



# China Sourcing Update

September 12, 2019

## Major Price Indicators

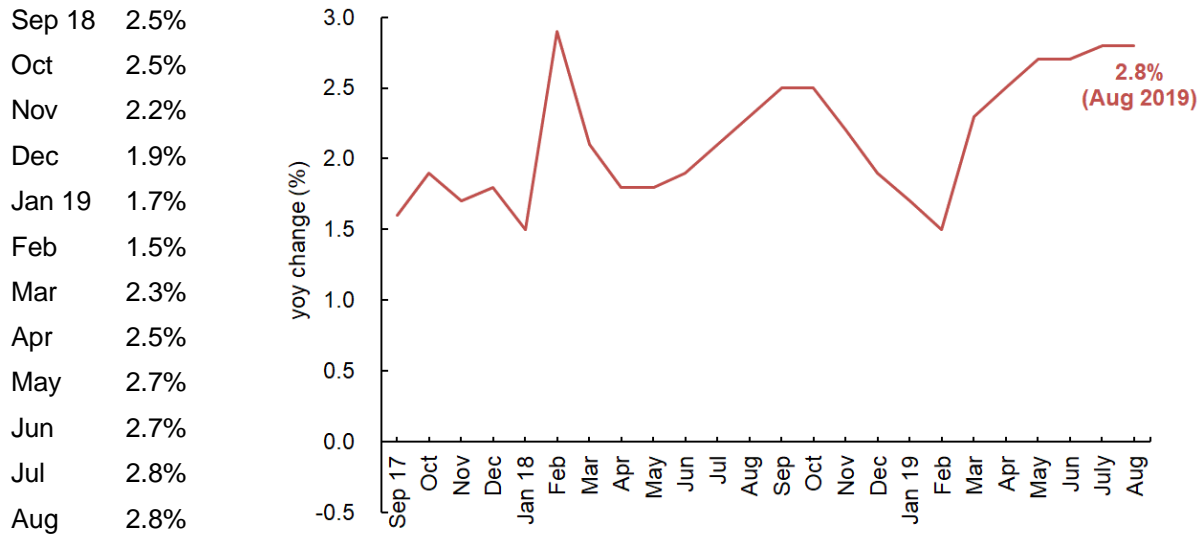
### 1. CPI growth stays high in August

The year-on-year growth rate of China's consumer price index (CPI) was 2.8% in August, the same as in July (*see exhibits 1 & 2*).

The reason for the stabilization of the CPI growth in August was that a rise in food inflation was offset by a drop in non-food inflation in the month. The year-on-year growth in the food component in the CPI climbed from 9.1% in July to 10.0% in August, due largely to a surge in pork prices. Meanwhile, the year-on-year growth in the non-food component declined from 1.3% in July to 1.1% in August.

Looking ahead, we expect that China's CPI growth will continue to stay high or even rise further in the coming months, due mainly to rising pork prices.

**Exhibit 1: China's CPI growth, September 2017 to August 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 2: China's CPI growth by commodity, March to August 2019<sup>1</sup>**

yoy growth (%)

	Mar 19	Apr	May	Jun	Jul	Aug
Clothing	2.0	1.8	1.7	1.8	1.8	1.6
Household articles and services	1.2	1.1	1.0	0.8	0.8	0.7
Education, culture and recreation	2.4	2.5	2.6	2.4	2.3	2.1

Source: National Bureau of Statistics, PRC

**2. Ex-factory prices of industrial products go down in August**

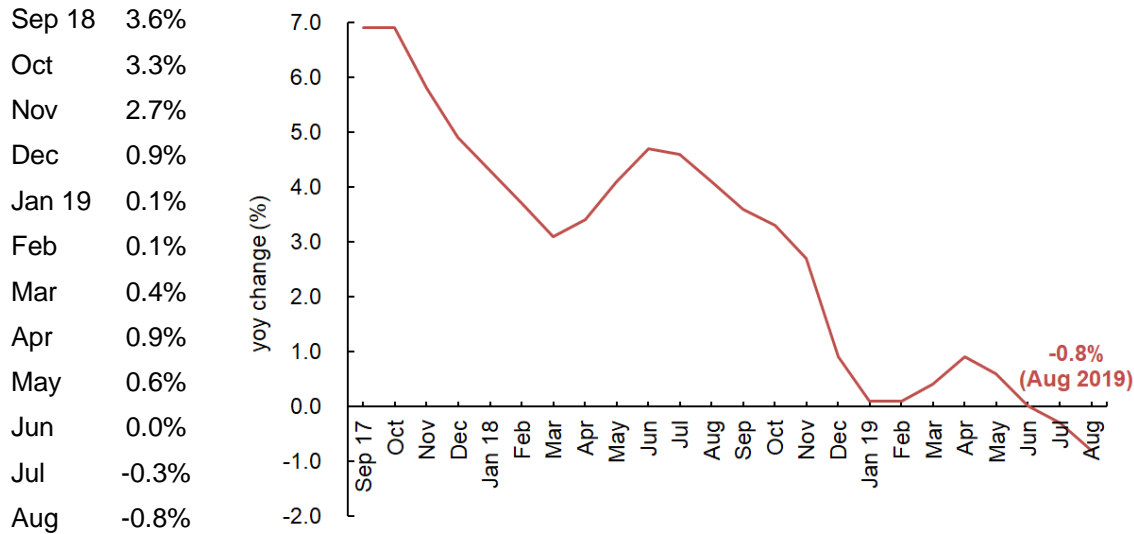
The year-on-year growth in China's producer price index of industrial products (PPI) fell from minus 0.3% in July to minus 0.8% in August (see exhibits 3 & 4).

