



China Sourcing Update

February 12, 2020

Editor's note: China is presently experiencing widespread economic disruption owing to the coronavirus disease 2019 (COVID-19) outbreak and stringent government measures to contain it. While comparisons are inevitable with the economic toll taken by another coronavirus, SARS (2002-03), the difference for China, now, is that its economic fundamentals are more robust, its technology more advanced, its services more diverse, and its consumers more resilient, as illustrated by its thriving e-commerce sector. For these and other reasons we believe the COVID-19 outbreak, while currently a jolt to China and the world, will not leave a long-term scar on the Chinese economy.

Major Price Indicators

1. CPI growth soars to eight-year high in January

The year-on-year growth rate of China's consumer price index (CPI)¹ jumped from 4.5% in December to 5.4% in January, the highest since October 2011 (see exhibits 1 & 2).

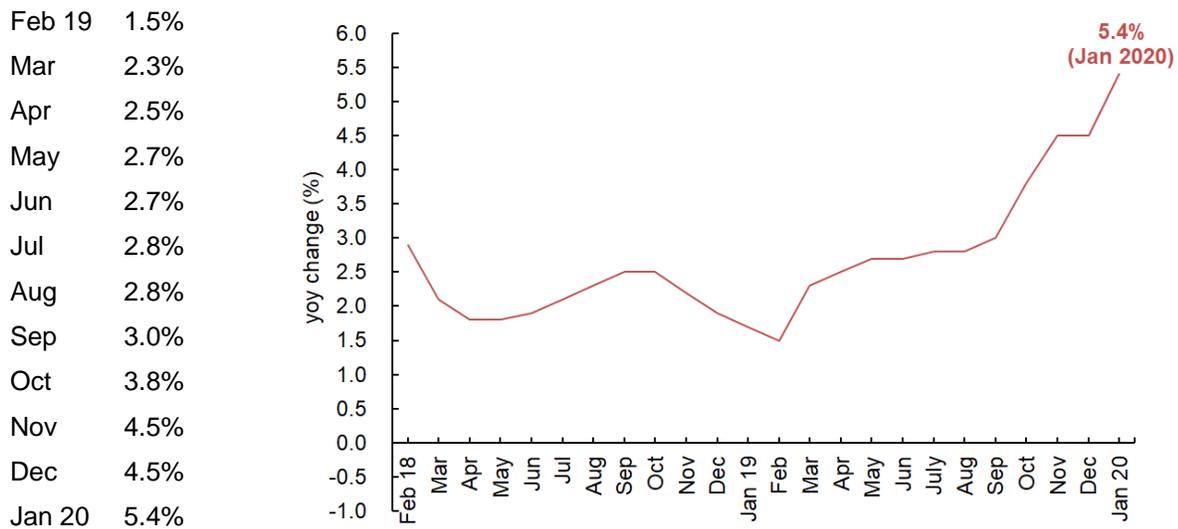
The acceleration in CPI growth in January was mainly attributed to the different timing of the Chinese New Year this year and last year: The Chinese New Year in 2020 began in late-January, while that in 2019 was from early February, which has resulted in a lower comparison base in January last year. The novel coronavirus outbreak, which was first reported to the WHO from Wuhan, on 31 December 2019, also pushed up the CPI growth in January, as people rushed to buy food, daily necessities, and medical supplies such as face masks and disinfectant products. Consequently, the year-on-year growth in the food component in the CPI rose to 20.6% in January this year from 17.4%

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.

in December, while the year-on-year growth in the non-food component went up to 1.6% in January from 1.3% in the previous month.

Looking ahead, we expect China's general price level to remain high in the coming couple of months, as the higher prices of food, daily necessities, and medical supplies are expected to continue for a while amid the novel coronavirus outbreak. However, given a higher comparison base in February last year, we predict that China's CPI growth will moderate below 5.0% yoy in February this year.

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



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, August 2019 to January 2020

yoy growth (%)

	Aug 19	Sep	Oct	Nov	Dec	Jan 20
Clothing	1.6	1.6	1.2	1.1	0.8	0.6
Household articles and services	0.7	0.6	0.6	0.4	0.4	0.2
Education, culture and recreation	2.1	1.7	1.9	1.7	1.8	2.2

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products stay flat month-on-month in January

The year-on-year growth in China's producer price index of industrial products (PPI) improved from minus 0.5% in December to 0.1% in January, returning to positive territory for the first time since May 2019 (see exhibits 3 & 4). On a month-on-month basis, the PPI stayed flat in January over the previous month.

