



China Sourcing Update

January 23, 2018

Major Price Indicators

1. CPI growth accelerates in December

The year-on-year growth rate of China's consumer price index (CPI)¹ went up from 1.7% in November to 1.8% in December, which was lower than market expectations (see exhibits 1 & 2).

The reason for the slight acceleration in the CPI growth in December was that a slower fall in food prices outweighed a smaller increase in non-food prices in the month. The year-on-year growth in the food component in the CPI picked up from minus 1.1% in November to minus 0.4% in December. Meanwhile, the year-on-year growth in the non-food component edged down from 2.5% in November to 2.4% in December.

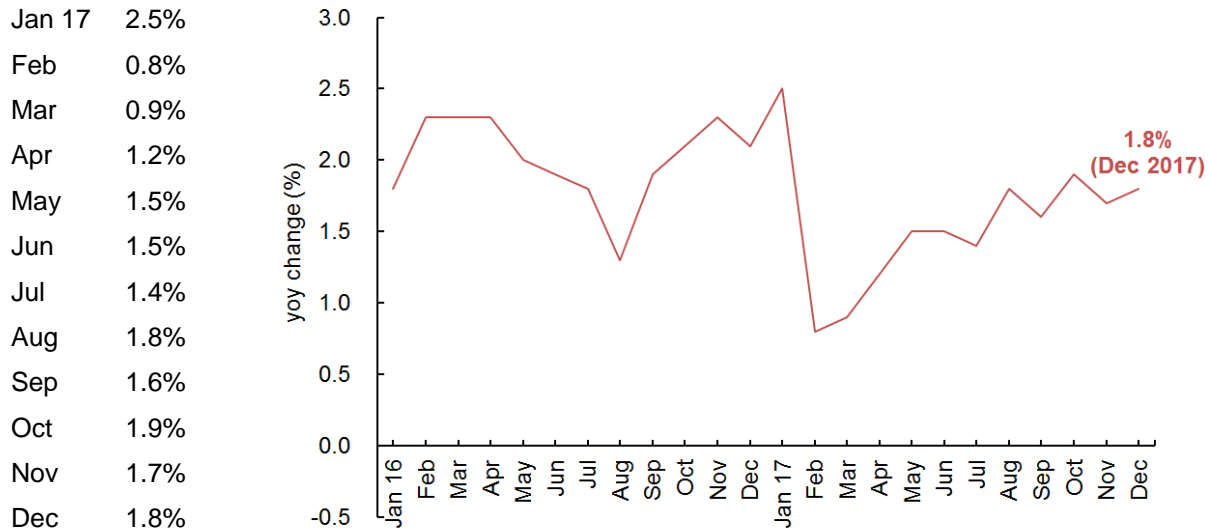
In 2017, China's CPI growth was 1.6% yoy, down from 2.0% yoy in 2016, and was well below the government's target of 3.0% set for the year.

Looking ahead, we expect that the CPI reading in January and February 2018 will be distorted by the timing of the Chinese New Year, which falls in February this year as opposed to January last year. The CPI growth is likely to drop markedly in January 2018

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.

and then rise sharply in the following month, given a higher base for comparison in January but a lower comparison base in February last year.

Exhibit 1: China's CPI growth, January 2016 to December 2017



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, July to December 2017²

yoy growth (%)

	Jul 17	Aug	Sep	Oct	Nov	Dec
Clothing	1.4	1.3	1.3	1.2	1.2	1.3
Household articles and services	1.1	1.3	1.4	1.5	1.5	1.6
Education, culture and recreation	2.5	2.5	2.3	2.3	2.0	2.1

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products go up in December

The year-on-year growth in China's producer price index of industrial products (PPI) fell from 5.8% in November to 4.9% in December, the lowest level since November 2016 (see exhibits 3 & 4).

