



China Sourcing Update

May 5, 2016

Major Price Indicators

1. CPI growth stays high

The year-on-year (yoy) growth rate of China's consumer price index (CPI)¹ stayed high at 2.3% yoy in March, the same as in February (see *exhibit 1 and 2*).

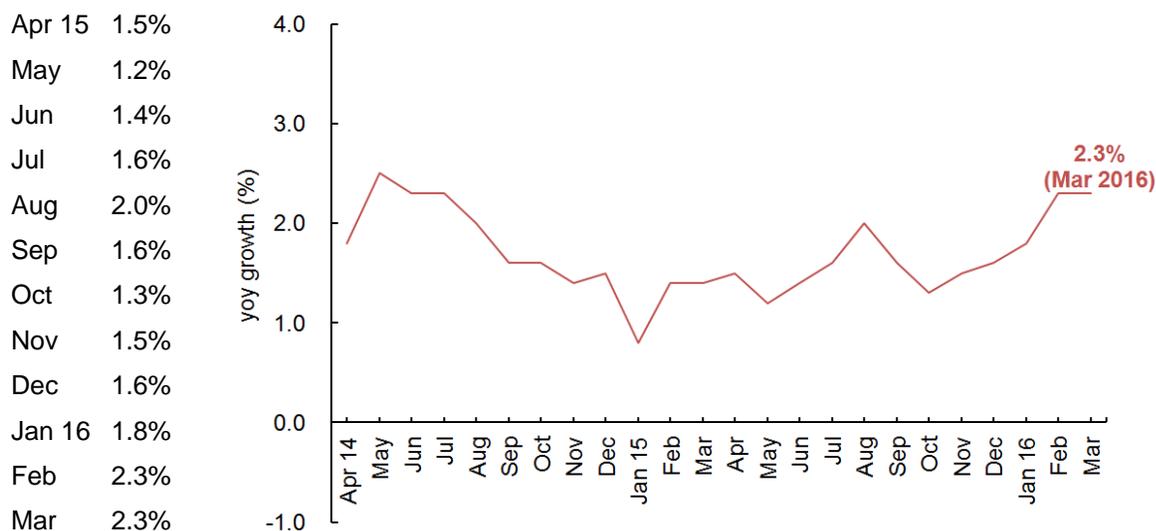
The high CPI growth in the past two months was largely due to the strong growth of the food component in the CPI, which registered 7.3% yoy growth and 7.6% yoy growth in February and March respectively. In contrast, the yoy growth of the non-food component in the CPI stayed low at 1.0% yoy in February and in March.

Looking ahead, we expect that the non-food inflation will stay at around the current level in the near future, unless the domestic demand improves significantly. Meanwhile, according to the National Development and Reform Commission, pork prices, one of the major drivers behind the recent rise in the CPI growth, are likely to stay high in coming months.² Overall, in our view, the CPI growth is likely to fluctuate between 2.0% yoy and 2.5% yoy in 2Q16.

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.

² <http://news.wenweipo.com/2016/04/10/IN1604100045.htm>

Exhibit 1: China's CPI growth, April 2014 to March 2016



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, October 2015 to March 2016³

yoy growth (%)

	Oct 15	Nov	Dec	Jan 16	Feb	Mar
Clothing	2.4	2.2	2.0	1.9	1.6	1.5
Household goods and services				0.6	0.3	0.4
Education, culture and recreational activities				1.7	0.9	1.2

Source: National Bureau of Statistics, PRC

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

The yoy growth of China's producer price index of industrial products (PPI)⁴ went up from minus 4.9% in February to minus 4.3% in March (see exhibits 3 & 4).

