



China Sourcing Update

February 18, 2019

Major Price Indicators

1. CPI growth decelerates in January

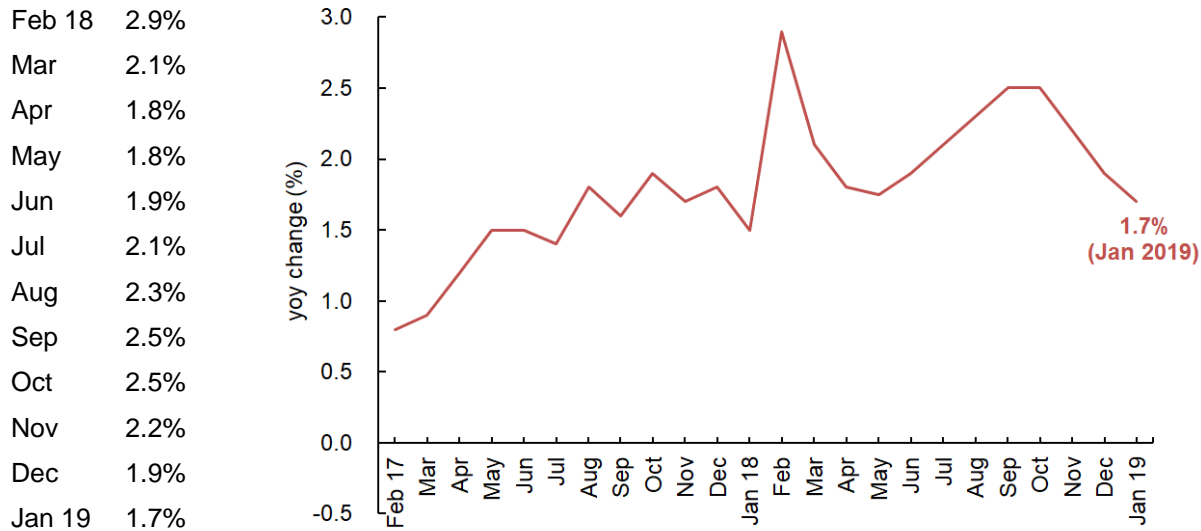
The year-on-year growth rate of China's consumer price index (CPI)¹ decelerated to 1.7% in January from 1.9% in December (see exhibits 1 & 2).

The fall in the CPI growth in January was the result of a drop in food inflation in the month. The year-on-year growth in the food component in the CPI fell to 1.9% yoy in January from 2.5% yoy in December. Meanwhile, the year-on-year growth in the non-food component was 1.7% in January, the same as in December.

Looking ahead, we expect that China's CPI growth will fall further in the near term, as the domestic demand is likely to continue to moderate due to weakening confidence among consumers and enterprises amid the China-US trade war.

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, February 2017 to January 2019



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, August 2018 to January 2019²

yoy growth (%)

	Aug 18	Sep	Oct	Nov	Dec	Jan 19
Clothing	1.3	1.2	1.4	1.4	1.5	1.6
Household articles and services	1.6	1.6	1.5	1.5	1.4	1.5
Education, culture and recreation	2.6	2.2	2.5	2.5	2.3	2.9

Source: National Bureau of Statistics, PRC

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

The year-on-year growth in China's producer price index of industrial products (PPI) fell from 0.9% in December to 0.1% in January (see exhibits 3 & 4).

On a month-on-month basis, the PPI dropped at a slower pace by 0.6% in January, after falling by 1.0% mom in December. Prices in several major industries such as 'extraction of petroleum and natural gas', 'processing of petroleum, coking, processing of nucleus fuel', 'manufacture and processing of ferrous metals' and 'manufacture of

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'.

chemical raw material and chemical products', etc. posted smaller drops in January, compared to December.

Looking forward, we expect that China's ex-factory prices of industrial products will drop further and thus the year-on-year growth in the PPI will continue to decelerate in the near future, due mainly to the weakening demand and the fall in upstream prices.

