



# China Sourcing Update

August 14, 2019

## Major Price Indicators

### 1. CPI growth accelerates in July

The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> edged up from 2.7% in June to 2.8% in July, its fastest pace since February 2018 (see exhibits 1 & 2).

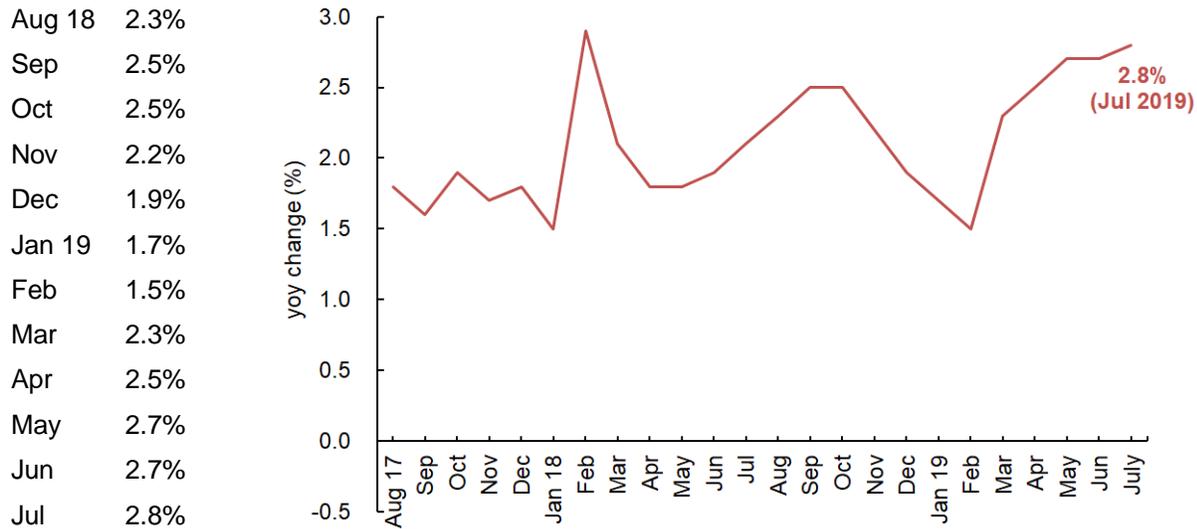
The reason for the increase in the CPI growth in July was that a rise in food inflation outweighed a decline in non-food inflation in the month. The year-on-year growth in the food component in the CPI climbed from 8.3% in June to 9.1% in July, due largely to a further jump in pork prices. Meanwhile, the year-on-year growth in the non-food component went down from 1.4% in June to 1.3% in July.

Looking ahead, we expect that China's CPI growth will ease in the coming months for two reasons. First, there was a higher base for comparison in the same period last year. Second, the impacts of the cut in value-added taxes across various sectors will start to unfold.

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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.

**Exhibit 1: China's CPI growth, August 2017 to July 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 2: China's CPI growth by commodity, February to July 2019<sup>2</sup>**

yoy growth (%)

	Feb 19	Mar	Apr	May	Jun	Jul
Clothing	2.0	2.0	1.8	1.7	1.8	1.8
Household articles and services	1.3	1.2	1.1	1.0	0.8	0.8
Education, culture and recreation	2.4	2.4	2.5	2.6	2.4	2.3

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products drop in July

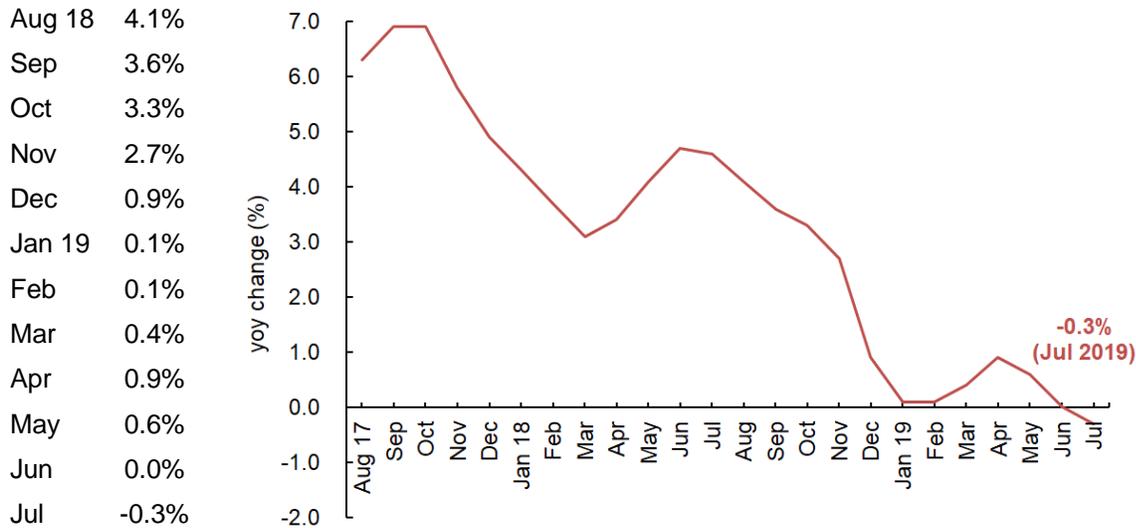
The year-on-year growth in China's producer price index of industrial products (PPI) went down from 0.0% in June to minus 0.3% in July (see exhibits 3 & 4).

