



China Sourcing Update

June 17, 2020

Major Price Indicators

1. CPI growth continues to ease in May

The year-on-year growth rate of China's consumer price index (CPI)¹ slowed from 3.3% in April to 2.4% in May, the lowest since March last year (*see exhibits 1 & 2*).

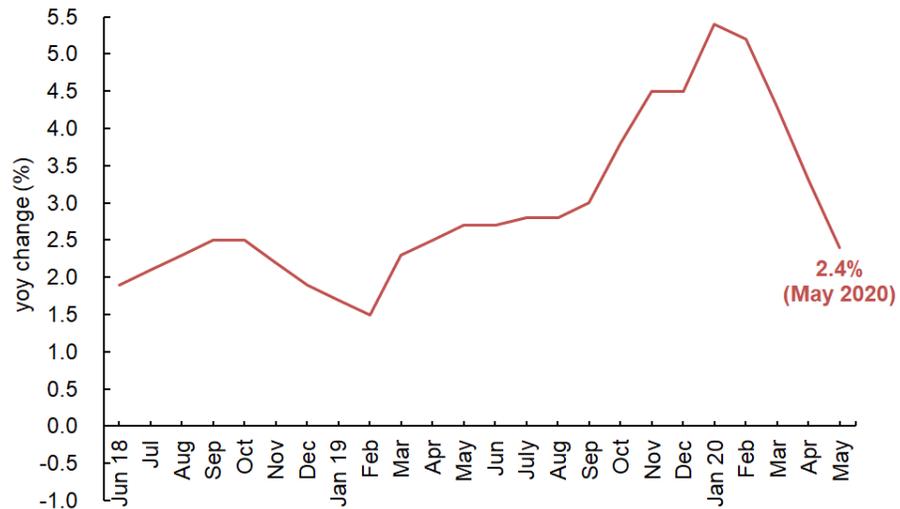
The sharp slowdown in CPI growth in May was attributed to a fall in food inflation. The year-on-year growth in the food component in the CPI went down from 14.8% in April to 10.6% in May, due largely to a decline in the prices of pork and vegetable. Meanwhile, the year-on-year growth in the non-food component came in at 0.4% in May, the same as in April.

Looking ahead, we expect that China's CPI growth will continue to stay low in the coming months, as the domestic demand is likely to remain sluggish amid the economic slowdown 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, June 2018 to May 2020

Jun 19	2.7%
Jul	2.8%
Aug	2.8%
Sep	3.0%
Oct	3.8%
Nov	4.5%
Dec	4.5%
Jan 20	5.4%
Feb	5.2%
Mar	4.3%
Apr	3.3%
May	2.4%



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, December 2019 to May 2020

yoy growth (%)

	Dec 19	Jan 20	Feb	Mar	Apr	May
Clothing	0.8	0.6	0.5	-0.3	-0.4	-0.4
Household articles and services	0.4	0.2	0.1	0.3	0.1	0.1
Education, culture and recreation	1.8	2.2	1.0	2.5	2.0	2.2

Source: National Bureau of Statistics, PRC

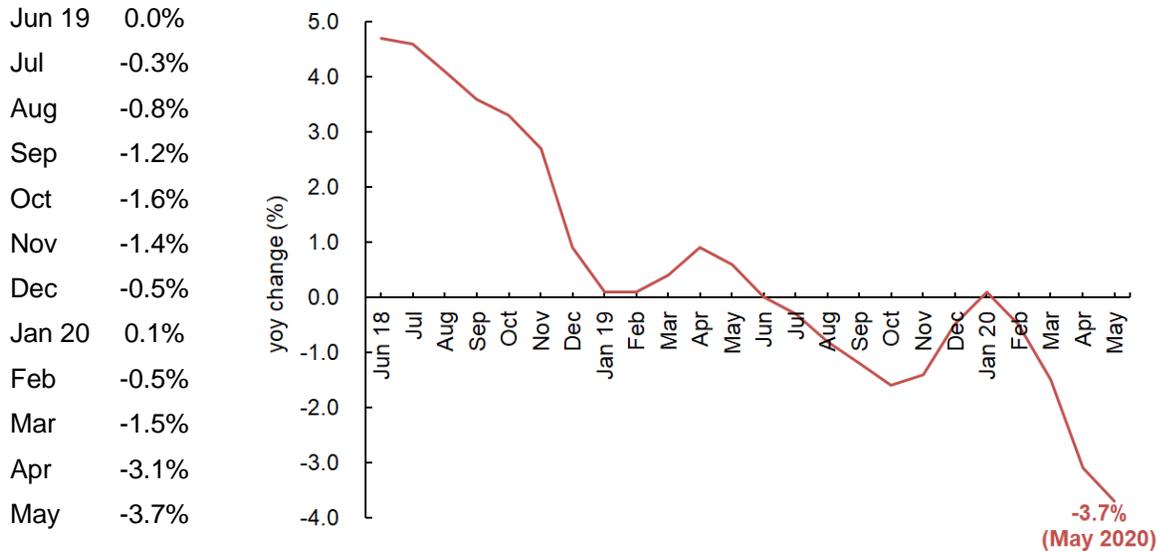
2. Ex-factory prices of industrial products go down in May

The year-on-year growth in China's producer price index of industrial products (PPI) dropped from minus 3.1% in April to minus 3.7% in May (see exhibits 3 & 4).

