



China Sourcing Update

April 15, 2020

Major Price Indicators

1. CPI growth eases in March

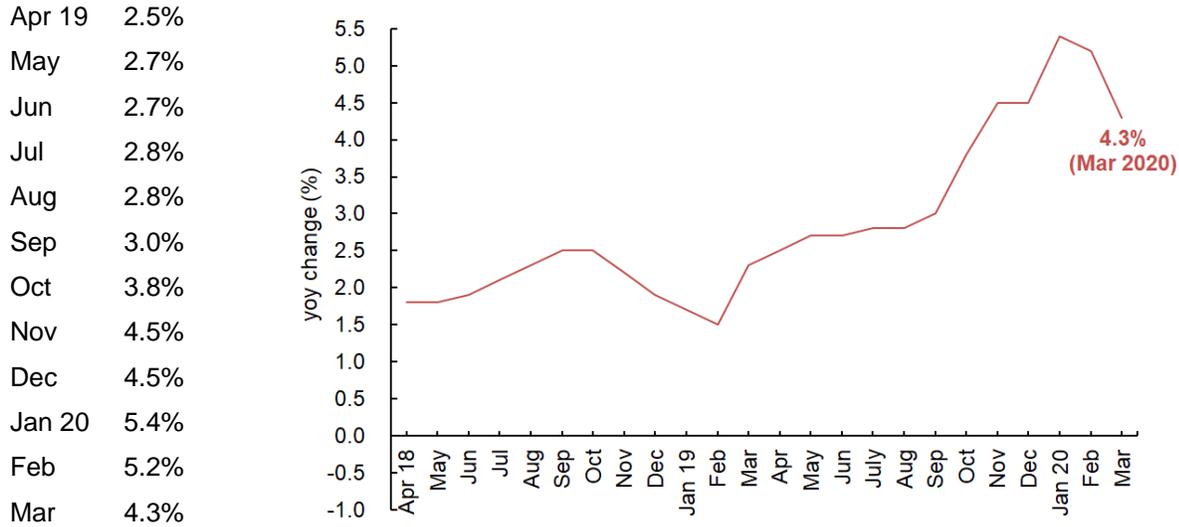
The year-on-year growth rate of China's consumer price index (CPI)¹ slowed from 5.2% in February to 4.3% in March, the lowest in five months (*see exhibits 1 & 2*).

The main reason for the sharp slowdown in CPI growth in March was a decline in food inflation. The year-on-year growth in the food component in the CPI went down from 21.9% in February to 18.3% in March, due largely to a fall in the prices of pork and vegetable. Meanwhile, the year-on-year growth in the non-food component went down from 0.9% in February to 0.7% in March, attributable to a weak domestic demand and a drop in energy and related prices.

Looking ahead, we expect that China's CPI growth will continue to ease in the coming months, as the domestic demand is likely to remain sluggish amid the economic uncertainty brought about by the COVID-19 global pandemic.

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.

Exhibit 1: China's CPI growth, April 2018 to March 2020



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, October 2019 to March 2020

yoy growth (%)

	Oct 19	Nov	Dec	Jan 20	Feb	Mar
Clothing	1.2	1.1	0.8	0.6	0.5	-0.3
Household articles and services	0.6	0.4	0.4	0.2	0.1	0.3
Education, culture and recreation	1.9	1.7	1.8	2.2	1.0	2.5

Source: National Bureau of Statistics, PRC

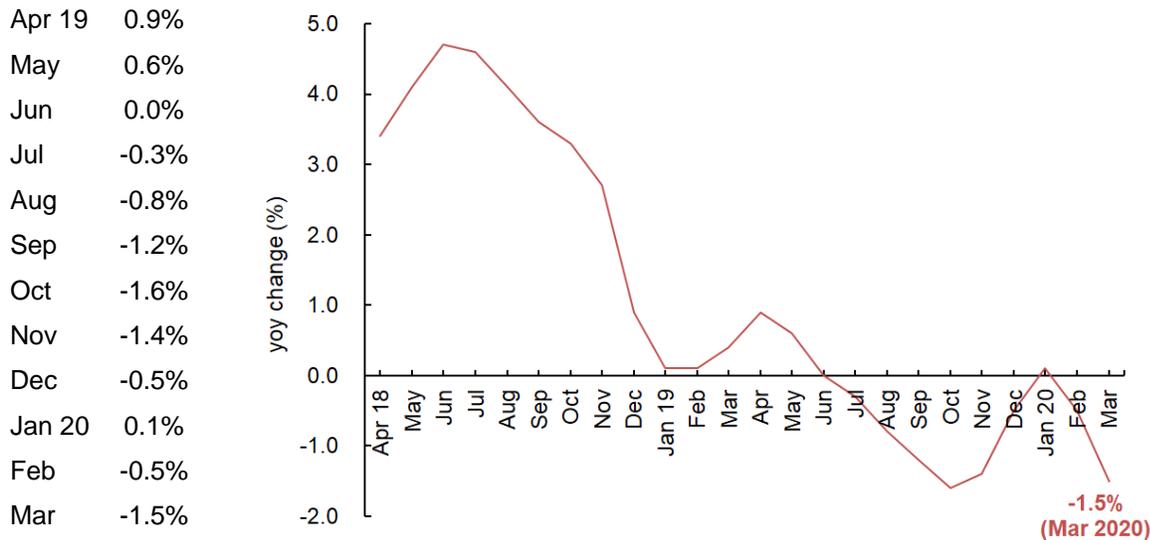
2. Ex-factory prices of industrial products go down in March

The year-on-year growth in China's producer price index of industrial products (PPI) fell from minus 0.5% in February to minus 1.5% in March (see exhibits 3 & 4).

