



China Sourcing Update

June 14, 2019

Major Price Indicators

1. CPI growth accelerates further in May

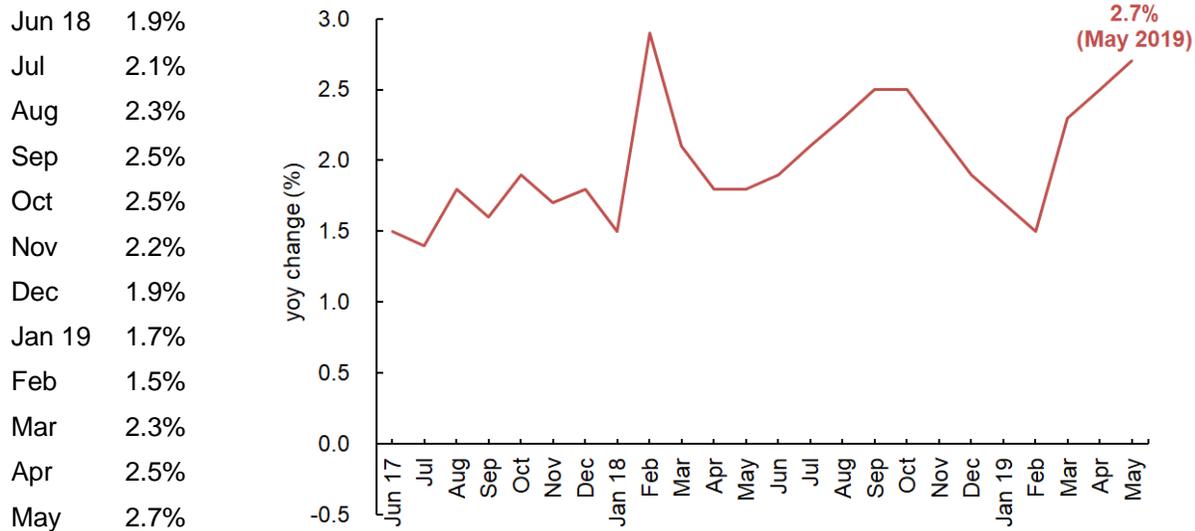
The year-on-year growth rate of China's consumer price index (CPI)¹ rose from 2.5% in April to 2.7% in May, its fastest pace since February 2018 (*see exhibits 1 & 2*).

The reason for the increase in the CPI growth in May was that a faster rise in food prices outweighed a slower growth in non-food prices in the month. The year-on-year growth in the food component in the CPI jumped from 6.1% in April to 7.7% in May, due largely to a surge in fruit and pork prices. Meanwhile, the year-on-year growth in the non-food component edged down from 1.7% in April to 1.6% in May.

Looking ahead, we expect that China's CPI growth will continue to stay high in the coming couple of months, due mainly to high food prices.

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, June 2017 to May 2019



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, December 2018 to May 2019²

yoy growth (%)

	Dec 18	Jan 19	Feb	Mar	Apr	May
Clothing	1.5	1.6	2.0	2.0	1.8	1.7
Household articles and services	1.4	1.5	1.3	1.2	1.1	1.0
Education, culture and recreation	2.3	2.9	2.4	2.4	2.5	2.6

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products rise at slower pace in May

The year-on-year growth in China's producer price index of industrial products (PPI) went down from 0.9% in April to 0.6% in May (see exhibits 3 & 4).

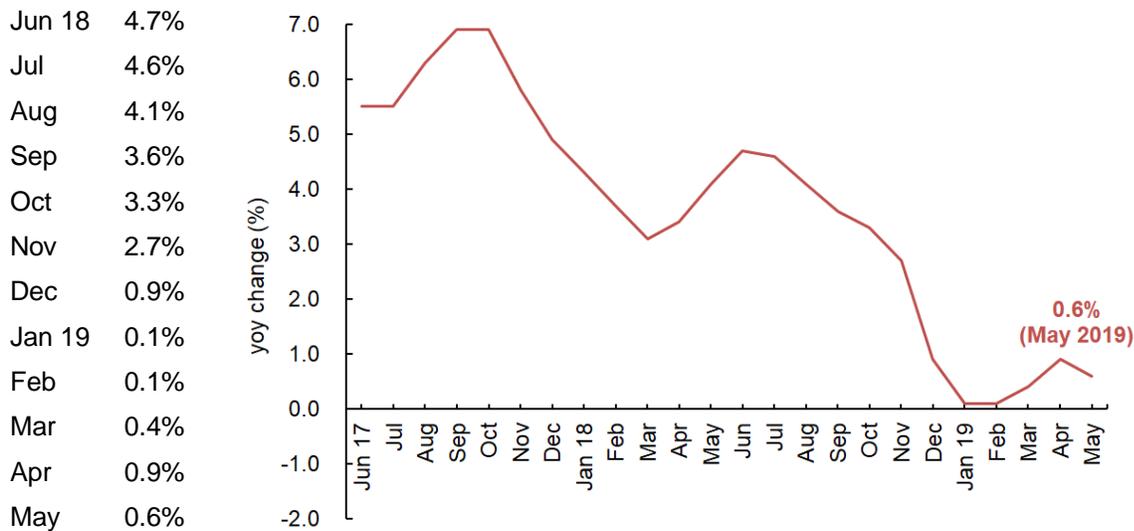
On a month-on-month basis, the PPI rose by 0.2% in May, a smaller increase than the growth of 0.3% recorded in the previous month, as the ex-factory prices in the 'extraction of petroleum and natural gas', 'manufacture of non-metallic mineral products',

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'.

