

# PMI Quarterly on China Manufacturing

## PMI 2Q24

Downward pressure on the manufacturing sector

## Policy Outlook

China to step up policy support for the economy

## 3Q24 Forecasts

GDP growth to register 5.0% yoy while PMI to gradually rise above 50.0

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# PMI points to downward pressure on the manufacturing sector in 2Q24

## Our observations

- Expansion of large enterprises decelerates while small and medium enterprises return to contraction.
- Manufacturing output growth moderates.
- Overall market demand deteriorates.
- Manufacturers lower ex-factory prices of their products.
- Employment in manufacturing sector slightly decreases.

## Policy outlook

- The Chinese government will continue to step up policy support for the economy.
- It will front-load efforts to effectively put the established macro policies in place and continue to carry out a proactive fiscal policy and a prudent monetary policy.

## Our forecasts for 3Q24

- We project a steady growth in manufacturing production.
- Headline PMI will gradually rise above 50.0.
- VAIO growth will register around 5.0% yoy.
- Real GDP growth will come in at 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 high global commodity prices lately and a low comparison base in 3Q23.

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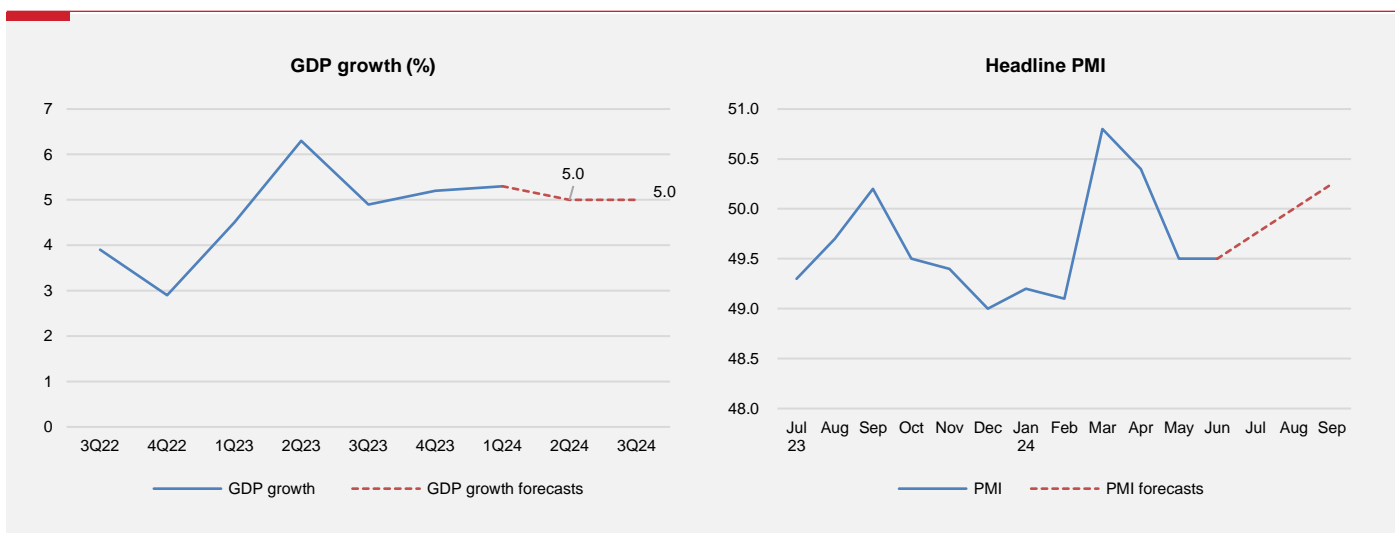
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# 1. PMI points to downward pressure on the manufacturing sector in 2Q24

## China's manufacturing sector in 2Q24

China's manufacturing PMI dropped from 50.4 in April to 49.5 in May and June. The index has remained below the critical 50-mark for two consecutive months since May, pointing to continued downward pressure on China's manufacturing sector. (See exhibit 1)

Manufacturing output growth has slowed lately, as the output index fell from 52.9 in April to 50.9 in May and further to 50.6 in June. The growth moderation was due largely to a decline in overall new orders: The new orders index has dipped into the contractionary territory since May, indicating a contraction in the overall market demand lately.

Prices of industrial products have declined lately, as the ex-factory prices index dropped to 47.9 in June. Meanwhile, the prices of materials have continued to increase: The input prices index has remained above the critical 50-mark throughout April to June.

Exhibit 2 shows the contributions of the sub-indices to the change in the headline PMI. The decline in the headline PMI in 2Q24 was mainly attributable to the fall in the new orders index (which weighs 30% in the computation of the headline PMI) and the output index (which weighs 25%). Among the 12 sub-indices (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 backlogs of orders, stocks of finished goods, stocks of major inputs, imports, and employment have stayed in the contractionary zone throughout the quarter. (See exhibit 3)

## Policy outlook

Looking ahead, we expect that the Chinese government will continue to actively step up policy support for the economy. A meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee was held on 30 April. The meeting noted that China should front-load efforts to effectively put the established macro policies in place and reiterated the policy stance of carrying out a proactive fiscal policy and a prudent monetary policy. It said that ultra-long special treasury bonds should be issued at an early stage and put in good use, while the issuance and utilization of special-purpose bonds should be expedited. Furthermore, it is necessary to flexibly employ policy tools such as interest rate and reserve requirement ratio to increase support for the real economy and reduce the overall financing cost of the society, the meeting noted.

These signal that China will continue to adopt an expansionary macro policy in the second half of 2024, which will help alleviate the downward pressure on the Chinese economy, in our view.

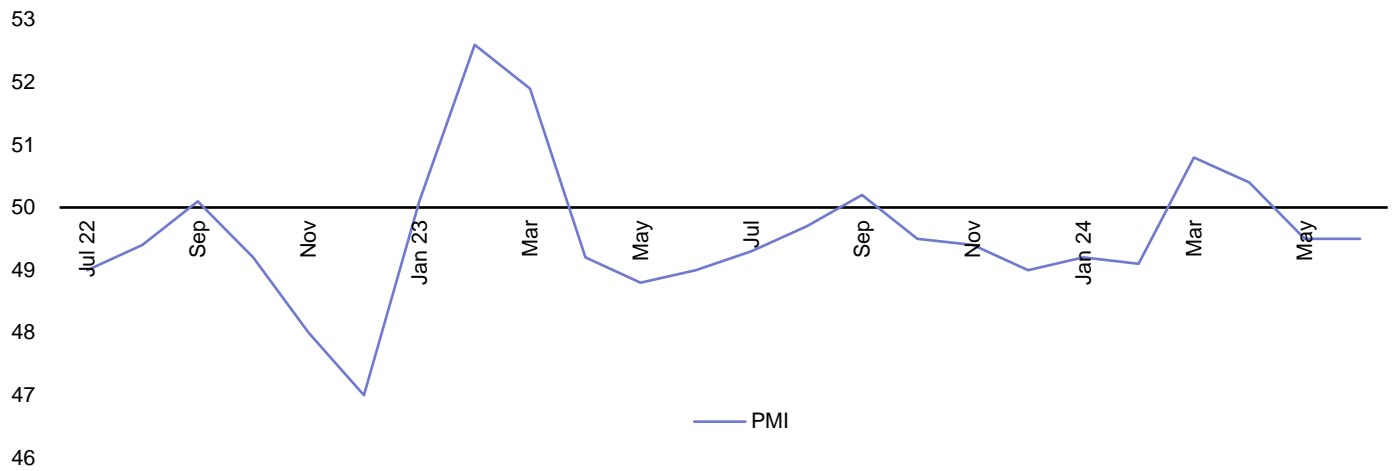
**We project that China's real GDP growth will register 5.0% yoy in 3Q24, as the improvement in domestic and external demand since the start of the year has helped the Chinese economy stabilize.**

**Forecasts for 3Q24**

China's industrial production will continue its steady growth in the near term given an improving external demand and a continued growth in infrastructure investment. Overall, we predict that the headline PMI will gradually rise above 50.0 in 3Q24, while industrial production growth will register 5.0% yoy in 3Q24.

