



# China Sourcing Update

March 16, 2016

## Major Price Indicators

### 1. CPI growth is higher than expected

According to the National Bureau of Statistics, the year-on-year (yoy) growth rate of China's consumer price index (CPI)<sup>1</sup> registered 2.3% in February, higher than expectations (*see exhibit 1 and 2*).

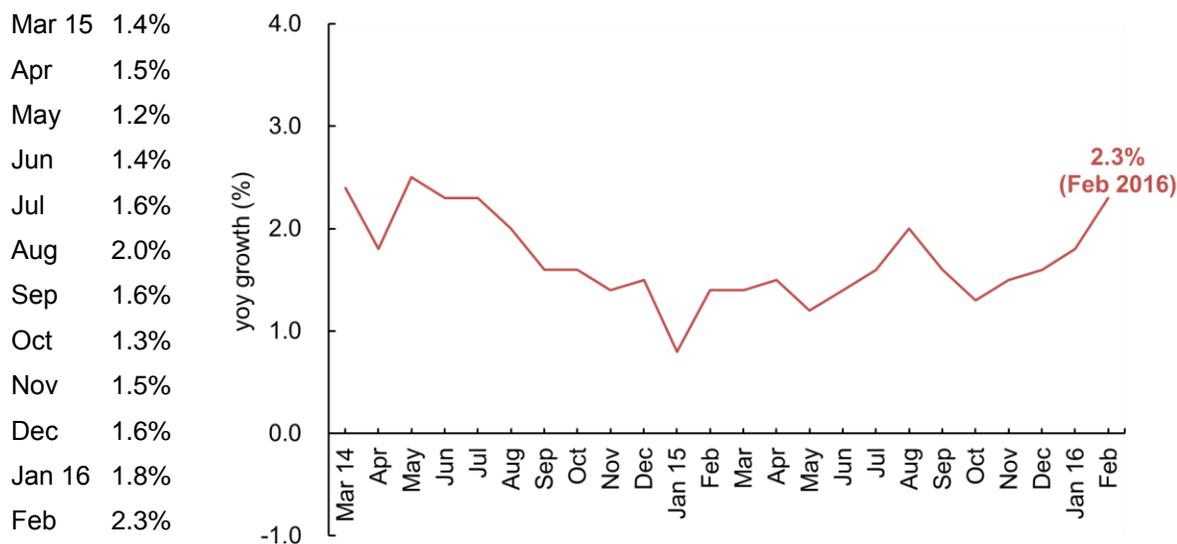
The yoy growth of the food component in the CPI went up further from 4.1% in January to 7.3% in February, which was the main reason behind the higher yoy growth of the February CPI. The cold weather and the increased demand for food during the Chinese New Year holidays pushed up the food prices in February. For example, the prices of fresh vegetables went up by 30.6% yoy, or 29.9% month-on-month (mom); and the prices of pork rose by 25.4% yoy, or 6.3% mom, during the month. Meanwhile, the yoy growth of the non-food component in the CPI remained relatively stable at 1.0% in February.

Looking ahead, we expect that the non-food inflation will stay at around the current level in the near future, amid the weak domestic demand. Pork prices may continue to rise in the coming months, and food prices may stay high during March. Overall, in our view, the CPI growth is likely to be around 2% in the coming month.

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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, March 2014 to February 2016



Source: National Bureau of Statistics, PRC

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

yoy growth (%)

	Sep 15	Oct	Nov	Dec	Jan 16	Feb
Clothing	2.8	2.4	2.2	2.0	1.9	1.6
Household goods and services					0.6	0.3
Education, culture and recreational activities					1.7	0.9

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products fall at a slower pace

China's producer price index of industrial products (PPI)<sup>3</sup> continued to fall, but at a slower pace, by 4.9% in February, compared to 5.3% yoy in January (see exhibits 3 & 4).

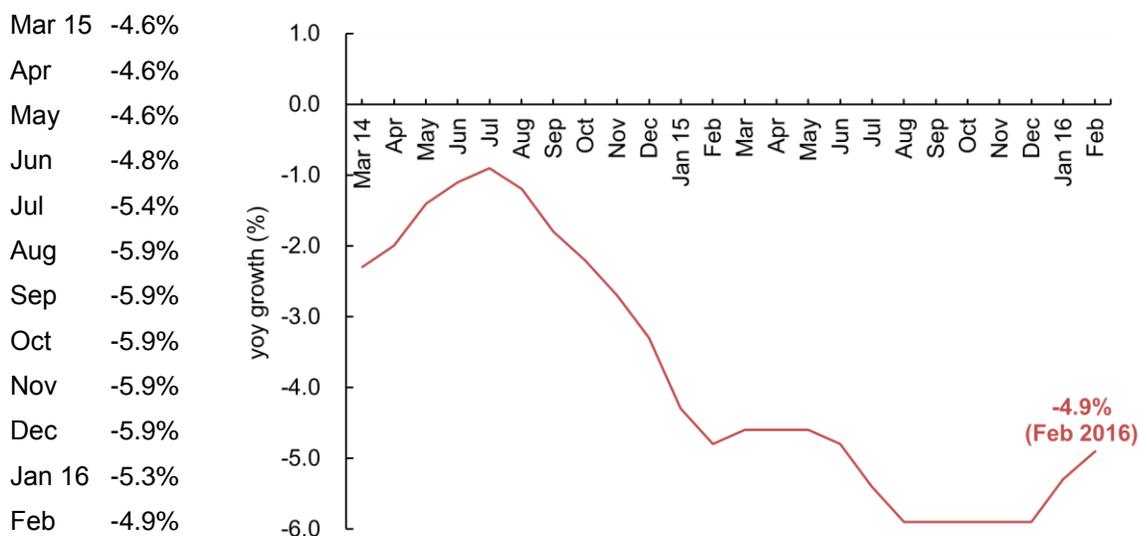
On a mom basis, the PPI fell by 0.3% in February, after dropping by 0.5% in January. The improvement in the PPI growth was mainly due to the rise or slower decreases in the ex-factory prices in the steel, non-ferrous metals, coal and crude oil industries during February.

