



China Sourcing Update

December 18, 2017

Major Price Indicators

1. CPI growth eases in November

The year-on-year growth rate of China's consumer price index (CPI)¹ went down from 1.9% in October to 1.7% in November, which was lower than market expectations (see exhibits 1 & 2).

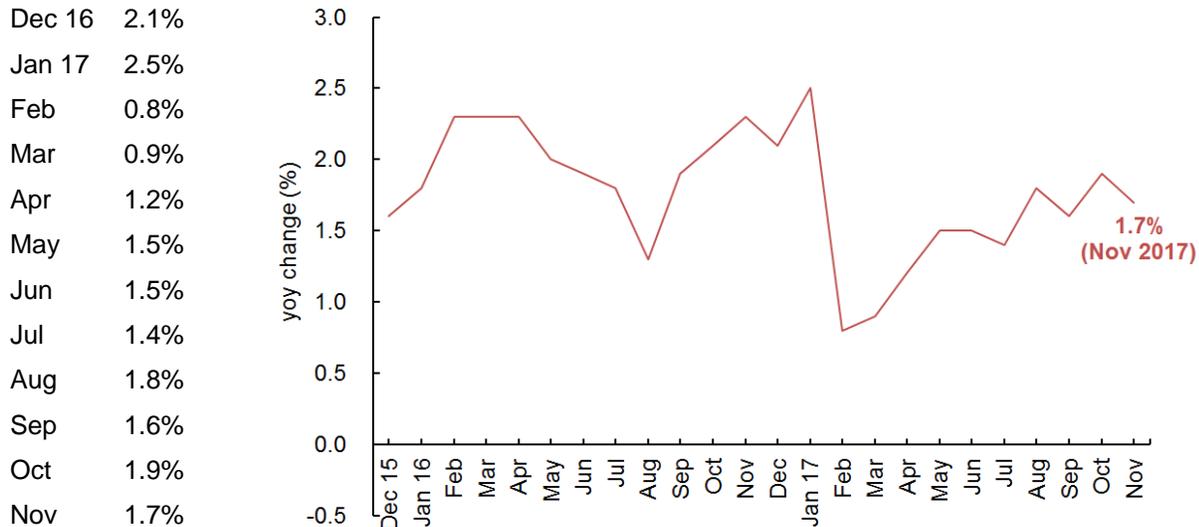
The reason for the moderation in the CPI growth in November was that a larger fall in food prices outweighed a faster increase in non-food prices in the month. The year-on-year growth in the food component in the CPI went down from minus 0.4% in October to minus 1.1% in November, due largely to a sharp fall in vegetable prices. Meanwhile, the year-on-year growth in the non-food component edged up from 2.4% in October to 2.5% in November.

Going forward, the food deflation is expected to continue in the near future, given the softness in pork prices and vegetable prices; meanwhile, the non-food inflation is likely to remain high in December as the recent rise in domestic ex-factory prices will be translated into higher non-food prices. All in all, we expect the CPI growth to stay around the current level in December. Afterwards, the CPI growth is likely to drop in

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.

January 2018 given a higher comparison base in January 2017, which coincided with the Chinese New Year this year.

Exhibit 1: China's CPI growth, December 2015 to November 2017



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, June to November 2017²

yoy growth (%)

	Jun 17	Jul	Aug	Sep	Oct	Nov
Clothing	1.4	1.4	1.3	1.3	1.2	1.2
Household articles and services	1.1	1.1	1.3	1.4	1.5	1.5
Education, culture and recreation	2.5	2.5	2.5	2.3	2.3	2.0

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products rise in November

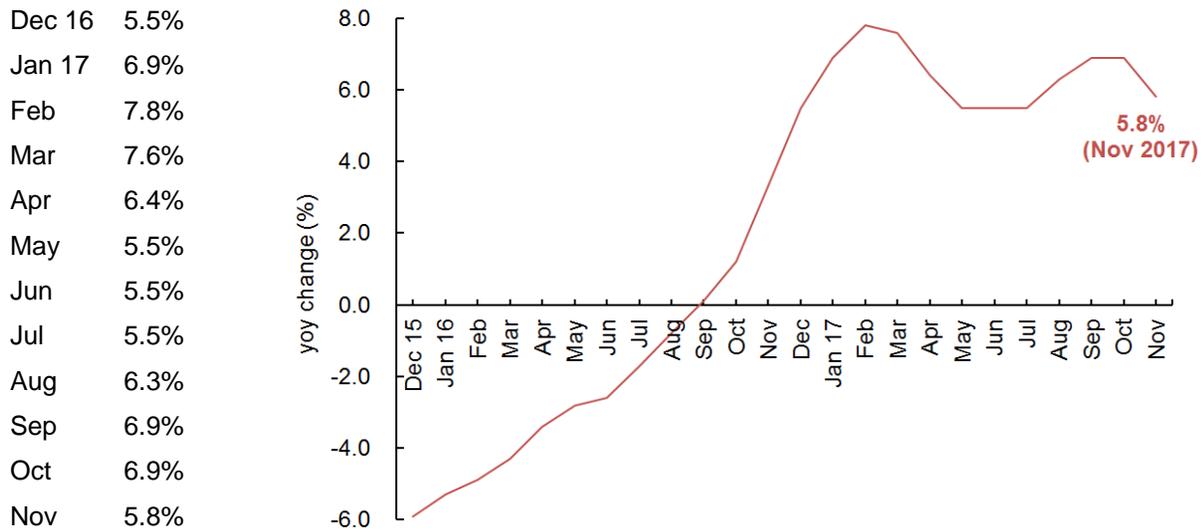
The year-on-year growth in China's producer price index of industrial products (PPI) went down from 6.9% in October to 5.8% in November, which was below market expectations (see exhibits 3 & 4).