Exhibit 4 plots the quarterly real GDP growth rates versus the monthly PMIs since July 2019. We project that China's real GDP growth will register 5.0% yoy in 3Q24, as the improvement in domestic and external demand since the start of the year has helped the Chinese economy stabilize.

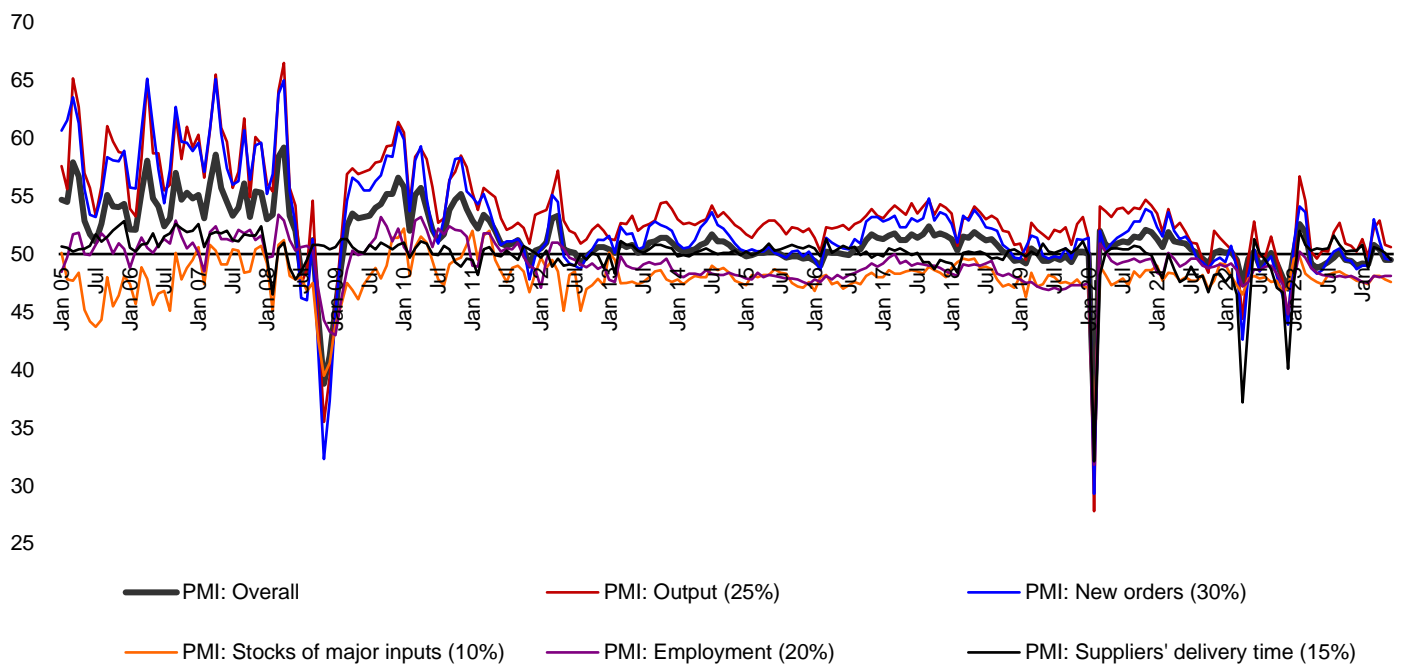
**Exhibit 1: Headline PMI, July 2022 to June 2024**



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

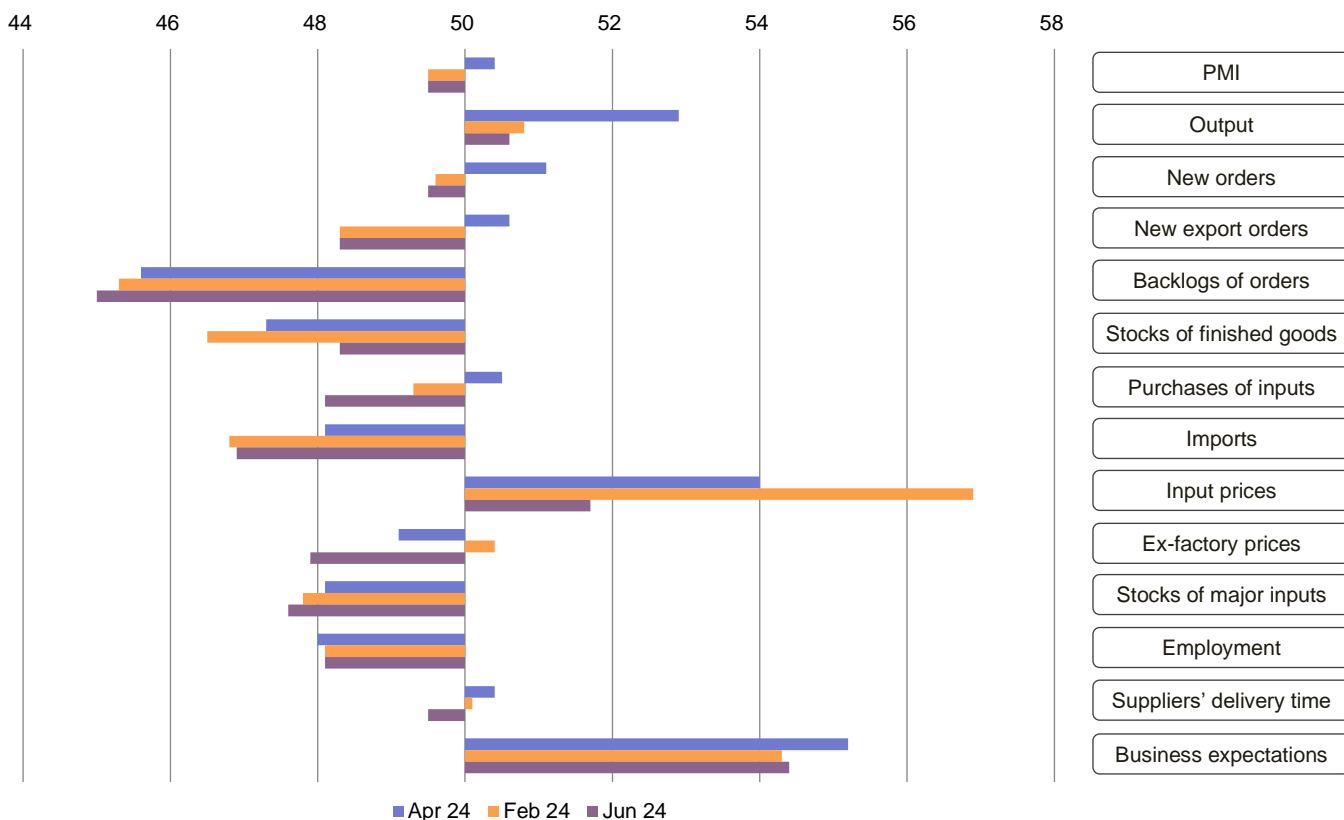
**Exhibit 2: Headline PMI and sub-indices, January 2005 to June 2024**

