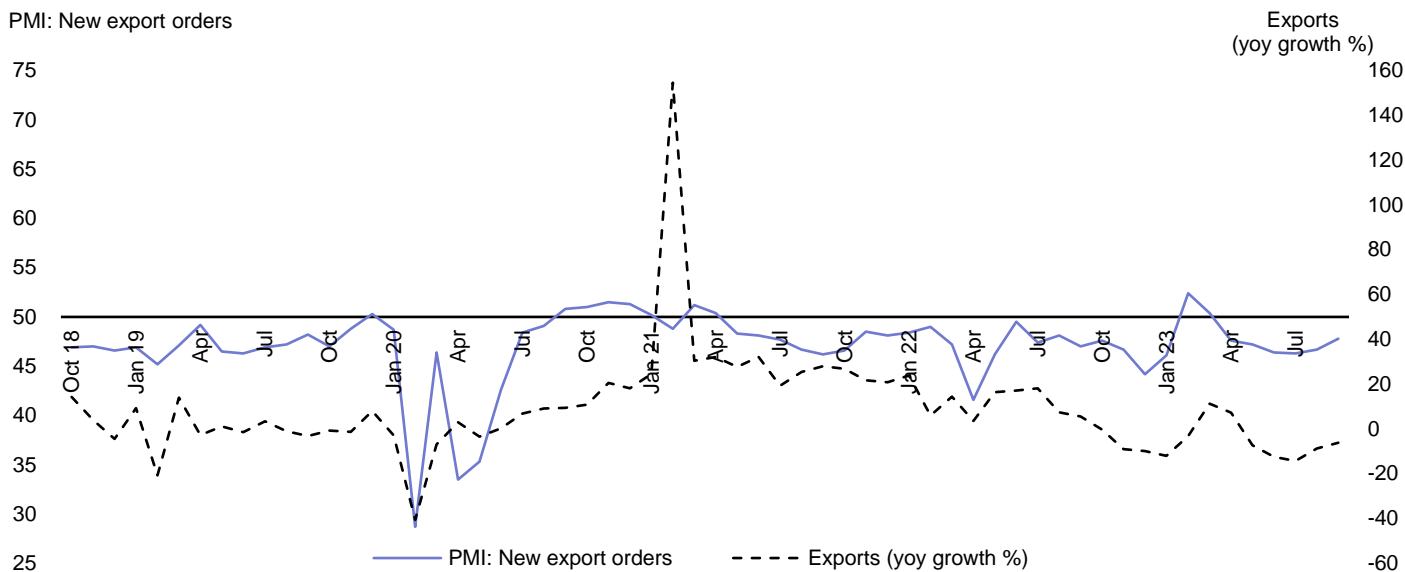
China’s exports to stay flat in 4Q23 compared with the same period last year

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 indicator¹ has increased recently, suggesting a mild recovery in global economy. Coupled with a low comparison base, we forecast that China’s exports will stay flat in 4Q23 compared with the same period last year, after a 10% year-on-year drop in 3Q23.

With a mild recovery in global economy and a low comparison base, we forecast that China’s exports will stay flat in 4Q23 compared with the same period last year.

