



China Sourcing Update

August 10, 2017

Major Price Indicators

1. CPI growth eases in July

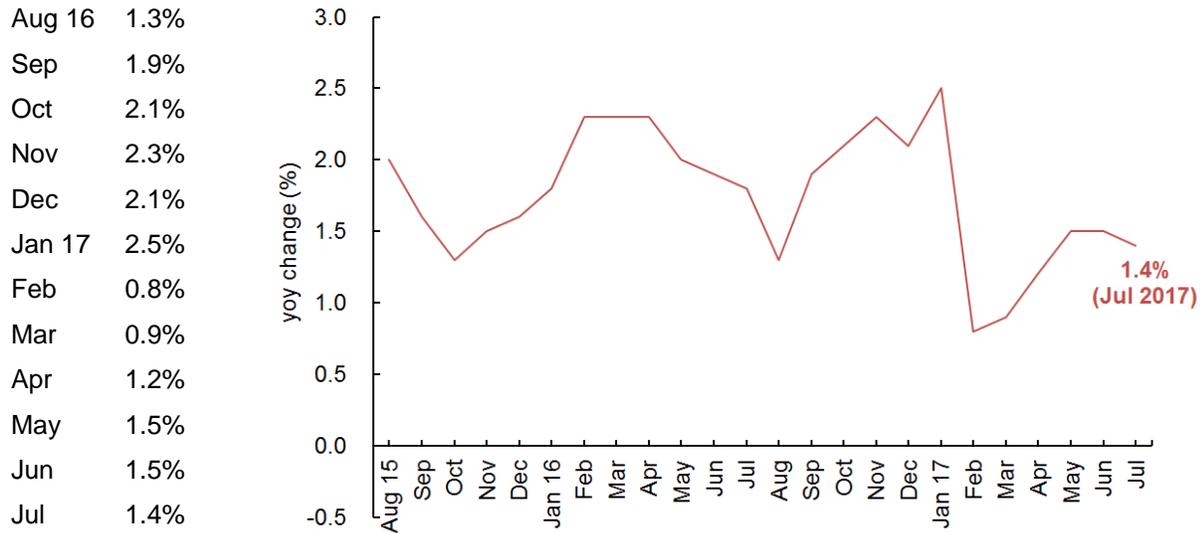
The year-on-year growth rate of China's consumer price index (CPI)¹ edged down from 1.5% in June to 1.4% in July, which was below market expectations (see *exhibits 1 & 2*).

The reason for the moderation in the CPI growth in July was that a smaller increase in non-food prices outweighed a slower decline in food prices in the month. The year-on-year growth in the non-food component in the CPI slowed from 2.2% in June to 2.0% in July, largely due to price declines in transportation and smaller price increases in health care and other articles and services. Meanwhile, the year-on-year growth in the food component in the CPI edged up from minus 1.2% in June to minus 1.1% in July.

Looking ahead, we expect the CPI growth to rise in August due to a lower comparison base in August last year. Afterwards, the CPI growth is likely to stay low for the rest of the year because of continued deflation in food prices and softness in non-food prices, as well as a higher comparison base in the fourth quarter of last year.

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.

Exhibit 1: China's CPI growth, August 2015 to July 2017



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, February to July 2017²

yoy growth (%)

	Feb 17	Mar	Apr	May	Jun	Jul
Clothing	1.2	1.3	1.3	1.3	1.4	1.4
Household articles and services	0.5	0.7	0.8	1.0	1.1	1.1
Education, culture and recreation	1.8	2.3	2.6	2.6	2.5	2.5

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products edge up on month-on-month basis

The year-on-year growth in China's producer price index of industrial products (PPI) came in at 5.5% in July, the same as in May and June (see exhibits 3 & 4).

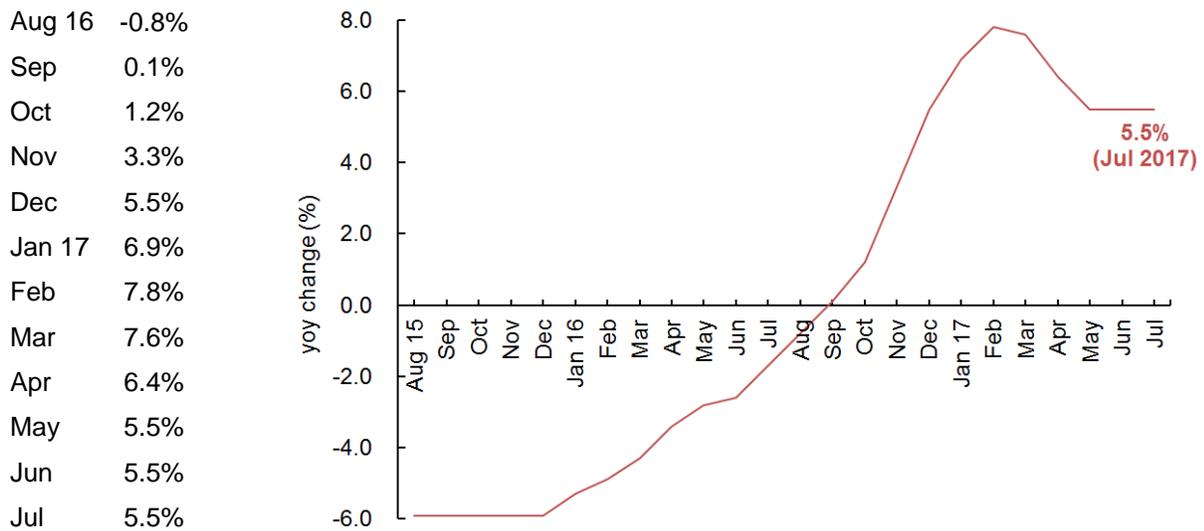
On a month-on-month basis, the PPI went up by 0.2% in July after having posted month-on-month drop for three consecutive months. The rebound in the PPI in the

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'.

month indicates that the ex-factory prices of industrial products have stabilized after three months of correction.