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



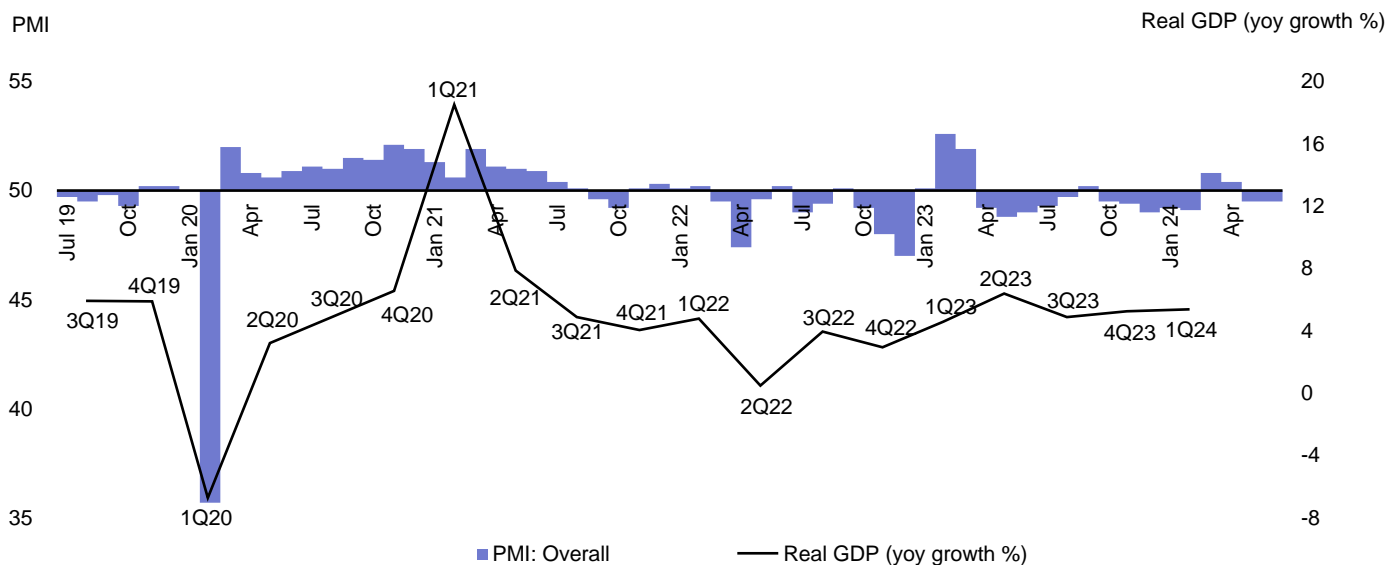
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

**Exhibit 3: Headline PMI and all sub-indices, April to June 2024**



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

**Exhibit 4: Headline PMI and real GDP growth, July 2019 to June 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

### Expansion of large enterprises decelerates

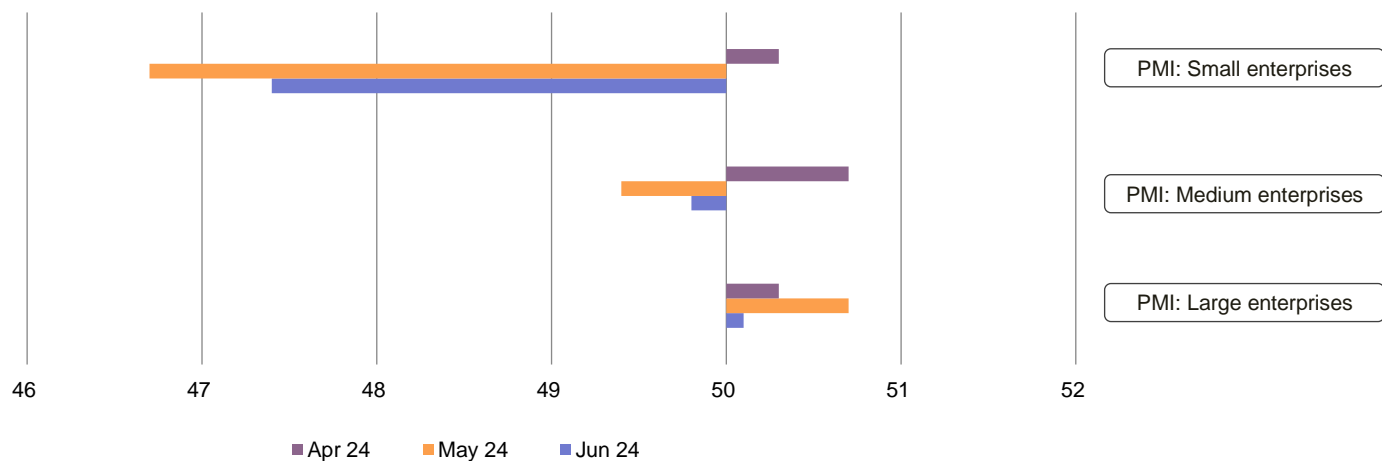
After rising from 50.3 in April to 50.7 in May, the PMI of 'large enterprises' retreated to 50.1 in June, showing a deceleration in the expansion of 'large enterprises' lately.

### Small and medium enterprises return to contraction

The PMI of 'medium enterprises' dropped from 50.7 in April to 49.4 in May, and then picked up to 49.8 in June. Meanwhile, the PMI of 'small enterprises' went down from 50.3 in April to 46.7 in May, before rebounding to 47.4 in June. The index readings of both 'small enterprises' and 'medium enterprises' have stayed below the watershed mark of 50 since May, indicating that small and medium enterprises have been facing difficulties in production and operations lately. (See exhibit 5)

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

**Exhibit 5: PMIs of large enterprises, medium enterprises and small enterprises, April to June 2024**



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

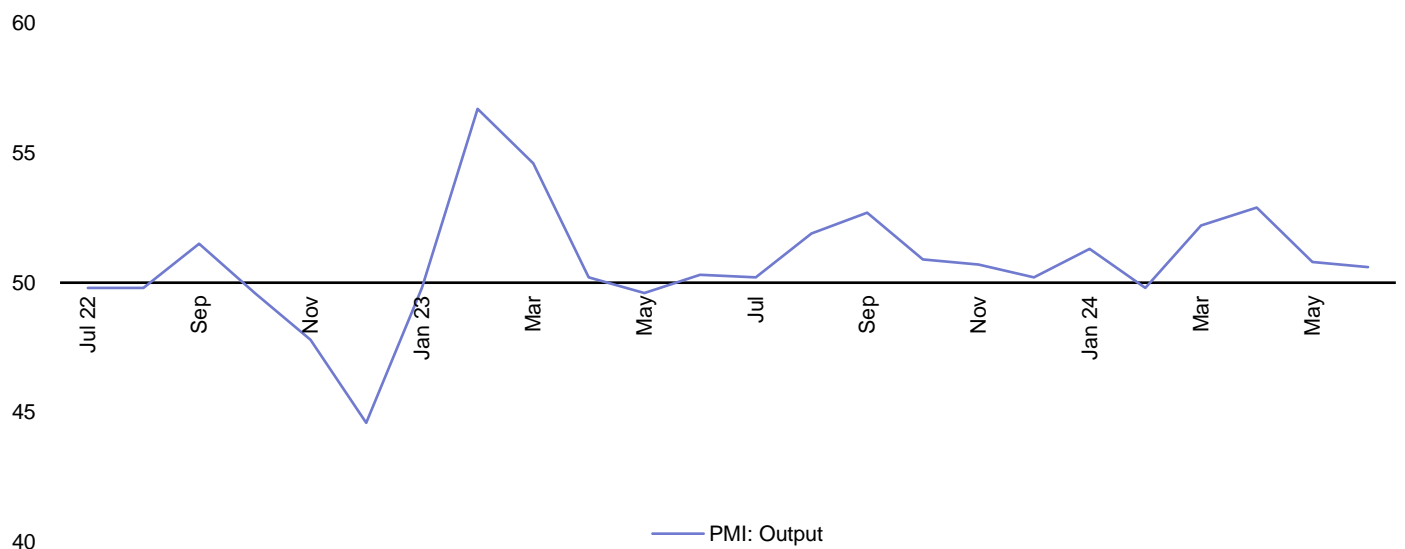


### 3. What the PMI tells us about manufacturing production

#### Manufacturing output growth moderates

The output index went down from 52.9 in April to 50.8 in May and further to 50.6 in June, indicating a moderation in manufacturing output growth recently. (See exhibit 6)

