



# China Sourcing Update

February 17, 2017

## Major Price Indicators

### 1. CPI growth goes up in January

The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> jumped to a two-and-a-half-year high of 2.5% in January 2017 from 2.1% in December 2016, higher than market expectations (see exhibits 1 & 2).

The acceleration in CPI growth in January was largely attributable to different timing of the Chinese New Year each year. The Chinese new year in 2017 began in the final week of January, while that in 2016 was from early February. Due to a stronger demand for food before the Chinese New Year, the year-on-year growth in the food component in the CPI went up from 2.4% in December 2016 to 2.7% in January 2017. The rise in prices of services of tourism as well as transportation and communication, driven by a surge in travel demand before and during the Chinese New Year holidays, also pushed up the year-on-year growth in the non-food component in the CPI to a five-year high of 2.5% in January 2017 from 2.0% in the previous month.

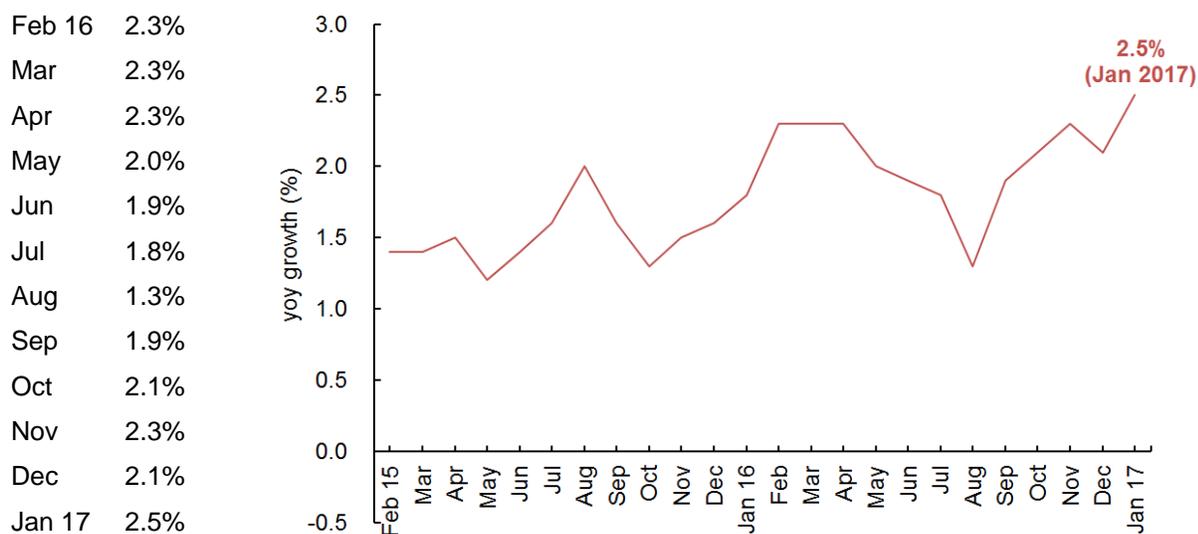
Looking ahead, we predict that the food inflation will fall sharply in February and stay low in the following couple of months, due to a higher base for comparison last year; and we expect the non-food inflation to stay around the current level or drop slightly in

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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.

the near term. Overall, in our view, the CPI growth is likely to drop below 2% in the coming months.

**Exhibit 1: China's CPI growth, February 2015 to January 2017**



Source: National Bureau of Statistics, PRC

**Exhibit 2: China's CPI growth by commodity, August 2016 to January 2017<sup>2</sup>**

yoy growth (%)

	Aug 16	Sep	Oct	Nov	Dec	Jan 17
Clothing	1.5	1.2	1.3	1.4	1.1	1.1
Household articles and services	0.4	0.3	0.4	0.3	0.4	0.6
Education, culture and recreation	1.3	2.0	2.1	2.2	2.3	3.3

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products continue to rise

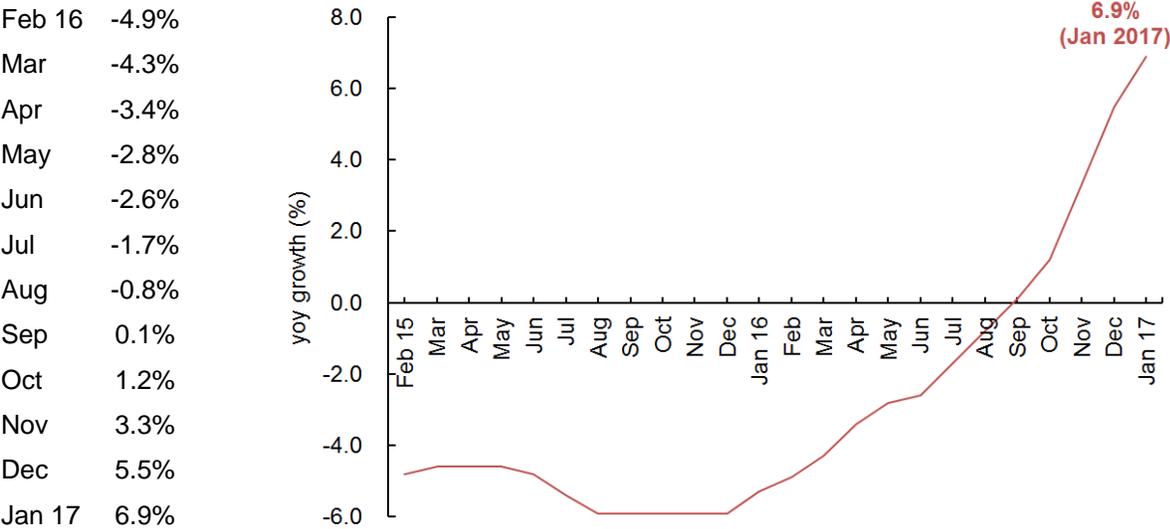
The year-on-year growth in China's producer price index of industrial products (PPI) climbed from 5.5% in December 2016 to 6.9% in January 2017, the highest level since August 2011 (see exhibits 3 & 4).