Exhibit 3: China's PPI growth, February 2017 to January 2019



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, August 2018 to January 2019

	yoy growth (%)					
	Aug 18	Sep	Oct	Nov	Dec	Jan 19
Textile	3.0	3.1	3.1	2.8	1.7	1.6
Textile wearing apparel and ornament	1.3	1.4	1.4	1.6	1.7	1.3
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	2.2	2.2	1.9	1.6	1.2	1.2

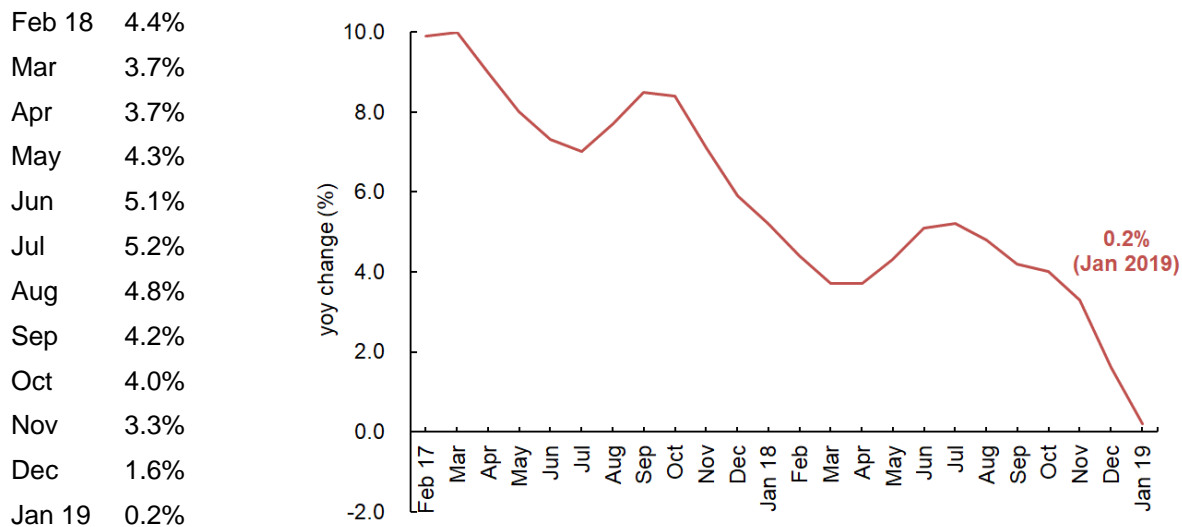
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs go down in January

The year-on-year growth rate of the purchaser price index of industrial products fell from 1.6% in December to 0.2% in January (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index dropped by 0.9% in January, falling for two consecutive months.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, came in at 46.3 in January, staying below the critical 50-mark for two consecutive months. We, therefore, expect the purchaser price index of industrial products to drop further in the near future.

Exhibit 5: Growth of China's purchaser price index of industrial products, February 2017 to January 2019



Source: National Bureau of Statistics, PRC

Exhibit 6: China's purchaser price index of industrial products by selected commodity, August 2018 to January 2019

	<i>yoy growth (%)</i>					
	Aug 18	Sep	Oct	Nov	Dec	Jan 19
Fuel and power	9.7	9.2	9.4	7.9	3.8	0.3
Non-ferrous metal materials and wires	2.5	-0.4	-1.7	-2.1	-2.0	-3.3
Chemical raw materials	6.1	5.8	5.3	3.2	0.3	-1.6
Wood and pulp	6.6	4.5	2.6	1.6	1.4	0.6
Textile raw materials	2.6	2.9	2.7	2.3	1.9	1.5

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 registered 0.3% in January, down from 3.8% in December (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 stayed in negative territory, posting a 3.3% decline in January (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 turned negative, registering minus 1.6% yoy 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 fell to 0.6% in January from 1.4% in December (see *exhibit 6*).

(v) Purchaser price index of textile raw materials

The purchaser price index of textile raw materials gained 1.5% yoy in January, compared with the 1.9% yoy growth in December (see *exhibit 6*).

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