



# China Sourcing Update

March 14, 2019

## Major Price Indicators

### 1. CPI growth decelerates in February

The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> decelerated to 1.5% in February from 1.7% in January (see exhibits 1 & 2).

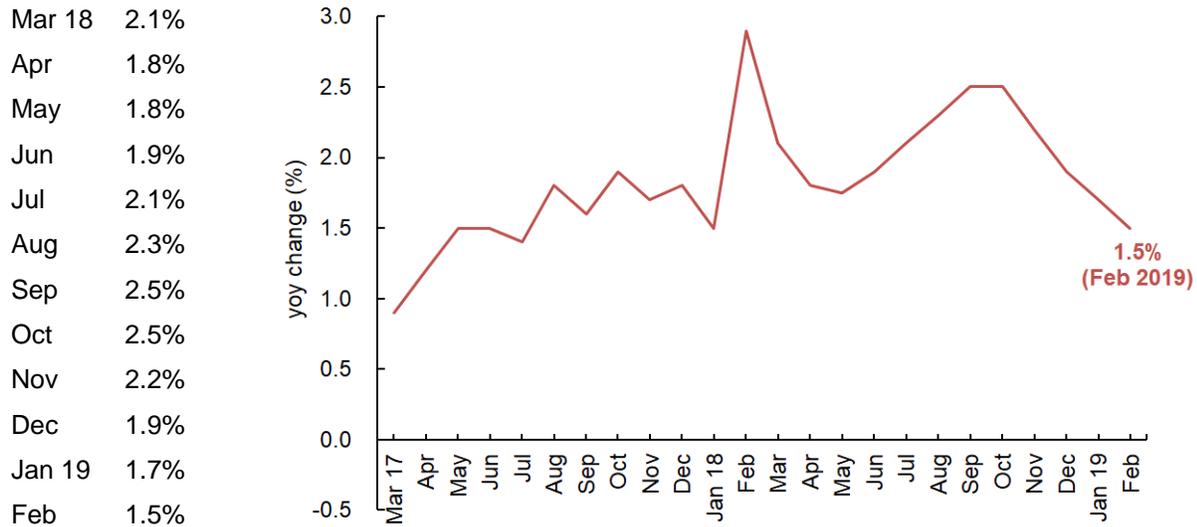
The fall in the CPI growth in February was the result of a drop in food inflation in the month. The year-on-year growth in the food component in the CPI fell to 0.7% yoy in February from 1.9% yoy in January. Meanwhile, the year-on-year growth in the non-food component was 1.7% in February, the same as in January.

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 sluggish confidence among consumers and enterprises amid the China-US trade war.

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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, March 2017 to February 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 2: China's CPI growth by commodity, September 2018 to February 2019<sup>2</sup>**  
yoy growth (%)

	Sep 18	Oct	Nov	Dec	Jan 19	Feb
Clothing	1.2	1.4	1.4	1.5	1.6	2.0
Household articles and services	1.6	1.5	1.5	1.4	1.5	1.3
Education, culture and recreation	2.2	2.5	2.5	2.3	2.9	2.4

Source: National Bureau of Statistics, PRC

**2. Ex-factory prices of industrial products fall at slower pace in February**

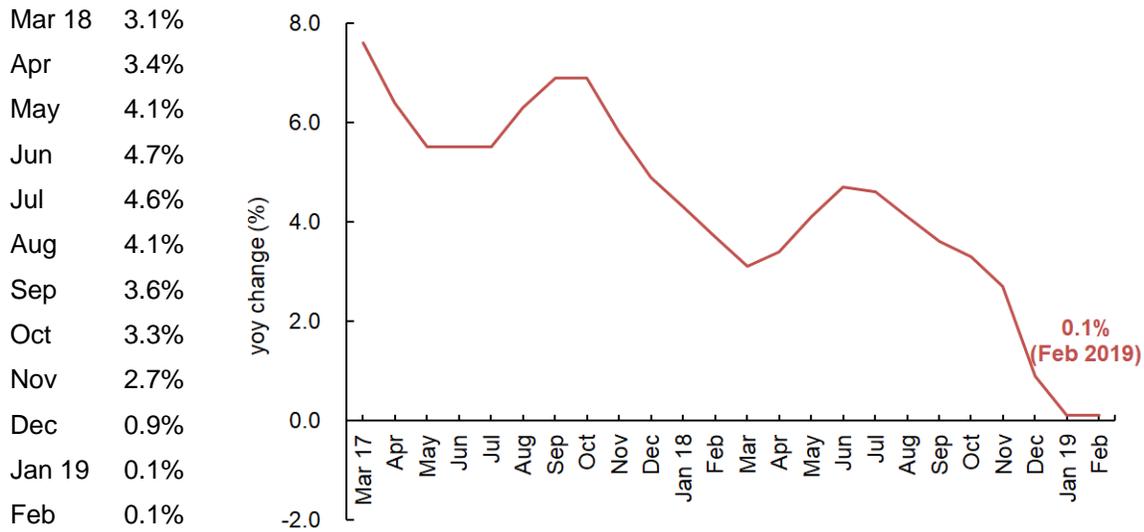
The year-on-year growth in China's producer price index of industrial products (PPI) came in at 0.1% in February, the same as in January (see exhibits 3 & 4).

