



China Sourcing Update

March 12, 2020

Major Price Indicators

1. CPI growth moderates in February

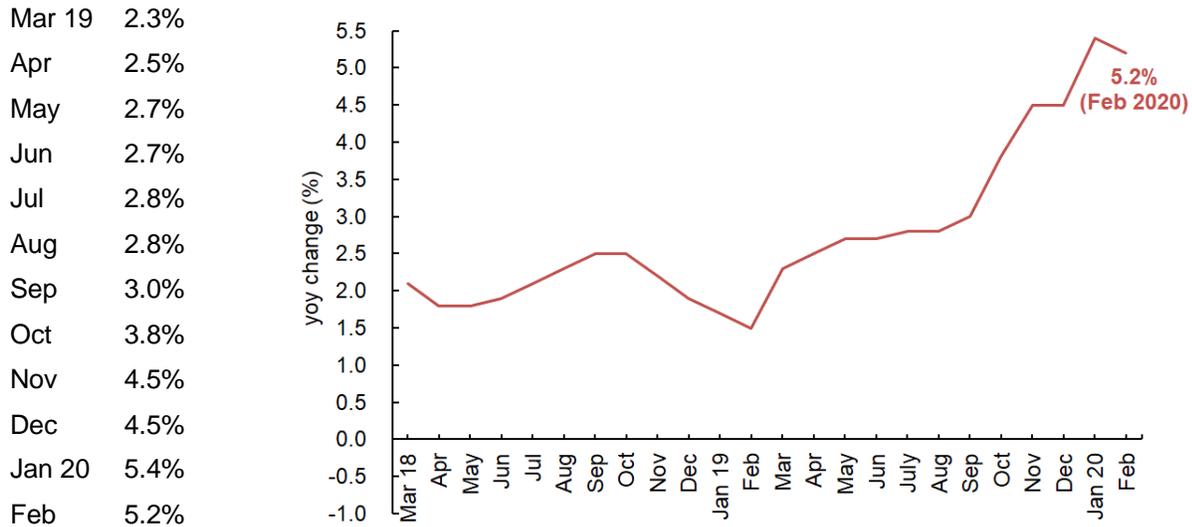
The year-on-year growth rate of China's consumer price index (CPI)¹ went down from an eight-year high of 5.4% in January to 5.2% in February (*see exhibits 1 & 2*).

The outbreak of the coronavirus disease 2019 (COVID-19), which started in December last year but became serious in late January, made a complicated impact on the price levels in China. The year-on-year growth in the food component in the CPI rose to 21.9% in February from 20.6% in January, due largely to supply chain disruptions caused by the transport control measures implemented across the country and hoarding of food by some households. Meanwhile, the year-on-year growth in the non-food component dropped to 0.9% in February from 1.6% in the previous month, attributed mainly to a weakening demand for goods and services other than disinfectant products.

Looking ahead, a weak consumer demand is likely to continue to weigh on the non-food inflation in China. Moreover, food prices, a major driver of China's inflation, have started to fall since late February as the COVID-19 has been brought under control in China. Thus, we expect that China's CPI growth will ease in the coming months.

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.

Exhibit 1: China's CPI growth, March 2018 to February 2020



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, September 2019 to February 2020

yoy growth (%)

	Sep 19	Oct	Nov	Dec	Jan 20	Feb
Clothing	1.6	1.2	1.1	0.8	0.6	0.5
Household articles and services	0.6	0.6	0.4	0.4	0.2	0.1
Education, culture and recreation	1.7	1.9	1.7	1.8	2.2	1.0

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products go down in February

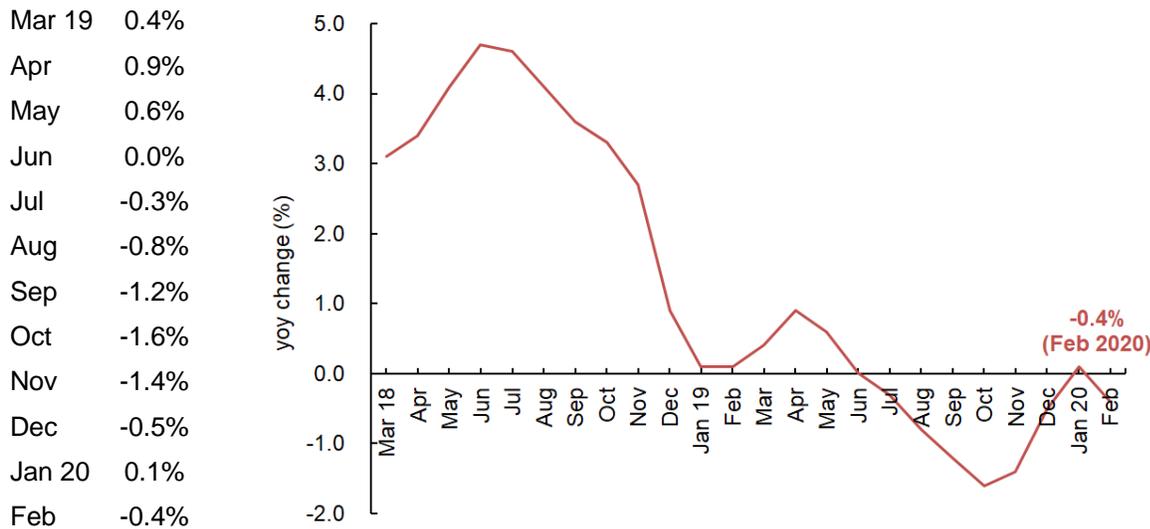
The year-on-year growth in China's producer price index of industrial products (PPI) dropped from 0.1% in January to minus 0.4% in February, dipping into negative territory again (see exhibits 3 & 4).