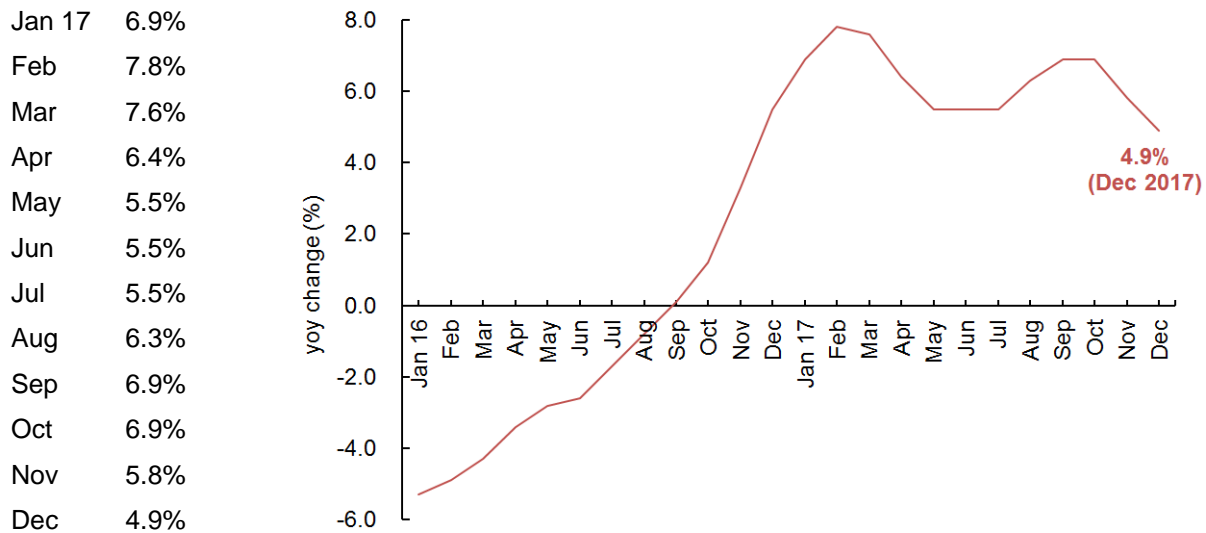
² Starting from January 2016, the old category of 'household facilities, articles and maintenance services' has been re-categorized into a new category called 'household articles and services' and the category of 'other articles and services'. The old category of 'recreation, education, culture articles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

On a month-on-month basis, the PPI rose by 0.8% in December, a larger increase than the 0.5% growth registered in the previous month. The rise in the PPI in December was mainly attributable to increases in ex-factory prices in the ‘production and distribution of gas’, ‘manufacture and processing of ferrous metals’ and ‘manufacture of non-metallic mineral products’ industries in the month.

In 2017, China’s PPI climbed 6.3% from the previous year, the first rise since 2011 and the highest growth in nine years.

Going forward, the PPI is expected to go up further on a month-on-month basis in the near term, as the December reading of the input prices sub-index of China’s manufacturing PMI, which registered 62.2, shows a recent jump in the domestic prices of production inputs, thereby putting upward pressures on the ex-factory prices of industrial products. Meanwhile, the year-on-year growth in the PPI is likely to continue to fall in the coming months, due mainly to a higher base for comparison in early 2017.

Exhibit 3: China’s PPI growth, January 2016 to December 2017



Source: National Bureau of Statistics, PRC

**Exhibit 4: China's PPI growth by selected industry,
July to December 2017**

yoy growth (%)

	Jul 17	Aug	Sep	Oct	Nov	Dec
Textile	3.2	2.9	3.0	2.7	2.4	2.4
Textile wearing apparel and ornament	0.8	1.0	0.8	0.7	0.7	0.5
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	-0.3	0.3	0.6	0.8	1.0	1.2