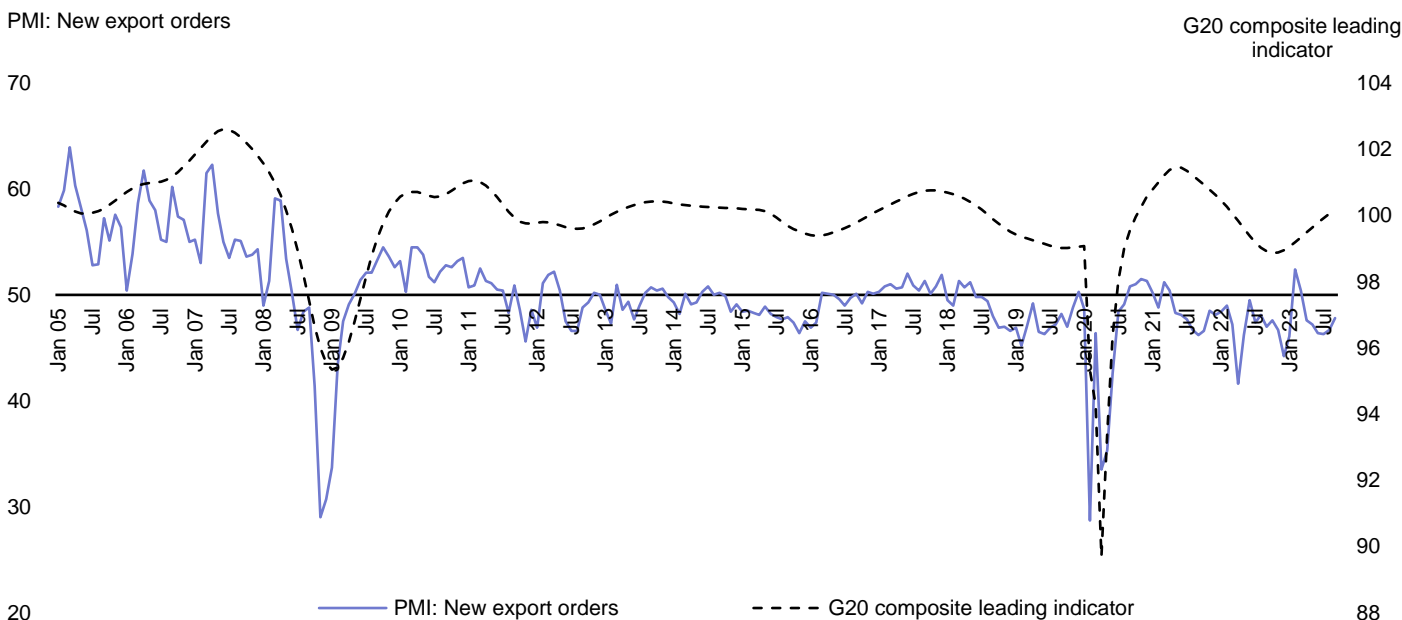
¹ The G20 composite leading indicator, compiled by the Organization for Economic Cooperation and Development (OECD), is designed to provide early signals of turning points (peaks and troughs) between expansions and slowdowns of economic activity, and covers Australia, Brazil, Canada, China, France, Germany,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

Exhibit 9: New export orders index and export growth, October 2018 to September 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 September 2023



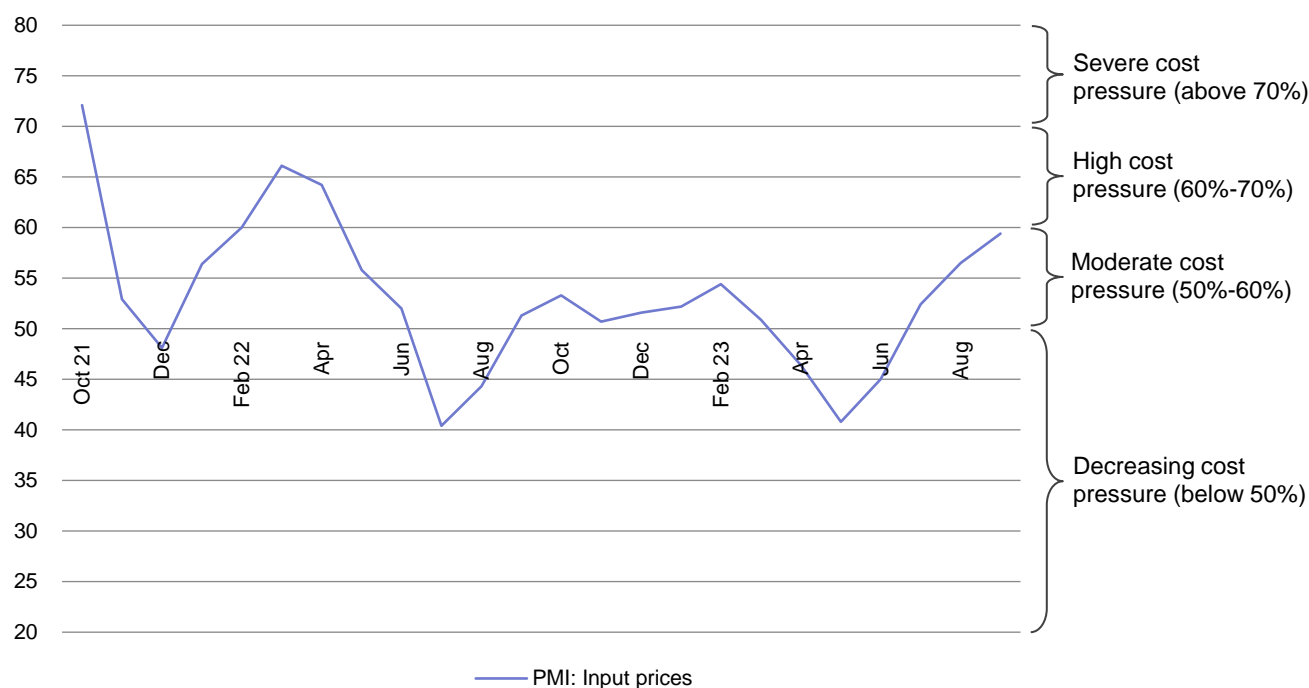
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Organization for Economic Cooperation and Development

