



# China Sourcing Update

September 12, 2016

## Major Price Indicators

### 1. CPI growth slows further in August

The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> fell from 1.8% in July to a 10-month low of 1.3% in August, lower than market expectations (see exhibit 1 and 2).

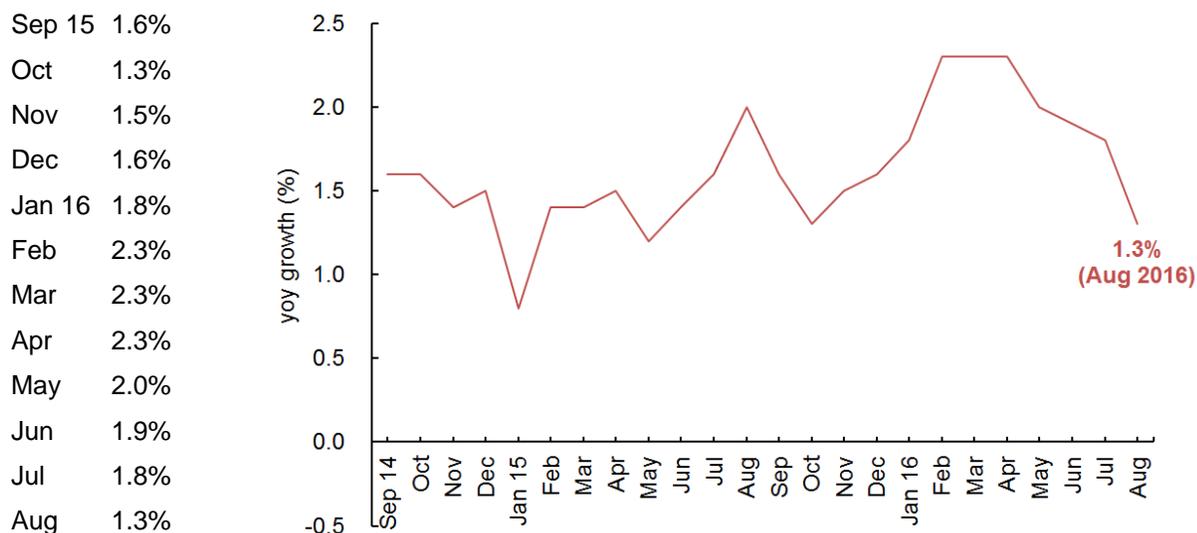
The slowdown in CPI growth in August was largely due to the decline in the year-on-year growth of the food component in the CPI, which came in at 1.3% in August after registering 3.3% in July. For example, the year-on-year growth of pork prices, a major driver of China's inflation, dropped from 16.1% in July to 6.4% in August. Meanwhile, the year-on-year growth of the non-food component in the CPI stayed flat at 1.4% in the month.

Looking ahead, we expect that the non-food inflation will stay around the current level in the near future, unless the domestic demand improves significantly; and we expect the food inflation to rebound in the coming months, due to the recent rise in vegetable prices. Overall, in our view, the CPI growth is likely to pick up slightly in the coming months.

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<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, September 2014 to August 2016



Source: National Bureau of Statistics, PRC

### Exhibit 2: China's CPI growth by commodity, March to August 2016<sup>2</sup>

	yoy growth (%)					
	Mar 16	Apr	May	Jun	Jul	Aug
Clothing	1.5	1.5	1.5	1.4	1.4	1.5
Household articles and services	0.4	0.5	0.6	0.6	0.6	0.4
Education, culture and recreation	1.2	1.2	1.2	1.4	1.6	1.3

Source: National Bureau of Statistics, PRC

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

The year-on-year growth of China's producer price index of industrial products (PPI)<sup>3</sup> improved from minus 1.7% in July to minus 0.8% in August, the slowest decline in more than four years (see exhibits 3 & 4).

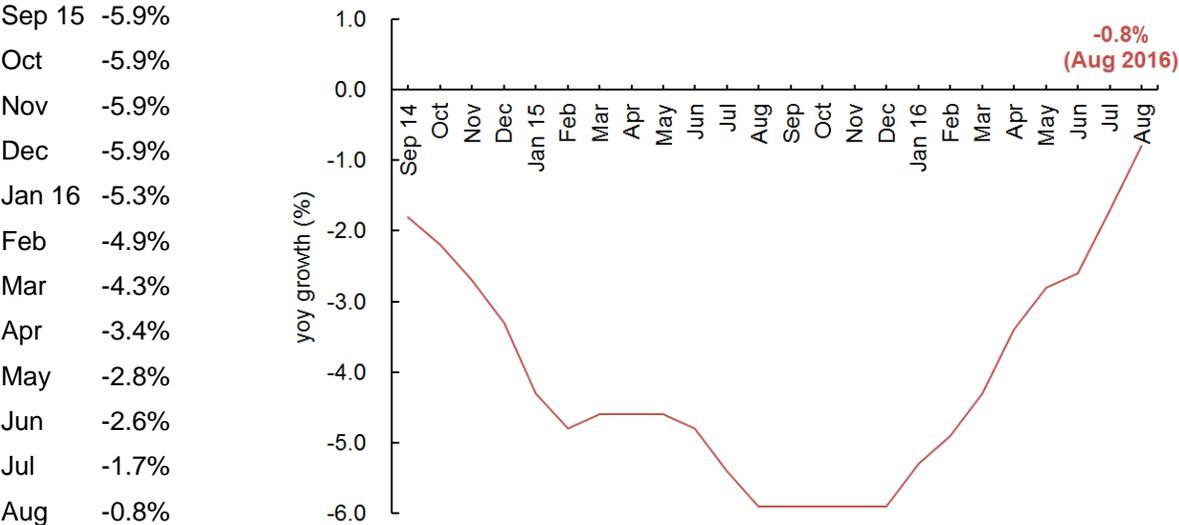
<sup>2</sup> Starting from January 2016, the old category of 'household facilities, articles and maintenance services' has been re-categorized into a new category called 'household articles and services' and the category of 'other articles and services'. The old category of 'recreation, education, culture articles and services' has been re-categorized into a new category called 'education, culture and recreation' and the category of 'other articles and services'.