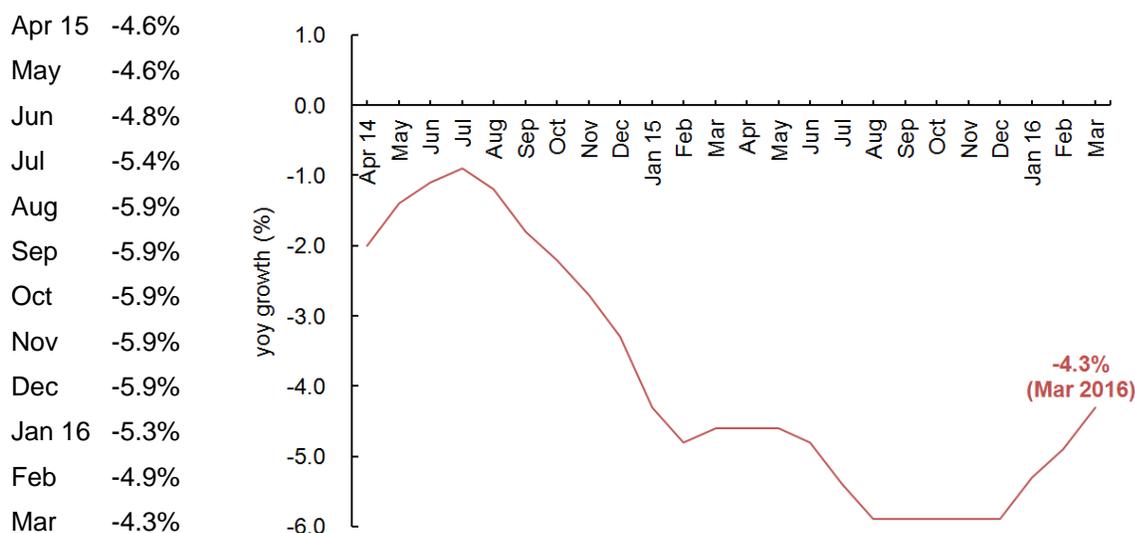
On a month-on-month (mom) basis, the PPI rose by 0.5% in March, posting mom gain for the first time since October 2013. In our view, the latest rebound in the PPI may show signs of bottoming out of prices of industrial products.

³ Starting from January 2016, the old category of "household goods and maintenance services" has been re-categorized into a new category called "household goods and services" and the category of "other goods and services". The old category of "recreational, educational products and services" has been re-categorized into a new category called "education, culture and recreational activities" and the category of "other goods and services".

⁴ The PPI, compiled by the National Bureau of Statistics of China, measures the prices of industrial products when they are sold for the first time after production.

Looking ahead, we expect that the PPI will rise further in the coming months, driven by the rise in prices of production inputs.

Exhibit 3: China's PPI growth, April 2014 to March 2016



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, October 2015 to March 2016

	yoy growth (%)					
	Oct 15	Nov	Dec	Jan 16	Feb	Mar
Textile industry	-2.3	-2.2	-2.2	-2.9	-2.7	-2.5
Apparel and accessories	0.8	0.8	0.6	0.5	0.3	0.3
Timber processing & wood, bamboo, cane, palm fiber and straw products	-0.7	-0.8	-1.0	-0.7	-0.8	-0.8

Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs rebound

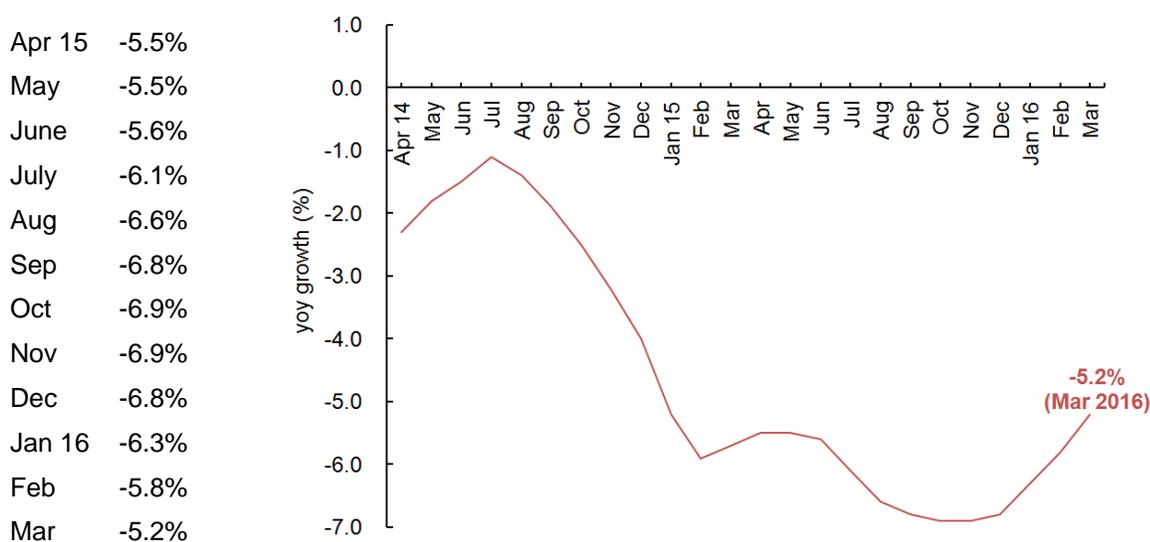
On a mom basis, after having fallen for nine consecutive months, the purchaser price index of industrial products rebounded by 0.3% in March. The rise in the purchaser price index in March can be attributed to the bottoming out of global commodity prices in recent months, in our view.