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

Rising upstream prices exert moderate cost pressure on manufacturers

The input prices index jumped from 52.4 in July to 56.5 in August and further to 59.4 in September. The index readings continued its uptrend, indicating an accelerated increase in the prices of production inputs recently. This would raise the cost pressure on Chinese manufacturers.

Exhibit 11: Input prices index, October 2021 to September 2023



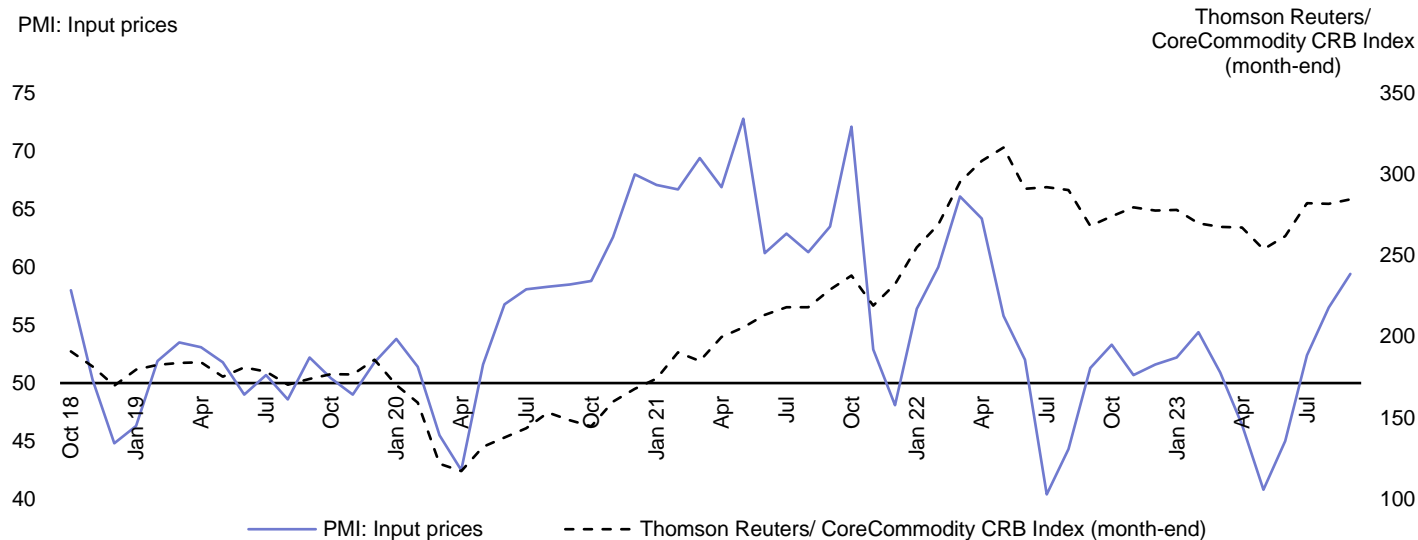
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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

The increasing input costs facing Chinese manufacturers are attributable to a recent rise in global commodity prices. The CRB index is now near a one-year high, driven by an escalation in crude prices since late June.