<sup>3</sup> 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.

On a month-on-month basis, the PPI rose by 0.2% in August, the same as in July. The rise in the PPI in August was mainly due to the increases in the ex-factory prices of the 'manufacture and processing of ferrous metals' and 'mining and washing of coal' industries in the month.

Going forward, driven by the rise in prices of production inputs, the year-on-year growth of the PPI is expected to further improve in the coming months, and to return to the positive territory in the fourth quarter of 2016.

**Exhibit 3: China's PPI growth, September 2014 to August 2016**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China's PPI growth by selected industry, March to August 2016**

	yoy growth (%)					
	Mar 16	Apr	May	Jun	Jul	Aug
Textile	-2.5	-2.5	-2.6	-2.3	-1.4	-0.8
Textile wearing apparel and ornament	0.3	0.5	0.5	0.6	0.7	0.4
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	-0.8	-0.8	-0.5	-0.3	0.4	-0.2

Source: National Bureau of Statistics, PRC

### 3. Domestic prices of production inputs rise further

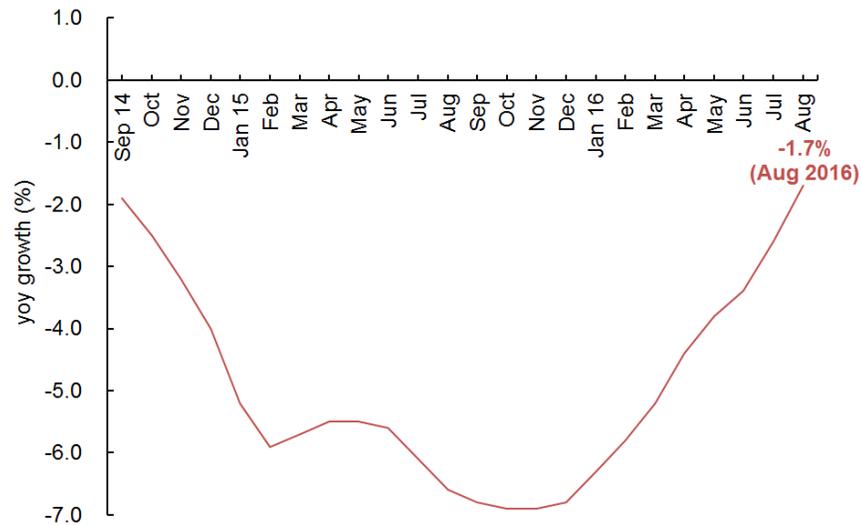
On a month-on-month basis, the purchaser price index of industrial products went up by 0.2% in August, posting month-on-month gain for six consecutive months. The rise in the purchaser price index in recent months can be attributed to the bottoming out of global commodity prices, in our view.

The year-on-year growth rate of the purchaser price index of industrial products rose to a two-year high of minus 1.7% in August from minus 2.6% in July (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 seven straight months from February through August, indicating that prices of production inputs have been bottoming out. Thus, we believe that the year-on-year growth rate of the purchaser price index of industrial products will improve further in the near future.

**Exhibit 5: Growth of China's purchaser price index of industrial products, September 2014 to August 2016**

Sep 15	-6.8%
Oct	-6.9%
Nov	-6.9%
Dec	-6.8%
Jan 16	-6.3%
Feb	-5.8%
Mar	-5.2%
Apr	-4.4%
May	-3.8%
Jun	-3.4%
Jul	-2.6%
Aug	-1.7%



Source: National Bureau of Statistics, PRC

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

*yoy growth (%)*

	<b>Mar 16</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>
Fuel and power	-10.4	-9.4	-8.3	-7.2	-6.2	-5.0
Non-ferrous metal materials and wires	-7.2	-6.9	-7.0	-5.7	-2.5	-0.3
Chemical raw materials	-4.3	-3.9	-4.1	-4.2	-3.6	-2.5
Wood and pulp	-0.6	-0.8	-0.7	-0.8	-0.8	-0.6
Textile raw materials	-1.5	-1.4	-1.3	-1.2	-0.4	0.1

*Source: National Bureau of Statistics, PRC*

*(i) Purchaser price index of fuel & power*

The purchaser price index of fuel and power fell at a slower pace, by 5.0% yoy, in August, after dropping by 6.2% yoy in July (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 0.3% yoy in August, improving markedly from the minus 2.5% yoy growth in July (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 up to minus 2.5% in August from minus 3.6% in July (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 minus 0.6% in August, edging up from minus 0.8% in July (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 returned to the positive territory with a 0.1% growth in August (see exhibit 6).

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