



# China Sourcing Update

January 14, 2020

## Major Price Indicators

### 1. CPI growth stays high in December

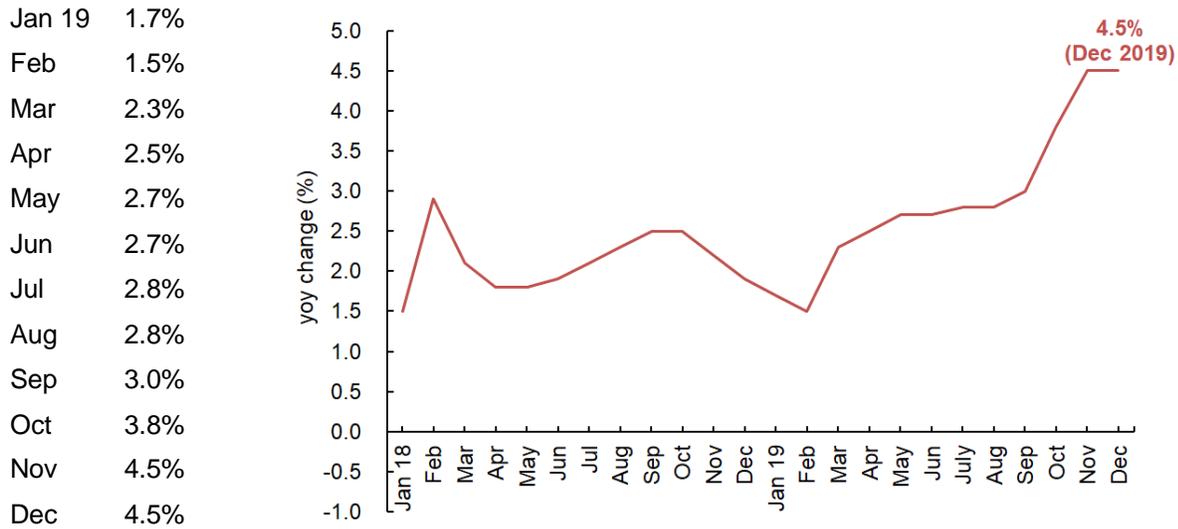
The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> came in at 4.5% in December, the same as in November (*see exhibits 1 & 2*).

The reason for the stabilization of the CPI growth in December was that a rise in non-food inflation was offset by a drop in food inflation in the month. The year-on-year growth in the non-food component in the CPI climbed from 1.0% in November to 1.3% in December, attributed mainly to an increase in energy and related prices. Meanwhile, the year-on-year growth in the food component declined from 19.1% in November to 17.4% in December, due largely to a retreat in pork prices.

Looking ahead, we expect that China's CPI growth will go up again in January, thanks to stronger demand for food and travel before and during the Chinese New Year holidays, and a lower comparison base in January last year, when the Chinese New Year fell on early February.

<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.

**Exhibit 1: China's CPI growth, January 2018 to December 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 2: China's CPI growth by commodity, July to December 2019**

	yoy growth (%)					
	Jul 19	Aug	Sep	Oct	Nov	Dec
Clothing	1.8	1.6	1.6	1.2	1.1	0.8
Household articles and services	0.8	0.7	0.6	0.6	0.4	0.4
Education, culture and recreation	2.3	2.1	1.7	1.9	1.7	1.8

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products stay flat month-on-month in December

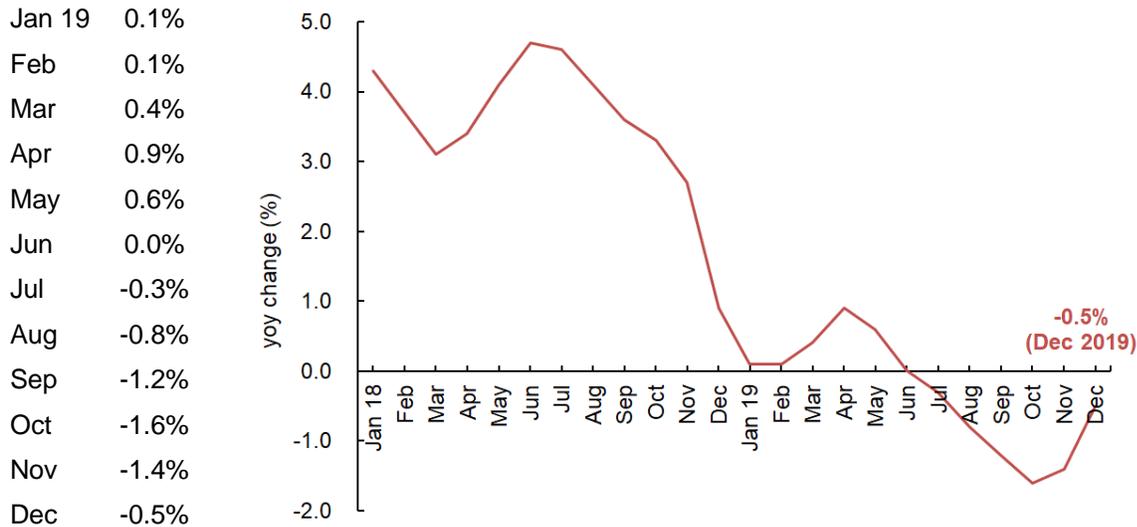
The year-on-year growth in China's producer price index of industrial products (PPI) improved markedly from minus 1.4% in November to minus 0.5% in December (see exhibits 3 & 4).

