



China Sourcing Update

March 13, 2018

Major Price Indicators

1. CPI growth jumps in February

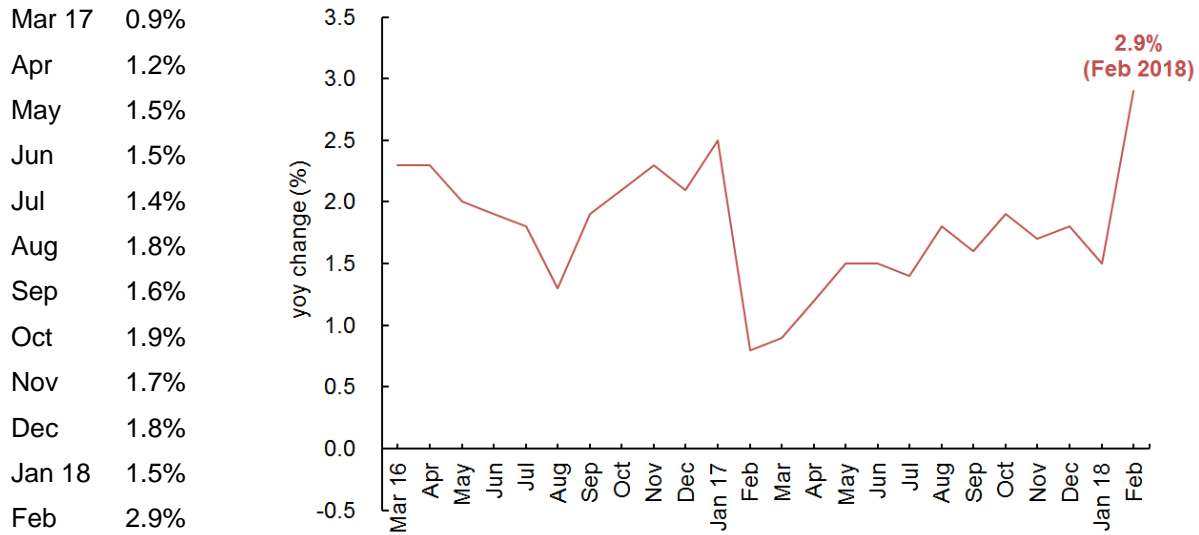
The year-on-year growth rate of China's consumer price index (CPI)¹ went up from 1.5% in January to a four-year high of 2.9% in February, which was higher than market expectations (see exhibits 1 & 2).

The CPI reading in February continued to be distorted by the timing of the Chinese New Year, which fell in late January 2017 but started in mid-February this year. Due to a lower comparison base in February last year and a stronger demand for food and travel during and around the Chinese New Year holidays this year, the year-on-year growth in the food component in the CPI went up to 4.4% in February from minus 0.5% in January, and the year-on-year growth in the non-food component climbed to 2.5% in February from 2.0% in January.

Looking ahead, we predict that the CPI growth will drop in the coming couple of months, as both the food and non-food prices are likely to ease after the Chinese New Year holidays ended in late February.

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, March 2016 to February 2018



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, September 2017 to February 2018²
yoy growth (%)

	Sep 17	Oct	Nov	Dec	Jan 18	Feb
Clothing	1.3	1.2	1.2	1.3	1.4	1.1
Household articles and services	1.4	1.5	1.5	1.6	1.5	1.8
Education, culture and recreation	2.3	2.3	2.0	2.1	0.9	3.7

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products fall in February

The year-on-year growth in China's producer price index of industrial products (PPI) went down from 4.3% in January to 3.7% in February, the lowest level since November 2016 (see exhibits 3 & 4).

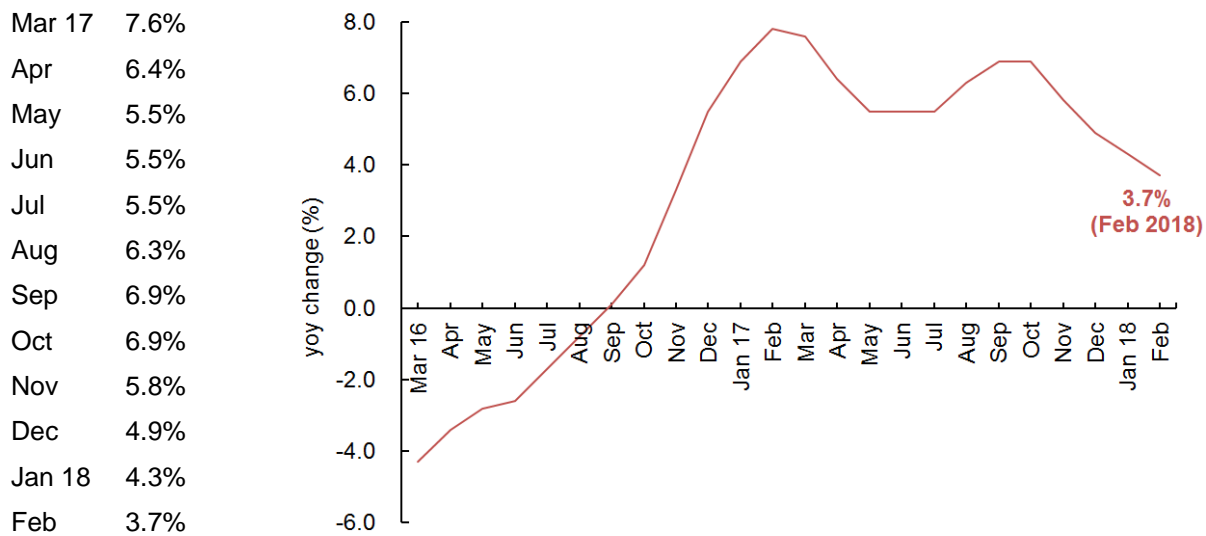
On a month-on-month basis, the PPI edged down by 0.1% in February, posting month-on-month fall for the first time since June last year. The drop in the PPI in the month

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'.

was due largely to declines in the ex-factory prices in the ‘manufacture and processing of ferrous metals’, ‘production and distribution of gas’, ‘manufacture and processing of non-ferrous metals’, and ‘manufacture of non-metallic mineral’ industries.

