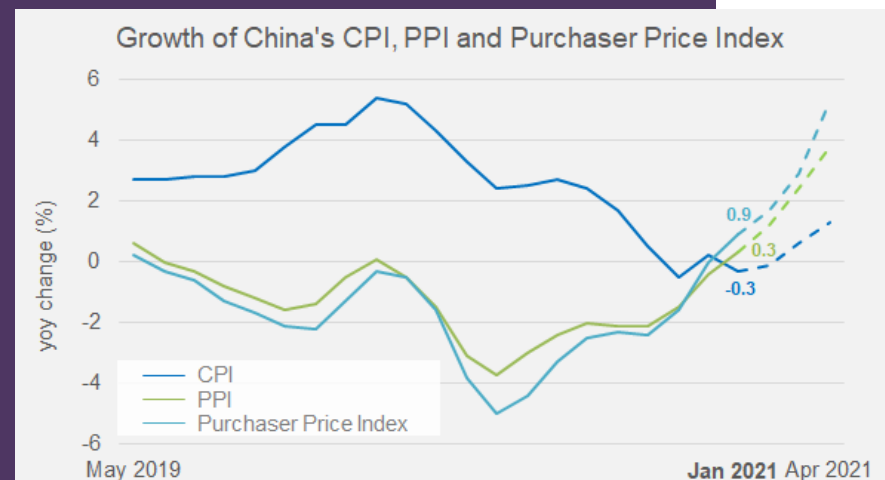


# China Sourcing Update

## Major Price Indicators

### CPI falls again while factory-gate prices and upstream prices return to growth



#### Key indicators

- Year-on-year growth in CPI dropped to minus 0.3% in January, returning to negative territory.
- For the first time in a year, factory-gate prices returned to growth in January, as the year-on-year growth in PPI rose to 0.3% in January.
- Year-on-year growth rate of the purchaser price index of industrial products went up to 0.9% in January, the first time upstream prices have risen in 20 months.

#### Our forecasts

- We project that China's CPI growth will pick up on a year-on-year basis in February due to a higher seasonal demand around the Chinese New Year. The uptrend in CPI growth will likely continue into June, given a low base for comparison in the same period last year.
- Year-on-year growth of PPI will go up further in the near term, given an improving industrial demand and a recent jump in domestic prices of production inputs.
- As the demand for production inputs is likely to improve further and a recent rise in global commodity prices continues to put upward pressure on domestic input prices, the year-on-year growth in input prices will rise further in the foreseeable future.

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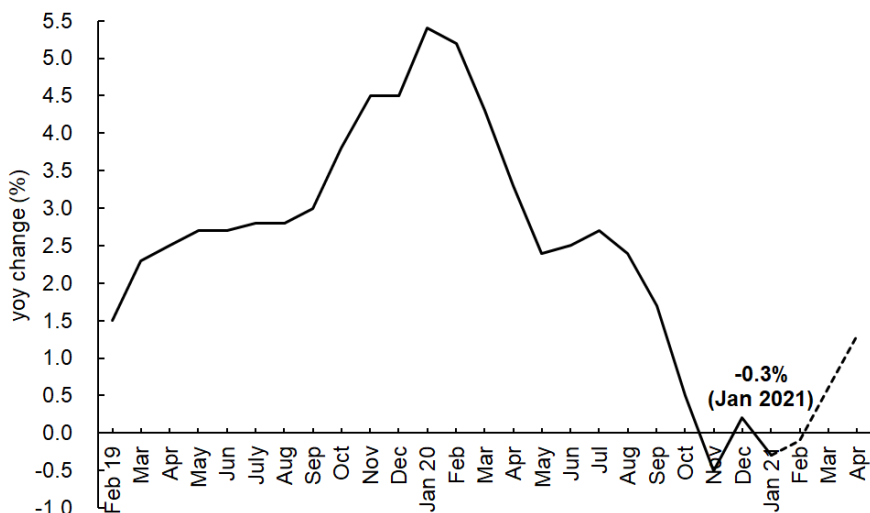
## 1. CPI falls year-on-year again in January