On a month-on-month basis, the PPI stayed flat in December over the previous month, after dropping by 0.1% in November.

Looking ahead, we expect that the month-on-month growth in the PPI will remain low or even turn negative in the near future, as the ex-factory prices sub-index of China's manufacturing PMI came in at 49.2 in December, indicating deflationary pressure on ex-

factory prices. Meanwhile, the year-on-year growth in the PPI is likely to go up further and return to positive territory in the first quarter, given a lower comparison base in the same period last year.

**Exhibit 3: China's PPI growth, January 2018 to December 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China's PPI growth by selected industry, July to December 2019**

*yoy growth (%)*

	Jul 19	Aug	Sep	Oct	Nov	Dec
Textile	-0.4	-1.6	-2.4	-3.0	-3.0	-2.9
Textile wearing apparel and ornament	0.6	0.4	0.3	0.1	-0.3	-0.7
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.1	0.6	0.5	0.4	0.4	0.5

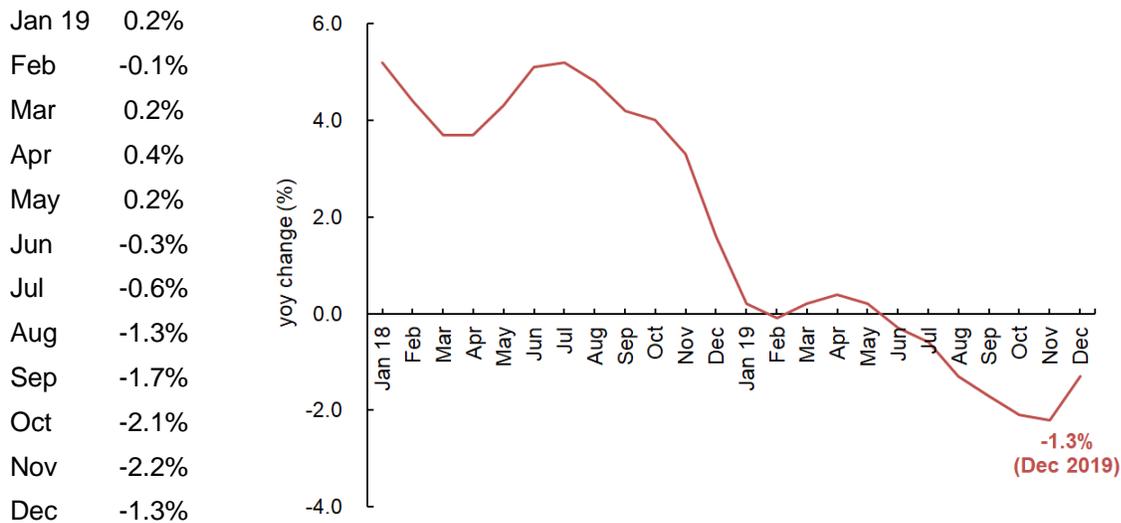
Source: National Bureau of Statistics, PRC

### 3. Domestic prices of production inputs stay flat month-on-month in December

The year-on-year growth rate of the purchaser price index of industrial products improved from minus 2.2% in November to minus 1.3% in December (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index stayed flat in December over the previous month, after falling by 0.1% in November.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, came in at 51.8 in December, indicating slight inflationary pressure on input prices. Therefore, we expect that the month-on-month growth in the purchaser price index of industrial products will go up slightly in the near term. Meanwhile, the year-on-year growth rate of the index is likely to improve sharply in the coming months, due mainly to a lower comparison base in the same period last year.

**Exhibit 5: Growth of China’s purchaser price index of industrial products, January 2018 to December 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 6: China’s purchaser price index of industrial products by selected commodity, July to December 2019**

	yoy growth (%)					
	Jul 19	Aug	Sep	Oct	Nov	Dec
Fuel and power	-2.1	-3.2	-4.2	-5.5	-5.8	-3.3
Non-ferrous metal materials and wires	-2.5	-2.3	-1.5	-2.4	-2.3	-1.9
Chemical raw materials	-5.4	-6.8	-7.9	-8.5	-8.4	-7.4
Wood and pulp	-3.7	-4.5	-4.8	-4.4	-3.7	-3.1
Textile raw materials	-0.8	-1.6	-2.3	-2.9	-2.9	-2.9

Source: National Bureau of Statistics, PRC

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

The purchaser price index of fuel and power dropped at a slower pace, by 3.3% yoy, in December, after falling by 5.8% yoy 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 improved to minus 1.9% in December from minus 2.3% in the previous month (see exhibit 6).

*(iii) Purchaser price index of chemical raw materials*

The purchaser price index of chemical raw materials fell by 7.4% yoy in December, compared with an 8.4% yoy drop last 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 stayed in negative territory, posting a 3.1% decline in December (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 came in at minus 2.9% yoy in December, the same as in November (see exhibit 6).

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