



China Sourcing Update

May 16, 2018

Major Price Indicators

1. CPI growth slows in April

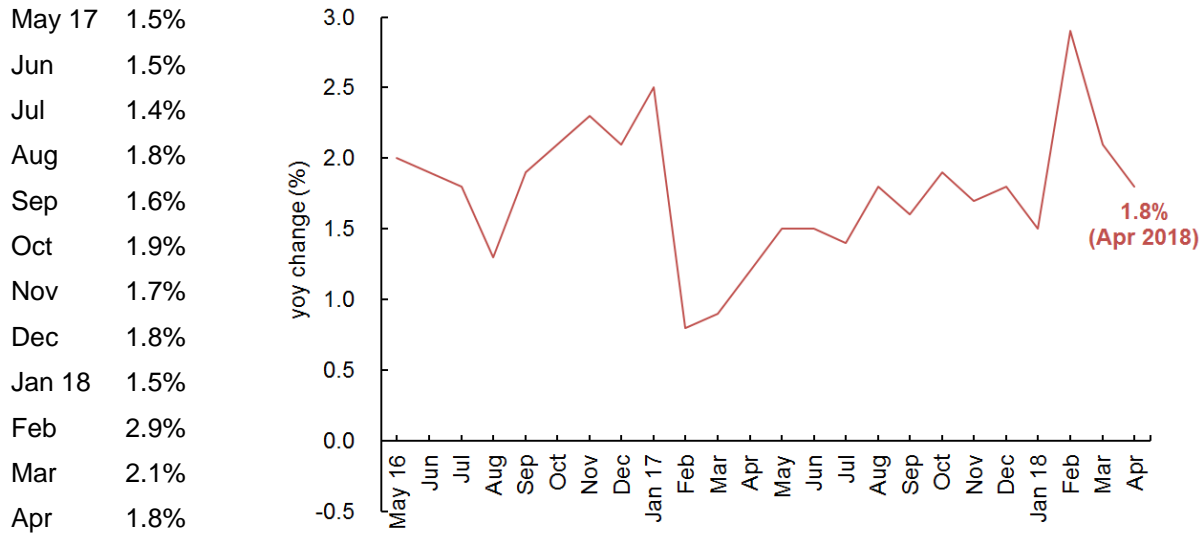
The year-on-year growth rate of China's consumer price index (CPI)¹ fell from 2.1% in March to 1.8% in April, which was below market expectations (see exhibits 1 & 2).

The moderation in the CPI growth in April was due to a slower increase in food prices in the month. The year-on-year growth in the food component in the CPI went down from 2.1% in March to 0.7% in April, due largely to a sharp fall in pork prices. Meanwhile, the year-on-year growth in the non-food component stayed flat at 2.1% in April compared with the previous month.

Looking ahead, we believe that the CPI growth will stay around the current level in the coming months, as the continued fall in food inflation is likely to be offset by a slight rise in non-food inflation.

¹ The CPI, compiled by the National Bureau of Statistics (NBS) of China, measures the price of a basket of goods and services purchased by a typical household. It is noteworthy that the NBS has changed the weights assigned to the various components in the CPI basket, effective from January 2016. The weight of the food component, for example, has been reduced by 3.2 ppt; the weight of the housing component has been increased by 2.2 ppt; and the weights of other components have been adjusted by around or less than 1 ppt. The impact of the re-weighting on the CPI growth was limited, according to the NBS.

Exhibit 1: China's CPI growth, May 2016 to April 2018



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, November 2017 to April 2018²

yoy growth (%)

	Nov 17	Dec	Jan 18	Feb	Mar	Apr
Clothing	1.2	1.3	1.4	1.1	1.1	1.1
Household articles and services	1.5	1.6	1.5	1.8	1.6	1.5
Education, culture and recreation	2.0	2.1	0.9	3.7	2.2	2.0

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products drop on month-on-month basis in April

The year-on-year growth in China's producer price index of industrial products (PPI) accelerated from 3.1% in March to 3.4% in April (see exhibits 3 & 4).

