



China Sourcing Update

January 11, 2019

Major Price Indicators

1. CPI growth decelerates in December

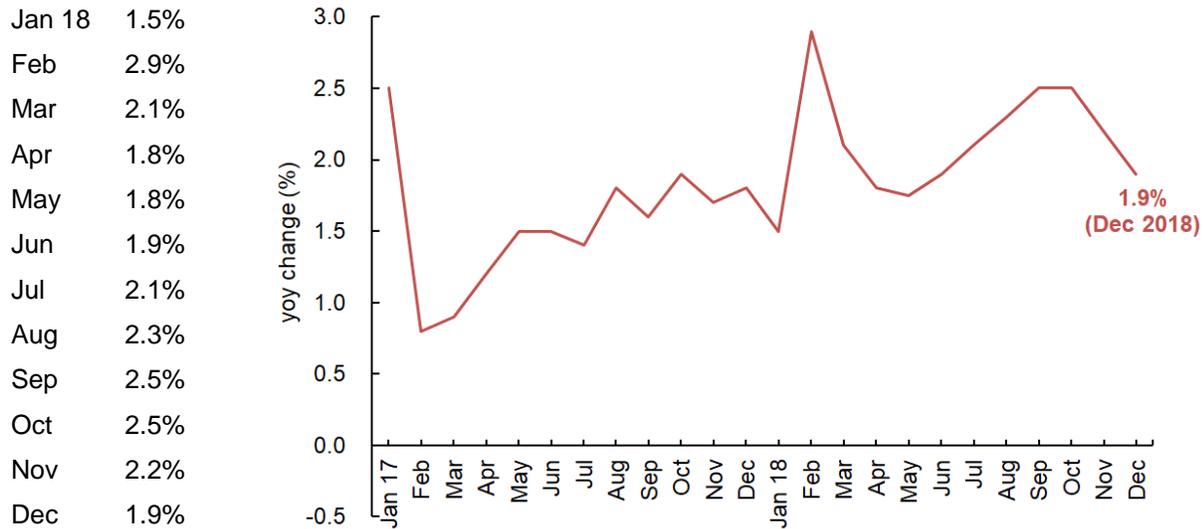
The year-on-year growth rate of China's consumer price index (CPI)¹ decelerated to 1.9% in December from 2.2% in November (see exhibits 1 & 2).

The fall in the CPI growth in December was the result of a drop in non-food inflation in the month. Due partly to the recent fall in prices of gasoline and diesel, the year-on-year growth in the non-food component went down from 2.1% in November to 1.7% in December. Meanwhile, the year-on-year growth in the food component in the CPI was 2.5% yoy in December, the same as in November.

Looking ahead, we expect that China's CPI growth will fall further in the near term, as the domestic demand is likely to continue to moderate due to weakening confidence among consumers and enterprises amid the China-US trade war.

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, January 2017 to December 2018



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, July to December 2018²

yoy growth (%)

	Jul 18	Aug	Sep	Oct	Nov	Dec
Clothing	1.2	1.3	1.2	1.4	1.4	1.5
Household articles and services	1.6	1.6	1.6	1.5	1.5	1.4
Education, culture and recreation	2.3	2.6	2.2	2.5	2.5	2.3

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products fall in December

The year-on-year growth in China's producer price index of industrial products (PPI) fell from 2.7% in November to 0.9% in December (see exhibits 3 & 4).

On a month-on-month basis, the PPI dropped by 1.0% in December, posting a fall for two consecutive months. The decrease in the PPI in the month was caused mainly by lower ex-factory prices in the 'extraction of petroleum and natural gas', 'processing of petroleum, coking, processing of nucleus fuel', 'manufacture of chemical raw material and chemical products' and 'manufacture and processing of ferrous metals' industries.

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'.

Looking forward, we expect that China’s ex-factory prices of industrial products will drop further and thus the year-on-year growth in the PPI will continue to decelerate in the near future, due largely to the weakening demand and the fall in upstream prices. Moreover, the government has recently relaxed its controls on production activities of key polluting industries. This would in turn lead to an increase in output and thus lower prices of products in these industries.