The year-on-year growth rate of China’s consumer price index (CPI)<sup>1</sup> dropped from 0.2% in December to minus 0.3% in January (see exhibits 1 & 2). The decline in CPI growth in January was mainly attributed to a high comparison base in January last year due to the COVID-19 outbreak and the different timing of the Chinese New Year: The Chinese New Year in 2021 begins in mid-February, while the Chinese New Year in 2020 fell in late January. Led by a decrease in service prices, a decline in non-food inflation outweighed a rise in food inflation in January.

Looking ahead, we project that China’s CPI growth will pick up on a year-on-year basis in February due to a higher seasonal demand around the Chinese New Year. The uptrend in CPI growth will likely continue into June, given a low base for comparison in the same period last year.

**Exhibit 1: China’s CPI growth and forecasts, February 2019 to April 2021**

FY20	Feb 20	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 21
2.5%	5.2%	4.3%	3.3%	2.4%	2.5%	2.7%	2.4%	1.7%	0.5%	-0.5%	0.2%	-0.3%



Source: National Bureau of Statistics

**Exhibit 2: China’s CPI growth by commodity, August 2020 to January 2021**

	yoy growth (%)					
	Aug 20	Sep	Oct	Nov	Dec	Jan 21
Clothing	-0.5	-0.4	-0.3	-0.3	-0.1	-0.2
Household articles and services	-0.1	-0.1	-0.1	0.0	0.0	0.0
Education, culture and recreation	0.0	0.7	1.1	1.0	0.9	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.

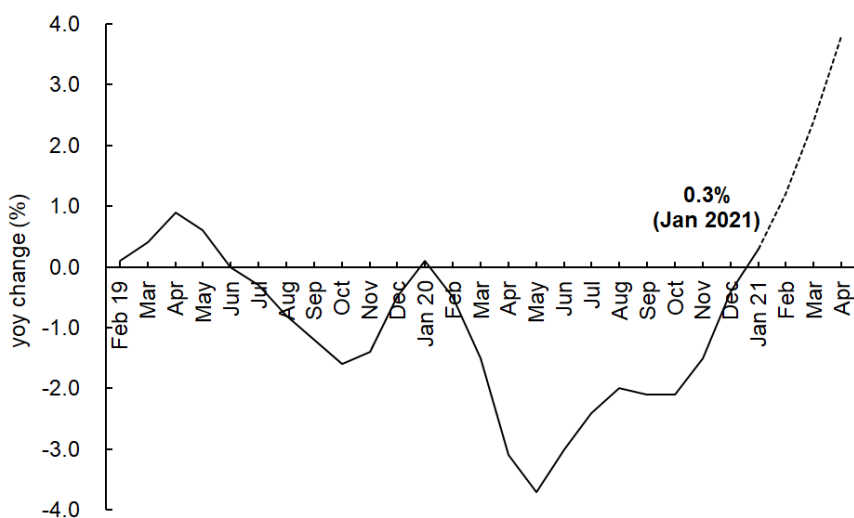
## 2. Ex-factory prices of industrial products rise in January

For the first time in a year, China's factory gate prices returned to growth in January, as the year-on-year growth in the producer price index of industrial products (PPI) rose from minus 0.4% in December to 0.3% in January (see exhibits 3 & 4). On a month-on-month basis, the PPI went up by 1.0% in January. The rise in the PPI in the month was mainly attributed to an increase in ex-factory prices in the crude oil, coal, chemical, and metals industries amid a jump in global crude and commodity prices.

Going forward, the demand for industrial products is likely to continue to improve as both the domestic and global economy are set to recover further. Besides, a recent jump in domestic prices of production inputs, boosted by a rise in global crude and commodity prices, will also add cost pressures on manufacturers. Therefore, we expect that the year-on-year growth of the PPI will go up further in the near term.