**Exhibit 6: Output index, July 2022 to June 2024**



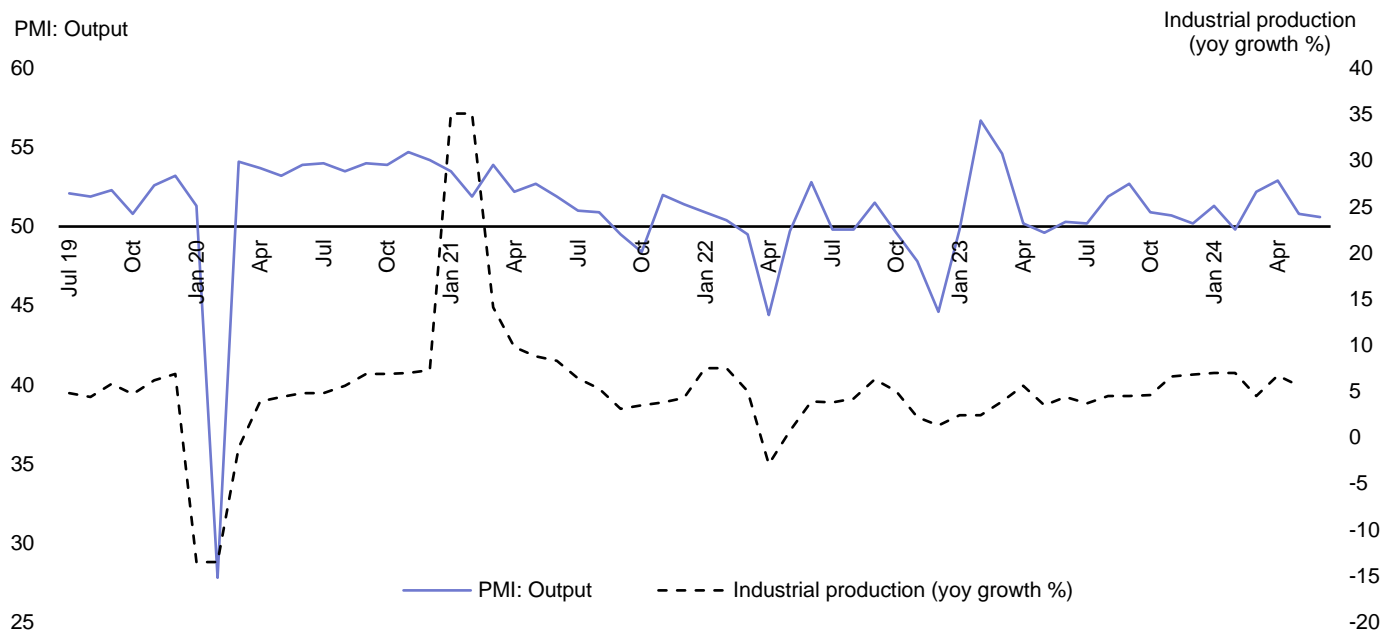
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

**Manufacturing production to maintain steady growth in 3Q24**

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 a continued growth in infrastructure investment, we project that China's VAIO will maintain a steady growth of around 5.0% yoy in 3Q24. 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 around 5.0% in 3Q24, given an improving external demand and a continued growth in infrastructure investment.**

**Exhibit 7: Output index and industrial production growth, July 2019 to June 2024**



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

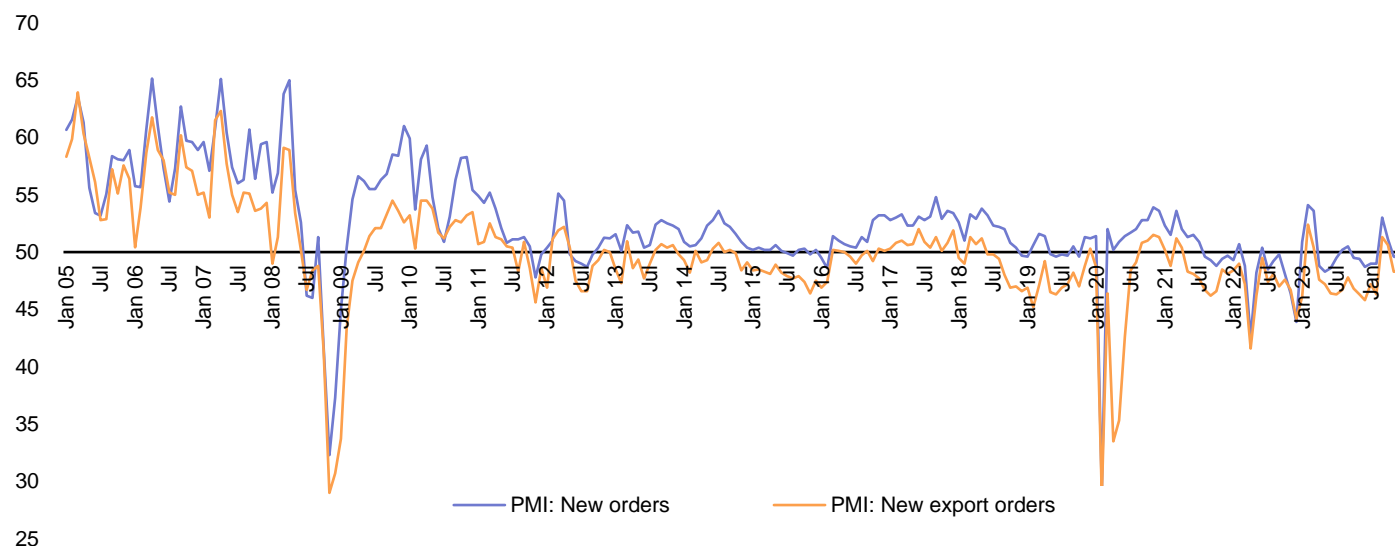
## 4. What the PMI tells us about the overall market demand

