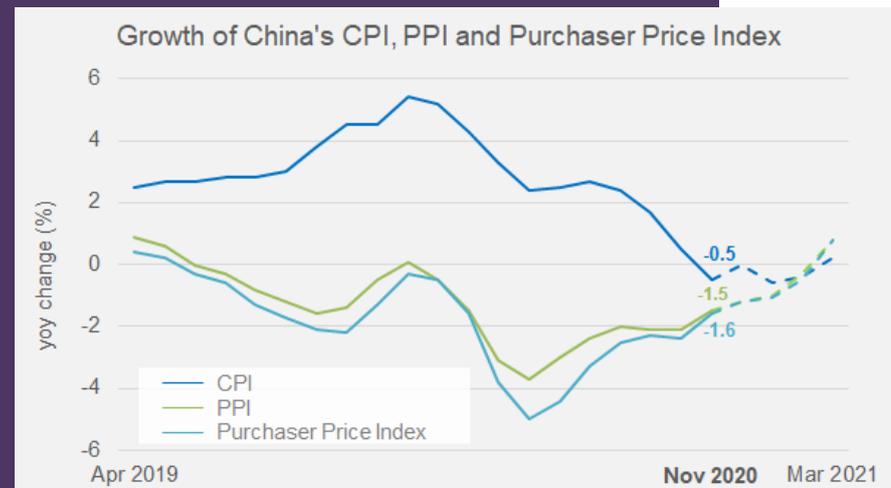


China Sourcing Update

Major Price Indicators

CPI falls for first time in 11 years while factory gate deflation and upstream deflation ease in November



Key indicators

- CPI growth dropped to minus 0.5% yoy in November, marking the first decline since October 2009.
- Factory gate deflation eased as the year-on-year growth in PPI improved to minus 1.5% in November.
- Year-on-year growth rate of the purchaser price index of industrial products improved to minus 1.6% in November, indicating moderation in upstream deflation.

Our forecasts

- We project that China's CPI growth will pick up in December due to a recent rebound in food prices, but will fall again in January 2021 given the likely short-lived nature of the rebound in food prices and a high base for comparison in early 2020.
- Both the year-on-year growth and month-on-month growth of PPI will continue to go up in the near future, 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, both the year-on-year growth and month-on-month growth in input prices will pick up in the coming months.

Helen Chin

Vice President

E: helenchin@fung1937.com

William Kong

Senior Research Manager

E: williamkong@fung1937.com

Fung Business Intelligence

1/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.com

W: <http://www.fbicgroup.com>



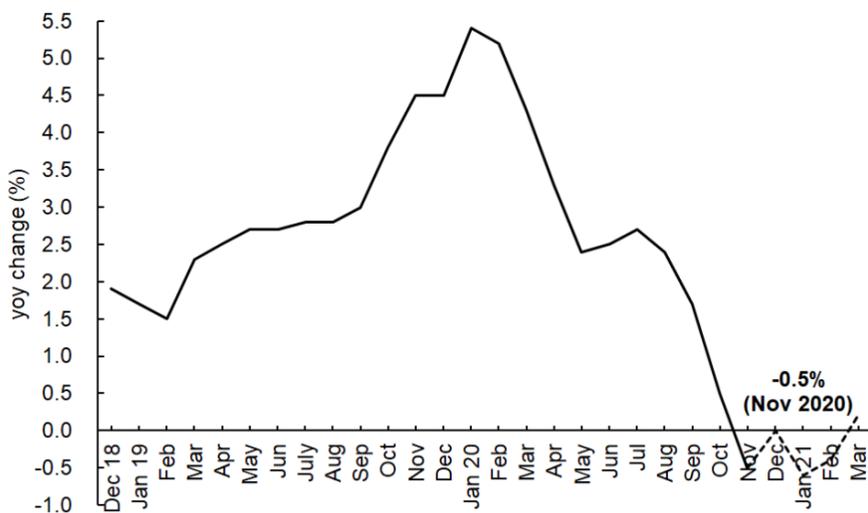
1. CPI falls for first time in 11 years in November

The year-on-year growth rate of China’s consumer price index (CPI)¹ dropped from 0.5% in October to minus 0.5% in November, marking the first decline since October 2009 (see exhibits 1 & 2). The sharp fall in CPI growth in November was attributed to a deeper deflation in food prices mainly caused by a further decline in pork prices: The year-on-year growth in pork prices slumped from minus 2.8% in October to minus 12.5% in November.

Looking ahead, we project that China’s CPI growth will pick up in December, as food prices have rebounded since late November. However, the CPI growth is likely to fall again in January 2021 as we expect the recent rebound in food prices to be short-lived and a high base for comparison in early 2020 will weigh on CPI growth in the first two months of 2021.

