



China Sourcing Update

September 12, 2017

Major Price Indicators

1. CPI growth rises in August

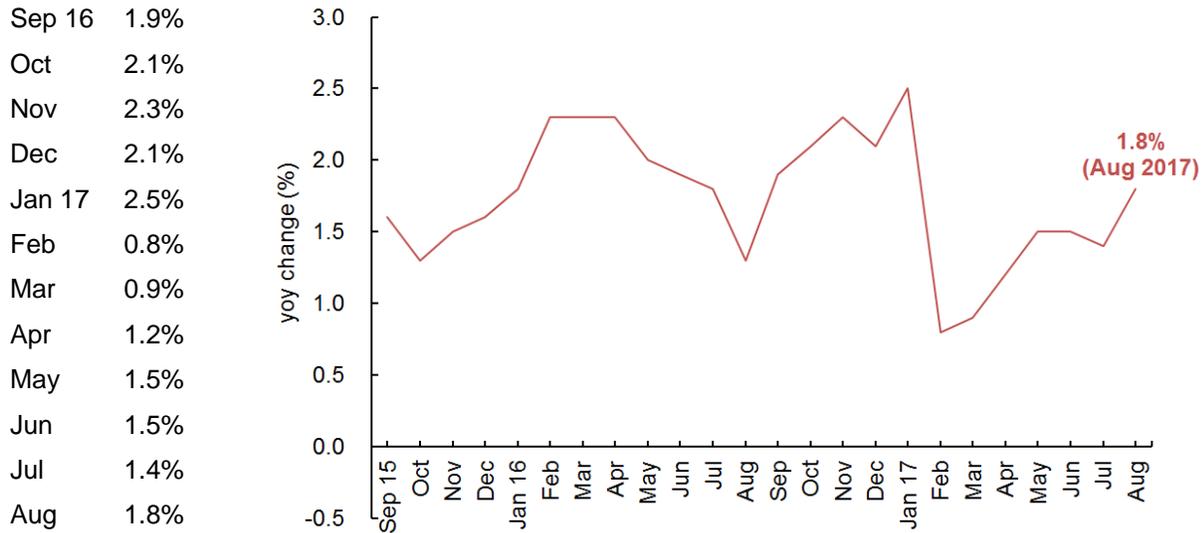
The year-on-year growth rate of China's consumer price index (CPI)¹ went up from 1.4% in July to 1.8% in August, above market expectations (see exhibits 1 & 2).

The acceleration in the CPI growth in August was mainly caused by a lower base for comparison in August last year. The year-on-year growth in the food component in the CPI improved from minus 1.1% in July to minus 0.2% in August, and the year-on-year growth in the non-food component picked up from 2.0% in July to 2.3% in August.

Looking ahead, we expect the CPI growth to fall in September and stay low in the fourth quarter, due to a higher comparison base in September and the fourth quarter last year, as well as continued deflation in food 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, September 2015 to August 2017



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, March to August 2017²

yoy growth (%)

	Mar 17	Apr	May	Jun	Jul	Aug
Clothing	1.3	1.3	1.3	1.4	1.4	1.3
Household articles and services	0.7	0.8	1.0	1.1	1.1	1.3
Education, culture and recreation	2.3	2.6	2.6	2.5	2.5	2.5

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products go up

The year-on-year growth in China's producer price index of industrial products (PPI) climbed from 5.5% in July to 6.3% in August (see exhibits 3 & 4).

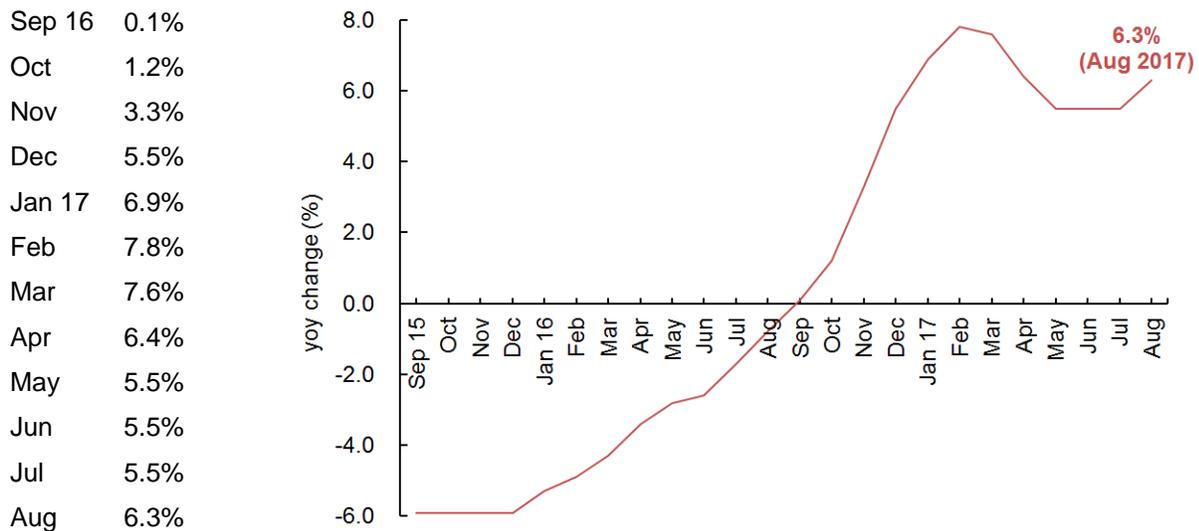
On a month-on-month basis, the PPI rose by 0.9% in August, a larger increase than the 0.2% growth seen in the previous month. The rise in the PPI in the month indicates that

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'.

the ex-factory prices of industrial products began to increase again after a few months of correction and consolidation.