### Overall market demand deteriorates

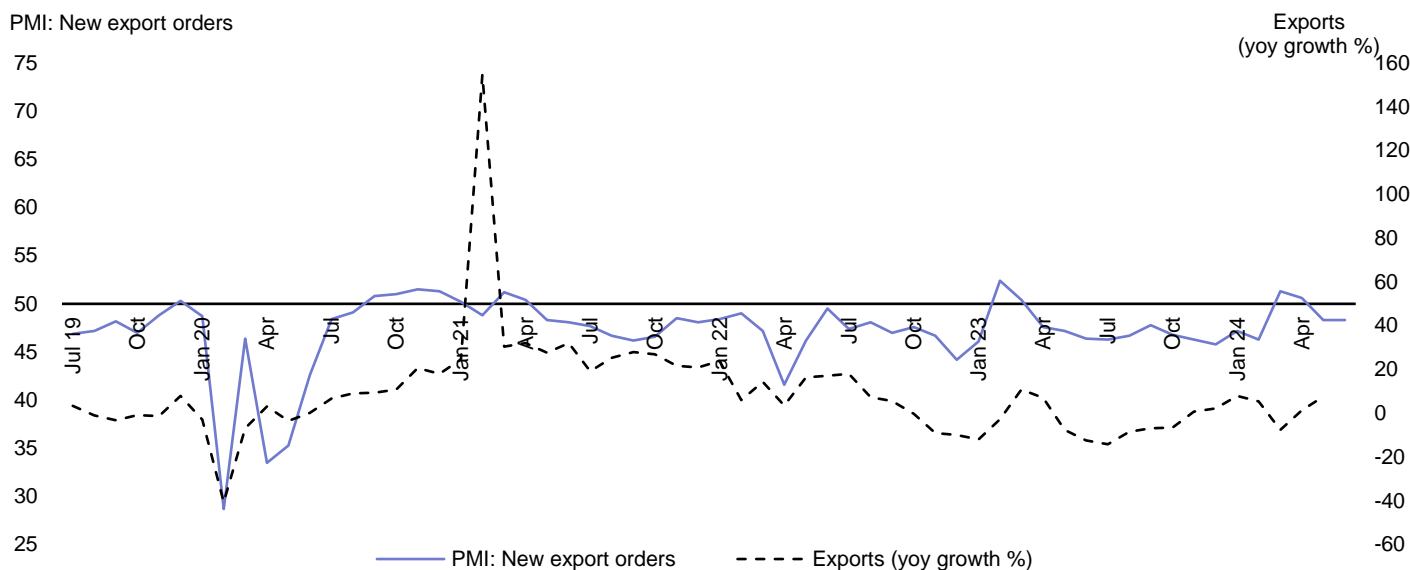
The new orders index fell from 51.1 in April to 49.6 in May and further to 49.5 in June, indicating a reduction in new orders and a deterioration in the overall market demand lately.

Meanwhile, the new export orders also went down from 50.6 in April to 48.3 in May and June, 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 June 2024**

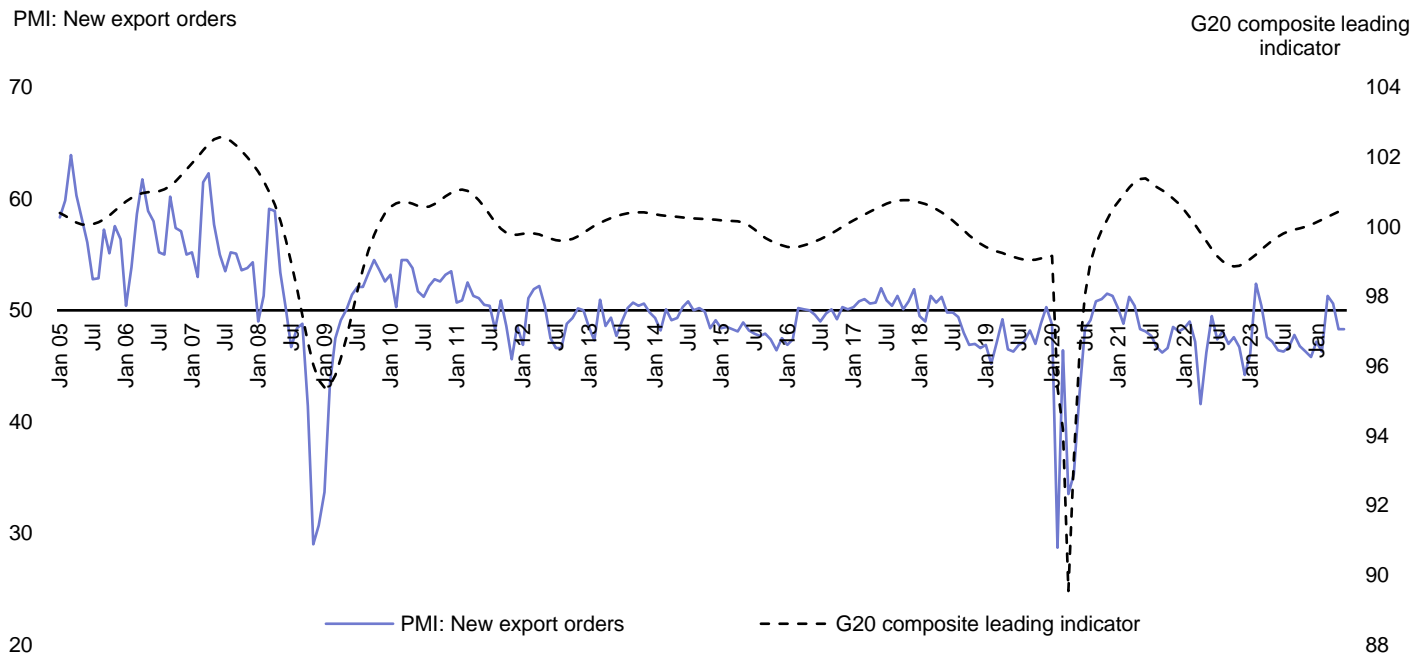


**Exhibit 9: New export orders index and export growth, July 2019 to June 2024**



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 June 2024**



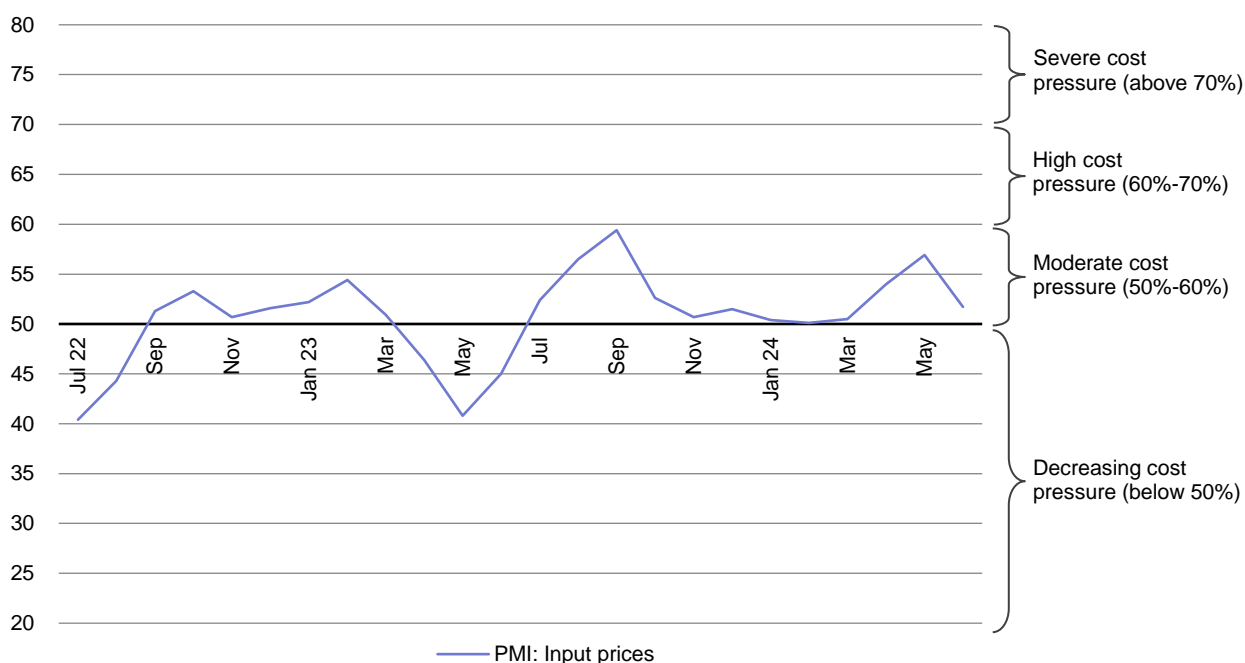
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Organization for Economic Cooperation and Development

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

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

The input prices index went up from 54.0 in April to 56.9 in May, before retreating to 51.7 in June. The index readings have stayed above the critical 50-mark throughout the quarter, indicating a continued increase in the prices of production inputs lately. This would raise the cost pressure on Chinese manufacturers.

