



China Sourcing Update

November 14, 2019

Major Price Indicators

1. CPI growth soars in October

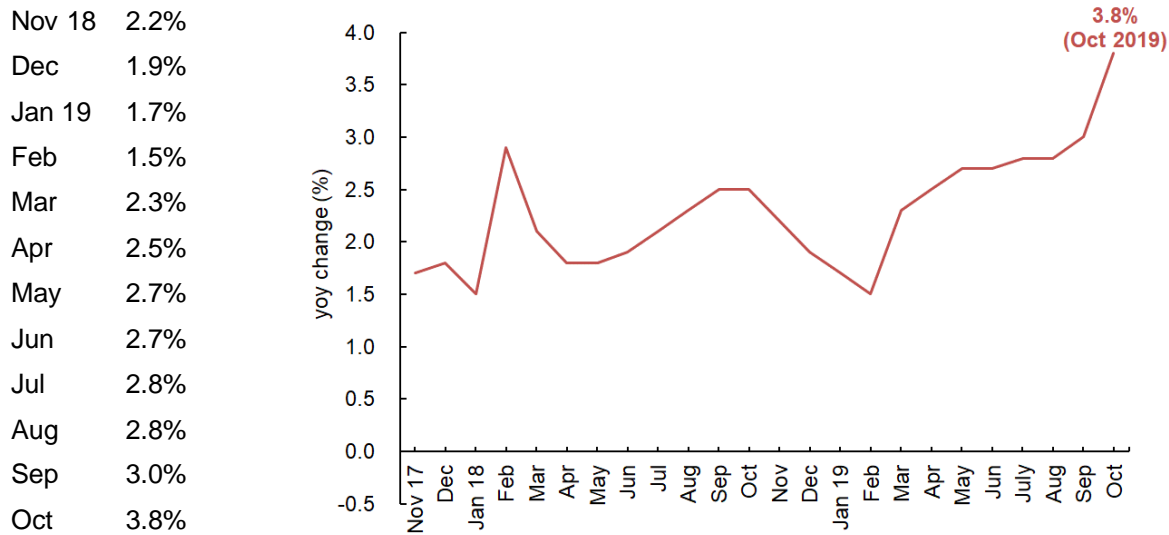
The year-on-year growth rate of China's consumer price index (CPI)¹ went up markedly from 3.0% in September to 3.8% in October, the highest since January 2012 (see exhibits 1 & 2).

The reason for the increase in the CPI growth in October was that a surge in food inflation outweighed a decline in non-food inflation in the month. The year-on-year growth in the food component in the CPI jumped from 11.2% in September to 15.5% in October, due largely to a further rise in pork prices, which went up by 101.3% yoy and 20.1% mom in the month. Meanwhile, the year-on-year growth in the non-food component fell from 1.0% in September to 0.9% in October.

Looking ahead, we expect that China's CPI growth will increase further in the coming months, due mainly to high pork prices.

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.

Exhibit 1: China's CPI growth, November 2017 to October 2019



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, May to October 2019

yoy growth (%)

	May 19	Jun	Jul	Aug	Sep	Oct
Clothing	1.7	1.8	1.8	1.6	1.6	1.2
Household articles and services	1.0	0.8	0.8	0.7	0.6	0.6
Education, culture and recreation	2.6	2.4	2.3	2.1	1.7	1.9

Source: National Bureau of Statistics, PRC

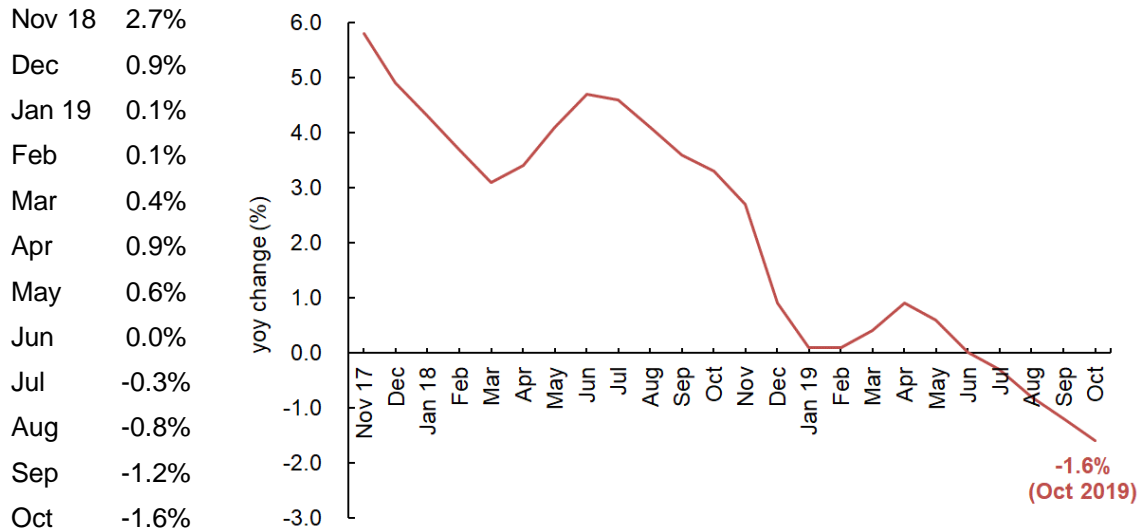
2. Ex-factory prices of industrial products edge up month-on-month in October

The year-on-year growth in China's producer price index of industrial products (PPI) dropped from minus 1.2% in September to minus 1.6% in October, the lowest level since July 2016 (see exhibits 3 & 4).