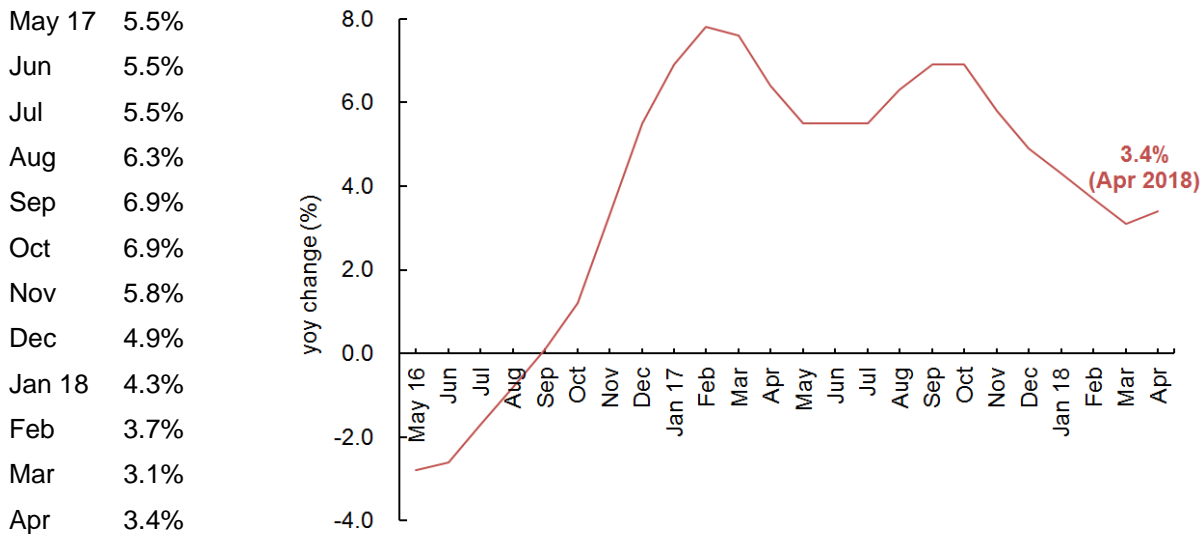
On a month-on-month basis, the PPI edged down by 0.2% in April, posting month-on-month drop for three consecutive months. The fall in the PPI in the month was due largely to declines in the ex-factory prices in the 'mining of ferrous metal ores',

² Starting from January 2016, the old category of 'household facilities, articles and maintenance services' has been re-categorized into a new category called 'household articles and services' and the category of 'other articles and services'. The old category of 'recreation, education, culture articles and services' has been re-categorized into a new category called 'education, culture and recreation' and the category of 'other articles and services'.

‘manufacture and processing of ferrous metals’, ‘production and distribution of gas’, and ‘mining and washing of coal’ industries.

Looking ahead, we expect the PPI to stabilize on a month-on-month basis in the near future, as the April reading of the ex-factory prices sub-index of China’s manufacturing PMI went up to 50.2, indicating slight inflationary pressures on ex-factory prices. Meanwhile, the year-on-year growth in the PPI is likely to rise further in the coming months.

Exhibit 3: China’s PPI growth, May 2016 to April 2018



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, November 2017 to April 2018

	yoy growth (%)					
	Nov 17	Dec	Jan 18	Feb	Mar	Apr
Textile	2.4	2.4	2.1	1.7	1.7	1.7
Textile wearing apparel and ornament	0.7	0.5	0.8	0.7	0.4	0.5
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.8	1.0	1.2	1.2	1.2	1.6