<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'.

On a month-on-month basis, the PPI went up by 0.8% in January, a smaller increase than the 1.6% growth seen in the previous month. The main reasons for the rise in the PPI in recent months were an increase in imported commodity prices boosted by a weaker yuan and a better supply-demand balance as the demand for industrial products improved and the impacts of de-capacity further materialized.

Going forward, driven by the increase in prices of production inputs, the year-on-year growth in the PPI is expected to rise further in the near future.

**Exhibit 3: China’s PPI growth, February 2015 to January 2017**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China’s PPI growth by selected industry, August 2016 to January 2017**  
yoy growth (%)

	Aug 16	Sep	Oct	Nov	Dec	Jan 17
Textile	-0.8	-0.4	0.3	1.0	1.0	2.6
Textile wearing apparel and ornament	0.4	0.3	0.3	0.5	0.5	0.6
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	-0.2	-0.2	0.0	0.1	0.1	0.2

Source: National Bureau of Statistics, PRC

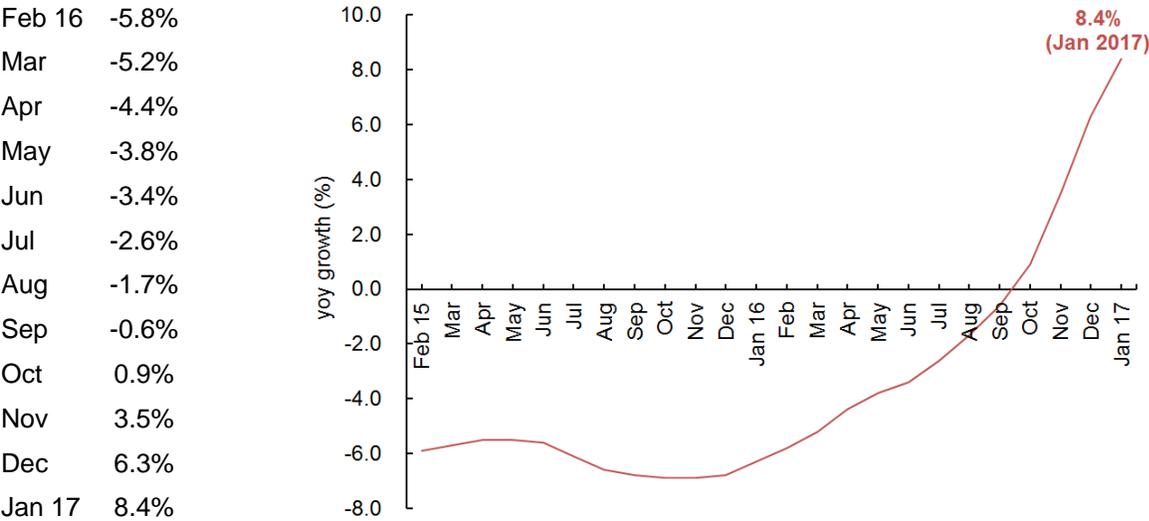
### 3. Domestic prices of production inputs go up further

The year-on-year growth rate of the purchaser price index of industrial products soared from 6.3% in December 2016 to 8.4% in January 2017, staying in the positive territory for four consecutive months (see exhibits 5 & 6).

On a month-on-month basis, the purchaser price index of industrial products increased markedly by 1.2% in January, posting month-on-month gain for 11 straight months. The surge in the purchaser price index in recent months can be attributable to the rise in global commodity prices and the Chinese government’s efforts in de-capacity and de-stocking, in our view.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, came in at 64.5 in January. The index reading is well above the neutral level of 50, indicating that prices of production inputs have been rising strongly. Thus, we believe that the year-on-year growth rate of the purchaser price index of industrial products will continue to go up in the near future.

**Exhibit 5: Growth of China’s purchaser price index of industrial products, February 2015 to January 2017**



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products  
by selected commodity, August 2016 to January 2017**

*yoy growth (%)*

	<b>Aug 16</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan 17</b>
Fuel and power	-5.0	-1.9	1.8	6.0	10.1	14.7
Non-ferrous metal materials and wires	-0.3	0.3	2.2	9.5	14.9	15.8
Chemical raw materials	-2.5	-1.6	-0.1	2.0	5.3	8.1
Wood and pulp	-0.6	-0.7	-0.3	0.5	2.1	3.3
Textile raw materials	0.1	0.1	1.0	1.8	2.5	3.3

*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 soared to 14.7% in January 2017 from 10.1% in December 2016 (*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 increased at a faster pace, by 15.8% yoy, in January 2017, after rising by 14.9% yoy in December 2016 (*see exhibit 6*).

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

The purchaser price index of chemical raw materials went up by 8.1% yoy in January 2017, compared with a 5.3% yoy growth in December 2016 (*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 went up to 3.3% in January 2017 from 2.1% in December 2016 (*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 registered 3.3% in January 2017, up from 2.5% in December 2016 (*see exhibit 6*).

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