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 2018 to September 2023

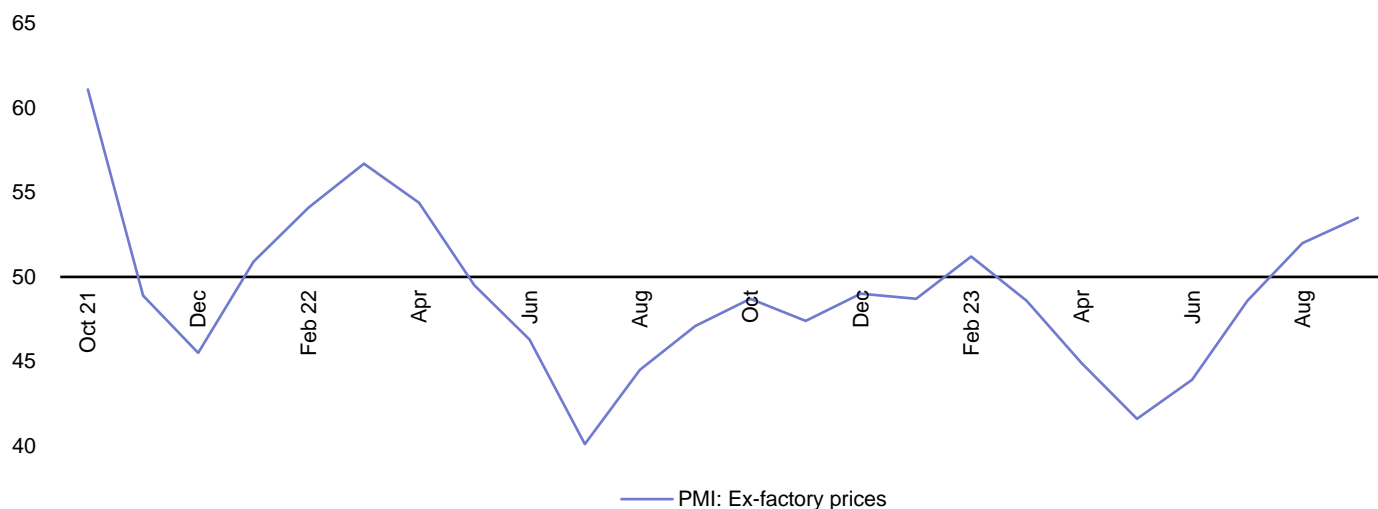


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Thomson Reuters

Manufacturers raise ex-factory prices of their products

The ex-factory prices index climbed from 48.6 in July to 52.0 in August and 53.5 in September. The index has risen above the critical 50-mark lately, indicating that Chinese manufacturers have been raising the ex-factory prices of their finished products amid rising cost pressure.³