**Exhibit 11: Input prices index, July 2022 to June 2024**



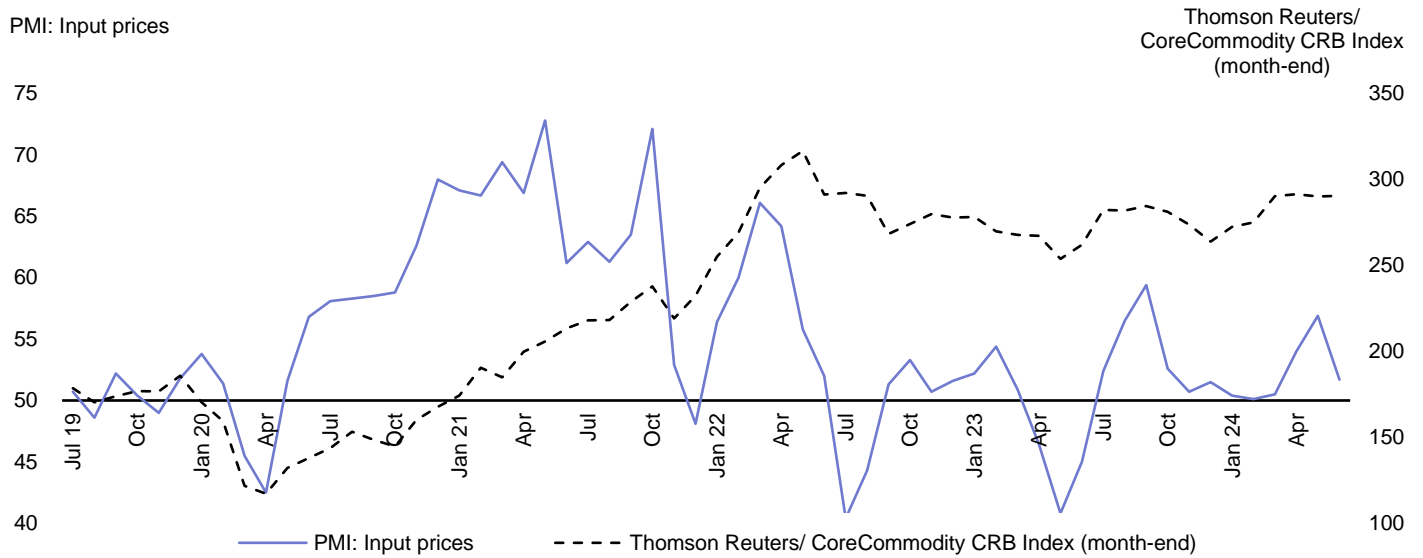
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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.<sup>2</sup>

The increasing input costs facing Chinese manufacturers are attributable to high global commodity prices lately, as the CRB index is currently near a two-year high.

<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, July 2019 to June 2024**

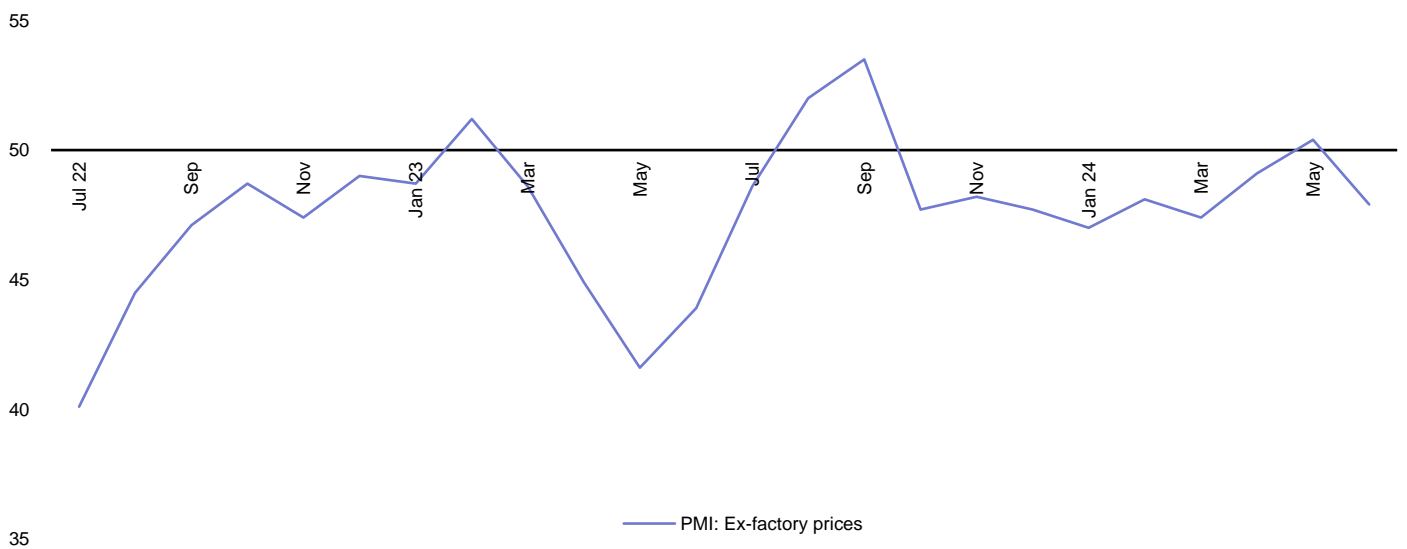


Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics, Thomson Reuters

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

After rising from 49.1 in April to 50.4 in May, the ex-factory prices index fell to 47.9 in June, dipping into the contractionary territory again. 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, July 2022 to June 2024**



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.

