



# China Sourcing Update

May 12, 2017

## Major Price Indicators

### 1. CPI growth accelerates in April

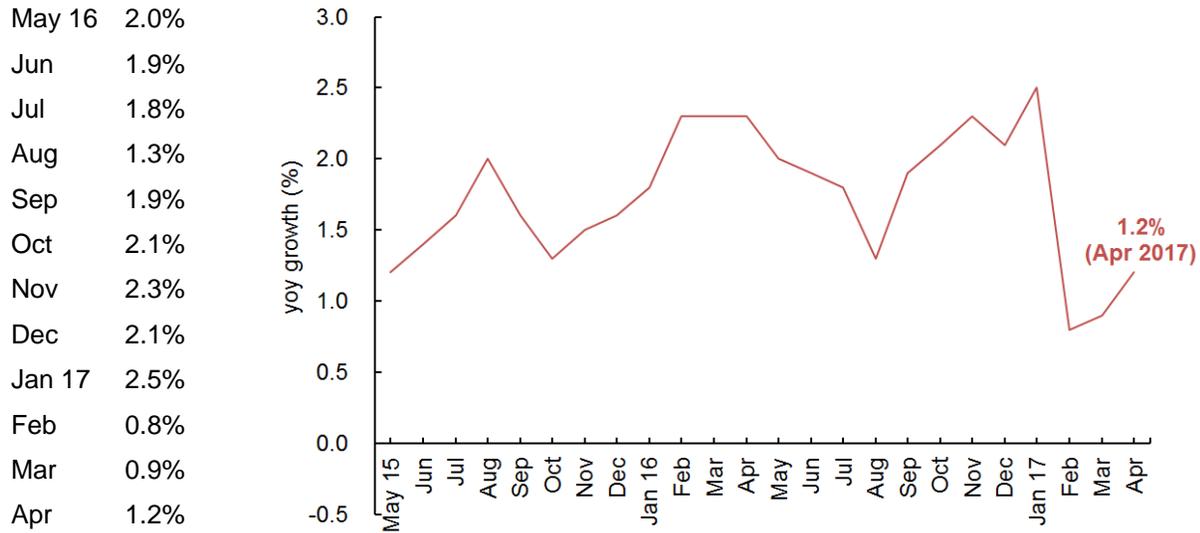
The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> went up to 1.2% in April from 0.9% in March, higher than market expectations (see *exhibits 1 & 2*).

The main reason for the rise in CPI growth in April was a slowdown in the year-on-year decline in the food component in the CPI, which saw its year-on-year growth improve from minus 4.4% in March to minus 3.6% in April largely because of a slower decline in the prices of vegetable. Besides, the year-on-year growth in the non-food component edged up from 2.3% in March to 2.4% in April, driven mainly by price increases in healthcare, tourism, transportation and education services.

Looking ahead, we predict that the food deflation will slow further and eventually disappear in the near term, as the year-on-year growth of vegetable prices is expected to return to the positive territory soon; meanwhile, we expect the non-food inflation to stay around the current level in the near future. Overall, in our view, the CPI growth is likely to rise markedly in the coming months and reach 2% yoy in June.

<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. 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, May 2015 to April 2017**



Source: National Bureau of Statistics, PRC

**Exhibit 2: China's CPI growth by commodity, November 2016 to April 2017<sup>2</sup>**

yoy growth (%)

	Nov 16	Dec	Jan 17	Feb	Mar	Apr
Clothing	1.4	1.1	1.1	1.2	1.3	1.3
Household articles and services	0.3	0.4	0.6	0.5	0.7	0.8
Education, culture and recreation	2.2	2.3	3.3	1.8	2.3	2.6

Source: National Bureau of Statistics, PRC

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

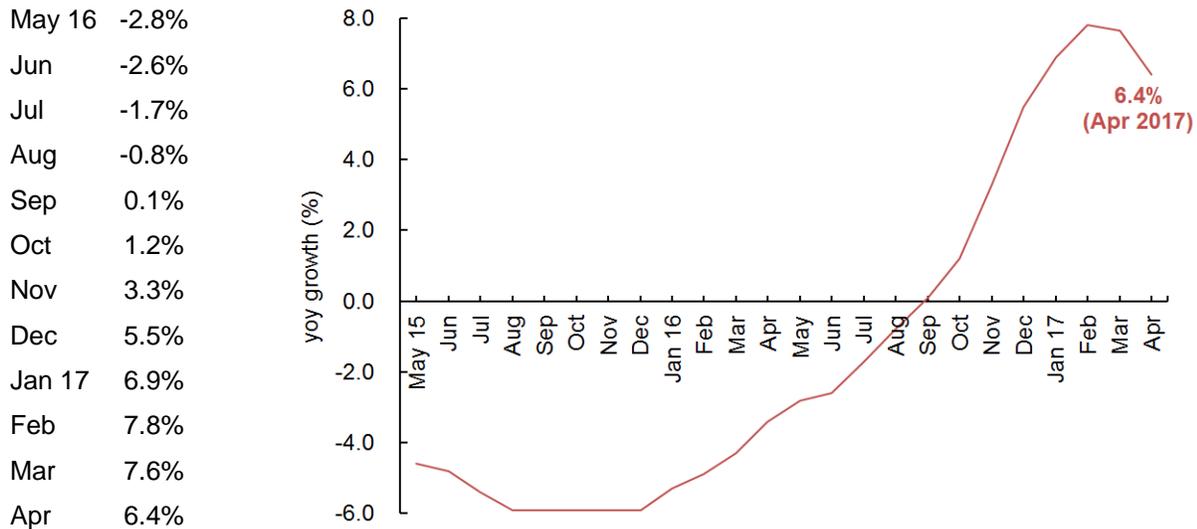
The year-on-year growth in China's producer price index of industrial products (PPI) went down from 7.6% in March to 6.4% in April (see exhibits 3 & 4).

