



# China Sourcing Update

June 13, 2016

## Major Price Indicators

### 1. CPI growth drops in May

The year-on-year (yoy) growth rate of China's consumer price index (CPI)<sup>1</sup> dropped to 2.0% yoy in May, lower than expectations, after having stayed at 2.3% yoy for three consecutive months (see exhibit 1 and 2).

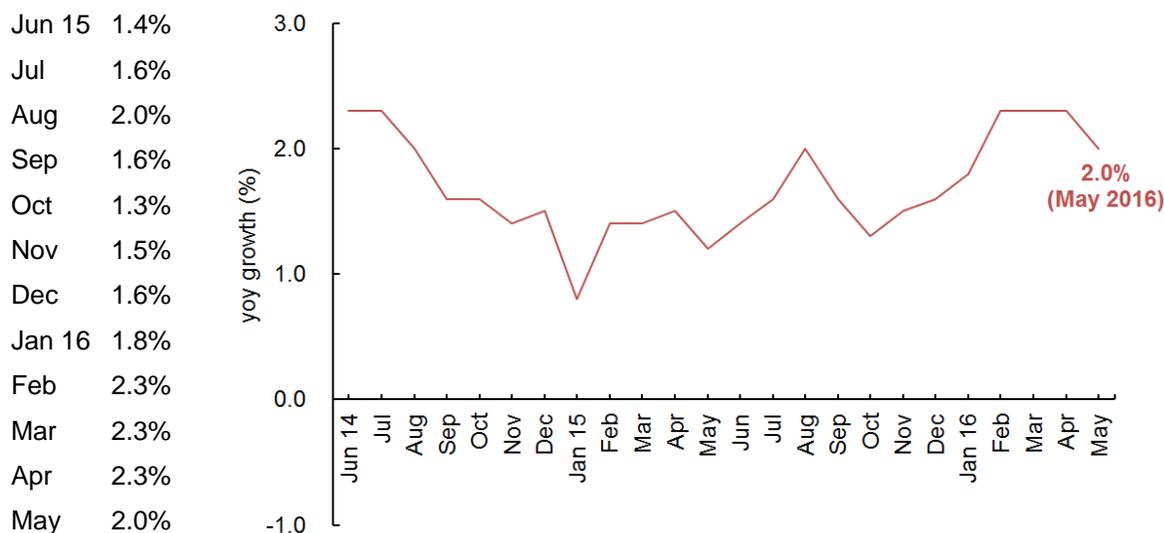
The slowdown in CPI growth in May was largely due to the decline in yoy growth of the food component in the CPI, which came in at 5.9% in May, after registering 7.3%, 7.6% and 7.4% in February, March and April respectively. Meanwhile, the yoy growth of the non-food component in the CPI stayed low at 1.1% yoy in April and in May.

Looking ahead, we expect that the non-food inflation will stay at around the current level in the near future, unless the domestic demand improves significantly; the growth of food component in the CPI is expected to decline in the coming months. Overall, in our view, the CPI growth is likely to stay soft in the coming months.

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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, June 2014 to May 2016



Source: National Bureau of Statistics, PRC

## Exhibit 2: China's CPI growth by commodity, December 2015 to May 2016<sup>2</sup>

yoy growth (%)

	Dec15	Jan 16	Feb	Mar	Apr	May
Clothing	2.0	1.9	1.6	1.5	1.5	1.5
Household goods and services		0.6	0.3	0.4	0.5	0.6
Education, culture and recreational activities		1.7	0.9	1.2	1.2	1.2

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products rise on month-on-month basis

The yoy growth of China's producer price index of industrial products (PPI)<sup>3</sup> improved from minus 4.3% in March to minus 3.4% in April, and further to minus 2.8% in May (see exhibits 3 & 4).

On a month-on-month (mom) basis, the PPI rose by 0.5% in May, posting mom gains for three consecutive months. In our view, the latest rebound in the PPI shows signs of bottoming out of prices of industrial products.

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

Looking ahead, we expect that the PPI will rise further in the coming months, driven by the rise in prices of production inputs.