Exhibit 1: China’s CPI growth and forecasts, December 2018 to March 2021

FY19	Dec 19	Jan 20	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
2.9%	4.5%	5.4%	5.2%	4.3%	3.3%	2.4%	2.5%	2.7%	2.4%	1.7%	0.5%	-0.5%



Source: National Bureau of Statistics

Exhibit 2: China’s CPI growth by commodity, June to November 2020

	yoy growth (%)					
	Jun 20	Jul	Aug	Sep	Oct	Nov
Clothing	-0.4	-0.5	-0.5	-0.4	-0.3	-0.3
Household articles and services	0.0	-0.1	-0.1	-0.1	-0.1	0.0
Education, culture and recreation	1.9	0.3	0.0	0.7	1.1	1.0

Source: National Bureau of Statistics

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.

2. Ex-factory prices of industrial products rise month-on-month in November

China's factory gate deflation eased in November as the year-on-year growth in the producer price index of industrial products (PPI) improved from minus 2.1% in October to minus 1.5% in November (see exhibits 3 & 4). On a month-on-month basis, the PPI went up by 0.5% in November. The increase in the PPI in the month was mainly attributed to a rise in ex-factory prices in the crude oil, natural gas, and chemical industries amid a jump in global crude 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 greater domestic infrastructure investment and a rise in global commodity prices, will also add cost pressures on manufacturers. Therefore, we expect that both the year-on-year growth and month-on-month growth of the PPI will continue to go up in the near future.

Exhibit 3: China's PPI growth and forecasts, December 2018 to March 2021

FY19	Dec 18	Jan 19	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
-0.3%	-0.5%	0.1%	-0.5%	-1.5%	-3.1%	-3.7%	-3.0%	-2.4%	-2.0%	-2.1%	-2.1%	-1.5%



Source: National Bureau of Statistics

Exhibit 4: China's PPI growth by selected industry, June to November 2020

	yoy growth (%)					
	Jun 20	Jul	Aug	Sep	Oct	Nov
Textile	-5.6	-6.0	-5.8	-6.0	-5.4	-4.7
Textile wearing apparel and ornament	-0.9	-1.3	-1.5	-1.7	-1.6	-1.6
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	-1.3	-1.4	-0.9	-1.0	-1.1	-1.1

Source: National Bureau of Statistics

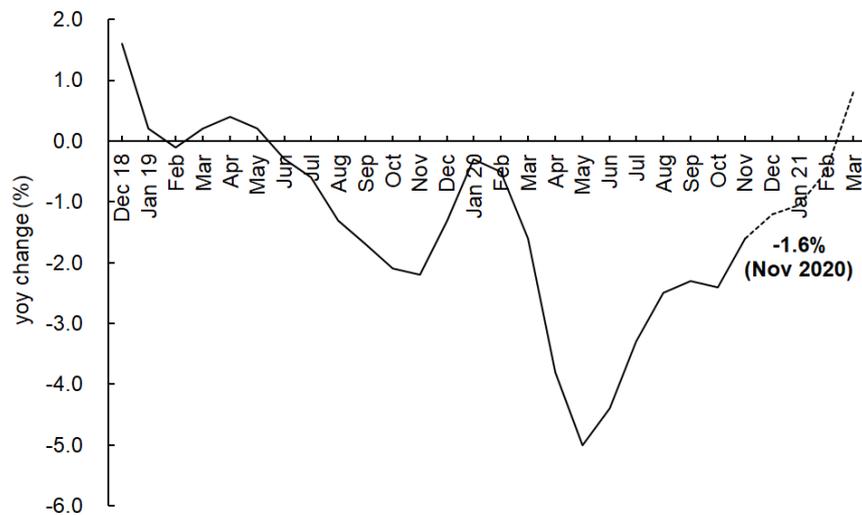
3. Domestic prices of production inputs go up month-on-month in November

The year-on-year growth rate of the purchaser price index of industrial products picked up from minus 2.4% in October to minus 1.6% in November, indicating a moderation in China’s upstream deflation (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index rose by 0.7% in November, after rising by 0.2% in October.

Going forward, as domestic manufacturing production has continued to expand and infrastructure investment is likely to accelerate near year-end, the demand for production inputs is expected to improve further in the near future. Moreover, a recent rise in global commodity prices has put upward pressure on domestic input prices lately. Therefore, we predict 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, December 2018 to March 2021

FY19	Dec 19	Jan 20	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
-0.7%	-1.3%	-0.3%	-0.5%	-1.6%	-3.8%	-5.0%	-4.4%	-3.3%	-2.5%	-2.3%	-2.4%	-1.6%



Source: National Bureau of Statistics

Exhibit 6: China’s purchaser price index of industrial products by selected commodity, June to November 2020

	yoy growth (%)					
	Jun 20	Jul	Aug	Sep	Oct	Nov
Fuel and power	-14.2	-10.8	-9.8	-9.3	-9.9	-8.4
Non-ferrous metal materials and wires	-3.3	-0.3	2.9	2.9	3.0	4.0
Chemical raw materials	-9.4	-8.9	-8.4	-7.8	-7.0	-4.6
Wood and pulp	-2.9	-2.1	-1.4	-0.8	-0.8	-0.7
Textile raw materials	-4.0	-3.9	-3.9	-3.8	-2.9	-2.1

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.

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Fung Business Intelligence was established in the year 2000.

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