



China Sourcing Update

July 13, 2018

Major Price Indicators

1. CPI growth inches up in June

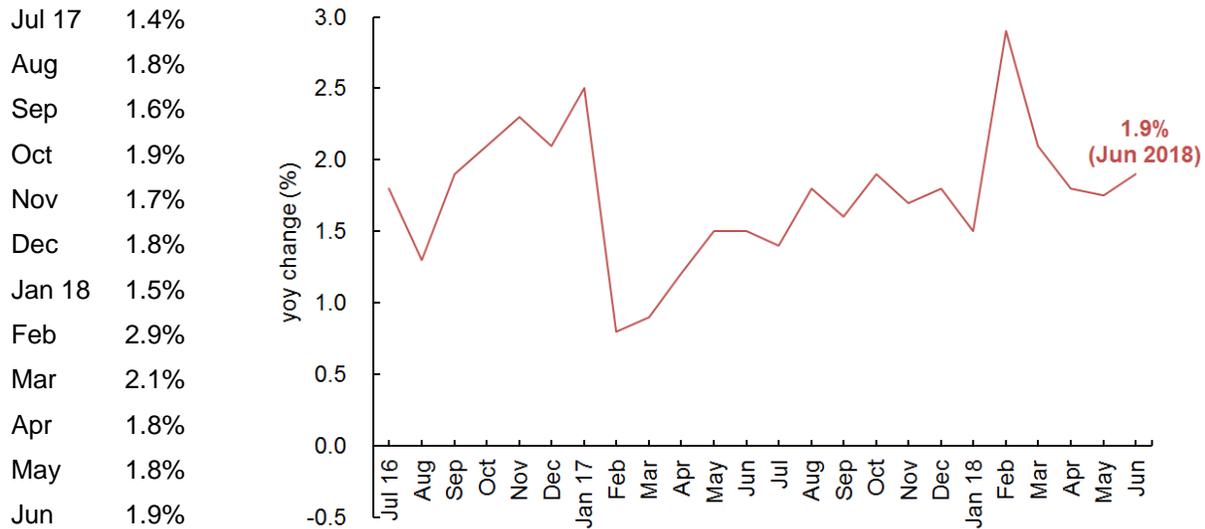
The year-on-year growth rate of China's consumer price index (CPI)¹ increased slightly from 1.8% in May to 1.9% in June, which was in line with market expectations (see *exhibits 1 & 2*).

The mild acceleration in the CPI growth in June was attributable to a slightly faster rise in food prices in the month. The year-on-year growth in the food component in the CPI went up from 0.1% in May to 0.3% in June, due largely to a smaller decline in pork prices. Meanwhile, the year-on-year growth in the non-food component stayed flat at 2.2% in June compared with the previous month.

On 6 July, the 25% retaliatory tariffs on US\$34 billion worth of US imports came into effect. Since the targeted products are mostly agricultural products (including soybeans, which are mostly used as a livestock feed) and aquatic products, food prices, in particular pork prices, in China are likely to rise as a result. Thus, we expect that China's CPI growth will trend slightly upward in the coming months.

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, July 2016 to June 2018



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, January to June 2018²

yoy growth (%)

	Jan 18	Feb	Mar	Apr	May	Jun
Clothing	1.4	1.1	1.1	1.1	1.1	1.1
Household articles and services	1.5	1.8	1.6	1.5	1.5	1.5
Education, culture and recreation	0.9	3.7	2.2	2.0	1.9	1.8

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products rise in June

The year-on-year growth in China's producer price index of industrial products (PPI) went up from 4.1% in May to 4.7% in June (see exhibits 3 & 4).

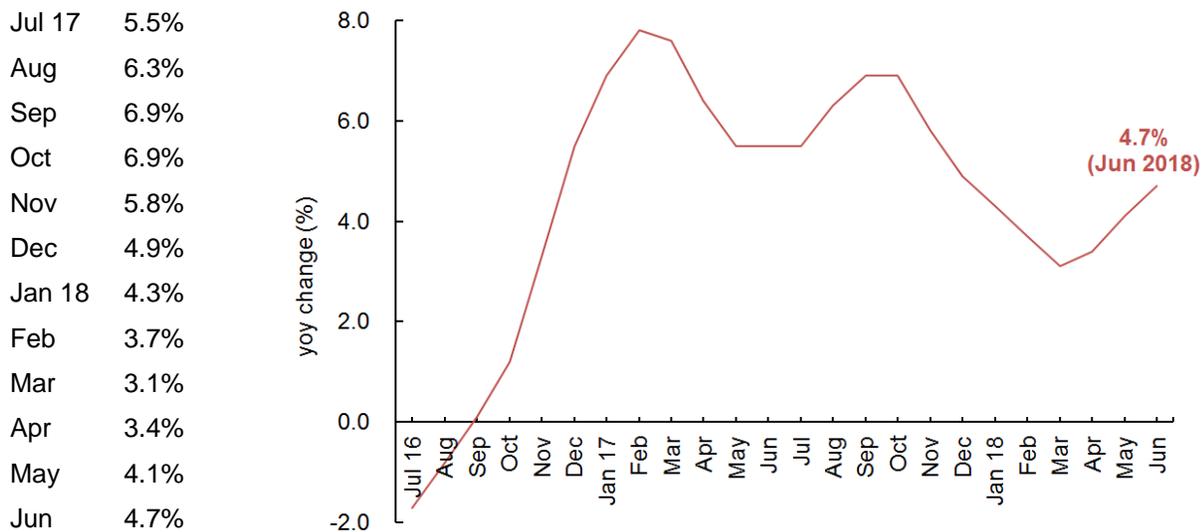
On a month-on-month basis, the PPI moved higher by 0.3% in June, posting month-on-month rise for two consecutive months. The increase in the PPI in the month was

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'.

caused mainly by a jump in the ex-factory prices in the ‘extraction of petroleum and natural gas’ and ‘processing of petroleum, coking, processing of nucleus fuel’ industries.

