



China Sourcing Update

July 12, 2019

Major Price Indicators

1. CPI growth stays high in June

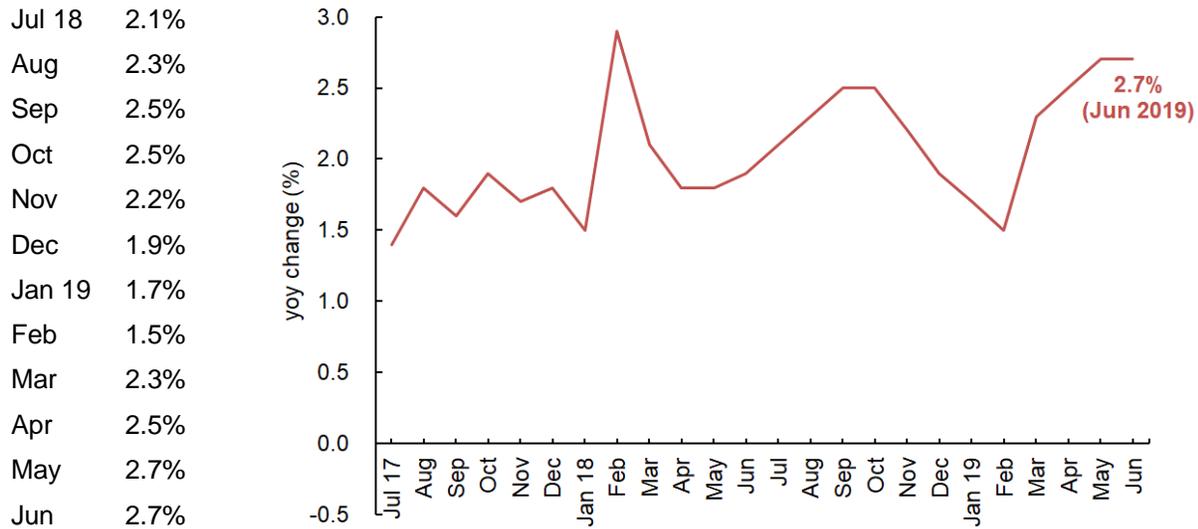
The year-on-year growth rate of China's consumer price index (CPI)¹ was 2.7% in June, the same as in May (*see exhibits 1 & 2*).

The reason for the stabilization of the CPI growth in June was that a rise in food inflation was offset by a drop in non-food inflation in the month. The year-on-year growth in the food component in the CPI climbed from 7.7% in May to 8.3% in June, due largely to a further increase in fruit and pork prices. Meanwhile, the year-on-year growth in the non-food component declined from 1.6% in May to 1.4% in June.

Looking ahead, we expect that China's CPI growth will stay high in July but ease afterwards, as the impacts of the cut in value-added taxes across various sectors start to unfold.

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 2017 to June 2019



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, January to June 2019²

yoy growth (%)

	Jan 19	Feb	Mar	Apr	May	Jun
Clothing	1.6	2.0	2.0	1.8	1.7	1.8
Household articles and services	1.5	1.3	1.2	1.1	1.0	0.8
Education, culture and recreation	2.9	2.4	2.4	2.5	2.6	2.4

Source: National Bureau of Statistics, PRC

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

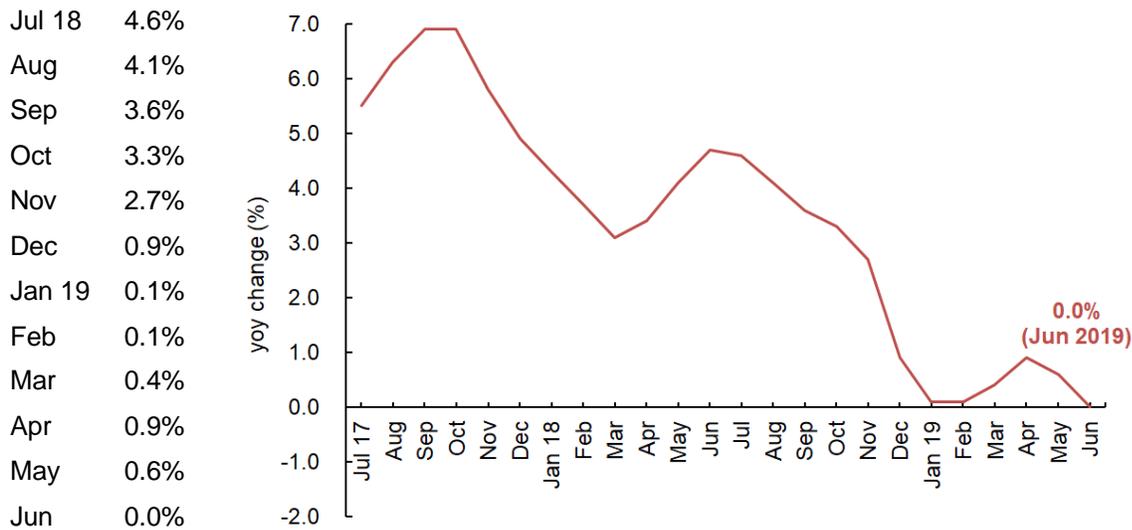
The year-on-year growth in China's producer price index of industrial products (PPI) went down from 0.6% in May to 0.0% in June (see exhibits 3 & 4).