On a month-on-month basis, the PPI declined by 0.2% in July, posting a fall for two consecutive months. The decrease in the PPI in the month was caused mainly by lower ex-factory prices in the 'extraction of petroleum and natural gas' and 'processing of petroleum, coking, processing of nucleus fuel' industries in July.

<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'.

Looking ahead, we expect that the month-on-month growth in the PPI will remain negative in the near future, as the ex-factory prices sub-index of China’s manufacturing PMI came in at 46.9 in July, indicating strong deflationary pressure on ex-factory prices. Meanwhile, the year-on-year growth in the PPI is likely to fall further in the coming months, due largely to a sluggish aggregate demand and a higher base for comparison in the same period last year.

**Exhibit 3: China’s PPI growth, August 2017 to July 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China’s PPI growth by selected industry, February to July 2019**

	yoy growth (%)					
	Feb 19	Mar	Apr	May	Jun	Jul
Textile	1.4	1.2	1.1	0.9	0.1	-0.4
Textile wearing apparel and ornament	1.2	1.3	1.1	1.0	0.9	0.6
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.5	1.2	1.1	1.1	1.2	1.1

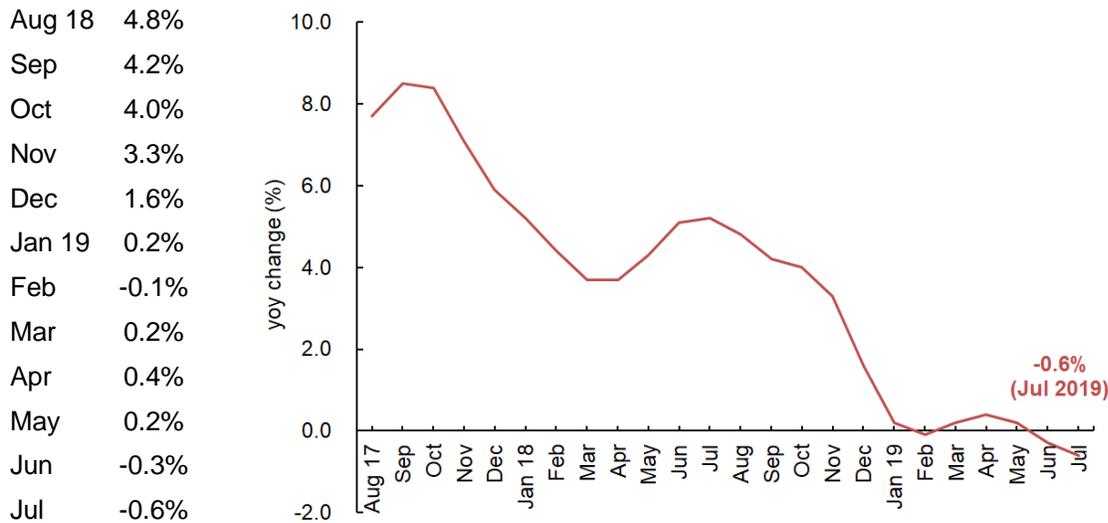
Source: National Bureau of Statistics, PRC

### 3. Domestic prices of production inputs go down in July

The year-on-year growth rate of the purchaser price index of industrial products fell from minus 0.3% in June to minus 0.6% in July, registering the lowest level since September 2016 (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index declined by 0.2% in July, after falling by 0.1% in June.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, rose to 50.7 in July from to 49.8 in June, indicating weak inflationary pressure. Therefore, we expect that the month-on-month growth in the purchaser price index of industrial products will stay low in the near term. Meanwhile, the year-on-year growth rate of the index is likely to drop further in the coming months, due mainly to a weak demand for production inputs and a higher comparison base in the same period last year.

**Exhibit 5: Growth of China’s purchaser price index of industrial products, August 2017 to July 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products  
by selected commodity, February to July 2019**

yoy growth (%)

	Feb 19	Mar	Apr	May	Jun	Jul
Fuel and power	-0.5	0.7	1.6	1.4	-0.2	-2.1
Non-ferrous metal materials and wires	-2.9	-1.7	-1.6	-2.5	-3.5	-2.5
Chemical raw materials	-2.3	-2.4	-2.8	-3.5	-4.7	-5.4
Wood and pulp	0.4	-0.4	-1.3	-2.5	-3.0	-3.7
Textile raw materials	1.5	1.2	1.1	0.7	-0.1	-0.8

Source: National Bureau of Statistics, PRC

*(i) Purchaser price index of fuel and power*

The purchaser price index of fuel and power fell by 2.1% yoy in July, compared with a 0.2% yoy drop 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 improved to minus 2.5% in July from minus 3.5% in the previous month (see exhibit 6).

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

The purchaser price index of chemical raw materials dropped at a faster pace, by 5.4% yoy, in July, after falling by 4.7% yoy in June (see exhibit 6).

*(iv) Purchaser price index of wood and pulp*

The year-on-year growth rate of the purchaser price index of wool and pulp registered minus 3.7% in July, down from minus 3.0% 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 stayed in negative territory, posting a 0.8% decline in July (see exhibit 6).

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