On a month-on-month basis, the PPI went up by 0.1% in October, posting a rise for two consecutive months. The increase in the PPI in October was mainly attributed to the rise in ex-factory prices in the 'extraction of petroleum and natural gas', 'processing of petroleum, coking, processing of nucleus fuel', 'manufacture of chemical raw material and chemical products' and 'mining and washing of coal' industries in the month.

Looking ahead, we expect that the month-on-month growth in the PPI will turn negative in the near future, as the ex-factory prices sub-index of China's manufacturing PMI came in at 48.0 in October, indicating deflationary pressure on ex-factory prices. Meanwhile, the year-on-year growth in the PPI is likely to bottom out in November and further improve in the following months, due largely to a lower base for comparison in the same period last year.

Exhibit 3: China's PPI growth, November 2017 to October 2019



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, May to October 2019

	yoy growth (%)					
	May 19	Jun	Jul	Aug	Sep	Oct
Textile	0.9	0.1	-0.4	-1.6	-2.4	-3.0
Textile wearing apparel and ornament	1.0	0.9	0.6	0.4	0.3	0.1
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.1	1.2	1.1	0.6	0.5	0.4

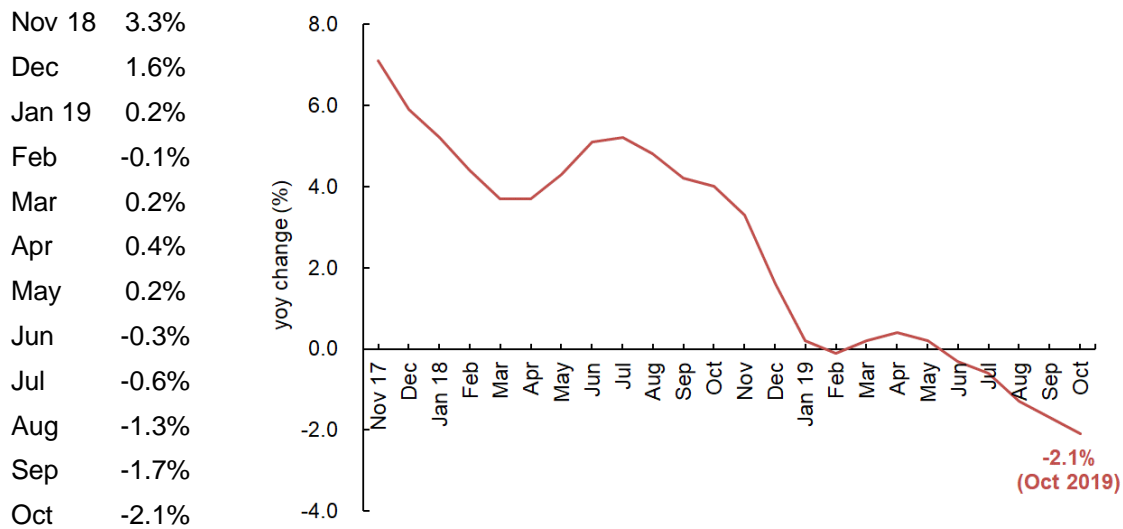
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs rise month-on-month in October

The year-on-year growth rate of the purchaser price index of industrial products went down from minus 1.7% in September to minus 2.1% in October, the lowest level in three years (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index increased by 0.2% in October, posting a rise for two consecutive months.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, came in at 50.4 in October, indicating weak inflationary pressure on input prices. Therefore, we expect that the month-on-month growth in the purchaser price index of industrial products will stay low in the near term. Meanwhile, the year-on-year growth rate of the index is likely to bottom out in November and further improve in the following months, due mainly to a lower comparison base in the same period last year.

Exhibit 5: Growth of China’s purchaser price index of industrial products, November 2017 to October 2019



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products
by selected commodity, May to October 2019**

yoy growth (%)

	May 19	Jun	Jul	Aug	Sep	Oct
Fuel and power	1.4	-0.2	-2.1	-3.2	-4.2	-5.5
Non-ferrous metal materials and wires	-2.5	-3.5	-2.5	-2.3	-1.5	-2.4
Chemical raw materials	-3.5	-4.7	-5.4	-6.8	-7.9	-8.5
Wood and pulp	-2.5	-3.0	-3.7	-4.5	-4.8	-4.4
Textile raw materials	0.7	-0.1	-0.8	-1.6	-2.3	-2.9

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel and power

The purchaser price index of fuel and power fell by 5.5% yoy in October, compared with a 4.2% yoy drop in September (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 2.4% decline in October (see exhibit 6).

(iii) Purchaser price index of chemical raw materials

The purchaser price index of chemical raw materials dropped at a faster pace, by 8.5% yoy, in October, after falling by 7.9% yoy in the previous month (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 improved to minus 4.4% in October from minus 4.8% in September (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 registered minus 2.9% in October, down from minus 2.3% in the previous month (see exhibit 6).

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.

About Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises 42,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Li & Fung Limited (SEHK: 00494), Global Brands Group Holding Limited (SEHK: 00787) and Convenience Retail Asia Limited (SEHK: 00831). Privately-held entities include LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

For more information, please visit www.funggroup.com.

CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

William Kong
Senior Research Manager
williamkong@fung1937.com
(852) 2300 2404

Global Sourcing
Fung Business Intelligence
10/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>



© Copyright 2019 Fung Business Intelligence. All rights reserved.
Though Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of Fung Business Intelligence is prohibited.