On a month-on-month basis, the PPI dropped at a slower pace by 0.1% in February, after falling by 0.6% mom in January. Prices in several major industries such as 'extraction of petroleum and natural gas', 'processing of petroleum, coking, processing of nucleus fuel', 'manufacture and processing of ferrous metals' and 'manufacture and processing of non-ferrous metals', etc. rebounded in February.

<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'.

Looking forward, we expect that China’s ex-factory prices of industrial products will stay low in the near future, due mainly to the sluggish demand.

**Exhibit 3: China’s PPI growth, March 2017 to February 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China’s PPI growth by selected industry, September 2018 to February 2019**

	yoy growth (%)					
	Sep 18	Oct	Nov	Dec	Jan 19	Feb
Textile	3.1	3.1	2.8	1.7	1.6	1.4
Textile wearing apparel and ornament	1.4	1.4	1.6	1.7	1.3	1.2
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	2.2	1.9	1.6	1.2	1.2	1.5

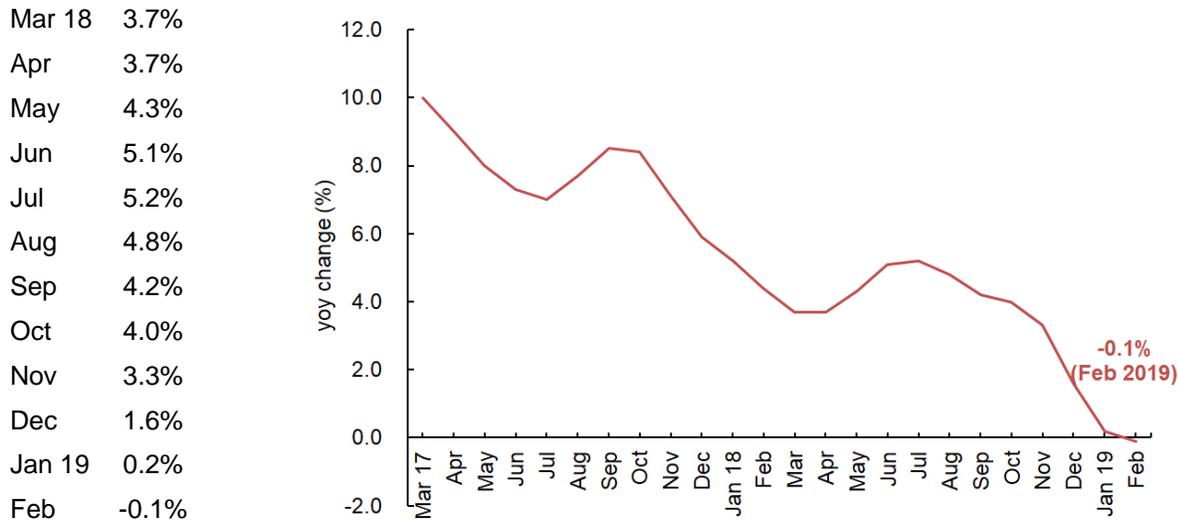
Source: National Bureau of Statistics, PRC

### 3. Domestic prices of production inputs go down in February

The year-on-year growth rate of the purchaser price index of industrial products fell from 0.2% in January to minus 0.1% in February (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index dropped slightly by 0.1% in February, falling for three consecutive months. The latest figure indicates a continuous fall in domestic prices of production inputs.

However, the input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, rose above the neutral level of 50, registering 51.9 in February. Therefore, we expect the purchaser price index of industrial products to show a rebound in the near future.

**Exhibit 5: Growth of China's purchaser price index of industrial products, March 2017 to February 2019**



Source: National Bureau of Statistics, PRC

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

	yoy growth (%)					
	Sep 18	Oct	Nov	Dec	Jan 19	Feb
Fuel and power	9.2	9.4	7.9	3.8	0.3	-0.5
Non-ferrous metal materials and wires	-0.4	-1.7	-2.1	-2.0	-3.3	-2.9
Chemical raw materials	5.8	5.3	3.2	0.3	-1.6	-2.3
Wood and pulp	4.5	2.6	1.6	1.4	0.6	0.4
Textile raw materials	2.9	2.7	2.3	1.9	1.5	1.5

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 turned negative, registering minus 0.5% in February (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 2.9% decline in February (see *exhibit 6*).

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

After falling by 1.6% yoy in January, the purchaser price index of chemical raw materials dropped at a faster pace by 2.3% yoy in February (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 to 0.4% in February from 0.6% in January (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 was 1.5% yoy in February, the same as in January (see *exhibit 6*).

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