



China Sourcing Update

February 20, 2018

Major Price Indicators

1. CPI growth falls in January

The year-on-year growth rate of China's consumer price index (CPI)¹ went down from 1.8% in December 2017 to 1.5% in January 2018, which was in line with market expectations (see exhibits 1 & 2).

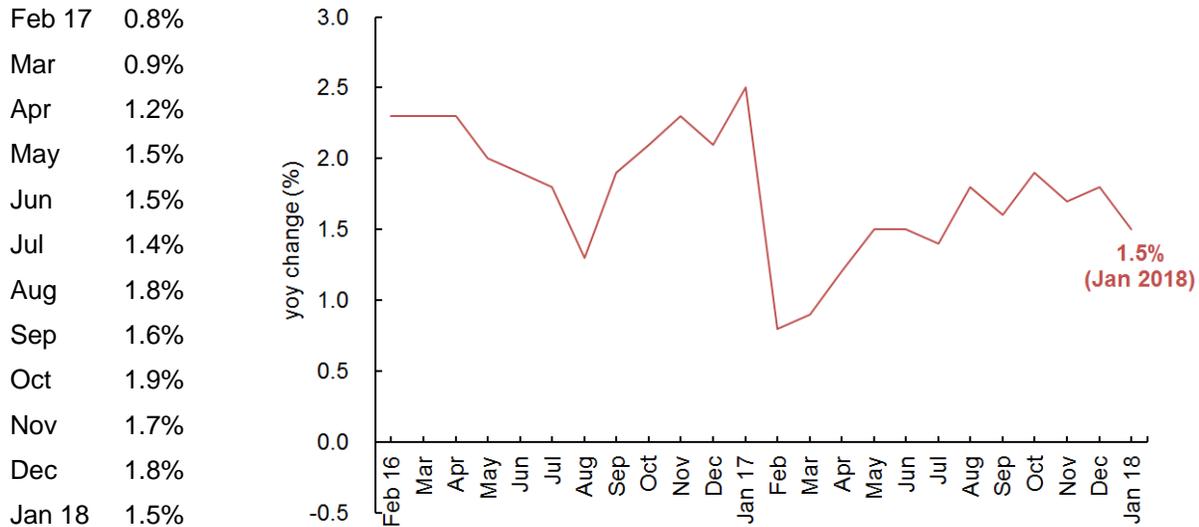
The slowdown in CPI growth in January was largely attributable to the different timing of the Chinese New Year each year. The Chinese New Year in 2018 began in mid-February, while that in last year was from late January. Due to a higher comparison base in January last year, the year-on-year growth in the non-food component in the CPI dropped to 2.0% in January 2018 from 2.4% in December 2017, while the year-on-year growth in the food component went down to minus 0.5% in January from minus 0.4% in the previous month, despite a month-on-month rise in food prices caused by bad weather.

Looking ahead, we expect that the CPI reading in February will continue to be distorted by the timing of the Chinese New Year. The CPI growth is likely to rise above 2% in the

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. 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.

month, thanks to a stronger demand for food and travel before and during the Chinese New Year holidays this year, and a lower comparison base in February last year.

Exhibit 1: China's CPI growth, February 2016 to January 2018



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, August 2017 to January 2018²

yoy growth (%)

	Aug 17	Sep	Oct	Nov	Dec	Jan 18
Clothing	1.3	1.3	1.2	1.2	1.3	1.4
Household articles and services	1.3	1.4	1.5	1.5	1.6	1.5
Education, culture and recreation	2.5	2.3	2.3	2.0	2.1	0.9

Source: National Bureau of Statistics, PRC

2. Growth in ex-factory prices of industrial products slows in January

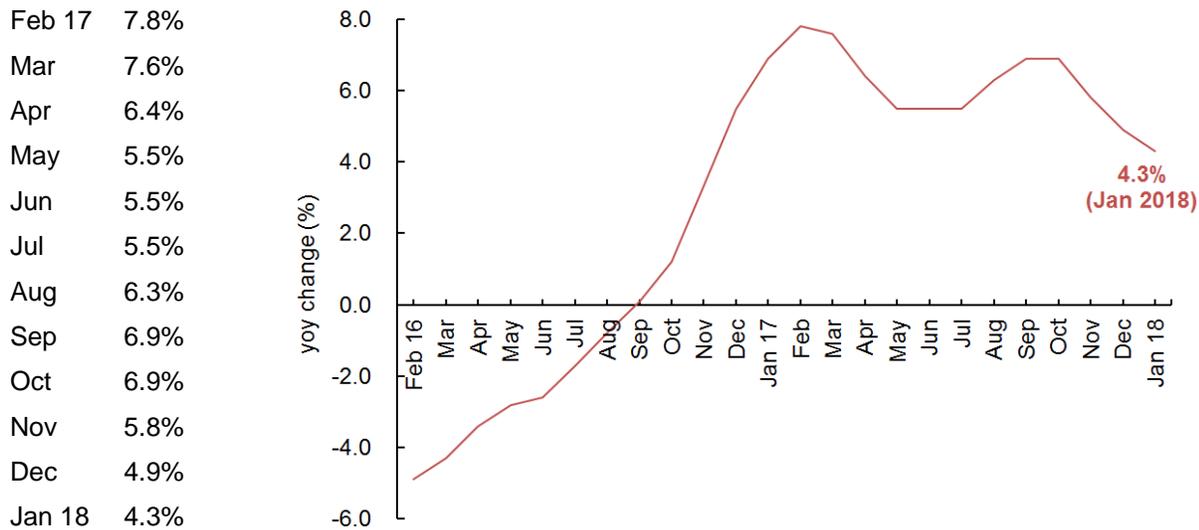
The year-on-year growth in China's producer price index of industrial products (PPI) dropped from 4.9% in December 2017 to 4.3% in January 2018, the lowest level in more than a year (see exhibits 3 & 4).