Exhibit 3: China’s PPI growth, January 2017 to December 2018



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, July to December 2018

	<i>yoy growth (%)</i>					
	Jul 18	Aug	Sep	Oct	Nov	Dec
Textile	2.3	3.0	3.1	3.1	2.8	1.7
Textile wearing apparel and ornament	1.1	1.3	1.4	1.4	1.6	1.7
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	2.0	2.2	2.2	1.9	1.6	1.2

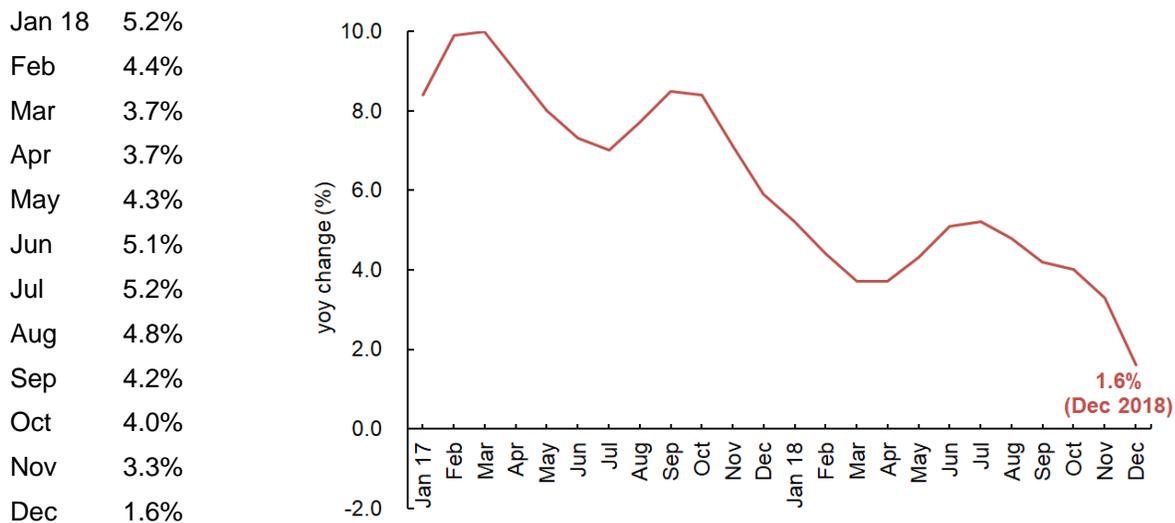
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs go down in December

The year-on-year growth rate of the purchaser price index of industrial products fell from 3.3% in November to 1.6% in December (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index dropped by 0.9% in December, registering its first fall in eight months.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, dropped markedly from 50.3 in November to 44.8 in December. As the index fell below the critical 50-mark in December, we expect the purchaser price index of industrial products to drop further in the near future.

Exhibit 5: Growth of China's purchaser price index of industrial products, January 2017 to December 2018



Source: National Bureau of Statistics, PRC

Exhibit 6: China's purchaser price index of industrial products by selected commodity, July to December 2018

	yoy growth (%)					
	Jul 18	Aug	Sep	Oct	Nov	Dec
Fuel and power	9.9	9.7	9.2	9.4	7.9	3.8
Non-ferrous metal materials and wires	5.6	2.5	-0.4	-1.7	-2.1	-2.0
Chemical raw materials	5.7	6.1	5.8	5.3	3.2	0.3
Wood and pulp	7.1	6.6	4.5	2.6	1.6	1.4
Textile raw materials	2.4	2.6	2.9	2.7	2.3	1.9

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 registered 3.8% in December, down from 7.9% in November (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 stayed in negative territory, posting a 2.0% decline in December (see exhibit 6).

(iii) Purchaser price index of chemical raw materials

The purchaser price index of chemical raw materials increased at a slower pace, by 0.3% yoy, in December, after rising by 3.2% yoy in the previous month (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 fell slightly to 1.4% in December from 1.6% in November (see exhibit 6).

(v) Purchaser price index of textile raw materials

The purchaser price index of textile raw materials gained 1.9% yoy in December, compared with the 2.3% yoy growth in November (see exhibit 6).

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CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

Timothy Cheung
Senior Research Manager
timothycheung@fung1937.com
(852) 2300 2477

Global Sourcing
Fung Business Intelligence
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>



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