<sup>2</sup>Starting from January 2016, the old category of "Household goods and maintenance services" has been re-categorized into a new category of "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 of "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.

In the coming months, we expect that the yoy growth of PPI may continue to improve, as the commodities prices are likely to go up in the coming months.

**Exhibit 3: China's PPI growth, March 2014 to February 2016**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China's PPI growth by selected industry, September 2015 to February 2016**

	yoy growth (%)					
	Sep 15	Oct	Nov	Dec	Jan 16	Feb
Textile industry	-2.5	-2.3	-2.2	-2.2	-2.9	-2.7
Textile and clothing	0.9	0.9	0.8	0.8	0.5	0.3
Timber processing & wood, bamboo, cane, palm fiber and straw products	-0.5	-0.7	-0.8	-1.0	-0.7	-0.8

Source: National Bureau of Statistics, PRC

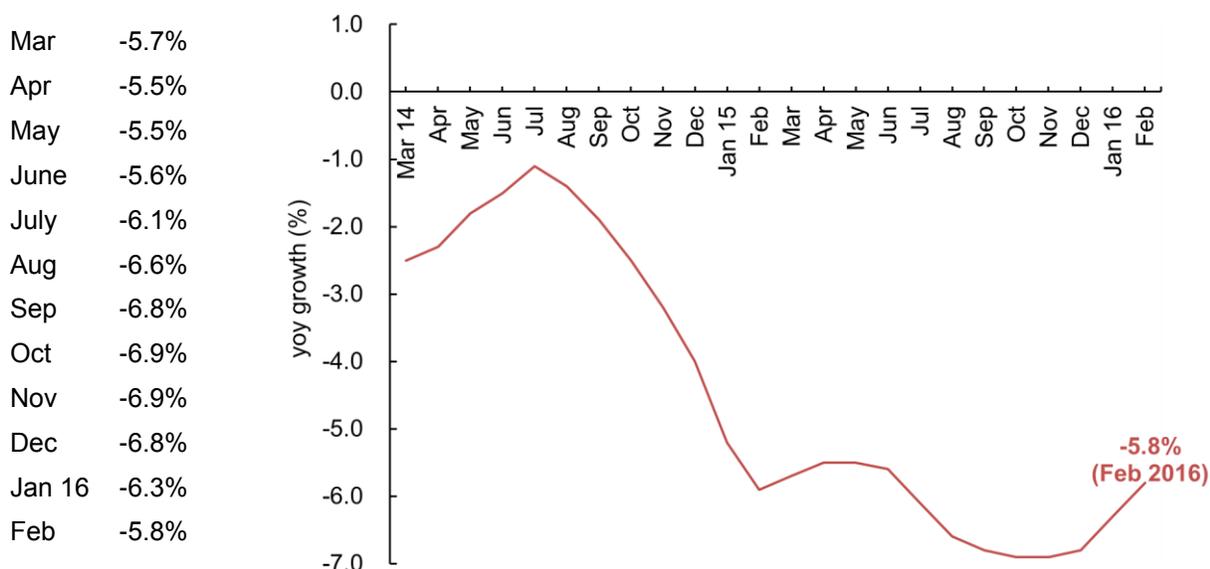
### 3. Domestic prices of production inputs continue to drop

The yoy growth rate of the purchaser price index of industrial products recorded minus 5.8% in February, improving from minus 6.3% in January (see exhibits 5 & 6).

On a mom basis, the purchaser price index dropped further by 0.5% in February, compared to the 0.7% fall in January. The downward trend in the domestic prices of production inputs has continued.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, improved from 45.1 in January to 50.2 in February. In our view, the latest index prices reading suggests that the prices of production inputs may stabilize in the coming months.

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



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products by selected commodity, September 2015 to February 2016**

yoY growth (%)

	Sep	Oct	Nov	Dec	Jan 16	Feb
Fuel & power	-12.3	-12.4	-11.5	-11.0	-10.7	-10.0
Non-ferrous metals	-9.7	-9.6	-11.3	-12.0	-10.4	-9.1
Raw materials for the chemical industry	-7.6	-7.7	-7.6	-7.6	-5.7	-5.1
Timber and paper pulp	-0.5	-0.5	-0.6	-0.6	-0.5	-0.6
Textile raw materials	-2.1	-2.0	-1.9	-1.9	-1.6	-1.5

Source: National Bureau of Statistics, PRC

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

The yoy growth rate of the purchaser price index of fuel and power registered minus 10.0% in February (see exhibit 6).

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

The purchaser price index of non-ferrous metals declined by 9.1% yoy in February, compared with the yoy growth of minus 10.4% yoy in January (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 dropped by 5.1% yoy in February, improving from the minus 5.7% yoy growth in January (see exhibit 6).

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

The purchaser price index of timber and paper pulp dropped by 0.6% yoy in February (see exhibit 6).

*(v) Purchaser price index of textile raw materials*

The yoy growth rate of the purchaser price index of textile raw materials improved slightly, posting minus 1.5% in February (see exhibit 6).

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