On a month-on-month basis, the PPI went down by 1.0% in March, after dropping by 0.4% in February. The decline in the PPI in March was mainly attributed to a fall in ex-factory prices in the crude oil, ferrous metals, and non-ferrous metals industries, driven by a reduced demand for upstream industrial products amid a weak global economy and a plunge in global commodity prices in the month.

Going forward, a sluggish external demand is likely to continue to drag down the ex-factory prices of industrial products in China. Therefore, we expect that the year-on-year growth in the PPI will go down further, and the month-on-month growth will stay negative in the coming months.

Exhibit 3: China's PPI growth, April 2018 to March 2020



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, October 2019 to March 2020

	yoy growth (%)					
	Oct 19	Nov	Dec	Jan 20	Feb	Mar
Textile	-3.0	-3.0	-2.9	-3.0	-3.0	-3.2
Textile wearing apparel and ornament	0.1	-0.3	-0.7	-0.5	-0.5	-0.9
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.4	0.4	0.5	0.3	0.0	-0.1

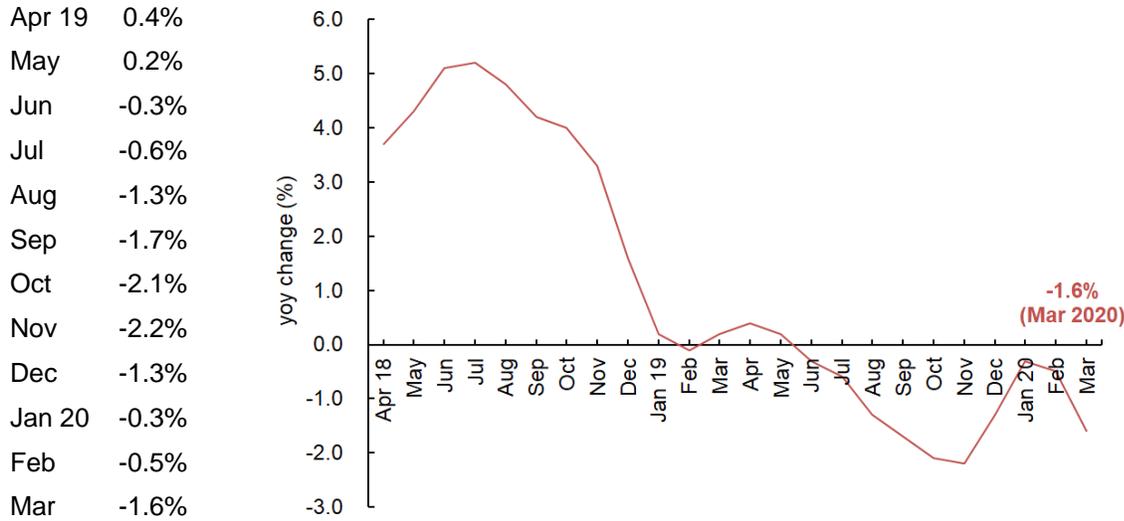
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs drop in March

The year-on-year growth rate of the purchaser price index of industrial products declined from minus 0.5% in February to minus 1.6% in March (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index went down by 1.1% in March.

Going forward, a weak global economy is likely to continue to hamper the recovery of industrial production in China, leading to a fall in the demand for production inputs. Therefore, we expect that the year-on-year growth in input prices will go down further, and the month-on-month growth will stay negative in the near future.

Exhibit 5: Growth of China’s purchaser price index of industrial products, April 2018 to March 2020



Source: National Bureau of Statistics, PRC

Exhibit 6: China’s purchaser price index of industrial products by selected commodity, October 2019 to March 2020

yoy growth (%)

	Oct 19	Nov	Dec	Jan 20	Feb	Mar
Fuel and power	-5.5	-5.8	-3.3	-0.2	-1.0	-4.0
Non-ferrous metal materials and wires	-2.4	-2.3	-1.9	-0.7	-1.2	-4.8
Chemical raw materials	-8.5	-8.4	-7.4	-6.1	-6.0	-7.2
Wood and pulp	-4.4	-3.7	-3.1	-2.9	-2.7	-2.0
Textile raw materials	-2.9	-2.9	-2.9	-2.8	-2.8	-2.9

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel and power

The purchaser price index of fuel and power dropped at a much faster pace, by 4.0% yoy, in March, after falling by 1.0% 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 registered minus 4.8% in March, down from minus 1.2% in the previous month (see exhibit 6).

(iii) Purchaser price index of chemical raw materials

The purchaser price index of chemical raw materials fell by 7.2% yoy in March, compared with a 6.0% yoy drop last month (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 improved to minus 2.0% in March from minus 2.7% in February (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 edged down to minus 2.9% in March from minus 2.8% in the previous month (see exhibit 6).

FUNG BUSINESS INTELLIGENCE

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