**Exhibit 3: China's PPI growth, June 2014 to May 2016**



Source: National Bureau of Statistics, PRC

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

	yoy growth (%)					
	Dec 15	Jan 16	Feb	Mar	Apr	May
Textile industry	-2.2	-2.9	-2.7	-2.5	-2.5	-2.6
Apparel and accessories	0.6	0.5	0.3	0.3	0.5	0.5
Timber processing & wood, bamboo, cane, palm fiber and straw products	-1.0	-0.7	-0.8	-0.8	-0.8	-0.5

Source: National Bureau of Statistics, PRC

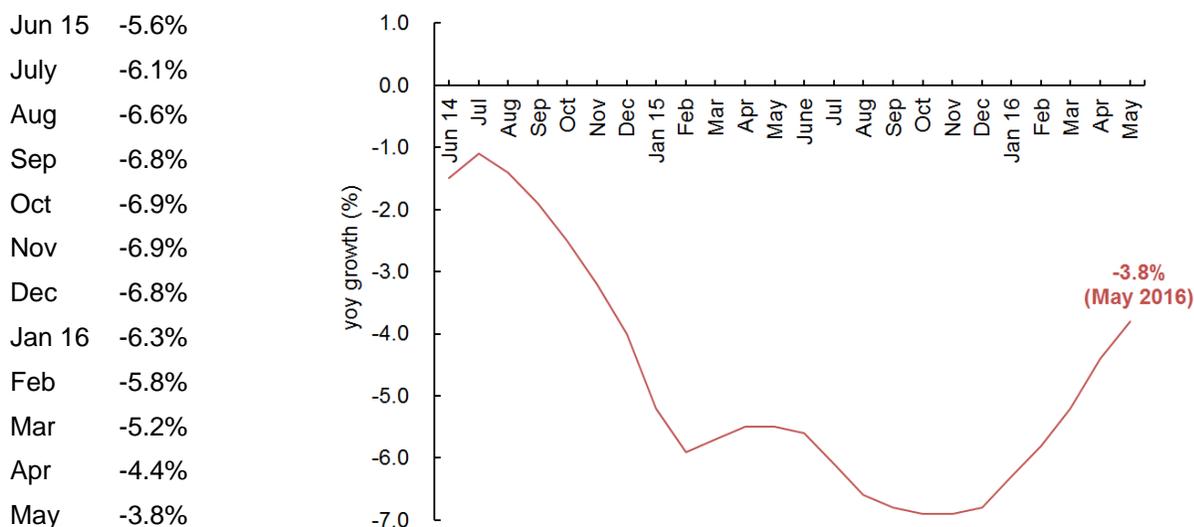
### 3. Domestic prices of production inputs continue to rebound

On a mom basis, the purchaser price index of industrial products rose by 0.6% in May, posting mom gains for three consecutive months. The rise in the purchaser price index in recent months can be attributed to the bottoming out of global commodity prices, in our view.

The yoy growth rate of the purchaser price index of industrial products rose to an 18-month high of minus 3.8% yoy in May from minus 4.4% in April (see exhibits 5 & 6).

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, has stayed above the critical 50-mark for four consecutive months from February through May, indicating that prices of production inputs have been bottoming out. Thus, we believe that the yoy growth rate of the purchaser price index of industrial products will improve further in near future.

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



Source: National Bureau of Statistics, PRC

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

	yoy growth (%)					
	Dec 15	Jan 16	Feb	Mar	Apr	May
Fuel and power	-11.0	-10.7	-10.0	-10.4	-9.4	-8.3
Non-ferrous metals	-12.0	-10.4	-9.1	-7.2	-6.9	-7.0
Raw materials for the chemical industry	-7.6	-5.7	-5.1	-4.3	-3.9	-4.1
Timber and paper pulp	-0.6	-0.5	-0.6	-0.6	-0.8	-0.7
Textile raw materials	-1.9	-1.6	-1.5	-1.5	-1.4	-1.3

Source: National Bureau of Statistics, PRC

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

The purchaser price index of fuel and power fell at a slower pace, by 8.3% yoy, in May, after dropping by 9.4% yoy in April (see *exhibit 6*).

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

The yoy growth rate of the purchaser price index of non-ferrous metals stayed low at minus 7.0% in May, compared to 6.9% in April (see *exhibit 6*).

*(iii) Purchaser price index of raw materials for the chemical industry*

The yoy growth rate of purchaser price index of raw materials for the chemical industry went down to minus 4.1% in May from minus 3.9% in April (see *exhibit 6*).

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

The purchaser price index of timber and paper pulp dropped by 0.7% yoy in May (see *exhibit 6*).

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

The yoy growth rate of the purchaser price index of textile raw materials registered minus 1.3% in May, edging up slightly from minus 1.4% in April (see *exhibit 6*).

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