Exhibit 13: Ex-factory prices index, October 2021 to September 2023



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

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

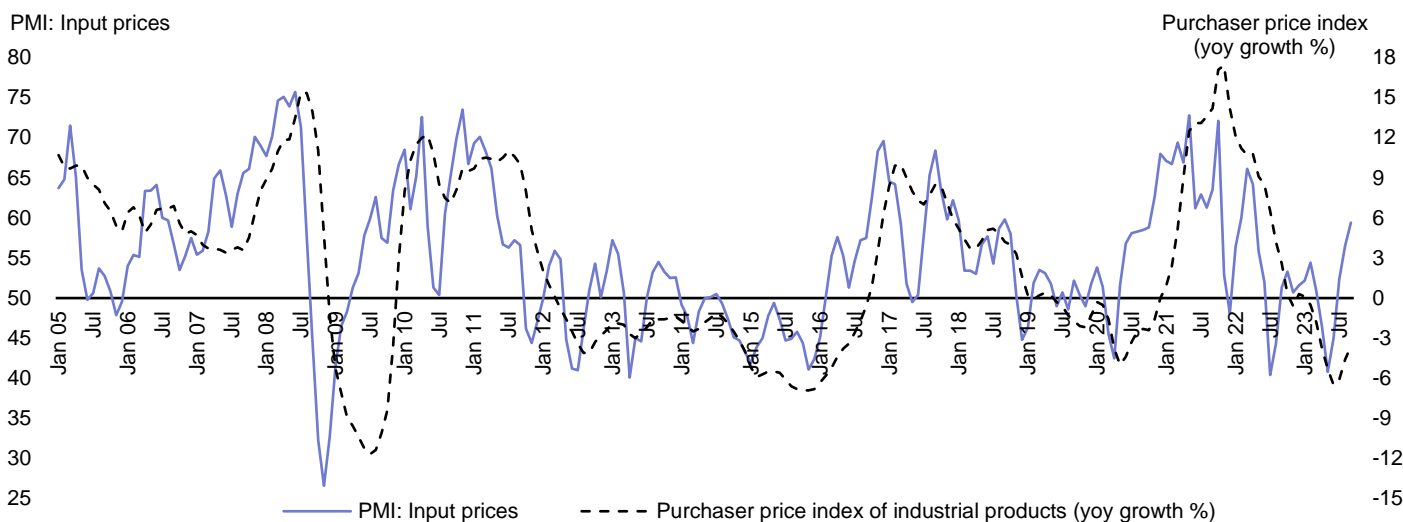
Growth in input prices and ex-factory prices to pick up in 3Q23

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 further in 4Q23, due mainly to a recent rise in global commodity prices.

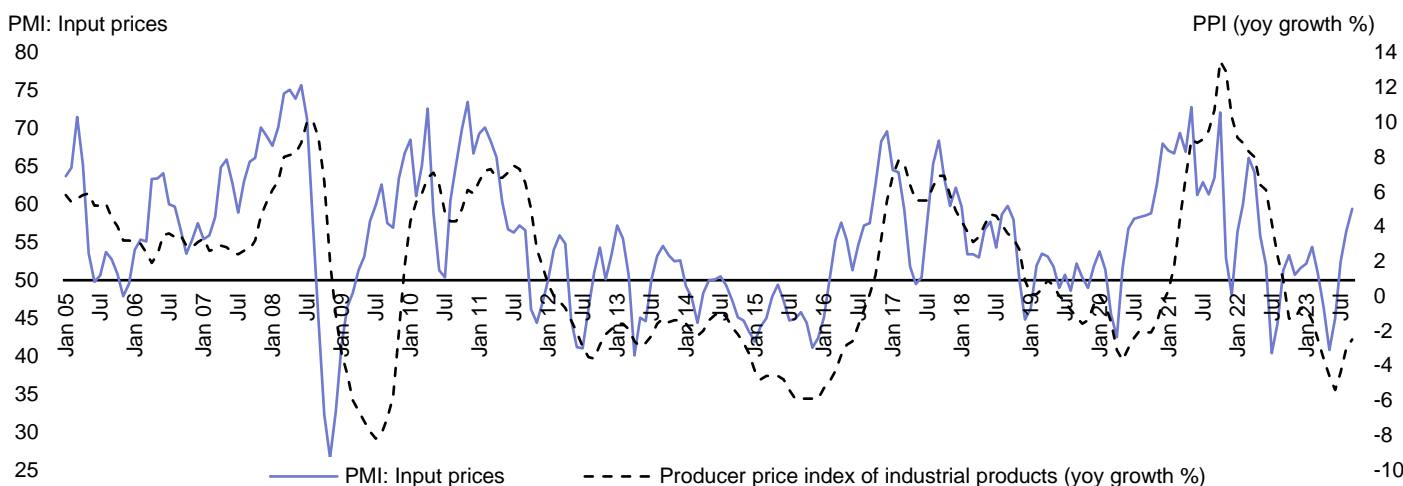
We expect that the year-on-year growth rates for both the purchaser price index and the PPI will go up further in 4Q23, due mainly to a recent rise in global commodity prices.

