



# China Sourcing Update

July 18, 2016

## Major Price Indicators

### 1. CPI growth drops further in June

The year-on-year (yoy) growth rate of China's consumer price index (CPI)<sup>1</sup> dropped from 2.0% in May to 1.9% in June, which was still higher than expectations (see *exhibit 1 and 2*).

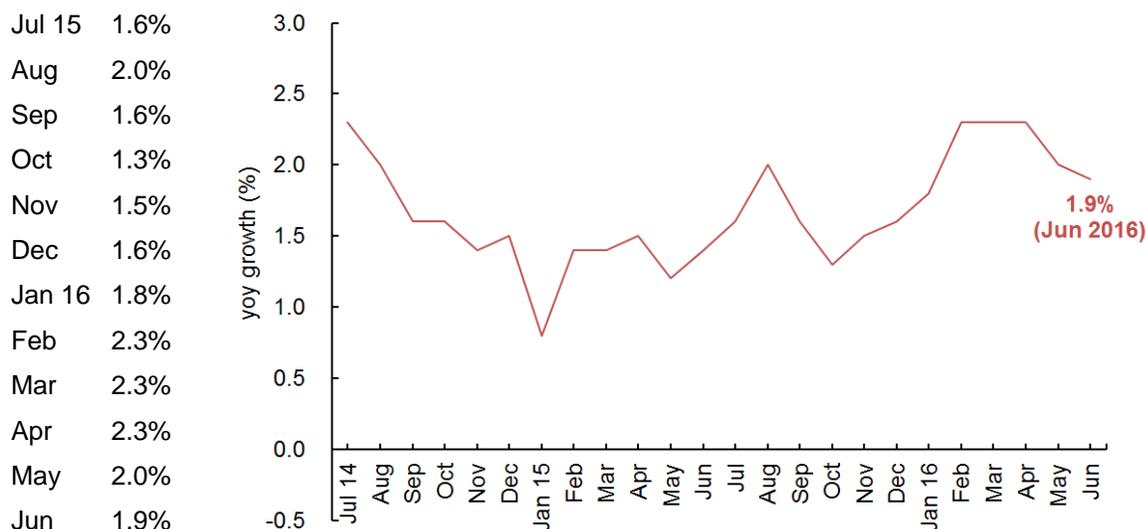
The moderation in CPI growth in June was largely due to the decline in the year-on-year growth of the food component in the CPI, which came in at 4.6% in June, after registering 5.9% in May. Meanwhile, the year-on-year growth of the non-food component in the CPI edged up to 1.2% in June from 1.1% in May.

Looking ahead, we expect that the non-food inflation will stay around the current level in the near future, unless the domestic demand improves significantly; and we expect the growth of the food component in the CPI to rise in the coming months, as widespread flooding in central and south China has driven up food prices lately. Overall, in our view, the CPI growth is likely to rebound in the coming months.

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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, July 2014 to June 2016



Source: National Bureau of Statistics, PRC

## Exhibit 2: China's CPI growth by commodity, January to June 2016<sup>2</sup>

yoy growth (%)

	Jan 16	Feb	Mar	Apr	May	Jun
Clothing	1.9	1.6	1.5	1.5	1.5	1.4
Household goods and services	0.6	0.3	0.4	0.5	0.6	0.6
Education, culture and recreational activities	1.7	0.9	1.2	1.2	1.2	1.4

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products fall on month-on-month basis

The year-on-year growth of China's producer price index of industrial products (PPI)<sup>3</sup> improved from minus 2.8% in May to minus 2.6% in June (see exhibits 3 & 4).

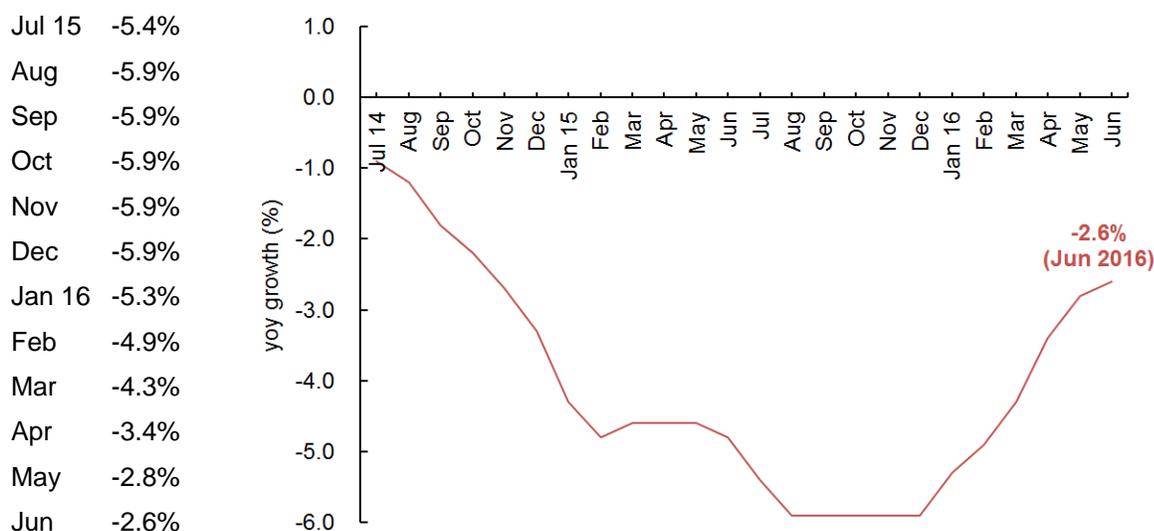
On a month-on-month (mom) basis, the PPI dropped by 0.2% in June, after having risen for three consecutive months. The fall in the PPI in the month was mainly due to the price declines in the 'manufacture and processing of ferrous metals' industry.

