



# China Sourcing Update

September 10, 2020

## Major Price Indicators

### *Key indicators*

- CPI growth slowed to 2.4% yoy in August due to weaker food inflation.
- Factory gate deflation eased as the growth in PPI improved to minus 2.0% yoy in August.
- Growth in the purchaser price index of industrial products improved to minus 2.5% yoy in August, indicating further moderation in China's upstream deflation.

### *Our forecasts*

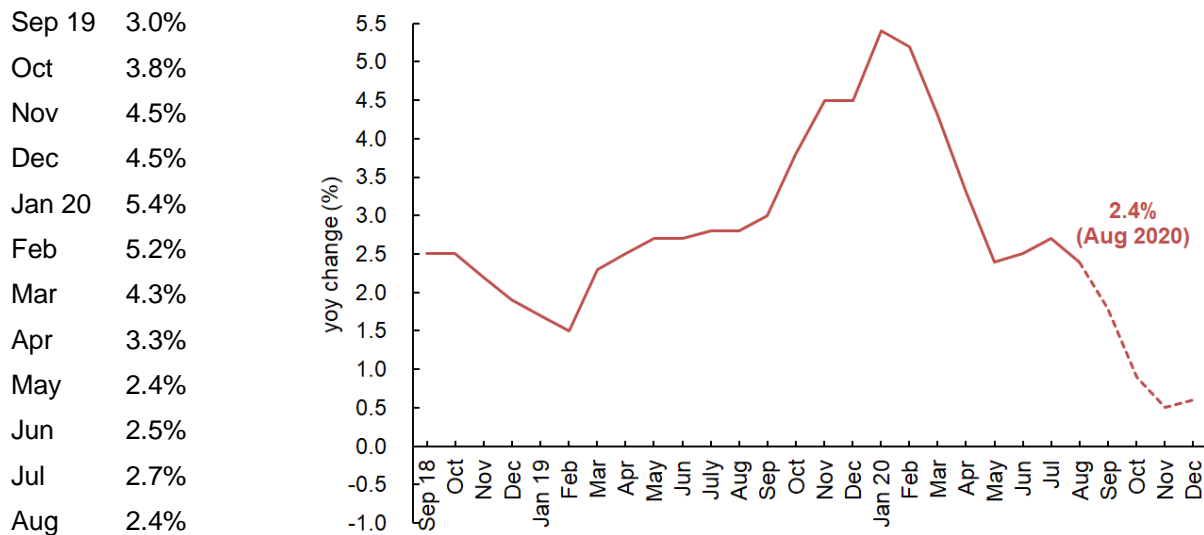
- We project that China's CPI growth will fall sharply in the coming months and drop below 1.0% yoy in 4Q20 amid a slow recovery in domestic consumption and a high comparison base last year.
- PPI will continue to go up on a month-on-month basis, and the year-on-year growth will improve further in the coming months, given an improving industrial demand and the rebound in global commodity prices.
- Both the year-on-year growth and month-on-month growth in input prices will continue to pick up in the coming months, as domestic industrial production has continued to expand amid recovering domestic and external demand.

## 1. CPI growth eases to 2.4% in August

The year-on-year growth rate of China’s consumer price index (CPI)<sup>1</sup> slowed from 2.7% in July to 2.4% in August (see *exhibits 1 & 2*). The deceleration in CPI growth in August was attributed to a weaker food inflation as the floods in southern China eased.

Looking ahead, we project that China’s CPI growth will fall sharply in the coming months and drop below 1.0% yoy in 4Q20 for two reasons. First, consumption is likely to recover only slowly as the improvement in domestic demand continues to lag behind that in production and supply amid the COVID-19 pandemic. More importantly, a high base for comparison in the last few months of 2019 will weigh on CPI growth in the coming months.

**Exhibit 1: China’s CPI growth and forecasts, September 2018 to December 2020**



Source: National Bureau of Statistics

**Exhibit 2: China’s CPI growth by commodity, March to August 2020**

	yoy growth (%)					
	Mar 20	Apr	May	Jun	Jul	Aug
Clothing	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5
Household articles and services	0.3	0.1	0.1	0.0	-0.1	-0.1
Education, culture and recreation	2.5	2.0	2.2	1.9	0.3	0.0

Source: National Bureau of Statistics

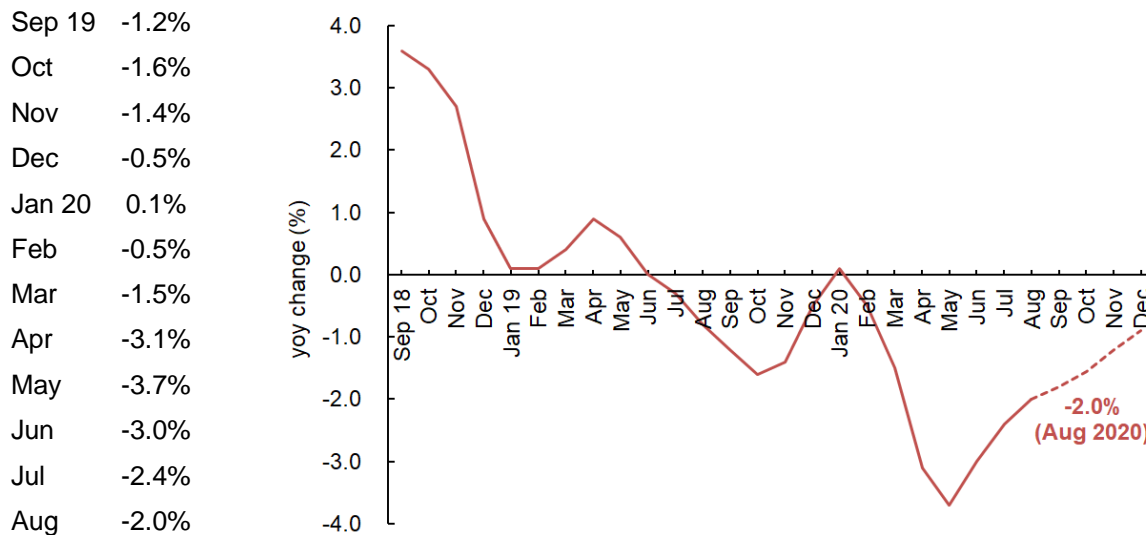
<sup>1</sup> The CPI, compiled by the National Bureau of Statistics (NBS) of China, measures the price of a basket of goods and services purchased by a typical household.