On a month-on-month basis, the PPI fell by 0.4% in May, after falling by 1.3% in April. The main reason for the decline in the PPI in May was a decrease in ex-factory prices in the crude oil, coal, and chemicals industries, driven by a drop in global commodity prices and a reduced demand for upstream industrial products amid a weak global economy.

Going forward, the demand for industrial products is likely to improve as economic activity has basically returned to normal in China and major developed countries have also gradually restarted their economy. Therefore, we expect that the month-on-month growth in the PPI will return to positive territory, and the year-on-year growth will rebound in the coming months.

Exhibit 3: China's PPI growth, June 2018 to May 2020



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, December 2019 to May 2020

	yoy growth (%)					
	Dec 19	Jan 20	Feb	Mar	Apr	May
Textile	-2.9	-3.0	-3.0	-3.2	-4.5	-5.4
Textile wearing apparel and ornament	-0.7	-0.5	-0.5	-0.9	-1.0	-1.0
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.5	0.3	0.0	-0.1	-0.7	-0.7

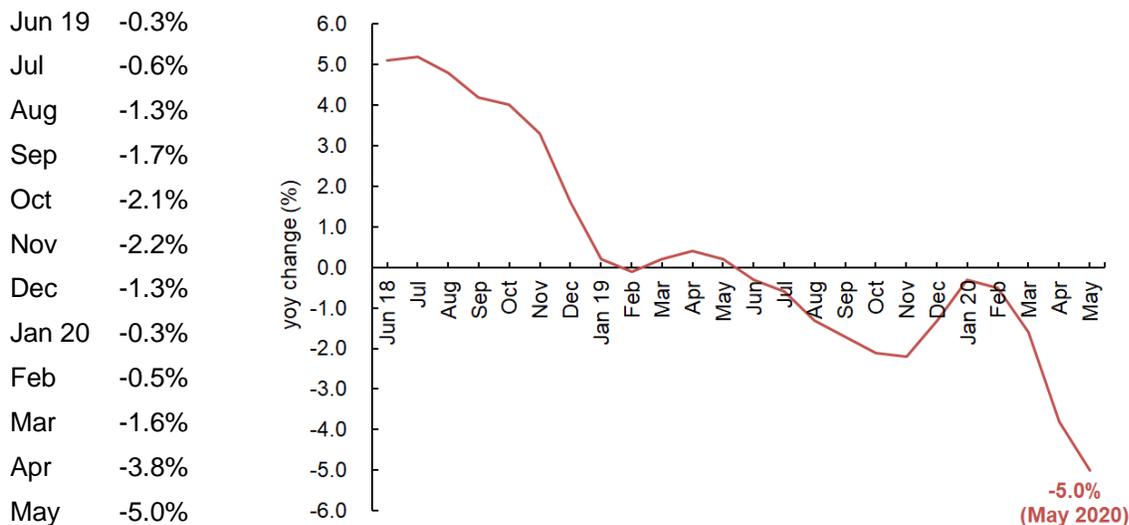
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs drop further in May

The year-on-year growth rate of the purchaser price index of industrial products went down from minus 3.8% in April to minus 5.0% in May (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index declined by 1.2% in May, after dropping by 2.3% in April.

Going forward, as domestic industrial production has returned to normal, the demand for production inputs is likely to improve. Therefore, we expect that both the year-on-year growth and month-on-month growth in input prices will pick up in the near future.

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



Source: National Bureau of Statistics, PRC

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

	yoy growth (%)					
	Dec 19	Jan 20	Feb	Mar	Apr	May
Fuel and power	-3.3	-0.2	-1.0	-4.0	-11.4	-15.5
Non-ferrous metal materials and wires	-1.9	-0.7	-1.2	-4.8	-6.6	-5.5
Chemical raw materials	-7.4	-6.1	-6.0	-7.2	-9.3	-10.3
Wood and pulp	-3.1	-2.9	-2.7	-2.0	-2.7	-3.3
Textile raw materials	-2.9	-2.8	-2.8	-2.9	-3.6	-4.1

Source: National Bureau of Statistics, PRC

FUNG BUSINESS INTELLIGENCE

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Fung Business Intelligence was established in the year 2000.

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Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail.

The Fung Group has over 34,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

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CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

William Kong
Senior Research Manager
williamkong@fung1937.com
(852) 2300 2404

Global Sourcing
Fung Business Intelligence
10/F LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: <http://www.fbicgroup.com>



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