



# China Sourcing Update

December 21, 2016

## Major Price Indicators

### 1. CPI growth inches up in November

The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> rose slightly from 2.1% in October to 2.3% in November, higher than market expectations (*see exhibit 1 and 2*).

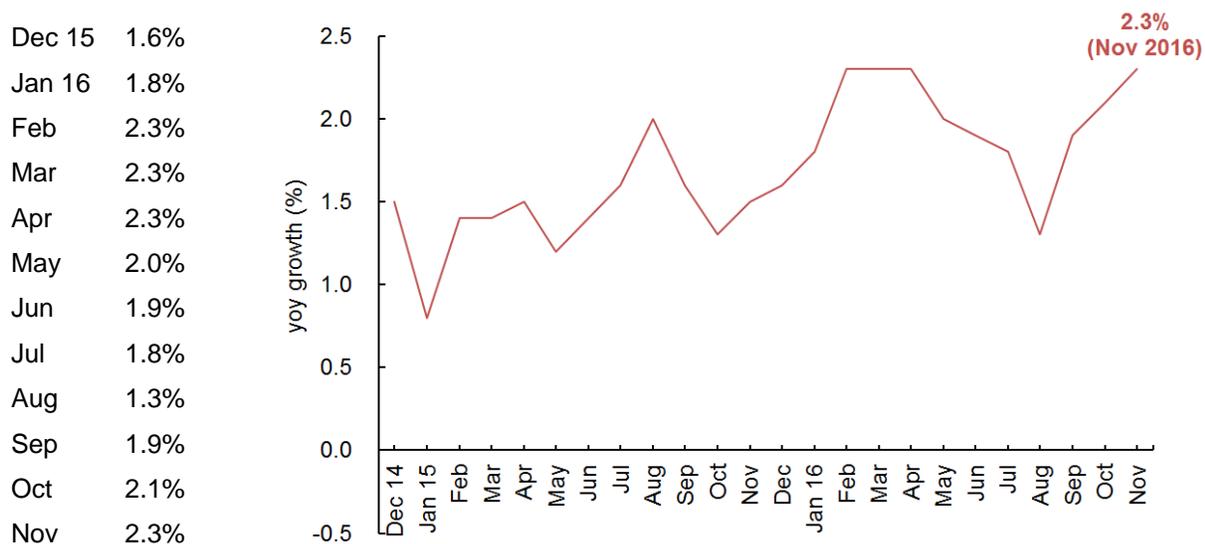
The acceleration in CPI growth in November was mainly attributable to the rise in the year-on-year growth in the food component in the CPI, which came in at 4.0% in November after registering 3.7% in October. For example, the year-on-year growth in vegetable prices, a major driver of China's inflation, increased further to 15.8% in November from 13.0% in October. Meanwhile, the year-on-year growth in the non-food component in the CPI edged up from 1.7% in October to 1.8% in November.

Looking ahead, we believe that the food inflation has peaked and will fall in the near future, due to the recent stabilization of pork prices and vegetable prices; and we expect the non-food inflation to stay around the current level in the near term, unless the domestic demand improves significantly. Overall, in our view, the CPI growth is likely to slow in the coming months.

---

<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, December 2014 to November 2016



Source: National Bureau of Statistics, PRC

### Exhibit 2: China's CPI growth by commodity, June to November 2016<sup>2</sup>

yoy growth (%)

	Jun 16	Jul	Aug	Sep	Oct	Nov
Clothing	1.4	1.4	1.5	1.2	1.3	1.4
Household articles and services	0.6	0.6	0.4	0.3	0.4	0.3
Education, culture and recreation	1.4	1.6	1.3	2.0	2.1	2.2

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products rise further

The year-on-year growth in China's producer price index of industrial products (PPI)<sup>3</sup> went up markedly from 1.2% in October to 3.3% in November, the highest level in five years (see exhibits 3 & 4).