Looking ahead, we expect that both the year-on-year growth and month-on-month growth in the PPI will turn negative in the near future, as there is a delay in the resumption of industrial production and thus a reduced demand for upstream industrial products amid the novel coronavirus outbreak since late January.

Exhibit 3: China's PPI growth, February 2018 to January 2020



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, August 2019 to January 2020

	yoy growth (%)					
	Aug 19	Sep	Oct	Nov	Dec	Jan 20
Textile	-1.6	-2.4	-3.0	-3.0	-2.9	-3.0
Textile wearing apparel and ornament	0.4	0.3	0.1	-0.3	-0.7	-0.5
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.6	0.5	0.4	0.4	0.5	0.3

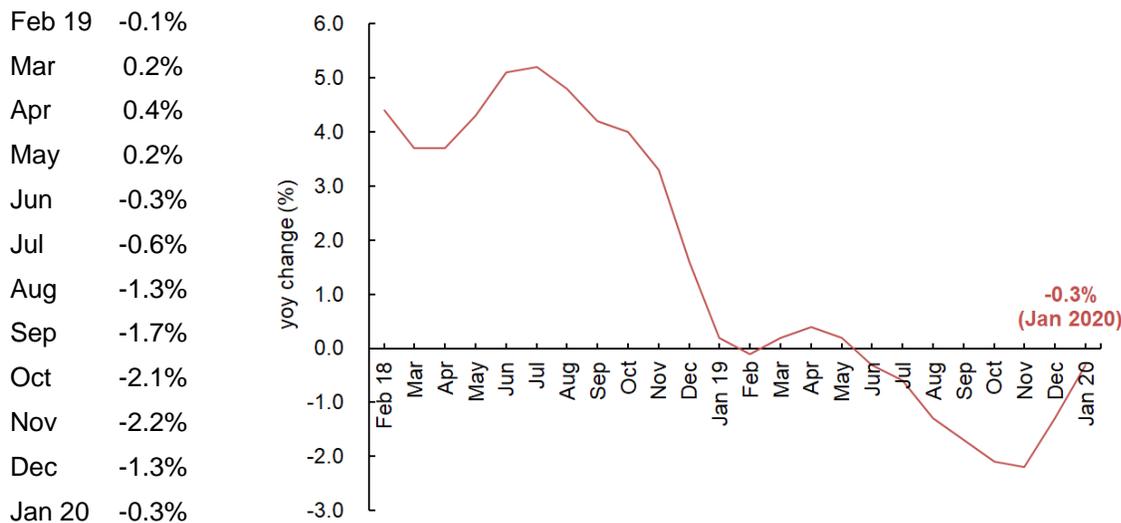
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs rise month-on-month in January

The year-on-year growth rate of the purchaser price index of industrial products improved markedly from minus 1.3% in December to minus 0.3% in January (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index went up by 0.2% in January.

The novel coronavirus outbreak since late January has led to a delay in the resumption of industrial production and a fall in the demand for production inputs. Therefore, going forward, we expect that the year-on-year growth in input prices will go down again, and the month-on-month growth will turn negative in the near future.

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



Source: National Bureau of Statistics, PRC

Exhibit 6: China's purchaser price index of industrial products by selected commodity, August 2019 to January 2020

yoy growth (%)

	Aug 19	Sep	Oct	Nov	Dec	Jan 20
Fuel and power	-3.2	-4.2	-5.5	-5.8	-3.3	-0.2
Non-ferrous metal materials and wires	-2.3	-1.5	-2.4	-2.3	-1.9	-0.7
Chemical raw materials	-6.8	-7.9	-8.5	-8.4	-7.4	-6.1
Wood and pulp	-4.5	-4.8	-4.4	-3.7	-3.1	-2.9
Textile raw materials	-1.6	-2.3	-2.9	-2.9	-2.9	-2.8

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel and power

The purchaser price index of fuel and power dropped at a much slower pace, by 0.2% yoy, in January, after falling by 3.3% yoy in December (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 registered minus 0.7% in January, up from minus 1.9% in the previous month (see exhibit 6).

(iii) Purchaser price index of chemical raw materials

The purchaser price index of chemical raw materials fell by 6.1% yoy in January, compared with a 7.4% yoy drop last month (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 stayed in negative territory, posting a 2.9% decline 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 edged up to minus 2.8% in January from minus 2.9% in the previous month (see exhibit 6).

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