



China Sourcing Update

April 13, 2018

Major Price Indicators

1. CPI growth drops in March

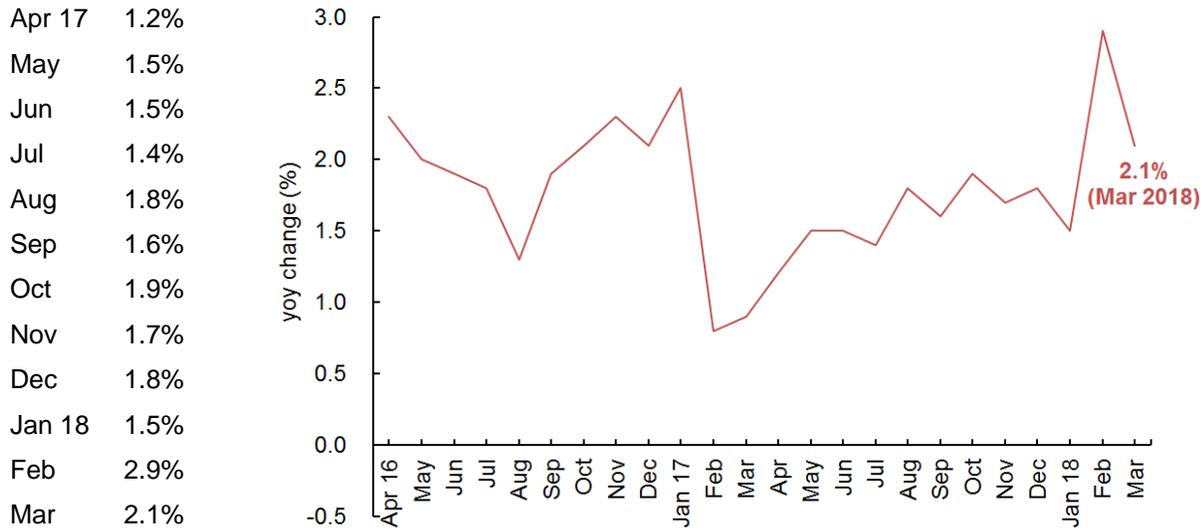
The year-on-year growth rate of China's consumer price index (CPI)¹ went down from a four-year high of 2.9% in February to 2.1% in March, which was below market expectations (see exhibits 1 & 2).

China's CPI growth slowed down in March as both food and non-food prices eased on a month-on-month basis after the Chinese New Year holidays had ended in late February. The year-on-year growth in the food component in the CPI fell sharply from 4.4% in February to 2.1% in March, while the year-on-year growth in the non-food component declined from 2.5% in February to 2.1% in March.

Looking ahead, we predict that the CPI growth will hover around 2% in the coming months, as both the food and non-food inflation are expected to stabilize after a few months of large fluctuations caused by the different timing of the Chinese New Year last year and this year.

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, April 2016 to March 2018



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, October 2017 to March 2018²

yoy growth (%)

	Oct 17	Nov	Dec	Jan 18	Feb	Mar
Clothing	1.2	1.2	1.3	1.4	1.1	1.1
Household articles and services	1.5	1.5	1.6	1.5	1.8	1.6
Education, culture and recreation	2.3	2.0	2.1	0.9	3.7	2.2

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products fall in March

The year-on-year growth in China's producer price index of industrial products (PPI) declined from 3.7% in February to 3.1% in March, the lowest level in more than one year (see exhibits 3 & 4).

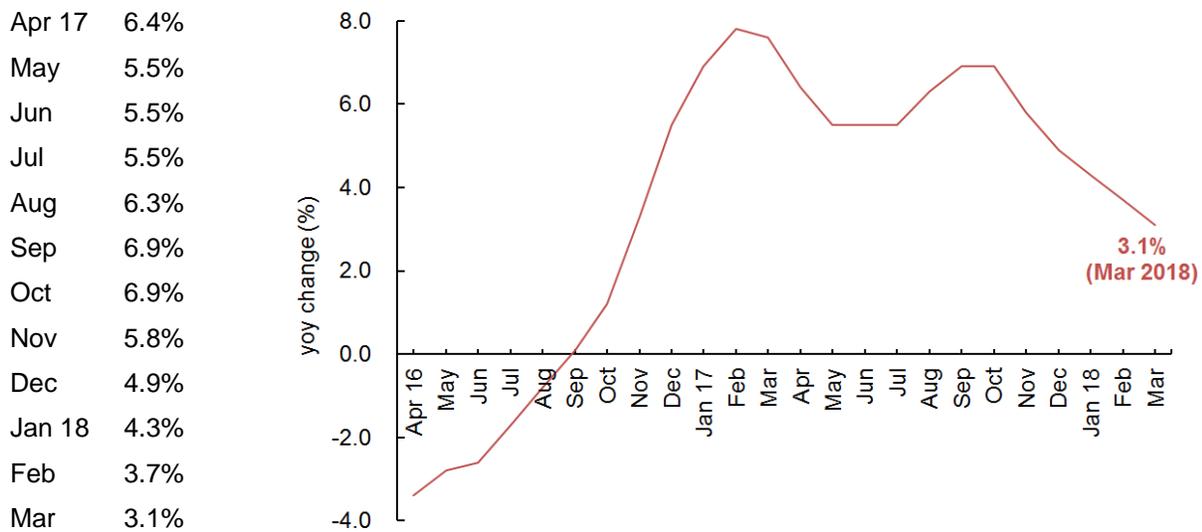
On a month-on-month basis, the PPI edged down by 0.2% in March, posting month-on-month drop for two consecutive months. The fall in the PPI in the month was due largely

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'.

to declines in the ex-factory prices in the ‘production and distribution of gas’, ‘manufacture of chemical raw material and chemical products’, ‘extraction of petroleum and natural gas’, ‘processing of petroleum, coking, processing of nucleus fuel’, and ‘manufacture of motor vehicles’ industries.