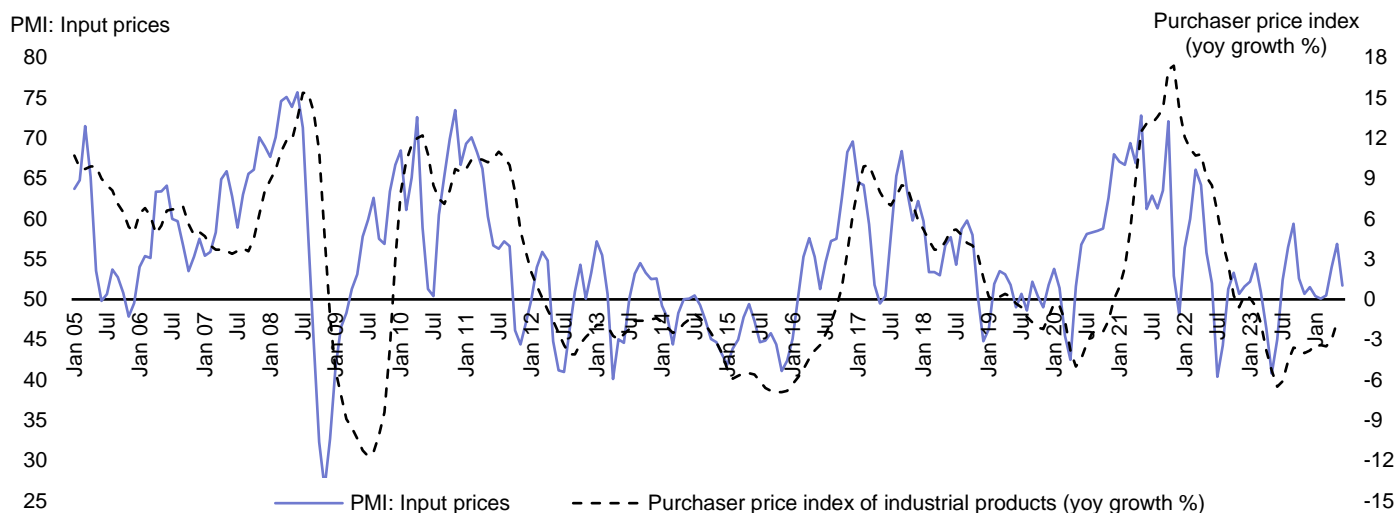
**Growth in input prices and ex-factory prices to go up in 3Q24**

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 go up in 3Q24, due to high global commodity prices lately and a low comparison base in 3Q23.

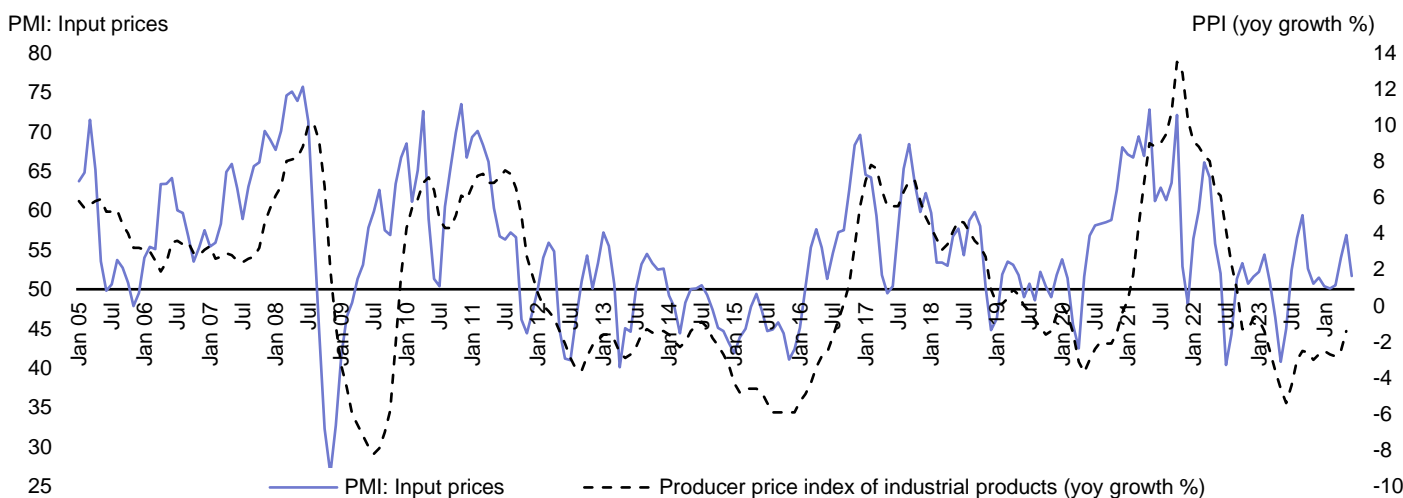
**We expect that the year-on-year growth rates for both the purchaser price index and the PPI will go up in 3Q24, due to high global commodity prices lately and a low comparison base in 3Q23.**

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



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

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



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

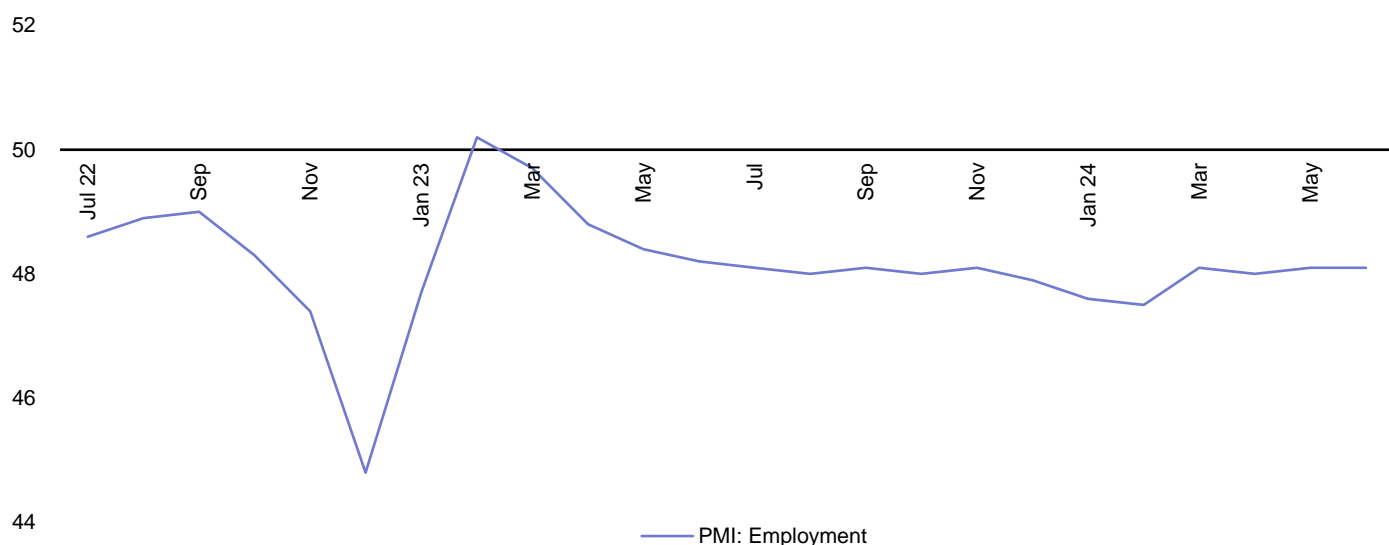
<sup>4</sup> The producer price index of industrial goods (PPI), compiled by China National Bureau of Statistics, measures the prices of industrial products when they are sold for the first time after production.