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



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

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



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

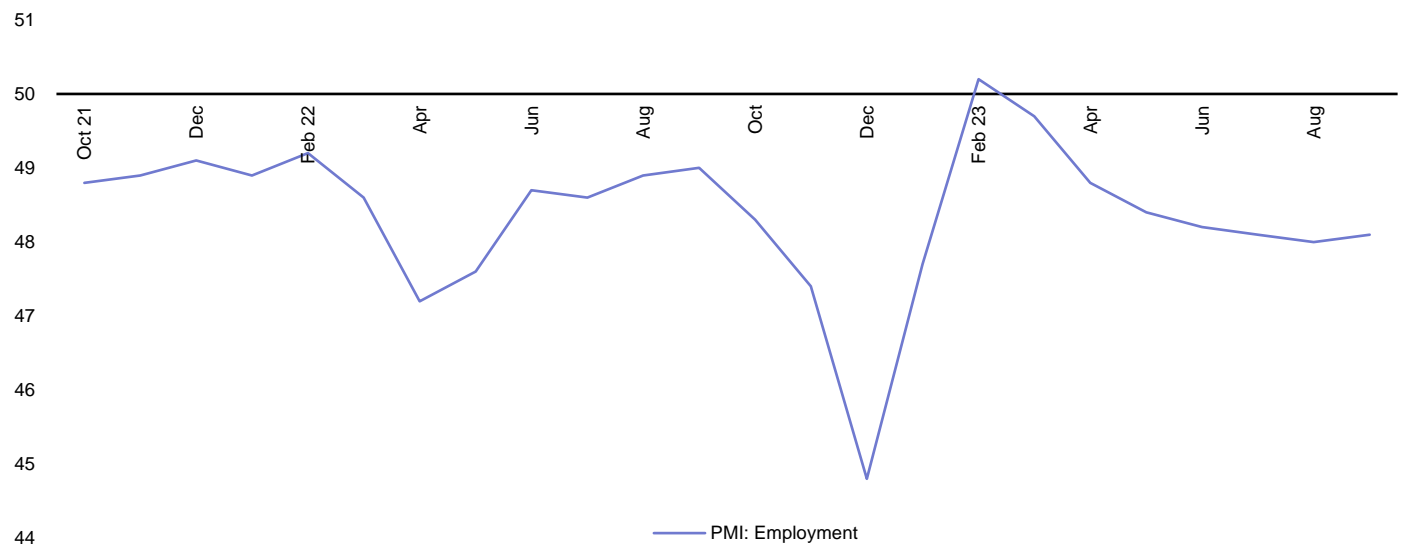
⁴ The producer price index of industrial goods (PPI), compiled by China National Bureau of Statistics, measures the prices of industrial products when they are sold for the first time after production.

6. What the PMI tells us about manufacturing employment

Employment in manufacturing sector slightly decreases

The employment index stayed low and fluctuated around 48.0 throughout July to September. The index readings indicate that employment in the manufacturing sector has slightly decreased recently. (Exhibit 16)