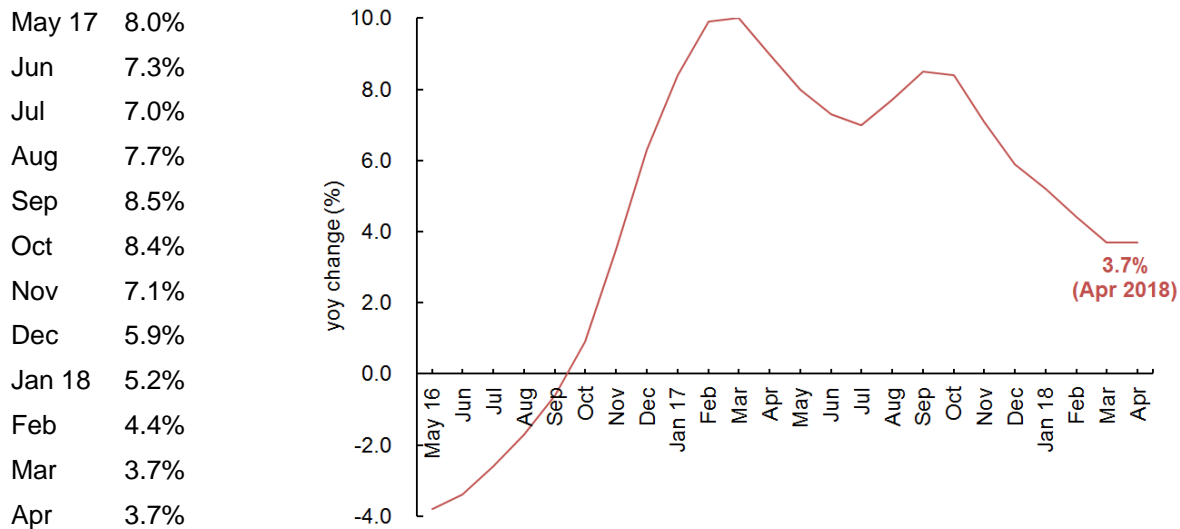
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs fall month-on-month in April

The year-on-year growth rate of the purchaser price index of industrial products stayed flat at 3.7% in April, compared with the previous month (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index declined by 0.3% in April, recording month-on-month decline for two consecutive months.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, came in at 53.0 in April. The index reading is lower than that of last month (53.4) and is a 10-month low. Therefore, we expect that the growth rate of the purchaser price index of industrial products will stay low or even negative on a month-on-month basis in the near future. Meanwhile, the year-on-year growth rate of the purchaser price index is likely to stay stable or trend slightly upward in the coming months.

Exhibit 5: Growth of China’s purchaser price index of industrial products, May 2016 to April 2018



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products
by selected commodity, November 2017 to April 2018**

yoy growth (%)

	Nov 17	Dec	Jan 18	Feb	Mar	Apr
Fuel and power	8.0	7.1	6.2	6.0	4.9	4.6
Non-ferrous metal materials and wires	14.7	10.4	10.5	8.3	6.8	6.4
Chemical raw materials	9.2	7.6	5.9	4.3	3.4	4.2
Wood and pulp	9.4	7.6	7.0	6.4	6.5	7.0
Textile raw materials	3.4	2.8	2.3	1.7	1.7	1.7

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel and power

The year-on-year growth rate of the purchaser price index of fuel and power eased to 4.6% in April from 4.9% in March (see exhibit 6).

(ii) Purchaser price index of non-ferrous metal materials and wires

The purchaser price index of non-ferrous metal materials and wires increased at a slower pace, by 6.4% yoy, in April, after rising by 6.8% yoy in the previous month (see exhibit 6).

(iii) Purchaser price index of chemical raw materials

The year-on-year growth rate of the purchaser price index of chemical raw materials went up to 4.2% in April from 3.4% in March (see exhibit 6).

(iv) Purchaser price index of wood and pulp

The purchaser price index of wood and pulp gained 7.0% yoy in April, compared with the 6.5% yoy growth in the previous month (see exhibit 6).

(v) Purchaser price index of textile raw materials

The year-on-year growth rate of the purchaser price index of textile raw materials stayed flat at 1.7% in April, compared with March (see exhibit 6).

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