**Exhibit 3: China's PPI growth and forecasts, February 2019 to April 2021**

FY20	Feb 20	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 21
-1.8%	-0.5%	-1.5%	-3.1%	-3.7%	-3.0%	-2.4%	-2.0%	-2.1%	-2.1%	-1.5%	-0.4%	0.3%



Source: National Bureau of Statistics

**Exhibit 4: China's PPI growth by selected industry, August 2020 to January 2021**

	yoy growth (%)					
	Aug 20	Sep	Oct	Nov	Dec	Jan 21
Textile	-5.8	-6.0	-5.4	-4.7	-3.8	-2.6
Textile wearing apparel and ornament	-1.5	-1.7	-1.6	-1.6	-1.5	-1.3
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	-0.9	-1.0	-1.1	-1.1	-0.8	-0.2

Source: National Bureau of Statistics

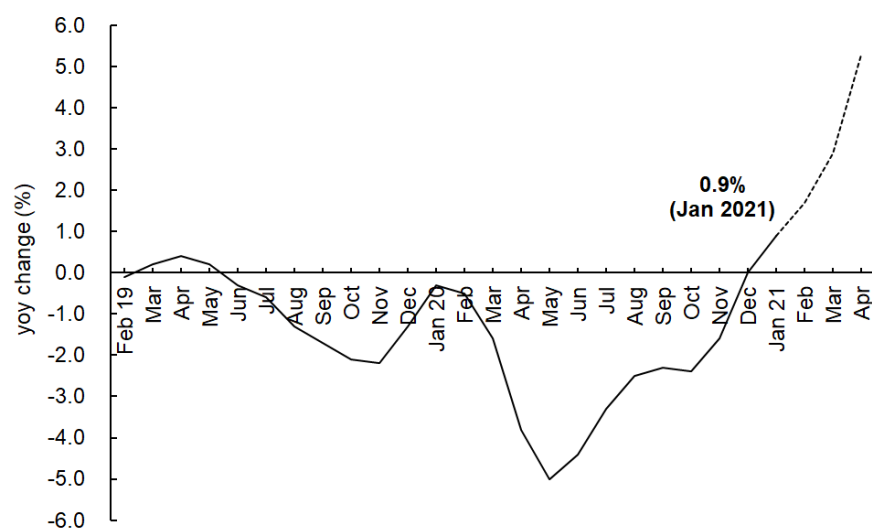
### 3. Domestic prices of production inputs go up in January

The year-on-year growth rate of the purchaser price index of industrial products went up from 0.0% in December to 0.9% in January, the first time upstream prices have risen in 20 months (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index climbed 1.4% in January, after rising by 1.5% in December.

Going forward, as domestic manufacturing production has continued to expand, the demand for production inputs is expected to improve further in the near future. Moreover, a sustained increase in global commodity prices has put upward pressure on domestic input prices lately. Therefore, we predict that the year-on-year growth in input prices will rise further in the foreseeable future.

#### Exhibit 5: Growth and forecasts of China's purchaser price index of industrial products, February 2019 to April 2021

FY20	Feb 20	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 21
-2.3%	-0.5%	-1.6%	-3.8%	-5.0%	-4.4%	-3.3%	-2.5%	-2.3%	-2.4%	-1.6%	0.0%	0.9%



Source: National Bureau of Statistics

#### Exhibit 6: China's purchaser price index of industrial products by selected commodity, August 2020 to January 2021

	yoy growth (%)					
	Aug 20	Sep	Oct	Nov	Dec	Jan 21
Fuel and power	-9.8	-9.3	-9.9	-8.4	-6.6	-4.8
Non-ferrous metal materials and wires	2.9	2.9	3.0	4.0	7.5	8.3
Chemical raw materials	-8.4	-7.8	-7.0	-4.6	-1.8	-1.3
Wood and pulp	-1.4	-0.8	-0.8	-0.7	-0.9	-0.1
Textile raw materials	-3.9	-3.8	-2.9	-2.1	-1.5	-1.0

Source: National Bureau of Statistics

## Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

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