Exhibit 16: Employment index, October 2021 to September 2023

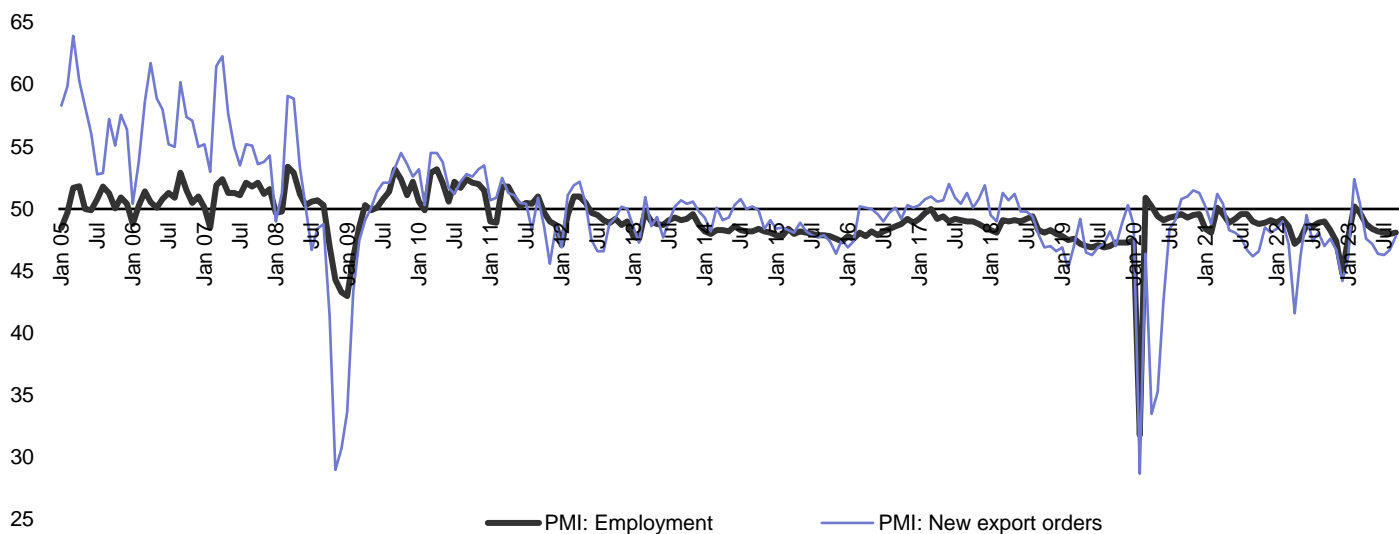


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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 steady growth in overall Chinese economy, we expect that the employment situation in the manufacturing sector will stabilize in 4Q23.

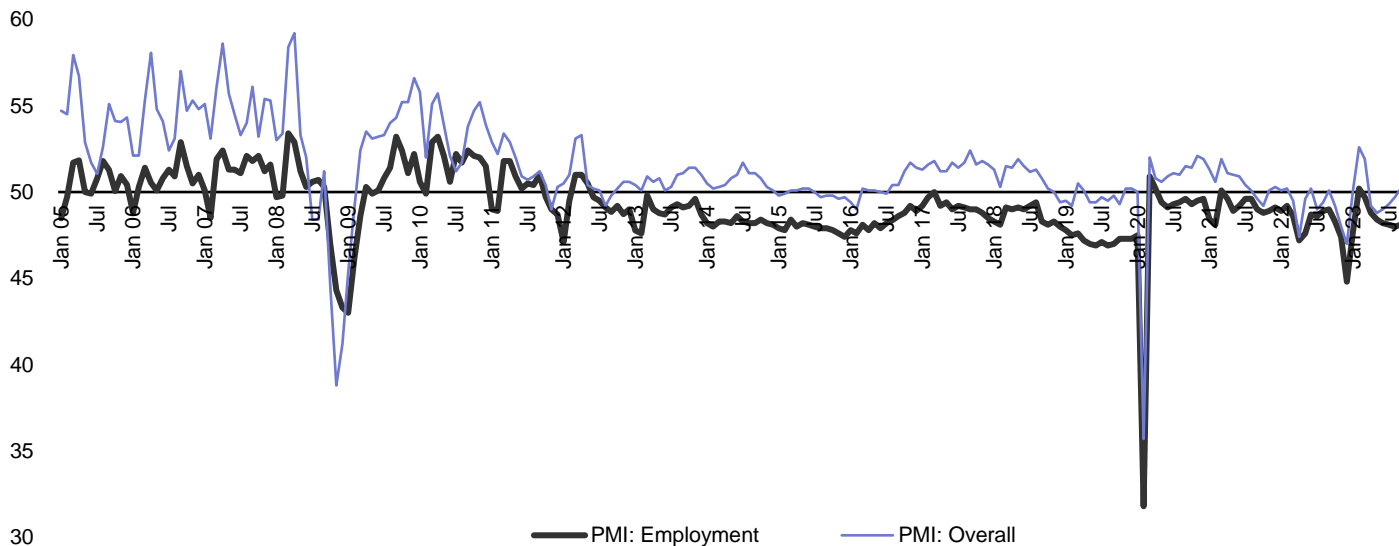
Given a steady growth in overall Chinese economy, we expect that the employment situation in the manufacturing sector will stabilize in 4Q23.