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'.

On a month-on-month basis, the PPI advanced by 0.5% in November, after gaining 0.7% in the previous month. The rise in the PPI in November was mainly due to increases in ex-factory prices in the ‘extraction of petroleum and natural gas’ and ‘manufacture and processing of ferrous metals’ industries in the month.

Looking ahead, the PPI is expected to go up further on a month-on-month basis in the foreseeable future, as the November reading of the input prices sub-index of China’s manufacturing PMI, which registered 59.8, shows a recent jump in the domestic prices of production inputs, thereby putting upward pressures on the ex-factory prices of industrial products. Meanwhile, the year-on-year growth in the PPI is likely to continue to drop markedly in the coming months, due mainly to a higher base for comparison in late 2016 and early 2017.

Exhibit 3: China’s PPI growth, December 2015 to November 2017



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, June to November 2017

	yoy growth (%)					
	Jun 17	Jul	Aug	Sep	Oct	Nov
Textile	3.8	3.2	2.9	3.0	2.7	2.4
Textile wearing apparel and ornament	0.9	0.8	1.0	0.8	0.7	0.7
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.4	-0.3	0.3	0.6	0.8	1.0

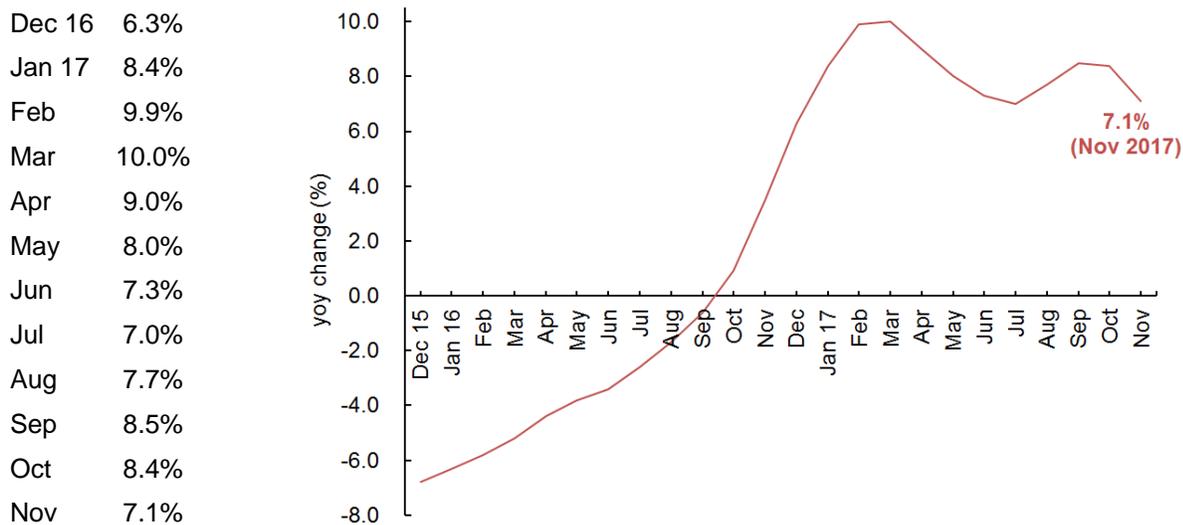
Source: National Bureau of Statistics, PRC

3. Purchaser price index of industrial products goes up in November

The year-on-year growth rate of the purchaser price index of industrial products dropped from 8.4% in October to 7.1% in November (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index of industrial products rose by 0.6% in November, a smaller increase than the 0.9% growth registered in the previous month.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, registered 59.8 in November. The index reading is well above the neutral level of 50 but lower than that of last month (63.4), indicating that domestic prices of production inputs have increased at a slower pace recently. Therefore, we expect that the purchaser price index of industrial products is likely to rise at a slower pace on a month-on-month basis in the near future. Meanwhile, the year-on-year growth rate of the purchaser price index is likely to fall sharply in the coming months, due largely to a higher comparison base in late 2016 and early 2017.

Exhibit 5: Growth of China's purchaser price index of industrial products, December 2015 to November 2017



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products
by selected commodity, June to November 2017**

yoy growth (%)

	Jun 17	Jul	Aug	Sep	Oct	Nov
Fuel and power	12.5	10.7	11.8	11.9	10.6	8.0
Non-ferrous metal materials and wires	14.1	13.2	15.3	18.6	19.5	14.7
Chemical raw materials	7.0	7.1	7.7	9.0	9.4	9.2
Wood and pulp	5.3	5.8	6.5	8.5	9.8	9.4
Textile raw materials	4.8	4.2	4.0	4.1	3.8	3.4

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 slower pace, by 8.0% yoy, in November, after rising by 10.6%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 fell to 14.7% in November from 19.5% 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 edged down to 9.2% in November from 9.4% in October (see exhibit 6).

(iv) Purchaser price index of wood and pulp

The purchaser price index of wood and pulp gained 9.4% yoy in November, compared with the 9.8% 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 3.4% in November, down from 3.8% in October (see exhibit 6).

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CONTACT

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

William Kong
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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