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

### Employment in 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, July 2022 to June 2024**



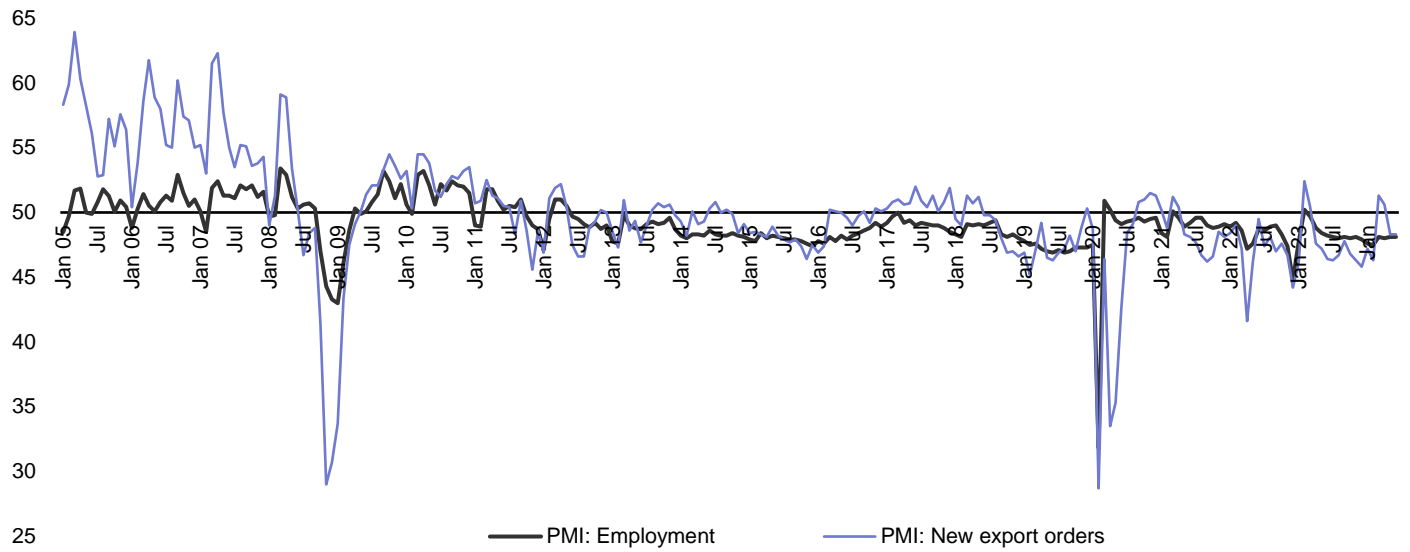
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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 overall Chinese economy, we expect the employment situation in the manufacturing sector to stabilize in 3Q24.

**Given a steady growth in overall Chinese economy, we expect the employment situation in the manufacturing sector to stabilize in 3Q24.**

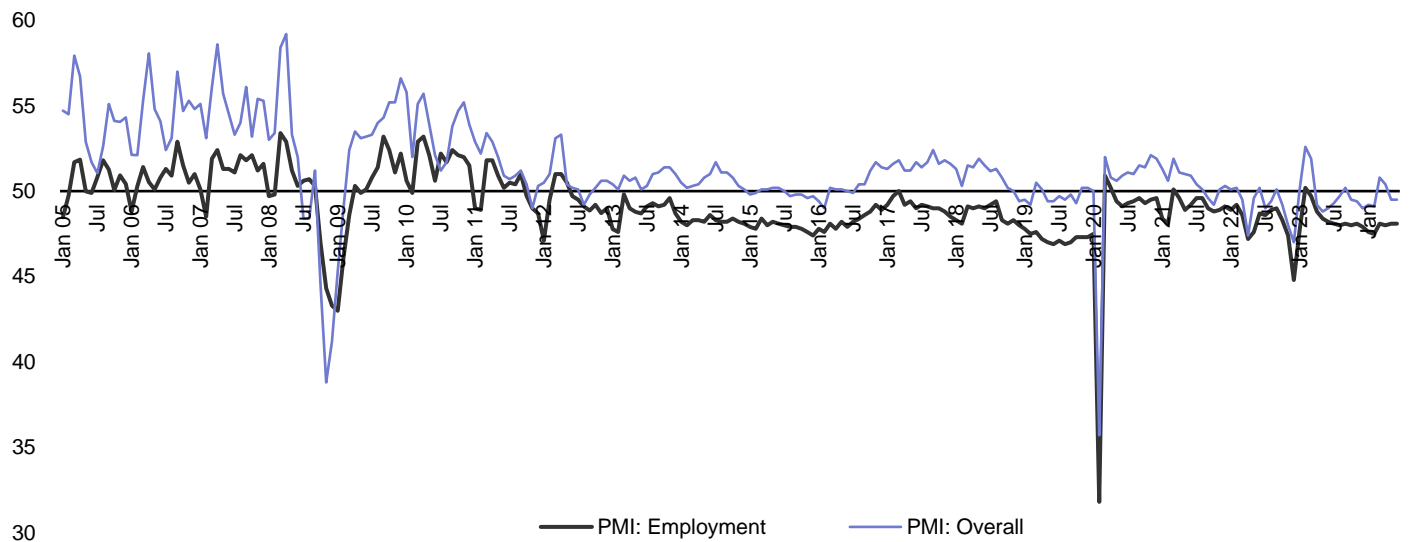


**Exhibit 17: Employment and new export orders, January 2005 to June 2024**



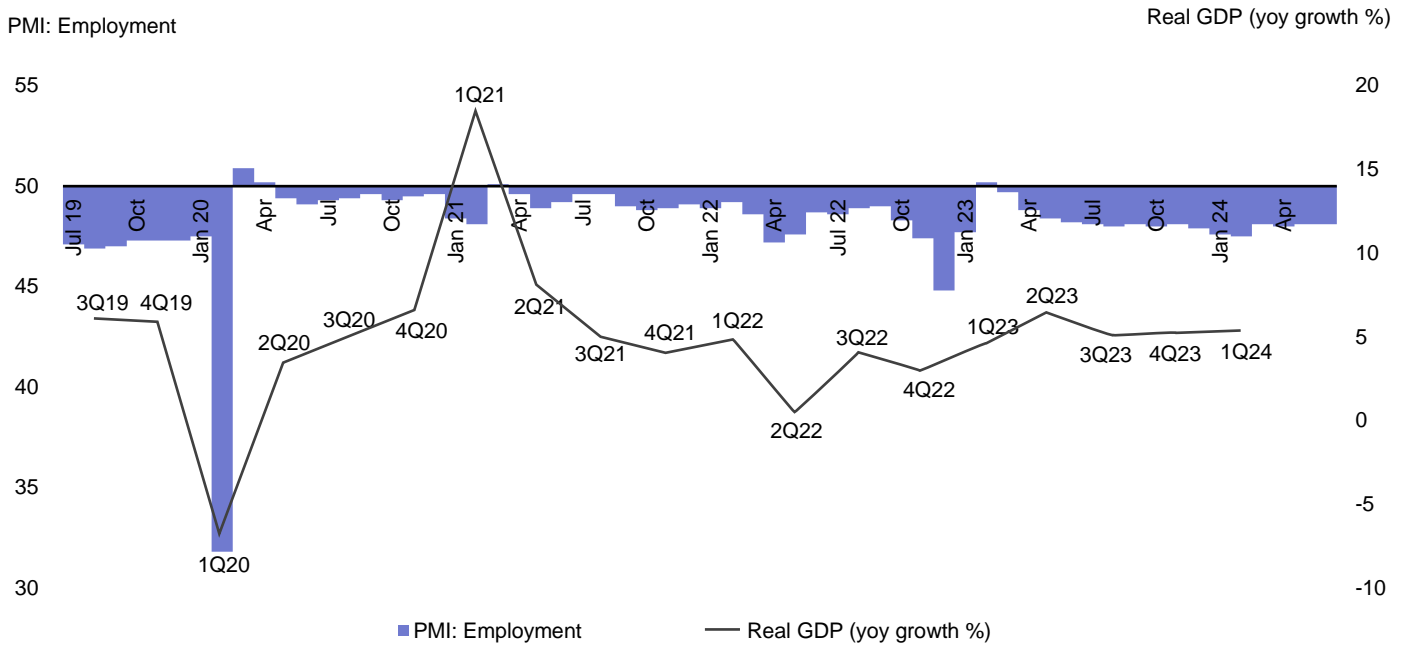
Source: China Federation of Logistics & Purchasing, China National Bureau of Statistics

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



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

**Exhibit 19: Employment index and real GDP growth, July 2019 to June 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.

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