



China Sourcing Update

May 10, 2019

Major Price Indicators

1. CPI growth accelerates in April

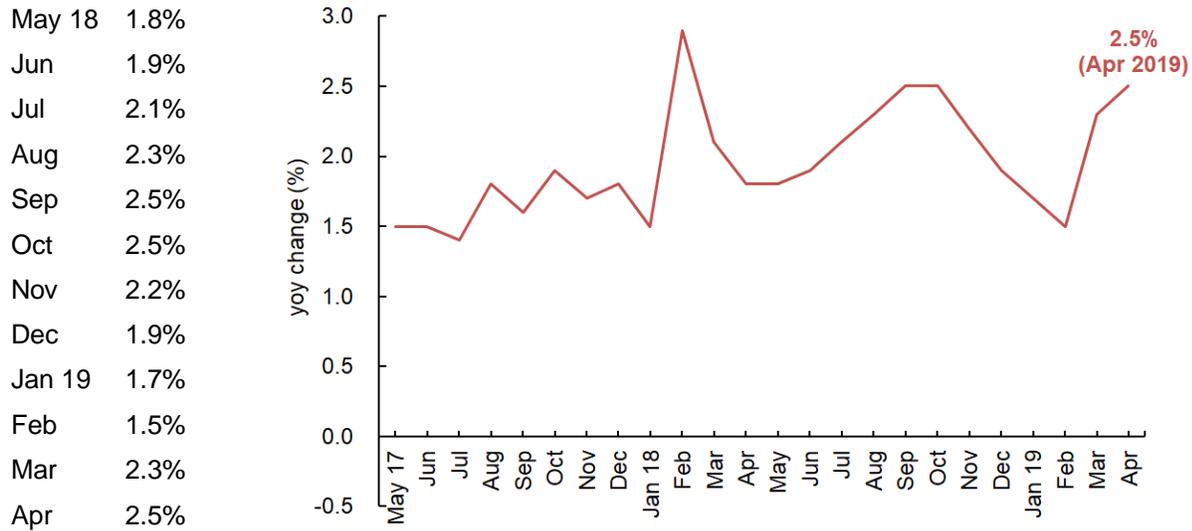
The year-on-year growth rate of China's consumer price index (CPI)¹ went up from 2.3% in March to 2.5% in April, in line with market expectations (see exhibits 1 & 2).

The reason for the rise in the CPI growth in April was that a faster increase in food prices outweighed a slower growth in non-food prices in the month: The year-on-year growth in the food component in the CPI climbed from 4.1% in March to 6.1% in April, due largely to a further rise in pork prices. Meanwhile, the year-on-year growth in the non-food component edged down from 1.8% in March to 1.7% in April.

Looking ahead, we expect that China's CPI growth will continue to go up in the coming couple of months, due mainly to a further increase in 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. 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 2017 to April 2019



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, November 2018 to April 2019²

yoy growth (%)

	Nov 18	Dec	Jan 19	Feb	Mar	Apr
Clothing	1.4	1.5	1.6	2.0	2.0	1.8
Household articles and services	1.5	1.4	1.5	1.3	1.2	1.1
Education, culture and recreation	2.5	2.3	2.9	2.4	2.4	2.5

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products rise at faster pace in April

The year-on-year growth in China's producer price index of industrial products (PPI) quickened from 0.4% in March to 0.9% in April (see exhibits 3 & 4).

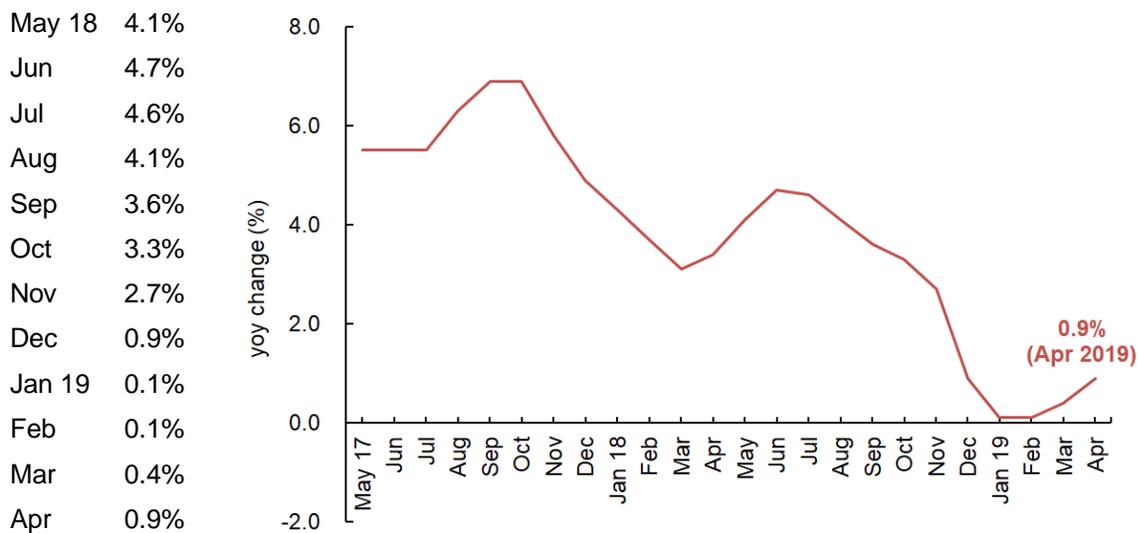
On a month-on-month basis, the PPI went up at a faster pace by 0.3% in April, after rising by 0.1% mom in March. The rise in PPI in the month was due mainly to increases in ex-factory prices in the 'manufacture and processing of ferrous metals', 'processing of

² 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'.

food from agricultural products’ and ‘manufacture of chemical raw material and chemical products’ industries in the month.