<sup>2</sup> 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'.

On a month-on-month basis, the PPI dropped by 0.4% in April, posting month-on-month fall for the first time since June last year. The drop in the PPI in the month was mainly due to declines in the ex-factory prices in the ferrous metals and petroleum and natural gas industries in the month.

Looking ahead, the year-on-year growth in the PPI is expected to fall further in the coming months, driven by the decline in the domestic prices of production inputs.

**Exhibit 3: China's PPI growth, May 2015 to April 2017**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China's PPI growth by selected industry, November 2016 to April 2017**

	yoy growth (%)					
	Nov 16	Dec	Jan 17	Feb	Mar	Apr
Textile	1.0	1.0	2.6	3.2	3.5	3.8
Textile wearing apparel and ornament	0.5	0.5	0.6	0.9	1.0	1.0
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.1	0.1	0.2	0.1	0.6	0.5

Source: National Bureau of Statistics, PRC

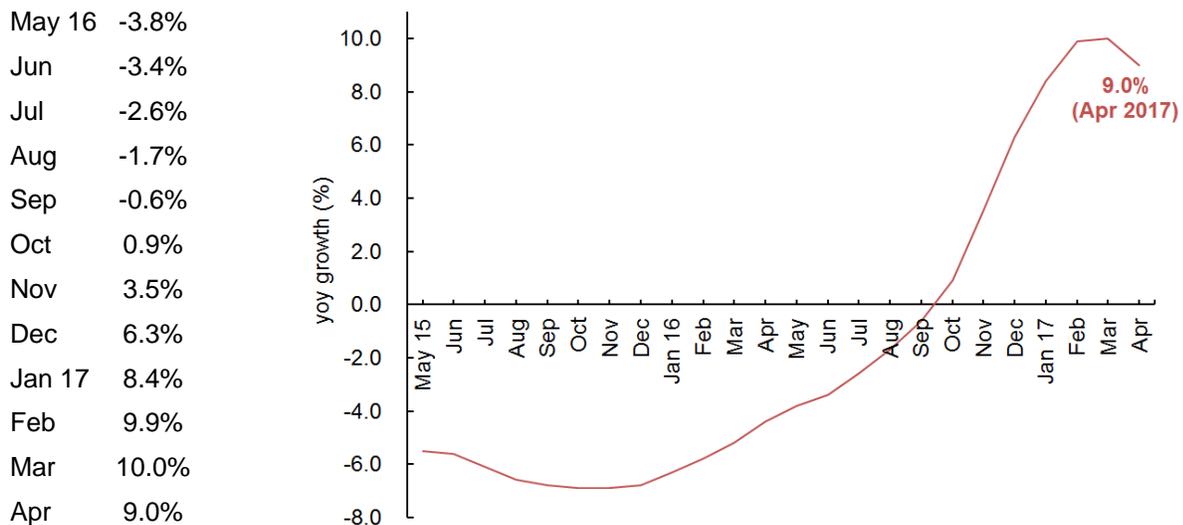
### 3. Domestic prices of production inputs go down on month-on-month basis

The year-on-year growth rate of the purchaser price index of industrial products slowed from a five-year high of 10.0% in March to 9.0% in April (see exhibits 5 & 6).

On a month-on-month basis, the purchaser price index of industrial products fell by 0.3% in April, the first month-on-month decline in more than a year. We believe that the drop indicates that the rebound in the domestic prices of production inputs may have peaked as the strong rally in China's commodities markets has shown signs of correcting.

Going forward, the industrial commodity prices in China are likely to continue to decline in the near future. Thus, the year-on-year growth of the purchaser price index of industrial products is expected to fall further in the coming months.

**Exhibit 5: Growth of China's purchaser price index of industrial products, May 2015 to April 2017**



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products  
by selected commodity, November 2016 to April 2017**

yoy growth (%)

	Nov 16	Dec	Jan 17	Feb	Mar	Apr
Fuel and power	6.0	10.1	14.7	18.7	19.0	17.6
Non-ferrous metal materials and wires	9.5	14.9	15.8	17.1	16.1	15.4
Chemical raw materials	2.0	5.3	8.1	10.3	10.0	8.1
Wood and pulp	0.5	2.1	3.3	4.0	4.5	4.7
Textile raw materials	1.8	2.5	3.3	4.0	4.6	4.7

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 eased to 17.6% in April from 19.0% in March (see exhibit 6).

*(ii) Purchaser price index of non-ferrous metal materials and wires*

The purchaser price index of non-ferrous metal materials and wires increased at a slower pace, by 15.4% yoy, in April, after rising by 16.1% yoy in March (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 went down to 8.1% in April from 10.0% in March (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 registered 4.7% in April, up from 4.5% in March (see exhibit 6).

*(v) Purchaser price index of textile raw materials*

The purchaser price index of textile raw materials gained 4.7% yoy in April, compared with the 4.6% yoy growth in March (see exhibit 6).

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