² 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 advanced by 0.3% in January, after gaining 0.8% in the previous month. The moderation in PPI growth in the month was due largely to slower increases in ex-factory prices in the ‘extraction of petroleum and natural gas’, ‘processing of petroleum’, and ‘manufacture of non-metallic mineral products’ industries, as well as declines in ex-factory prices in the ‘manufacture and processing of ferrous metals’ industry.

Going forward, the PPI is expected to go up further on a month-on-month basis in the near term, as the recent rise in the domestic prices of production inputs will put upward pressures on the ex-factory prices of industrial products. Meanwhile, the year-on-year growth in the PPI is likely to fall further in the coming couple of months, given a higher base for comparison in early 2017.

Exhibit 3: China’s PPI growth, February 2016 to January 2018



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, August 2017 to January 2018

	<i>yoy growth (%)</i>					
	Aug 17	Sep	Oct	Nov	Dec	Jan 18
Textile	2.9	3.0	2.7	2.4	2.4	2.1
Textile wearing apparel and ornament	1.0	0.8	0.7	0.7	0.5	0.8
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.3	0.6	0.8	1.0	1.2	1.2

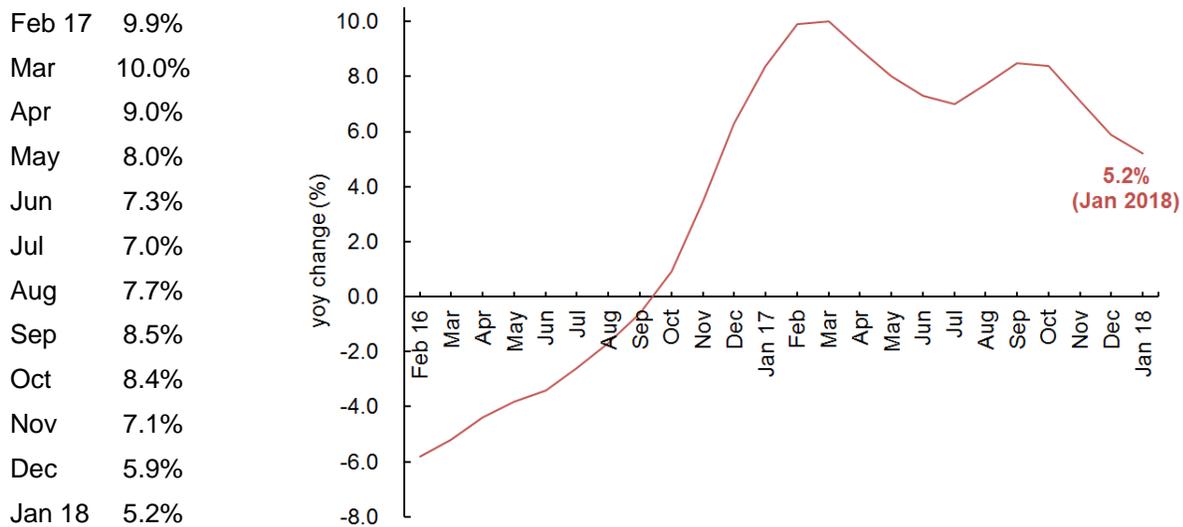
Source: National Bureau of Statistics, PRC

3. Growth in purchaser price index of industrial products eases in January

The year-on-year growth rate of the purchaser price index of industrial products fell from 5.9% in December 2017 to 5.2% in January 2018, the lowest level since November 2016 (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index rose by 0.5% in January, a smaller increase than the 0.8% growth recorded in the previous month

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, registered 59.7 in January. The index reading is well above the neutral level of 50 but lower than that of last month (62.2), indicating that domestic prices of production inputs have increased at a slower pace recently. Therefore, we believe that the growth rate of the purchaser price index of industrial products is likely to drop on a month-on-month basis in the near term. Meanwhile, the year-on-year growth rate of the purchaser price index is likely to go down in the coming couple of months, due largely to a higher comparison base in the same period last year.

Exhibit 5: Growth of China’s purchaser price index of industrial products, February 2016 to January 2018



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products
by selected commodity, August 2017 to January 2018**

yoy growth (%)

	Aug 17	Sep	Oct	Nov	Dec	Jan 18
Fuel and power	11.8	11.9	10.6	8.0	7.1	6.2
Non-ferrous metal materials and wires	15.3	18.6	19.5	14.7	10.4	10.5
Chemical raw materials	7.7	9.0	9.4	9.2	7.6	5.9
Wood and pulp	6.5	8.5	9.8	9.4	7.6	7.0
Textile raw materials	4.0	4.1	3.8	3.4	2.8	2.3

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel and power

The purchaser price index of fuel and power increased at a slower pace, by 6.2% yoy, in January 2018, after rising by 7.1% yoy in December 2017 (*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 edged up to 10.5% in January from 10.4% in the previous 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 registered 5.9% in January, down from 7.6% in the previous month (*see exhibit 6*).

(iv) Purchaser price index of wood and pulp

The purchaser price index of wood and pulp gained 7.0% yoy in January 2018, compared with the 7.6% yoy growth in December 2017 (*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 dropped to 2.3% in January from 2.8% in the previous month (*see exhibit 6*).

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