Looking ahead, we expect that the PPI will continue to rise on a month-on-month basis in the near future, as the April reading of the ex-factory prices sub-index of China’s manufacturing PMI went up to 52.0, indicating continued inflationary pressures on ex-factory prices. However, the year-on-year growth in the PPI is likely to drop in the coming months and could ultimately return to negative territory in second half of the year, due mainly to a higher base for comparison in the same period last year.

Exhibit 3: China’s PPI growth, May 2017 to April 2019



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, November 2018 to April 2019

	yoy growth (%)					
	Nov 18	Dec	Jan 19	Feb	Mar	Apr
Textile	2.8	1.7	1.6	1.4	1.2	1.1
Textile wearing apparel and ornament	1.6	1.7	1.3	1.2	1.3	1.1
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.6	1.2	1.2	1.5	1.2	1.1

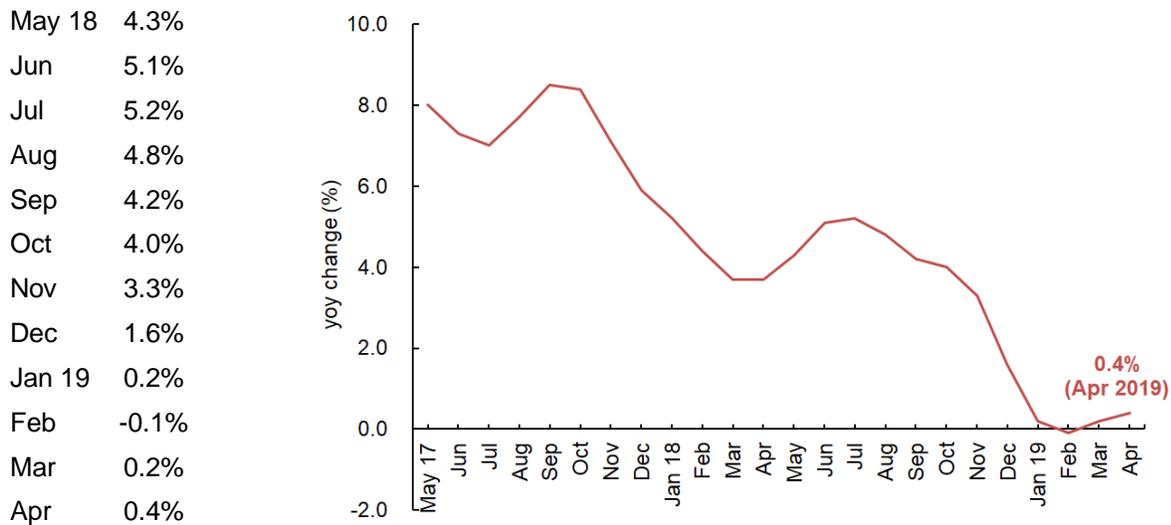
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs edge down month-on-month in April

The year-on-year growth rate of the purchaser price index of industrial products rose from 0.2% in March to 0.4% in April (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index declined by 0.1% in April, after staying flat in the previous month.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, came in at to 53.1 in April, indicating that prices of production inputs have continued to rise. Therefore, we expect that the purchaser price index of industrial products will go up in May on a month-on-month basis. However, the year-on-year growth rate of the index is likely to fall in the coming months and ultimately turn negative in the third quarter, due largely to a higher comparison base in the same period last year.

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



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products
by selected commodity, November 2018 to April 2019**

yoy growth (%)

	Nov 18	Dec	Jan 19	Feb	Mar	Apr
Fuel and power	7.9	3.8	0.3	-0.5	0.7	1.6
Non-ferrous metal materials and wires	-2.1	-2.0	-3.3	-2.9	-1.7	-1.6
Chemical raw materials	3.2	0.3	-1.6	-2.3	-2.4	-2.8
Wood and pulp	1.6	1.4	0.6	0.4	-0.4	-1.3
Textile raw materials	2.3	1.9	1.5	1.5	1.2	1.1

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel and power

The purchaser price index of fuel and power increased at a faster pace, by 1.6% yoy, in April, after rising by 0.7% yoy 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 dropped by 1.6% yoy in April, improving from the minus 1.7% yoy change in the previous month (see exhibit 6).

(iii) Purchaser price index of chemical raw materials

The year-on-year growth of the purchaser price index of chemical raw materials went down to minus 2.8% in April from minus 2.4% in March (see exhibit 6).

(iv) Purchaser price index of wood and pulp

The purchaser price index of wood and pulp fell by 1.3% yoy in April, compared with the 0.4% yoy drop last month (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 eased to 1.1% in April from 1.2% in March. (see exhibit 6).

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