



China Sourcing Update

January 15, 2016

1. CPI growth edges up in December

The year-on-year (yoy) growth rate of China's consumer price index (CPI)¹ rose slightly from 1.5% yoy in November to 1.6% yoy in December (see exhibit 1 and 2).

The yoy growth of the food component in the CPI rose from 2.3% in November to 2.7% in December, which was the main reason for the higher yoy growth of CPI in December. For example, the prices of fresh vegetables increased by 11.8% yoy, or 13.7% month-on-month (mom), in December. Meanwhile, the yoy growth of the non-food component in the CPI remained stable at 1.1% in December.

Looking ahead, we expect that the non-food inflation will stay at around the current level in the near future, amid weak domestic demand and falling crude prices. Food prices may stay high during wintertime. Overall, in our view, the CPI growth is likely to be mild in the coming months.

¹ The CPI, compiled by the National Bureau of Statistics of China, measures the price of a basket of goods and services purchased by a typical household.

Exhibit 1: China's CPI growth, January 2014 to December 2015



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, July to December 2015

yoy growth (%)

	Jul 15	Aug	Sep	Oct	Nov	Dec
Clothing	2.9	2.9	2.8	2.4	2.2	2.0
Household goods and maintenance services	1.0	1.0	1.0	0.8	0.8	0.8
Recreational, educational products and services	1.7	1.8	1.4	1.1	1.2	1.3

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products continue to fall

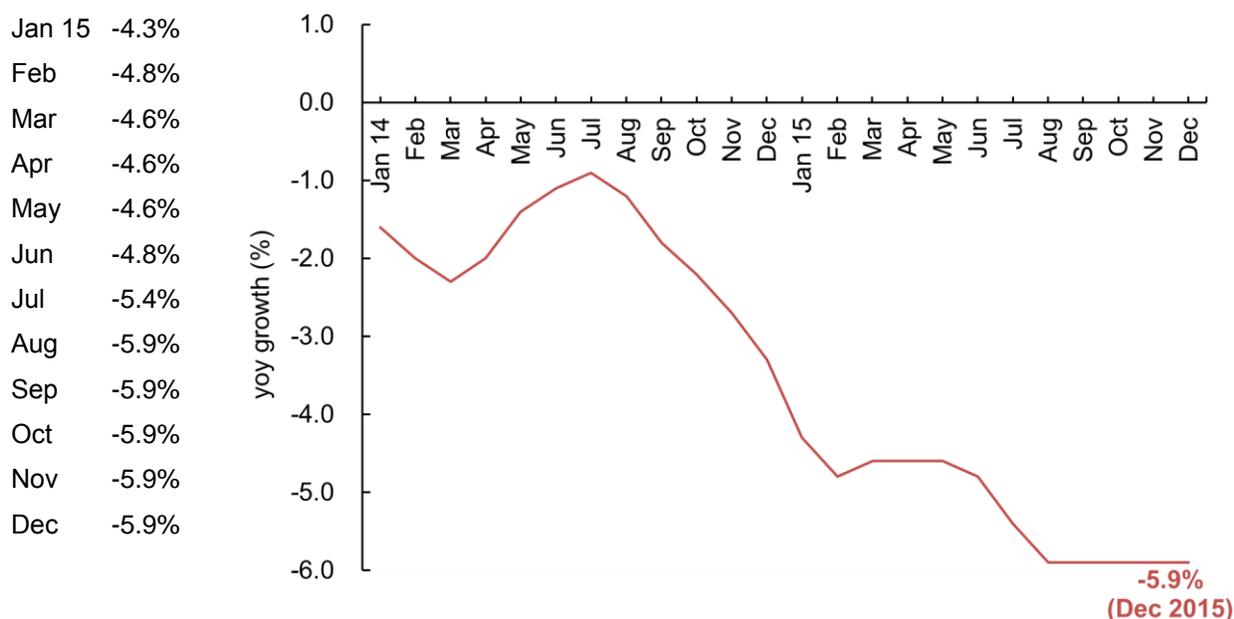
The yoy growth rate for China's producer price index of industrial products (PPI)² registered the fifth consecutive minus 5.9% growth in December, starting from August (see exhibits 3 & 4).

On a mom basis, the PPI fell by 0.6% in December, after dropping by 0.5% in November.

In the coming months, we expect that the deflation for industrial products will continue, as both domestic demand and foreign demand are likely to remain weak. The yoy growth of China's PPI is therefore expected to stay at low level.

² The PPI, compiled by the National Bureau of Statistics of China, measures the prices of industrial products when they are sold for the first time after production.

Exhibit 3: China's PPI growth, January 2014 to December 2015



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, July to December 2015

yoy growth (%)

	Jul 15	Aug	Sep	Oct	Nov	Dec
Textile industry	-2.5	-2.5	-2.5	-2.3	-2.2	-2.2
Textile and clothing	0.7	0.7	0.9	0.9	0.8	0.8
Timber processing & wood, bamboo, cane, palm fiber and straw products	-0.3	-0.6	-0.5	-0.7	-0.8	-1.0

Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs drop further in December

The yoy growth rate of the purchaser price index of industrial products recorded minus 6.8% in December, slightly improved from minus 6.9% in November (see exhibits 5 & 6).

On a mom basis, the purchaser price index dropped further by 0.7% in December, the same as November, indicating a continued downward trend in the domestic prices of production inputs.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, improved from 41.1 in November to 42.4 in December. In our view, the latest index reading suggests that the price deflation of production inputs may start to decelerate in the near term.

Exhibit 5: Growth of China's purchaser price index of industrial products, January 2014 to December 2015



Source: National Bureau of Statistics, PRC

Exhibit 6: China's purchaser price index of industrial products by selected commodity, July to December 2015

yoy growth (%)

	Jul 15	Aug	Sep	Oct	Nov	Dec
Fuel & power	-11.1	-11.8	-12.3	-12.4	-11.5	-11.0
Non-ferrous metals	-7.5	-9.4	-9.7	-9.6	-11.3	-12.0
Raw materials for the chemical industry	-5.8	-7.0	-7.6	-7.7	-7.6	-7.6
Timber and paper pulp	-0.9	-0.7	-0.5	-0.5	-0.6	-0.6
Textile raw materials	-2.2	-2.2	-2.1	-2.0	-1.9	-1.9

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel & power

The yoy growth rate of the purchaser price index of fuel and power registered minus 11.0% in December, improving from minus 11.5% in November (see exhibit 6).

(ii) Purchaser price index of non-ferrous metals

The yoy growth rate of the purchaser price index of non-ferrous metals declined further from minus 11.3% in November to minus 12.0% in December (see exhibit 6).

(iii) Purchaser price index of raw materials for the chemical industry

The purchaser price index of raw materials for the chemical industry dropped by 7.6% yoy in December, the same as in November (see exhibit 6).

(iv) Purchaser price index of timber and paper pulp

The purchaser price index of timber and paper pulp dropped by 0.6% yoy in December, the same as in November (see exhibit 6).

(v) Purchaser price index of textile raw materials

The yoy growth rate of the purchaser price index of textile raw materials have stayed relatively stable, posting minus 1.9% in December (see exhibit 6).

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