## 2. Ex-factory prices of industrial products go up month-on-month in August

China’s factory gate deflation eased further in August as the year-on-year growth in the producer price index of industrial products (PPI) improved from minus 2.4% in July to minus 2.0% in August (see exhibits 3 & 4). On a month-on-month basis, the PPI rose by 0.3% in August. The increase in the PPI in August was mainly attributed to a rise in ex-factory prices in the crude oil and ferrous metals industries.

Going forward, the demand for industrial products is likely to continue to increase as domestic economic activity is set to recover further and major developed countries have also gradually reopened their economy. Besides, the rebound in global commodity prices will push up domestic prices of production inputs, adding cost pressures on manufacturers. Therefore, we expect that the PPI will continue to rise on a month-on-month basis, and the year-on-year growth will pick up further in the coming months.

**Exhibit 3: China’s PPI growth and forecasts, September 2018 to December 2020**



Source: National Bureau of Statistics

**Exhibit 4: China’s PPI growth by selected industry, March to August 2020**

	yoy growth (%)					
	Mar 20	Apr	May	Jun	Jul	Aug
Textile	-3.2	-4.5	-5.4	-5.6	-6.0	-5.8
Textile wearing apparel and ornament	-0.9	-1.0	-1.0	-0.9	-1.3	-1.5
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	-0.1	-0.7	-0.7	-1.3	-1.4	-0.9

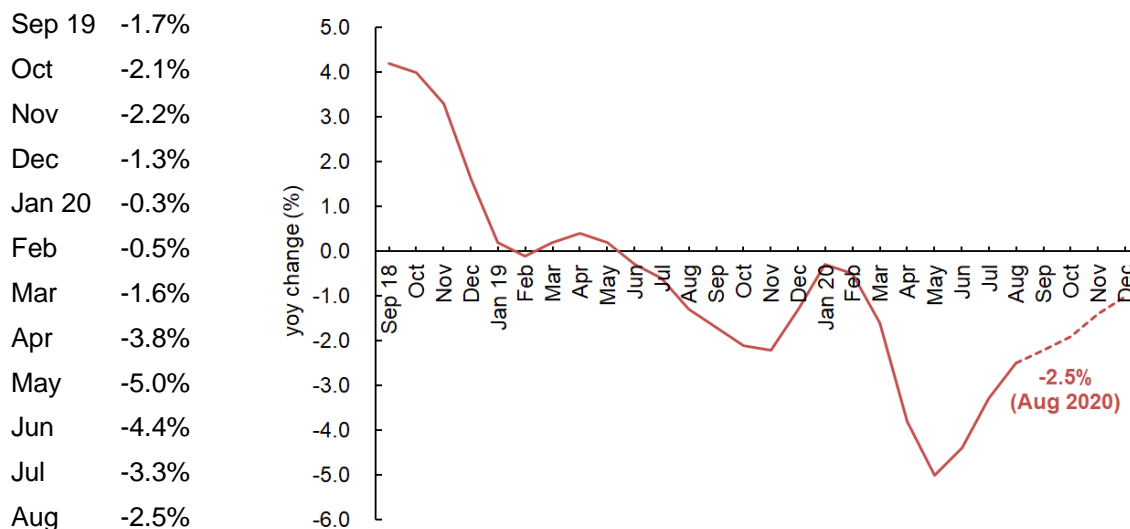
Source: National Bureau of Statistics, PRC

### 3. Domestic prices of production inputs rise month-on-month in August

The year-on-year growth rate of the purchaser price index of industrial products improved from minus 3.3% in July to minus 2.5% in August, indicating moderation in China’s upstream deflation (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index went up by 0.4% in August, after rising by 0.9% in July.

Going forward, as domestic industrial production has continued to expand amid recovering domestic and external demand, the demand for production inputs is likely to improve further in the near future. Therefore, we expect that both the year-on-year growth and month-on-month growth in input prices will continue to pick up in the coming months.

**Exhibit 5: Growth and forecasts of China’s purchaser price index of industrial products, September 2018 to December 2020**



Source: National Bureau of Statistics

**Exhibit 6: China’s purchaser price index of industrial products by selected commodity, March to August 2020**

yoy growth (%)

	Mar 20	Apr	May	Jun	Jul	Aug
Fuel and power	-4.0	-11.4	-15.5	-14.2	-10.8	-9.8
Non-ferrous metal materials and wires	-4.8	-6.6	-5.5	-3.3	-0.3	2.9
Chemical raw materials	-7.2	-9.3	-10.3	-9.4	-8.9	-8.4
Wood and pulp	-2.0	-2.7	-3.3	-2.9	-2.1	-1.4
Textile raw materials	-2.9	-3.6	-4.1	-4.0	-3.9	-3.9

Source: National Bureau of Statistics

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