On a month-on-month basis, the PPI fell by 0.5% in February, after staying flat in January over the previous month. The fall in producer price inflation was mostly driven by a reduced demand for upstream industrial products amid the production suspension brought about by the COVID-19 outbreak. The decline in prices in the 'extraction of petroleum and natural gas' and 'processing of petroleum, coking, processing of nucleus fuel' industries were particularly deep, due mainly to a sharp fall in global crude prices in

the month. Meanwhile, the ‘manufacture of medicines’ industry saw a slight rise in ex-factory prices as material prices and logistics costs increased.

Looking ahead, we expect that both the year-on-year growth and month-on-month growth in the PPI will stay negative in the near future. The main reasons are that the demand for industrial products is likely to remain sluggish amid the COVID-19 outbreak, and that the plunge in global crude prices in March is likely to drag down industrial prices further.

Exhibit 3: China’s PPI growth, March 2018 to February 2020



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, September 2019 to February 2020

	yoy growth (%)					
	Sep 19	Oct	Nov	Dec	Jan 20	Feb
Textile	-2.4	-3.0	-3.0	-2.9	-3.0	-3.0
Textile wearing apparel and ornament	0.3	0.1	-0.3	-0.7	-0.5	-0.5
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.5	0.4	0.4	0.5	0.3	0.1

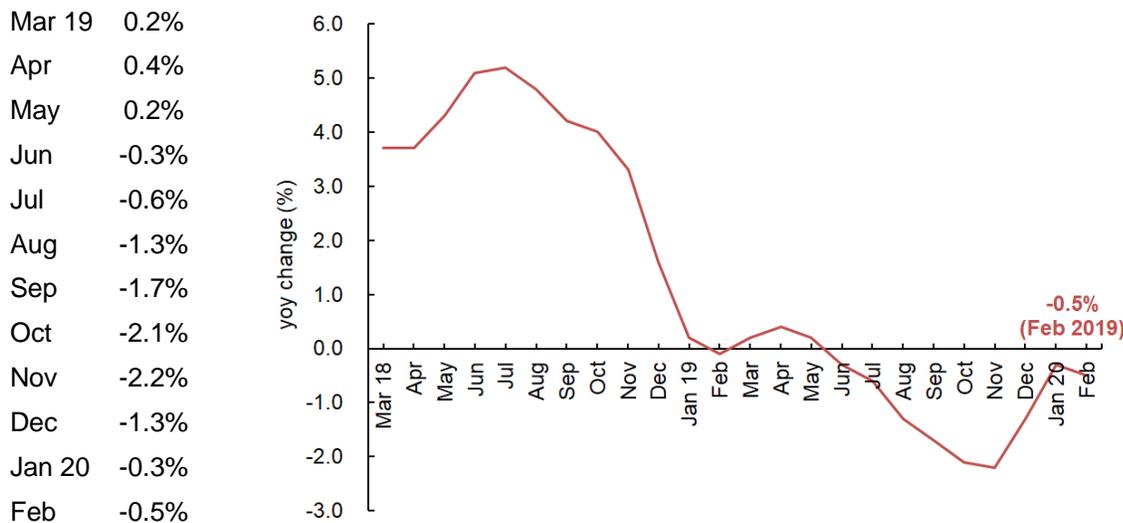
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs fall in February

The year-on-year growth rate of the purchaser price index of industrial products dropped from minus 0.3% in January to minus 0.5% in February (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index went down by 0.4% in February.

Looking ahead, we expect that the demand for production inputs will remain weak amid the COVID-19 outbreak, and that the slump in global crude prices in March will depress input prices further. Therefore, both the year-on-year growth and the month-on-month growth in input prices are likely to stay negative in the near term.

Exhibit 5: Growth of China’s purchaser price index of industrial products, March 2018 to February 2020



Source: National Bureau of Statistics, PRC

Exhibit 6: China’s purchaser price index of industrial products by selected commodity, September 2019 to February 2020

yoy growth (%)

	Sep 19	Oct	Nov	Dec	Jan 20	Feb
Fuel and power	-4.2	-5.5	-5.8	-3.3	-0.2	-1.0
Non-ferrous metal materials and wires	-1.5	-2.4	-2.3	-1.9	-0.7	-1.2
Chemical raw materials	-7.9	-8.5	-8.4	-7.4	-6.1	-6.0
Wood and pulp	-4.8	-4.4	-3.7	-3.1	-2.9	-2.7
Textile raw materials	-2.3	-2.9	-2.9	-2.9	-2.8	-2.8

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 minus 1.0% in February, down from minus 0.2% in January (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 fell by 1.2% yoy in February, compared with a 0.7% yoy drop last month (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 edged up to minus 6.0% in February from minus 6.1% in January (see exhibit 6).

(iv) Purchaser price index of wood and pulp

The purchaser price index of wood and pulp dropped at a slower pace, by 2.7% yoy, in February, after falling by 2.9% yoy in the previous month (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 2.8% yoy in February, the same as in January (see exhibit 6).

FUNG BUSINESS INTELLIGENCE

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