Looking ahead, we expect the PPI to fall slightly on a month-on-month basis in the near term, as the March reading of the ex-factory prices sub-index of China’s manufacturing PMI dropped to 48.9, indicating deflationary pressures on ex-factory prices. Meanwhile, the year-on-year growth in the PPI is likely to stabilize in the coming months.

Exhibit 3: China’s PPI growth, April 2016 to March 2018



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, October 2017 to March 2018

	yoy growth (%)					
	Oct 17	Nov	Dec	Jan 18	Feb	Mar
Textile	2.7	2.4	2.4	2.1	1.7	1.7
Textile wearing apparel and ornament	0.7	0.7	0.5	0.8	0.7	0.4
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.6	0.8	1.0	1.2	1.2	1.2

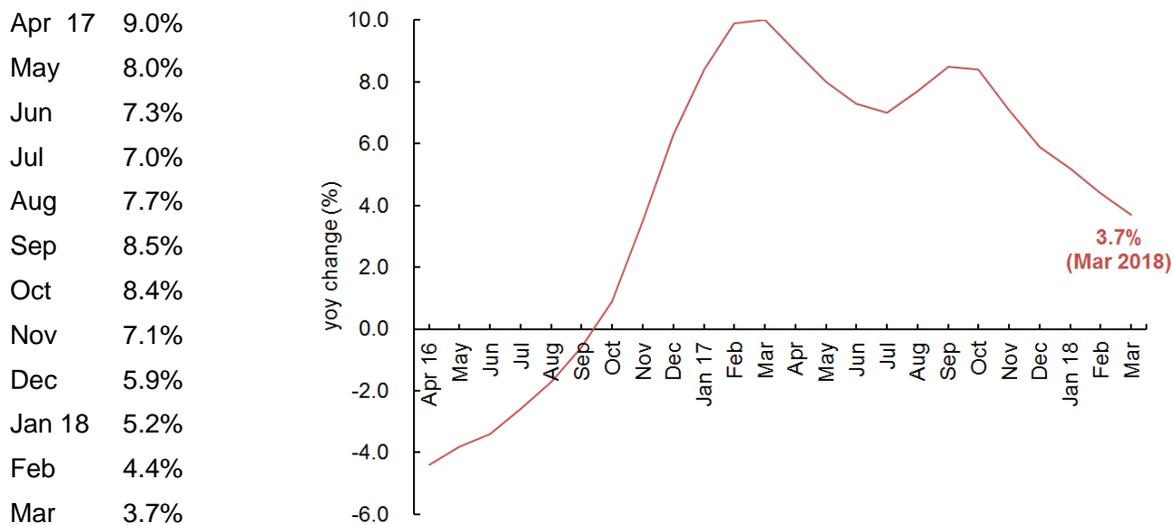
Source: National Bureau of Statistics, PRC

3. Purchaser price index of industrial products drops in March

The year-on-year growth rate of the purchaser price index of industrial products went down from 4.4% in February to 3.7% in March, the lowest level since November 2016 (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index declined by 0.3% in March, posting month-on-month fall for the first time since June last year.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, stayed flat at 53.4 in March, indicating that domestic prices of production inputs have increased at a slow pace lately. Therefore, we believe that the growth rate of the purchaser price index of industrial products is likely to go up slightly on a month-on-month basis in the near future. Meanwhile, the year-on-year growth rate of the purchaser price index is likely to stabilize in the coming couple of months.

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



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products
by selected commodity, October 2017 to March 2018**

yoy growth (%)

	Oct 17	Nov	Dec	Jan 18	Feb	Mar
Fuel and power	10.6	8.0	7.1	6.2	6.0	4.9
Non-ferrous metal materials and wires	19.5	14.7	10.4	10.5	8.3	6.8
Chemical raw materials	9.4	9.2	7.6	5.9	4.3	3.4
Wood and pulp	9.8	9.4	7.6	7.0	6.4	6.5
Textile raw materials	3.8	3.4	2.8	2.3	1.7	1.7

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel and power

The purchaser price index of fuel and power increased at a slower pace, by 4.9% yoy, in March, after rising by 6.0% yoy in February (see exhibit 6).

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

The year-on-year growth rate of the purchaser price index of non-ferrous metal materials and wires dropped to 6.8% in March from 8.3% in the previous month (see exhibit 6).

(iii) Purchaser price index of chemical raw materials

The purchaser price index of chemical raw materials gained 3.4% yoy in March, compared with the 4.3% yoy growth in February (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 edged up to 6.5% from 6.4% in the previous month (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 stayed flat at 1.7% in March, compared with February (see exhibit 6).

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