‘processing of petroleum, coking, processing of nucleus fuel’, and ‘manufacture and processing of ferrous metals’ industries posted smaller gains in May.

Looking ahead, we expect that the month-on-month growth in the PPI will continue to ease or even turn negative in the near future, as the May reading of the ex-factory prices sub-index of China’s manufacturing PMI went down to 49.0, indicating deflationary pressures on ex-factory prices. The year-on-year growth in the PPI is also likely to drop in the coming months and could ultimately return to negative territory in the third quarter, due mainly to a sluggish aggregate demand and a higher base for comparison in the same period last year.

Exhibit 3: China’s PPI growth, June 2017 to May 2019



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, December 2018 to May 2019

	<i>yoy growth (%)</i>					
	Dec 18	Jan 19	Feb	Mar	Apr	May
Textile	1.7	1.6	1.4	1.2	1.1	0.9
Textile wearing apparel and ornament	1.7	1.3	1.2	1.3	1.1	1.0
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.2	1.2	1.5	1.2	1.1	1.1

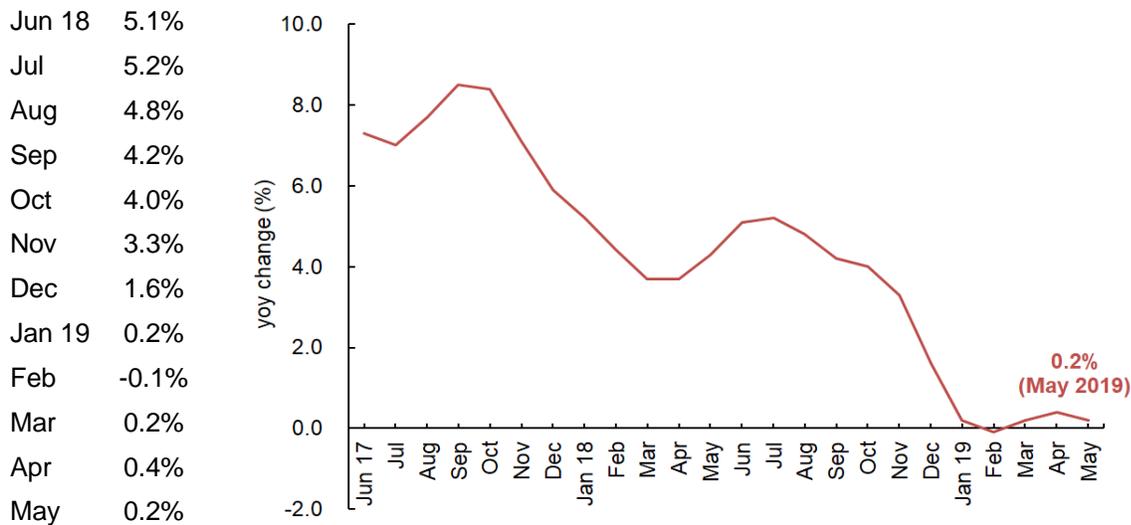
Source: National Bureau of Statistics, PRC

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

The year-on-year growth rate of the purchaser price index of industrial products fell from 0.4% in April to 0.2% in May (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index stayed flat in May over the previous month, after dropping by 0.1% in April.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, came in at 51.8 in May, indicating mild inflationary pressures. Therefore, we expect that the month-on-month growth in the purchaser price index of industrial products will stay low in the near term. Meanwhile, the year-on-year growth rate of the index is likely to fall and ultimately turn negative in the coming months, due largely to a higher comparison base in the same period last year.

Exhibit 5: Growth of China’s purchaser price index of industrial products, June 2017 to May 2019



Source: National Bureau of Statistics, PRC

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

yoy growth (%)

	Dec 18	Jan 19	Feb	Mar	Apr	May
Fuel and power	3.8	0.3	-0.5	0.7	1.6	1.4
Non-ferrous metal materials and wires	-2.0	-3.3	-2.9	-1.7	-1.6	-2.5
Chemical raw materials	0.3	-1.6	-2.3	-2.4	-2.8	-3.5
Wood and pulp	1.4	0.6	0.4	-0.4	-1.3	-2.5
Textile raw materials	1.9	1.5	1.5	1.2	1.1	0.7

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 registered 1.4% in May, edging down from 1.6% in April (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 went down to minus 2.5% in May from minus 1.6% last month (see exhibit 6).

(iii) Purchaser price index of chemical raw materials

The purchaser price index of chemical raw materials fell by 3.5% yoy in May, compared with the 2.8% yoy drop in April (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 declined to minus 2.5% in May from minus 1.3% in the previous month (see exhibit 6).

(v) Purchaser price index of textile raw materials

The purchaser price index of textile raw materials increased at a slower pace, by 0.7% yoy, in May, after rising by 1.1% yoy in April (see exhibit 6).

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