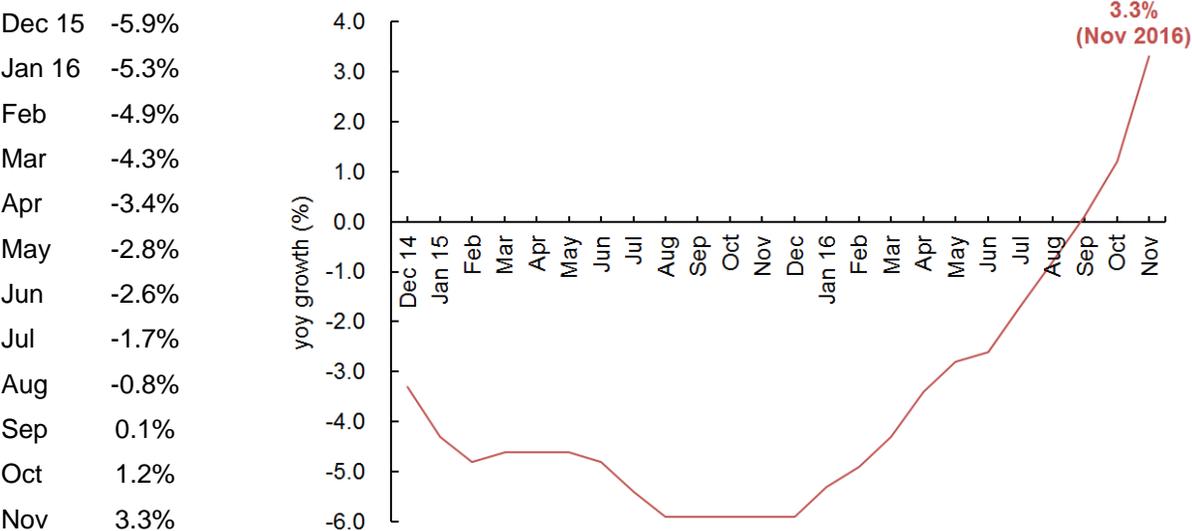
<sup>2</sup> Starting from January 2016, the old category of 'household facilities, articles and maintenance services' has been re-categorized into a new category called 'household articles and services' and the category of 'other articles and services'. The old category of 'recreation, education, culture articles and services' has been re-categorized into a new category called 'education, culture and recreation' and the category of 'other articles and services'.

<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.

On a month-on-month basis, the PPI rose by 1.5% in November, posting month-on-month gain for five straight months. The rise in the PPI in November was due largely to the increases in the ex-factory prices of the ‘mining and washing of coal’, ‘manufacture and processing of non-ferrous metals’, ‘processing of petroleum’ and ‘manufacture of chemical raw material and chemical products’ industries in the month.

Going forward, driven by the increase in prices of production inputs, the year-on-year growth in the PPI is expected to rise further in the coming months.

**Exhibit 3: China’s PPI growth, December 2014 to November 2016**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China’s PPI growth by selected industry, June to November 2016**

yoy growth (%)

	Jun 16	Jul	Aug	Sep	Oct	Nov
Textile	-2.3	-1.4	-0.8	-0.4	0.3	1.0
Textile wearing apparel and ornament	0.6	0.7	0.4	0.3	0.3	0.5
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	-0.3	0.4	-0.2	-0.2	0.0	0.1