On a month-on-month basis, the PPI dropped by 0.1% in August, posting a fall for three consecutive months. The decline in the PPI in the month was caused mainly by the fall in ex-factory prices in the 'manufacture and processing of ferrous metals' and 'manufacture of motor vehicles' industries in August.

<sup>1</sup> 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'.

Looking ahead, we expect that the month-on-month growth in the PPI will remain negative in the near future, as the ex-factory prices sub-index of China’s manufacturing PMI came in at 46.7 in August, indicating strong deflationary pressure on ex-factory prices. Meanwhile, the year-on-year growth in the PPI is likely to go down further until October or November, due largely to a sluggish aggregate demand and a higher base for comparison in the same period last year.

**Exhibit 3: China’s PPI growth, September 2017 to August 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China’s PPI growth by selected industry, March to August 2019**

	yoy growth (%)					
	Mar 19	Apr	May	Jun	Jul	Aug
Textile	1.2	1.1	0.9	0.1	-0.4	-1.6
Textile wearing apparel and ornament	1.3	1.1	1.0	0.9	0.6	0.4
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.2	1.1	1.1	1.2	1.1	0.6

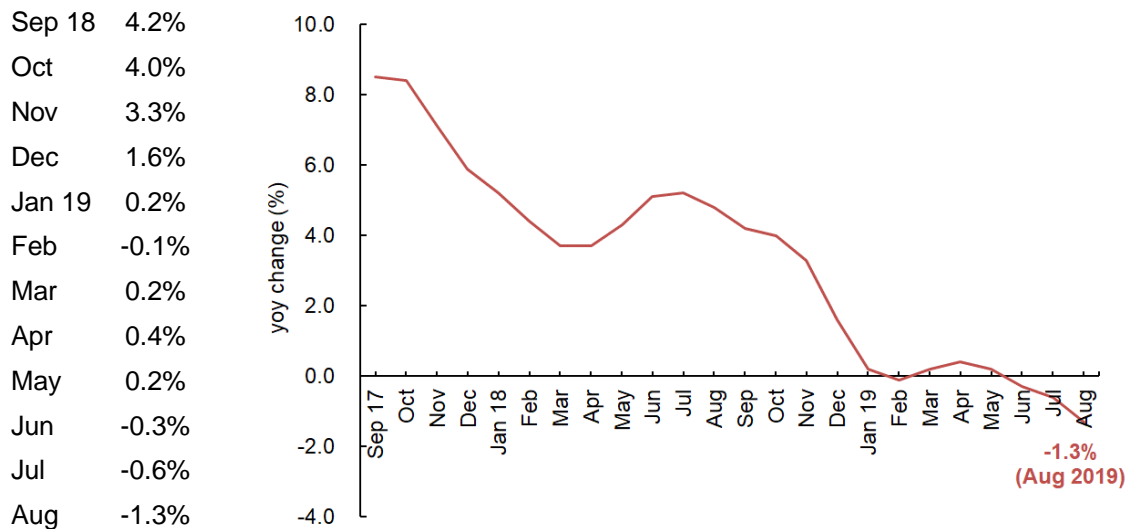
Source: National Bureau of Statistics, PRC

### 3. Domestic prices of production inputs drop in August

The year-on-year growth rate of the purchaser price index of industrial products went down from minus 0.6% in July to minus 1.3% in August, registering the lowest level in three years (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index declined by 0.2% in August, posting a fall for three consecutive months.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, came in at 48.6 in August, indicating deflationary pressure on input prices. Therefore, we expect that the month-on-month growth in the purchaser price index of industrial products will stay negative in the near term. Meanwhile, the year-on-year growth rate of the index is likely to drop further until October or November, due mainly to a weak demand for production inputs and a higher comparison base in the same period last year.

**Exhibit 5: Growth of China's purchaser price index of industrial products, September 2017 to August 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products  
by selected commodity, March to August 2019**

yoy growth (%)

	Mar 19	Apr	May	Jun	Jul	Aug
Fuel and power	0.7	1.6	1.4	-0.2	-2.1	-3.2
Non-ferrous metal materials and wires	-1.7	-1.6	-2.5	-3.5	-2.5	-2.3
Chemical raw materials	-2.4	-2.8	-3.5	-4.7	-5.4	-6.8
Wood and pulp	-0.4	-1.3	-2.5	-3.0	-3.7	-4.5
Textile raw materials	1.2	1.1	0.7	-0.1	-0.8	-1.6

Source: National Bureau of Statistics, PRC

*(i) Purchaser price index of fuel and power*

The purchaser price index of fuel and power dropped at a faster pace, by 3.2% yoy, in August, after falling by 2.1% yoy in July (see exhibit 6).

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

The year-on-year growth rate of the purchaser price index of non-ferrous metal materials and wires improved to minus 2.3% in August from minus 2.5% 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 registered minus 6.8% in August, down from minus 5.4% in July (see exhibit 6).

*(iv) Purchaser price index of wood and pulp*

The year-on-year growth rate of the purchaser price index of wool and pulp stayed in negative territory, posting a 4.5% decline in August (see exhibit 6).

*(v) Purchaser price index of textile raw materials*

The purchaser price index of textile raw materials fell by 1.6% yoy in August, compared with a 0.8% yoy drop in July (see exhibit 6).

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