



# China Sourcing Update

April 12, 2019

## Major Price Indicators

### 1. CPI growth jumps in March

The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> went up from 1.5% in February to 2.3% in March (*see exhibits 1 & 2*).

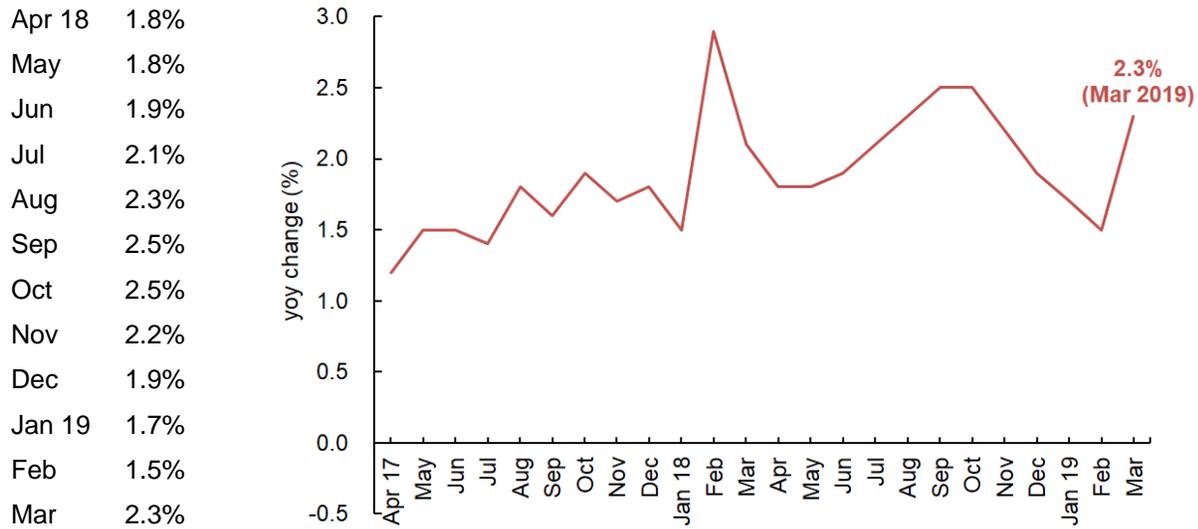
The surge in the CPI growth in March was mainly attributed to a faster increase in food prices in the month: the year-on-year growth in the food component in the CPI went up from 0.7% in February to 4.1% in March. The accelerated hike in food prices was led by rising vegetable and pork prices, which drove the CPI up by more than half a percentage point in the month, according to China's National Bureau of Statistics. Meanwhile, the year-on-year growth in the non-food component edged up from 1.7% in February to 1.8% in March.

Looking ahead, we expect that China's CPI growth will continue to rise in the coming couple of months, due mainly to a further increase in pork prices.

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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, April 2017 to March 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 2: China's CPI growth by commodity, October 2018 to March 2019<sup>2</sup>**

yoy growth (%)

	Oct 18	Nov	Dec	Jan 19	Feb	Mar
Clothing	1.4	1.4	1.5	1.6	2.0	2.0
Household articles and services	1.5	1.5	1.4	1.5	1.3	1.2
Education, culture and recreation	2.5	2.5	2.3	2.9	2.4	2.4

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products go up in March

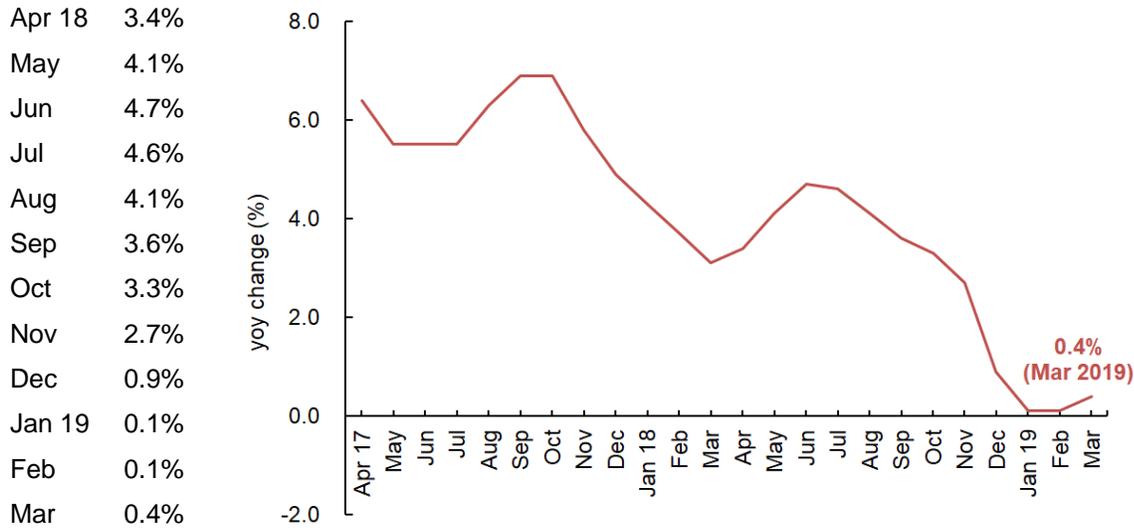
The year-on-year growth in China's producer price index of industrial products (PPI) accelerated from 0.1% in February to 0.4% in March (see exhibits 3 & 4).