Looking ahead, the PPI is likely to go up further on a month-on-month basis in the near future, as the latest reading of the input prices sub-index of China’s manufacturing PMI indicates a recent hike in the domestic prices of production inputs. Meanwhile, the year-on-year growth in the PPI is expected to stay around the current level in the coming couple of months.

Exhibit 3: China’s PPI growth, September 2015 to August 2017



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, March to August 2017

	yoy growth (%)					
	Mar 17	Apr	May	Jun	Jul	Aug
Textile	3.5	3.8	3.8	3.8	3.2	2.9
Textile wearing apparel and ornament	1.0	1.0	1.0	0.9	0.8	1.0
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.6	0.5	0.5	0.4	-0.3	0.3

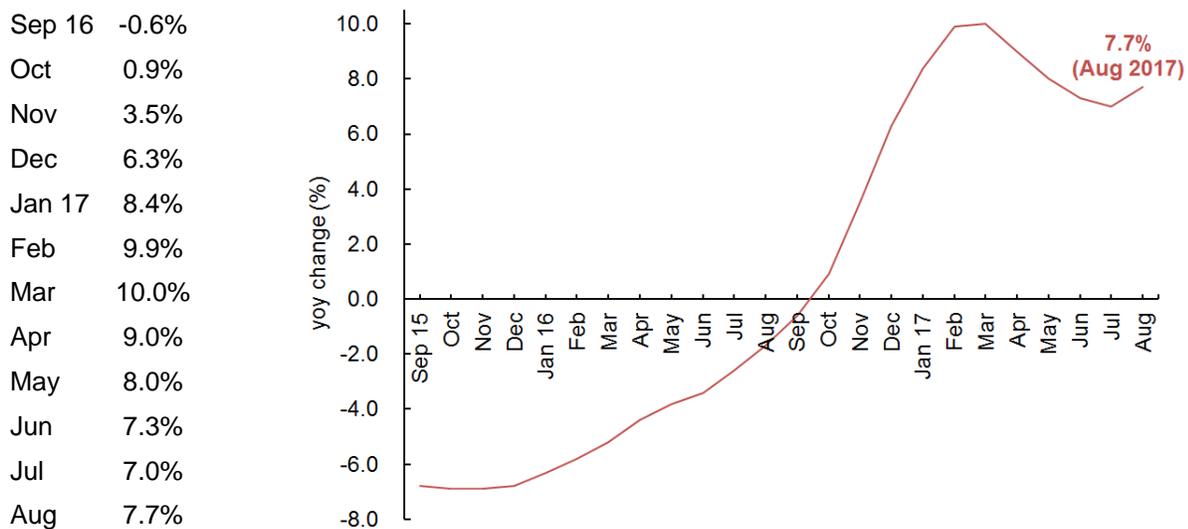
Source: National Bureau of Statistics, PRC

3. Purchaser price index of industrial products rises

The year-on-year growth rate of the purchaser price index of industrial products went up from 7.0% in July to 7.7% in August (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index of industrial products increased by 0.8% in August after staying flat in the previous month.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, registered 65.3 in August. The index reading is much higher than that of last month (57.9) and is well above the neutral level of 50, indicating that domestic prices of production inputs have been rising strongly. Therefore, we believe that the purchaser price index of industrial products is likely to go up further on a month-on-month basis in the near term. Meanwhile, the year-on-year growth rate of the purchaser price index is expected to stay around the current level in the coming couple of months.

Exhibit 5: Growth of China’s purchaser price index of industrial products, September 2015 to August 2017



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products
by selected commodity, March to August 2017**

yoy growth (%)

	Mar 17	Apr	May	Jun	Jul	Aug
Fuel and power	19.0	17.6	15.8	12.5	10.7	11.8
Non-ferrous metal materials and wires	16.1	15.4	13.9	14.1	13.2	15.3
Chemical raw materials	10.0	8.1	7.1	7.0	7.1	7.7
Wood and pulp	4.5	4.7	4.9	5.3	5.8	6.5
Textile raw materials	4.6	4.7	4.9	4.8	4.2	4.0

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel and power

The purchaser price index of fuel and power gained 11.8% yoy in August, compared with the 10.7% yoy growth in July (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 registered 15.3% in August, up from 13.2% in July (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 up to 7.7% in August from 7.1% in July (see exhibit 6).

(iv) Purchaser price index of wood and pulp

The purchaser price index of wood and pulp increased at a faster pace, by 6.5% yoy, in August, after rising by 5.8% yoy 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 eased to 4.0% in August from 4.2% in July (see exhibit 6).

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