The yoy growth rate of the purchaser price index of industrial products rose to a 14-month high of minus 5.2% yoy in March from minus 5.8% in February (see exhibits 5 &

6).

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, has stayed above the critical 50-mark for three consecutive months, showing signs that prices of production inputs have been bottoming out. Thus, we believe that the yoy growth rate of the purchaser price index of industrial products will rise further in near future.

Exhibit 5: Growth of China's purchaser price index of industrial products, April 2014 to March 2016



Source: National Bureau of Statistics, PRC

Exhibit 6: China's purchaser price index of industrial products by selected commodity, October 2015 to March 2016

	yoy growth (%)					
	Oct 15	Nov	Dec	Jan 16	Feb	Mar
Fuel & power	-12.4	-11.5	-11.0	-10.7	-10.0	-10.4
Non-ferrous metals	-9.6	-11.3	-12.0	-10.4	-9.1	-7.2
Raw materials for the chemical industry	-7.7	-7.6	-7.6	-5.7	-5.1	-4.3
Timber and paper pulp	-0.5	-0.6	-0.6	-0.5	-0.6	-0.6
Textile raw materials	-2.0	-1.9	-1.9	-1.6	-1.5	-1.5

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel & power

The yoy growth rate of the purchaser price index of fuel and power stayed low at minus 10.4% in March (see exhibit 6).

(ii) Purchaser price index of non-ferrous metals

The purchaser price index of non-ferrous metals fell at a slower pace, by 7.2% yoy, in March, after dropping by 9.1% yoy in February (see exhibit 6).

(iii) Purchaser price index of raw materials for the chemical industry

The yoy growth rate of purchaser price index of raw materials for the chemical industry went up to minus 4.3% in March from minus 5.1% in February (see exhibit 6).

(iv) Purchaser price index of timber and paper pulp

The purchaser price index of timber and paper pulp posted a slight drop, down by 0.6% yoy in March (see exhibit 6).

(v) Purchaser price index of textile raw materials

The yoy growth rate of the purchaser price index of textile raw materials was minus 1.5% in March, the same in February (see exhibit 6).

THE FUNG BUSINESS INTELLIGENCE CENTRE

The Fung Group is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs over 46,800 people across 40 economies worldwide, generating total revenue of more than US\$24.65 billion in 2014. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

The Fung Business Intelligence Centre (FBIC) collects and analyses market data on sourcing, supply chains, distribution and retail. It also provides thought leadership on technology and other key issues shaping their future.

Headquartered in Hong Kong, FBIC leverages unique relationships and information networks to track and report on trends and developments in China and other Asian countries. In addition, its New York-based Global Retail & Technology research team follows broader retail and technology trends, specialising in how they intersect and building collaborative knowledge communities around the revolution occurring worldwide at the retail interface. Since its establishment in 2000, the FBIC (formerly known as the Li & Fung Research Centre) has served as the knowledge bank and think tank for the Fung Group. Through regular research reports and other publications, it makes its market data, impartial analysis and expertise available to businesses, scholars and governments around the world. It also provides advice and consultancy services to colleagues and business partners of the Fung Group on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

CONTACT

Helen Chin
Vice President
Global Sourcing

Fung Business Intelligence Centre
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 2016 The Fung Business Intelligence Centre. All rights reserved. Though the Fung Business Intelligence Centre 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 the Fung Business Intelligence Centre is prohibited.