<sup>2</sup> Starting from January 2016, the old category of 'household goods and maintenance services' has been re-categorized into a new category called 'household goods and services' and the category of 'other goods and services'. The old category of 'recreational, educational products and services' has been re-categorized into a new category called 'education, culture and recreational activities' and the category of 'other goods and services'.

<sup>3</sup> The PPI, compiled by the National Bureau of Statistics of China, measures the prices of industrial products when they are sold for the first time after production.

Looking ahead, we expect that the year-on-year growth of the PPI will further improve in the coming months, driven by the rise in prices of production inputs.

**Exhibit 3: China's PPI growth, July 2014 to June 2016**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China's PPI growth by selected industry, January to June 2016**

	yoy growth (%)					
	Jan 16	Feb	Mar	Apr	May	Jun
Textile industry	-2.9	-2.7	-2.5	-2.5	-2.6	-2.3
Apparel and accessories	0.5	0.3	0.3	0.5	0.5	0.6
Timber processing & wood, bamboo, cane, palm fiber and straw products	-0.7	-0.8	-0.8	-0.8	-0.5	-0.3

Source: National Bureau of Statistics, PRC

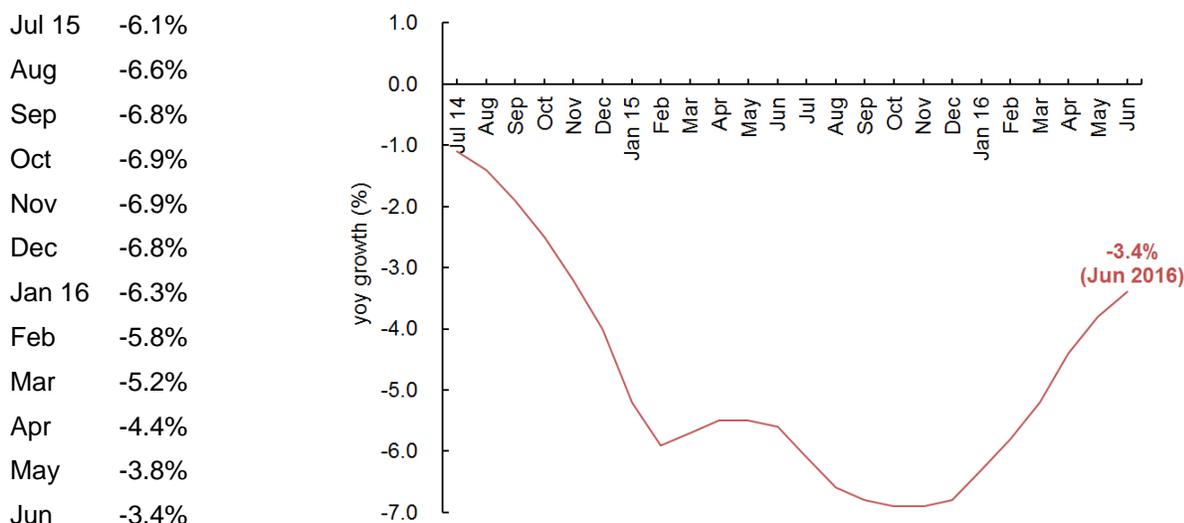
### 3. Domestic prices of production inputs continue to rise

On a mom basis, the purchaser price index of industrial products went up by 0.2% in June, posting month-on-month gains for four consecutive months. The rise in the purchaser price index in recent months can be attributed to the bottoming out of global commodity prices, in our view.

The year-on-year growth rate of the purchaser price index of industrial products rose to a 19-month high of minus 3.4% in June from minus 3.8% in May (see exhibits 5 & 6).

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, has stayed above the critical 50-mark for five consecutive months from February through June, indicating that prices of production inputs have been bottoming out. Thus, we believe that the year-on-year growth rate of the purchaser price index of industrial products will improve further in near future.

**Exhibit 5: Growth of China's purchaser price index of industrial products, July 2014 to June 2016**



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products by selected commodity, January to June 2016**

	yoy growth (%)					
	Jan 16	Feb	Mar	Apr	May	Jun
Fuel and power	-10.7	-10.0	-10.4	-9.4	-8.3	-7.2
Non-ferrous metals	-10.4	-9.1	-7.2	-6.9	-7.0	-5.7
Raw materials for the chemical industry	-5.7	-5.1	-4.3	-3.9	-4.1	-4.2
Timber and paper pulp	-0.5	-0.6	-0.6	-0.8	-0.7	-0.8
Textile raw materials	-1.6	-1.5	-1.5	-1.4	-1.3	-1.2

Source: National Bureau of Statistics, PRC

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

The purchaser price index of fuel and power dropped by 7.2% yoy in June, improving from the minus 8.3% yoy growth in May (see exhibit 6).

*(ii) Purchaser price index of non-ferrous metals*

The year-on-year growth rate of the purchaser price index of non-ferrous metals fell at a slower pace, by 5.7% yoy, in June, after dropping by 7.0% yoy in May (see exhibit 6).

*(iii) Purchaser price index of raw materials for the chemical industry*

The purchaser price index of raw materials for the chemical industry declined by 4.2% yoy in June, compared with a 4.1% yoy drop in May (see exhibit 6).

*(iv) Purchaser price index of timber and paper pulp*

The year-on-year growth of the purchaser price index of timber and paper pulp went down to minus 0.8% in June from minus 0.7% in May (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 registered minus 1.2% in June, edging up slightly from minus 1.3% in May (see exhibit 6).

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