After having posted month-on-month drop for four consecutive months, the PPI went up by 0.1% mom in March, due mainly to increases in ex-factory prices in the 'extraction of petroleum and natural gas', 'processing of petroleum, coking, processing of nucleus fuel' and 'manufacture and processing of ferrous metals' industries in the month.

<sup>2</sup> 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'.

Going forward, the PPI is expected to rise further in April, as the latest reading of the input prices sub-index of China’s manufacturing PMI shows a recent increase in the domestic prices of production inputs. However, the year-on-year growth in the PPI is likely to drop and ultimately return to negative territory in the following months, due largely to a sluggish aggregate demand and a higher comparison base in the same period last year.

**Exhibit 3: China’s PPI growth, April 2017 to March 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China’s PPI growth by selected industry, October 2018 to March 2019**

	yoy growth (%)					
	Oct 18	Nov	Dec	Jan 19	Feb	Mar
Textile	3.1	2.8	1.7	1.6	1.4	1.2
Textile wearing apparel and ornament	1.4	1.6	1.7	1.3	1.2	1.3
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.9	1.6	1.2	1.2	1.5	1.2

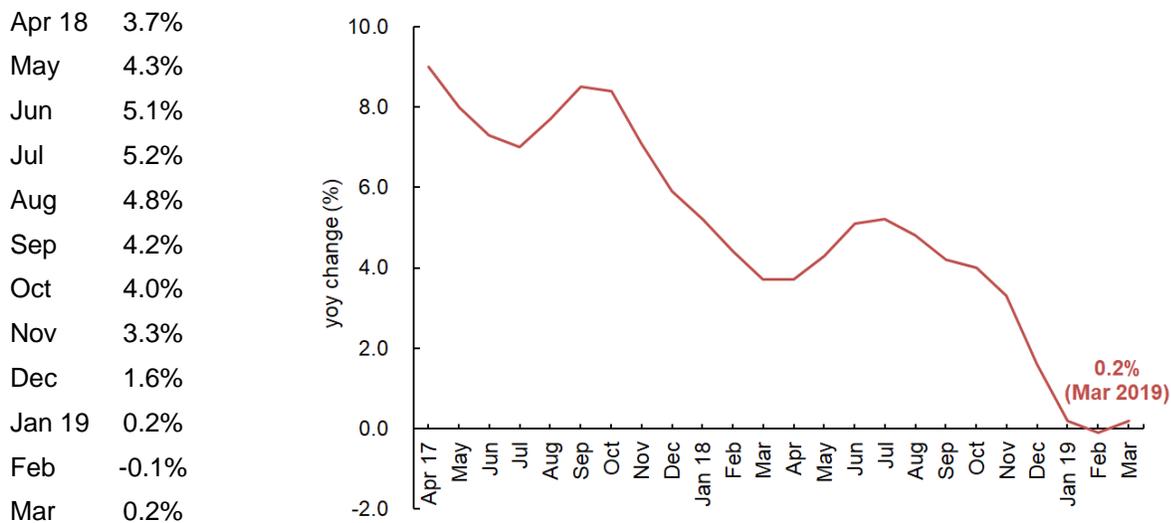
Source: National Bureau of Statistics, PRC

### 3. Domestic prices of production inputs stay flat month-on-month in March

The year-on-year growth rate of the purchaser price index of industrial products improved from minus 0.1% in February to 0.2% in March (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index of industrial products stayed flat over the previous month, after having fallen for three consecutive months.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, rose to 53.5 in March, indicating that prices of production inputs have been rising modestly. Therefore, we expect that the purchaser price index of industrial products will go up slightly in April. However, the year-on-year growth rate of the index is likely to fall and ultimately turn negative in the following months, due mainly to a higher base for comparison in the same period last year.

**Exhibit 5: Growth of China’s purchaser price index of industrial products, April 2017 to March 2019**



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products  
by selected commodity, October 2018 to March 2019**

yoy growth (%)

	Oct 18	Nov	Dec	Jan 19	Feb	Mar
Fuel and power	9.4	7.9	3.8	0.3	-0.5	0.7
Non-ferrous metal materials and wires	-1.7	-2.1	-2.0	-3.3	-2.9	-1.7
Chemical raw materials	5.3	3.2	0.3	-1.6	-2.3	-2.4
Wood and pulp	2.6	1.6	1.4	0.6	0.4	-0.4
Textile raw materials	2.7	2.3	1.9	1.5	1.5	1.2

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 positive territory with a 0.7% growth in March (see exhibit 6).

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

After dropping by 2.9% yoy in February, the purchaser price index of non-ferrous metal materials and wires fell at a slower pace by 1.7% yoy in March (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 stayed in negative territory, posting a 2.4% decline in March (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 turned negative, registering minus 0.4% in March (see exhibit 6).

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

The purchaser price index of textile raw materials gained 1.2% yoy in March, compared with the 1.5% yoy growth last month. (see exhibit 6).

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