Going forward, the PPI is expected to stay roughly stable on a month-on-month basis in the near future, as the inflationary pressures on domestic prices of production inputs have been minimal lately. Meanwhile, the year-on-year growth in the PPI is likely to fall further in the coming couple of months, given a higher base for comparison in the same period last year.

Exhibit 3: China’s PPI growth, March 2016 to February 2018



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, September 2017 to February 2018

	yoy growth (%)					
	Sep 17	Oct	Nov	Dec	Jan 18	Feb
Textile	3.0	2.7	2.4	2.4	2.1	1.7
Textile wearing apparel and ornament	0.8	0.7	0.7	0.5	0.8	0.7
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.6	0.8	1.0	1.2	1.2	1.4

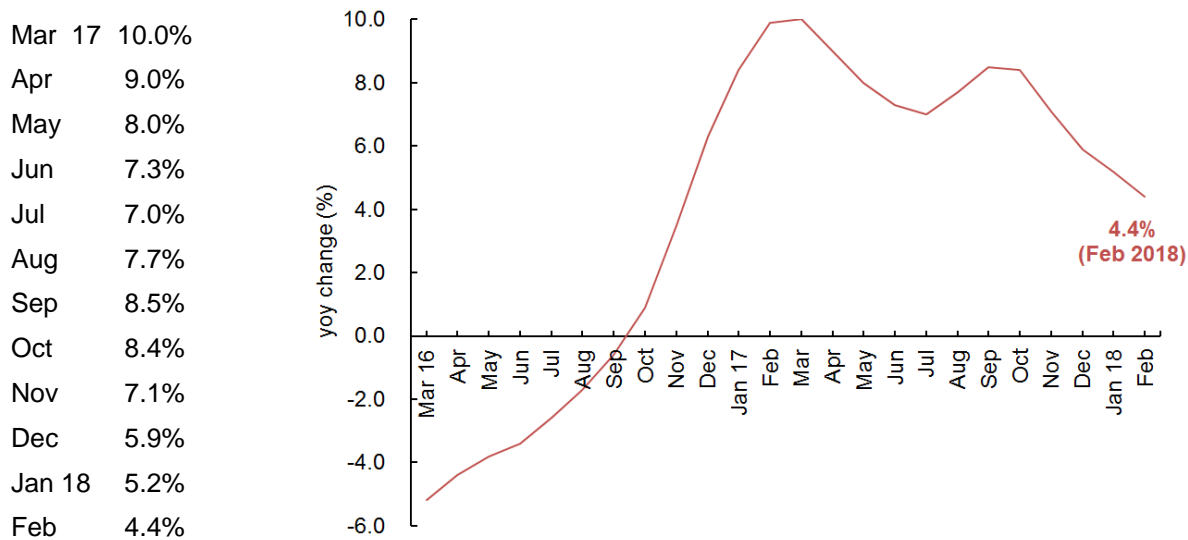
Source: National Bureau of Statistics, PRC

3. Growth in purchaser price index of industrial products slows in February

The year-on-year growth rate of the purchaser price index of industrial products dropped from 5.2% in January to 4.4% in February, the lowest level in more than one year (see exhibits 5 & 6). On a month-on-month basis, the PPI rose by 0.1% in January, a smaller increase than the 0.5% growth recorded in the previous month

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, registered 53.4 in February. The index reading is above the neutral level of 50 but much lower than that of last month (59.7), indicating that domestic prices of production inputs have increased at a slower pace recently. Therefore, we believe that the growth rate of the purchaser price index of industrial products is likely to fall on a month-on-month basis in the near term. Meanwhile, the year-on-year growth rate of the purchaser price index is likely to go down further in the coming couple of 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, March 2016 to February 2018



Source: National Bureau of Statistics, PRC

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

yoy growth (%)

	Sep 17	Oct	Nov	Dec	Jan 18	Feb
Fuel and power	11.9	10.6	8.0	7.1	6.2	6.0
Non-ferrous metal materials and wires	18.6	19.5	14.7	10.4	10.5	8.3
Chemical raw materials	9.0	9.4	9.2	7.6	5.9	4.3
Wood and pulp	8.5	9.8	9.4	7.6	7.0	6.4
Textile raw materials	4.1	3.8	3.4	2.8	2.3	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 edged down to 6.0% in February from 6.2% in January (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 8.3% yoy, in February, after rising by 10.5% 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 dropped to 4.3% in February from 5.9% in January (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 6.4% in February, down from 7.0% in the previous month (see exhibit 6).

(v) Purchaser price index of textile raw materials

The purchaser price index of textile raw materials gained 1.7% yoy in February, compared with the 2.3% yoy growth in January (see exhibit 6).

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