



China Sourcing Update

August 14, 2020

Major Price Indicators

Key indicators

- CPI growth goes up further to 2.7% yoy in July as rising food prices push up consumer inflation.
- Factory gate deflation eases as the year-on-year growth in PPI improved to minus 2.4% in July.
- Year-on-year growth rate of the purchaser price index of industrial products improved to minus 3.3% in July, indicating moderation in China's upstream deflation.

Our forecasts

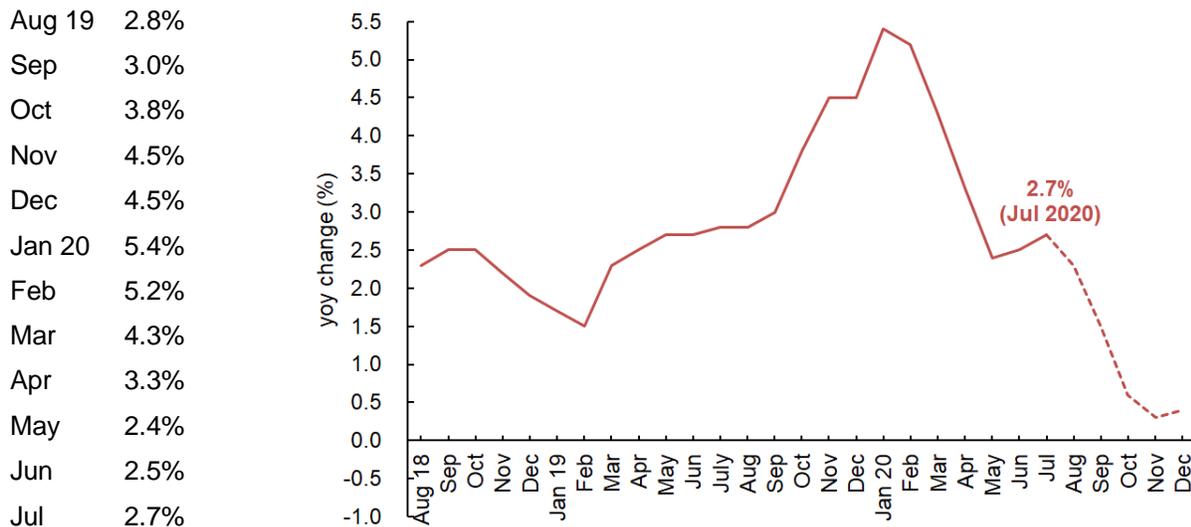
- We project that China's CPI growth will fall sharply in the coming months and reach near-zero levels by year end amid a sluggish domestic consumption and a high comparison base last year.
- PPI will continue to go up on a month-on-month basis, and the year-on-year growth will improve further in the coming months, given an improving industrial demand and the rebound in global commodity prices.
- Both the year-on-year growth and month-on-month growth in input prices will continue to pick up in the coming months, as the demand for production inputs is likely to improve further with domestic industrial production now back to normal.

1. CPI growth goes up to 2.7% in July

The year-on-year growth rate of China’s consumer price index (CPI)¹ increased from 2.5% in June to 2.7% in July (see exhibits 1 & 2). The acceleration in CPI growth in July was attributed to a jump in food inflation due mainly to the floods in southern China.

Looking ahead, we project that China’s CPI growth will fall sharply in the coming months and reach near-zero levels by the end of the year for three reasons. First, impact of the floods on food inflation is set to ease in the near future. Second, the economic slowdown brought about by the COVID-19 global pandemic will dampen domestic consumption. Lastly, a high base for comparison in the last few months of 2019 will weigh on CPI growth in the coming months.

Exhibit 1: China’s CPI growth and forecasts, August 2018 to December 2020



Source: National Bureau of Statistics

Exhibit 2: China’s CPI growth by commodity, February to July 2020

| | yoy growth (%) | | | | | |
|-----------------------------------|----------------|------|------|------|------|------|
| | Feb 20 | Mar | Apr | May | Jun | Jul |
| Clothing | 0.5 | -0.3 | -0.4 | -0.4 | -0.4 | -0.5 |
| Household articles and services | 0.1 | 0.3 | 0.1 | 0.1 | 0.0 | -0.1 |
| Education, culture and recreation | 1.0 | 2.5 | 2.0 | 2.2 | 1.9 | 0.3 |

Source: National Bureau of Statistics

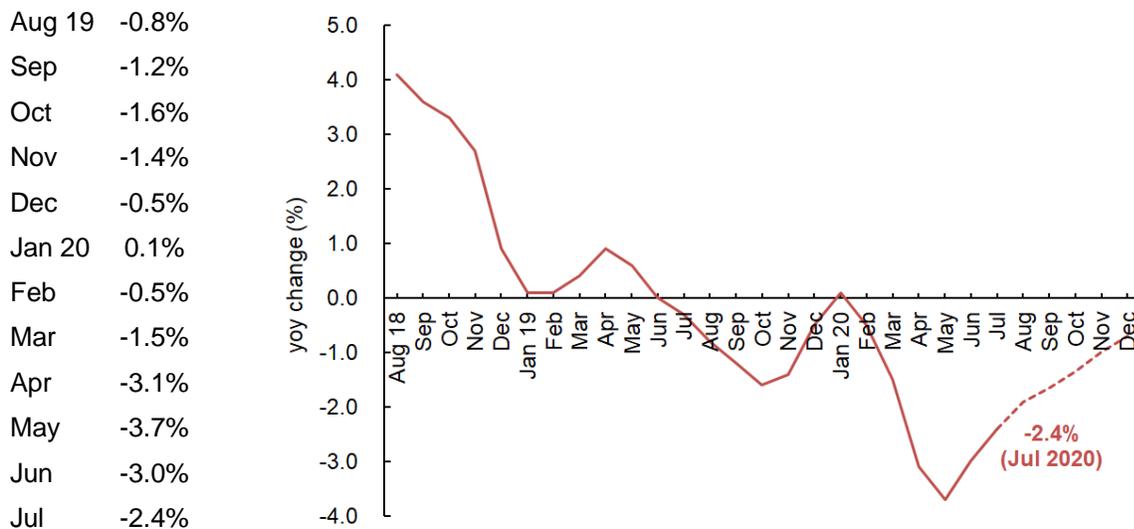
¹ The CPI, compiled by the National Bureau of Statistics (NBS) of China, measures the price of a basket of goods and services purchased by a typical household.