Source: National Bureau of Statistics, PRC

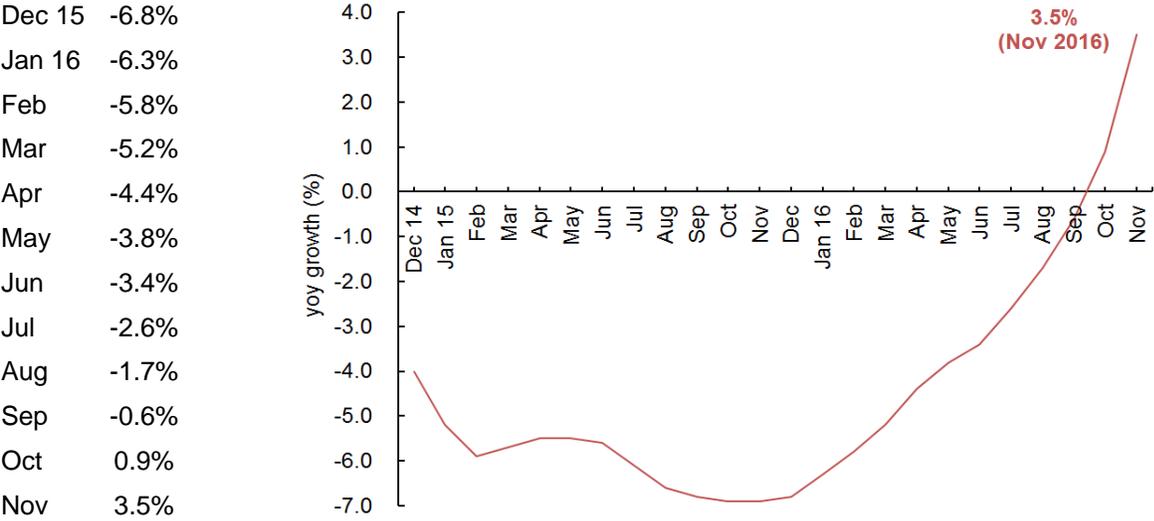
### 3. Domestic prices of production inputs go up further

The year-on-year growth rate of the purchaser price index of industrial products soared from 0.9% in October to 3.5% in November, the highest level since December 2011 (see exhibits 5 & 6).

On a month-on-month basis, the purchaser price index of industrial products rose strongly by 1.8% in November, posting month-on-month gain for nine consecutive months. The surge in the purchaser price index in recent months can be attributed to the bottoming out of global commodity prices and the Chinese government’s efforts to cut excessive industrial capacity, in our view.

The input prices index of China’s manufacturing PMI, a leading indicator of upstream prices, registered a five-year high of 68.3 in November, indicating that prices of production inputs have been rising strongly. Thus, we believe that the year-on-year growth rate of the purchaser price index of industrial products will rise further in the near future.

**Exhibit 5: Growth of China’s purchaser price index of industrial products, December 2014 to November 2016**



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products  
by selected commodity, June to November 2016**

*yoy growth (%)*

	<b>Jun 16</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>
Fuel and power	-7.2	-6.2	-5.0	-1.9	1.8	6.0
Non-ferrous metal materials and wires	-5.7	-2.5	-0.3	0.3	2.2	9.5
Chemical raw materials	-4.2	-3.6	-2.5	-1.6	-0.1	2.0
Wood and pulp	-0.8	-0.8	-0.6	-0.7	-0.3	0.5
Textile raw materials	-1.2	-0.4	0.1	0.1	1.0	1.8

*Source: National Bureau of Statistics, PRC*

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

The purchaser price index of fuel and power increased at a faster pace, by 6.0% yoy, in November, after rising by 1.8% yoy in October (*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 surged to 9.5% in November from 2.2% in October (*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 returned to the positive territory with a 2.0% growth in November (*see exhibit 6*).

*(iv) Purchaser price index of wood and pulp*

The purchaser price index of wood and pulp rose by 0.5% yoy in November, improving from the minus 0.3% yoy growth in October (*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 registered 1.8% in November, up from 1.0% in October (*see exhibit 6*).

## FUNG BUSINESS INTELLIGENCE

**Fung Business Intelligence** collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

The **Fung Group** is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs over 45,100 people across 40 economies worldwide, generating total revenue of over US\$24.8 billion in 2015. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

## CONTACT

Helen Chin  
Vice President  
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](mailto:fbicgroup@fung1937.com)  
W: <http://www.fbicgroup.com>



© Copyright 2016 Fung Business Intelligence. All rights reserved. Though Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of Fung Business Intelligence is prohibited.