Source: National Bureau of Statistics, PRC

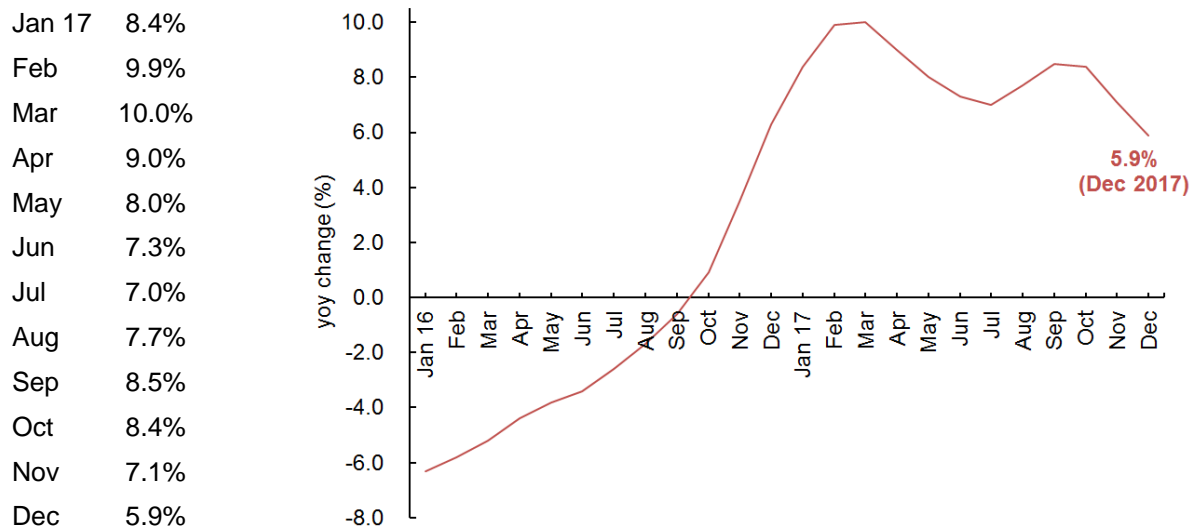
3. Purchaser price index of industrial products rises in December

The year-on-year growth rate of the purchaser price index of industrial products dropped from 7.1% in November to 5.9% in December (see exhibits 5 & 6). On a month-on-month basis, the PPI advanced by 0.8% in December, after gaining 0.6% in the previous month.

In 2017, China's purchaser price index of industrial products jumped by 8.1% from the previous year, ending a five-year decline.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, registered 62.2 in December. The index reading is higher than that of last month (59.8) and is well above the neutral level of 50, indicating that domestic prices of production inputs have been rising strongly. Therefore, we expect that the purchaser price index of industrial products is likely to go up further 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 drop in the coming months, due largely to a higher comparison base in the same period last year.

Exhibit 5: Growth of China’s purchaser price index of industrial products, January 2016 to December 2017



Source: National Bureau of Statistics, PRC

Exhibit 6: China’s purchaser price index of industrial products by selected commodity, July to December 2017

yoy growth (%)

	Jul 17	Aug	Sep	Oct	Nov	Dec
Fuel and power	10.7	11.8	11.9	10.6	8.0	7.1
Non-ferrous metal materials and wires	13.2	15.3	18.6	19.5	14.7	10.4
Chemical raw materials	7.1	7.7	9.0	9.4	9.2	7.6
Wood and pulp	5.8	6.5	8.5	9.8	9.4	7.6
Textile raw materials	4.2	4.0	4.1	3.8	3.4	2.8

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 dropped to 7.1% in December from 8.0% in November (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 10.4% yoy, in December, after rising by 14.7% yoy in November (see exhibit 6).

(iii) Purchaser price index of chemical raw materials

The purchaser price index of chemical raw materials gained 7.6% yoy in December, compared with the 9.2% yoy growth in November (see *exhibit 6*).

(iv) Purchaser price index of wood and pulp

The year-on-year growth rate of the purchaser price index of wood and pulp registered 7.6% in December, down from 9.4% in November (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 went down to 2.8% in December from 3.4% in November (see *exhibit 6*).

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