Going forward, the year-on-year growth in the PPI is expected to stay high in July as the latest reading of the input prices sub-index of China’s manufacturing PMI shows a recent hike in the domestic prices of production inputs. However, the growth in the PPI is likely to fall in the following months till year-end, due partly to a higher base for comparison in the same period last year.

Exhibit 3: China’s PPI growth, July 2016 to June 2018



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, January to June 2018

	yoy growth (%)					
	Jan 18	Feb	Mar	Apr	May	Jun
Textile	2.1	1.7	1.7	1.7	1.9	2.1
Textile wearing apparel and ornament	0.8	0.7	0.4	0.5	0.6	0.6
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.2	1.2	1.2	1.6	1.7	1.9

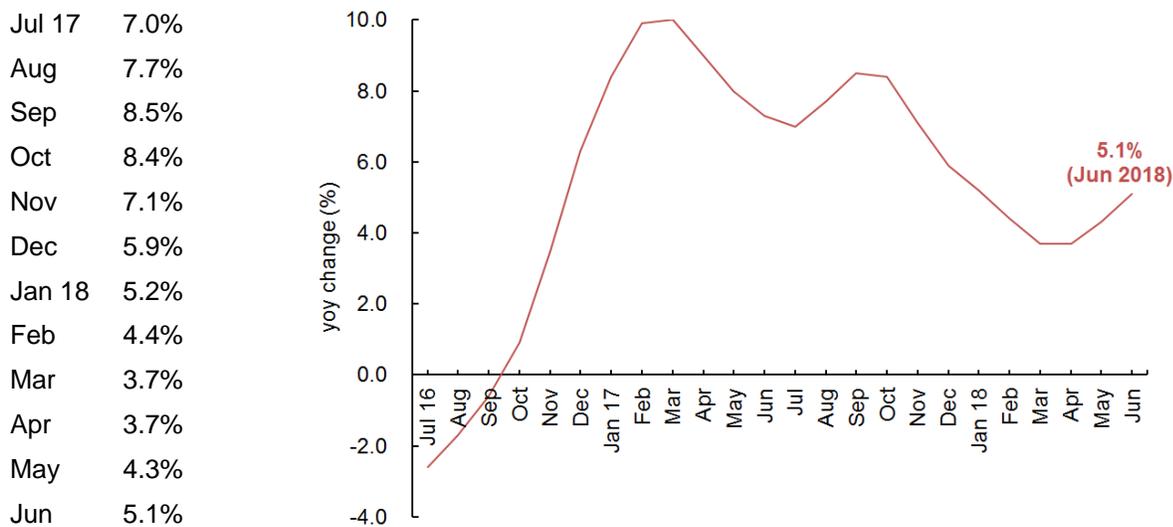
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs go up in June

The year-on-year growth rate of the purchaser price index of industrial products jumped from 4.3% in May to 5.1% in June (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index climbed by 0.4% in June, posting month-on-month increase for two consecutive months.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, registered 57.7 in June. The index reading is higher than that of last month (56.7) and is well above the neutral level of 50, indicating that domestic prices of production inputs have been rising strongly. Thus, we expect that the year-on-year growth rate of the purchaser price index will go up further in July. However, the growth in the purchaser price index is likely to drop in the following months till year-end, due partly to a higher comparison base in the same period last year.

Exhibit 5: Growth of China's purchaser price index of industrial products, July 2016 to June 2018



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products
by selected commodity, January to June 2018**

yoy growth (%)

	Jan 18	Feb	Mar	Apr	May	Jun
Fuel and power	6.2	6.0	4.9	4.6	5.5	8.1
Non-ferrous metal materials and wires	10.5	8.3	6.8	6.4	7.6	7.9
Chemical raw materials	5.9	4.3	3.4	4.2	5.3	5.8
Wood and pulp	7.0	6.4	6.5	7.0	7.8	7.4
Textile raw materials	2.3	1.7	1.7	1.7	1.7	2.1

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel and power

The year-on-year growth rate of the purchaser price index of fuel and power jumped to 8.1% in June from 5.5% in May (see exhibit 6).

(ii) Purchaser price index of non-ferrous metal materials and wires

The purchaser price index of non-ferrous metal materials and wires gained 7.9% yoy in June, compared with the 7.6% yoy growth in the previous month (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 5.8% in June, up from 5.3% in May (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 eased to 7.4% in June from 7.8% in the previous month (see exhibit 6).

(v) Purchaser price index of textile raw materials

The purchaser price index of textile raw materials increased at a faster pace, by 2.1% yoy, in June, after rising by 1.7% yoy in May (see exhibit 6).

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