Going forward, the PPI is likely to go up on a month-on-month basis in the near term, as the latest reading of the input prices sub-index of China’s manufacturing PMI indicates a recent rise in the domestic prices of production inputs. Meanwhile, the year-on-year growth in the PPI is expected to stay around the current level in the coming couple of months.

Exhibit 3: China’s PPI growth, August 2015 to July 2017



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, February to July 2017

	yoy growth (%)					
	Feb 17	Mar	Apr	May	Jun	Jul
Textile	3.2	3.5	3.8	3.8	3.8	3.2
Textile wearing apparel and ornament	0.9	1.0	1.0	1.0	0.9	0.8
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.1	0.6	0.5	0.5	0.4	-0.3

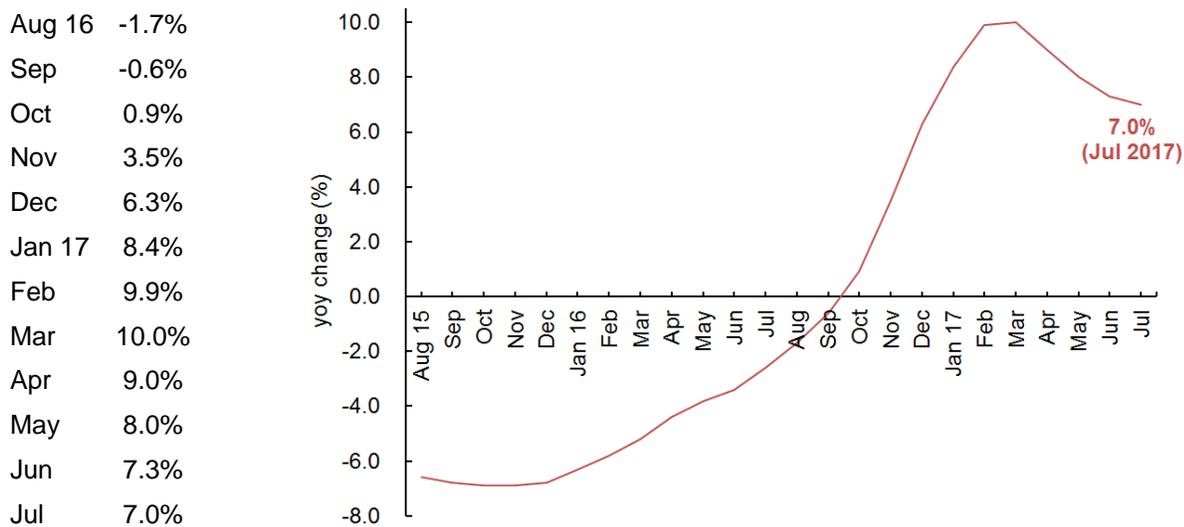
Source: National Bureau of Statistics, PRC

3. Purchaser price index of industrial products stays flat on month-on-month basis

The year-on-year growth rate of the purchaser price index of industrial products dropped from 7.3% in June to 7.0% in July (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index of industrial products stayed flat over the previous month.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, came in at 57.9 in July. The index reading is much higher than that of last month (50.4) and is well above the neutral level of 50, indicating that domestic prices of production inputs have been rising strongly. Therefore, we believe that the purchaser price index of industrial products is likely to go up on a month-on-month basis in the foreseeable future. Meanwhile, the year-on-year growth rate of the purchaser price index is expected to stay around the current level or fall slightly in the coming couple of months.

Exhibit 5: Growth of China’s purchaser price index of industrial products, August 2015 to July 2017



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products
by selected commodity, February to July 2017**

yoy growth (%)

	Feb 17	Mar	Apr	May	Jun	Jul
Fuel and power	18.7	19.0	17.6	15.8	12.5	10.7
Non-ferrous metal materials and wires	17.1	16.1	15.4	13.9	14.1	13.2
Chemical raw materials	10.3	10.0	8.1	7.1	7.0	7.1
Wood and pulp	4.0	4.5	4.7	4.9	5.3	5.8
Textile raw materials	4.0	4.6	4.7	4.9	4.8	4.2

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 10.7% yoy, in July, after rising by 12.5% yoy in June (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 eased to 13.2% in July from 14.1% in June (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 7.1% in July, up from 7.0% in June (see exhibit 6).

(iv) Purchaser price index of wood and pulp

The purchaser price index of wood and pulp gained 5.8% yoy in July, compared with the 5.3% year-on-year growth in June (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 went down to 4.2% in July from 4.8% in June (see exhibit 6).

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