On a month-on-month basis, the PPI dropped by 0.3% in June after rising by 0.2% in the previous month, as the ex-factory prices in the 'processing of petroleum, coking, processing of nucleus fuel', 'extraction of petroleum and natural gas', and 'manufacture and processing of ferrous metals' industries fell in June.

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'.

Looking ahead, we expect that the month-on-month growth in the PPI will remain negative in the near future, as the June reading of the ex-factory prices sub-index of China’s manufacturing PMI went down further to 45.4 from 49.0 in May, indicating strong deflationary pressures on ex-factory prices. Meanwhile, the year-on-year growth in the PPI is likely to return to negative territory in July and continue to fall in the following 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, July 2017 to June 2019



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, January to June 2019

	yoy growth (%)					
	Jan 19	Feb	Mar	Apr	May	Jun
Textile	1.6	1.4	1.2	1.1	0.9	0.1
Textile wearing apparel and ornament	1.3	1.2	1.3	1.1	1.0	0.9
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.2	1.5	1.2	1.1	1.1	1.2

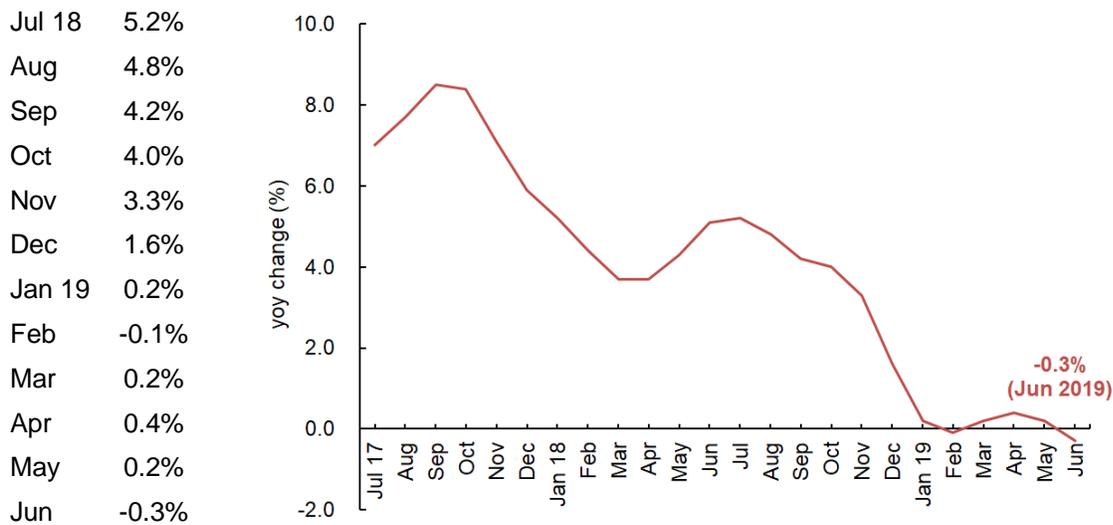
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs go down in June

The year-on-year growth rate of the purchaser price index of industrial products fell from 0.2% in May to minus 0.3% in June, returning to negative territory and registering the lowest level since September 2016 (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index edged down by 0.1% in June, after staying flat in May.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, dropped to 49.8 in June from 51.8 in May, indicating deflationary pressures. Therefore, we expect that the month-on-month growth in the purchaser price index of industrial products will stay low or negative in the near term. Meanwhile, the year-on-year growth rate of the index is likely to remain negative and fall 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, July 2017 to June 2019



Source: National Bureau of Statistics, PRC

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

yoy growth (%)

	Jan 19	Feb	Mar	Apr	May	Jun
Fuel and power	0.3	-0.5	0.7	1.6	1.4	-0.2
Non-ferrous metal materials and wires	-3.3	-2.9	-1.7	-1.6	-2.5	-3.5
Chemical raw materials	-1.6	-2.3	-2.4	-2.8	-3.5	-4.7
Wood and pulp	0.6	0.4	-0.4	-1.3	-2.5	-3.0
Textile raw materials	1.5	1.5	1.2	1.1	0.7	-0.1

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 returned to negative territory with a minus 0.2% growth in June (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 fell by 3.5% yoy in June, compared with the 2.5% yoy drop in May (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 declined to minus 4.7% in June from minus 3.5% in the previous month (see exhibit 6).

(iv) Purchaser price index of wood and pulp

The purchaser price index of textile raw materials dropped at a faster pace, by 3.0% yoy, in June, after falling by 2.5% yoy 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 turned negative, registering minus 0.1% in June (see exhibit 6).

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