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



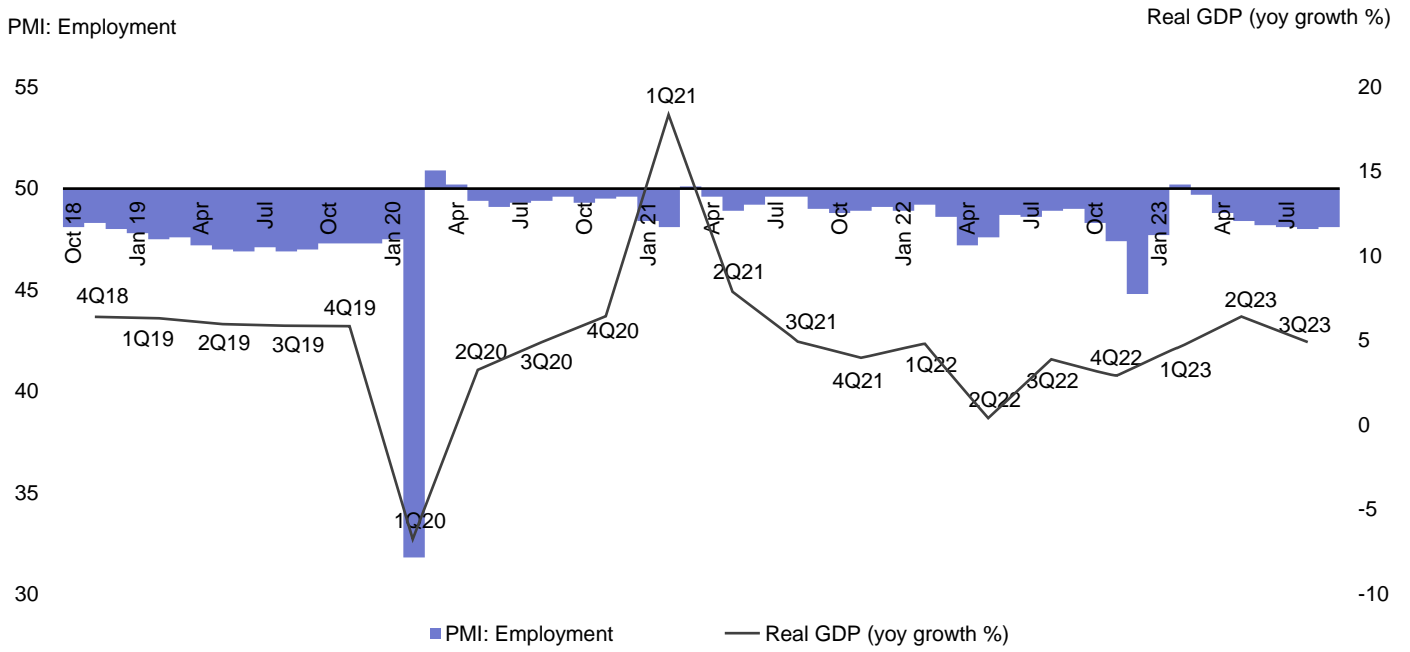
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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



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

Exhibit 19: Employment index and real GDP growth, October 2018 to September 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.

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