2. Ex-factory prices of industrial products rise month-on-month in July

China’s factory gate deflation eased further in July as the year-on-year growth in the producer price index of industrial products (PPI) improved from minus 3.0% in June to minus 2.4% in July (see exhibits 3 & 4). On a month-on-month basis, the PPI went up by 0.4% in July. The increase in the PPI in July was mainly attributed to a rise in ex-factory prices in the crude oil, coal, and non-ferrous metals industries.

Going forward, the demand for industrial products is likely to continue to increase as domestic economic activity is set to recover further and major developed countries have also gradually reopened their economy. Besides, the rebound in global commodity prices will push up domestic prices of production inputs, adding cost pressures on manufacturers. Therefore, we expect that the PPI will continue to go up on a month-on-month basis, and the year-on-year growth will pick up further in the coming months.

Exhibit 3: China’s PPI growth and forecasts, August 2018 to December 2020



Source: National Bureau of Statistics

Exhibit 4: China’s PPI growth by selected industry, February to July 2020

| | yoy growth (%) | | | | | |
|--|----------------|------|------|------|------|------|
| | Feb 20 | Mar | Apr | May | Jun | Jul |
| Textile | -3.0 | -3.2 | -4.5 | -5.4 | -5.6 | -6.0 |
| Textile wearing apparel and ornament | -0.5 | -0.9 | -1.0 | -1.0 | -0.9 | -1.3 |
| Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products | 0.0 | -0.1 | -0.7 | -0.7 | -1.3 | -1.4 |

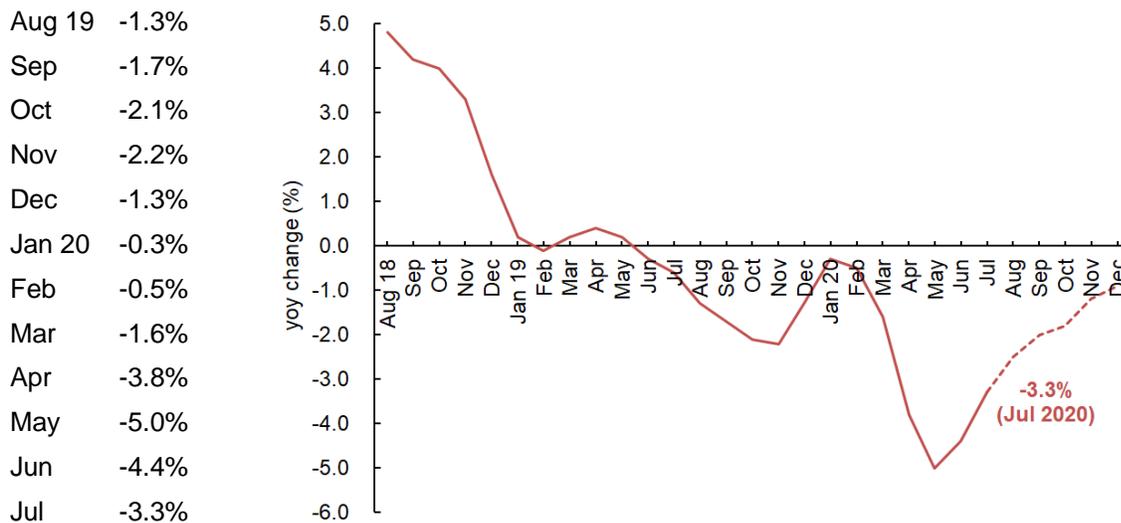
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs go up month-on-month in July

The year-on-year growth rate of the purchaser price index of industrial products improved from minus 4.4% in June to minus 3.3% in July, indicating moderation in China’s upstream deflation (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index increased by 0.9% in July, after rising by 0.4% in June.

Going forward, as domestic industrial production has returned to normal, the demand for production inputs is likely to improve further in the near future. Therefore, we expect that both the year-on-year growth and month-on-month growth in input prices will continue to pick up in the coming months.

Exhibit 5: Growth and forecasts of China’s purchaser price index of industrial products, August 2018 to December 2020



Source: National Bureau of Statistics

Exhibit 6: China’s purchaser price index of industrial products by selected commodity, February to July 2020

| | yoy growth (%) | | | | | |
|---------------------------------------|----------------|------|-------|-------|-------|-------|
| | Feb 20 | Mar | Apr | May | Jun | Jul |
| Fuel and power | -1.0 | -4.0 | -11.4 | -15.5 | -14.2 | -10.8 |
| Non-ferrous metal materials and wires | -1.2 | -4.8 | -6.6 | -5.5 | -3.3 | -0.3 |
| Chemical raw materials | -6.0 | -7.2 | -9.3 | -10.3 | -9.4 | -8.9 |
| Wood and pulp | -2.7 | -2.0 | -2.7 | -3.3 | -2.9 | -2.1 |
| Textile raw materials | -2.8 | -2.9 | -3.6 | -4.1 | -4.0 | -3.9 |

Source: National Bureau of Statistics

FUNG BUSINESS INTELLIGENCE

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