



# China Sourcing Update

December 12, 2018

## Major Price Indicators

### 1. CPI growth decelerates in November

The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> decelerated to 2.2% in November from 2.5% in October (see exhibits 1 & 2).

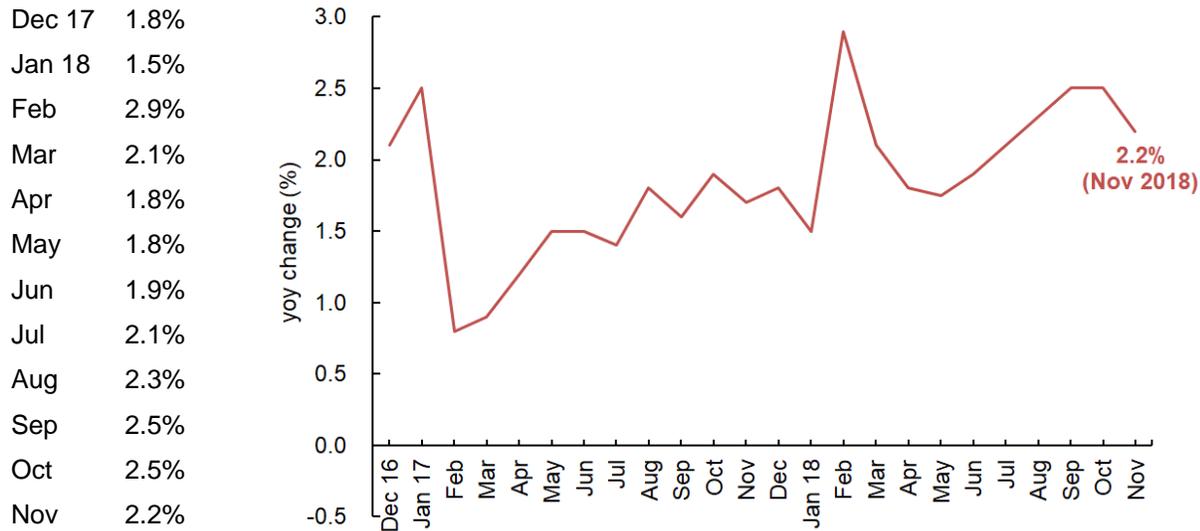
The fall in the CPI growth in November was the result of a drop in both food and non-food inflation in the month. The year-on-year growth in the food component in the CPI declined from 3.3% in October to 2.5% in November amid an abundant supply of vegetables. Meanwhile, the year-on-year growth in the non-food component went down from 2.4% in October to 2.1% in November.

Looking ahead, we expect that China's CPI growth will fall further in the near term, as the domestic demand is likely to continue to moderate due to weakening confidence among consumers and enterprises amid the China-US trade war.

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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, December 2016 to November 2018**



Source: National Bureau of Statistics, PRC

**Exhibit 2: China's CPI growth by commodity, June to November 2018<sup>2</sup>**

yoy growth (%)

|                                   | Jun 18 | Jul | Aug | Sep | Oct | Nov |
|-----------------------------------|--------|-----|-----|-----|-----|-----|
| Clothing                          | 1.1    | 1.2 | 1.3 | 1.2 | 1.4 | 1.4 |
| Household articles and services   | 1.5    | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 |
| Education, culture and recreation | 1.8    | 2.3 | 2.6 | 2.2 | 2.5 | 2.5 |

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products fall in November

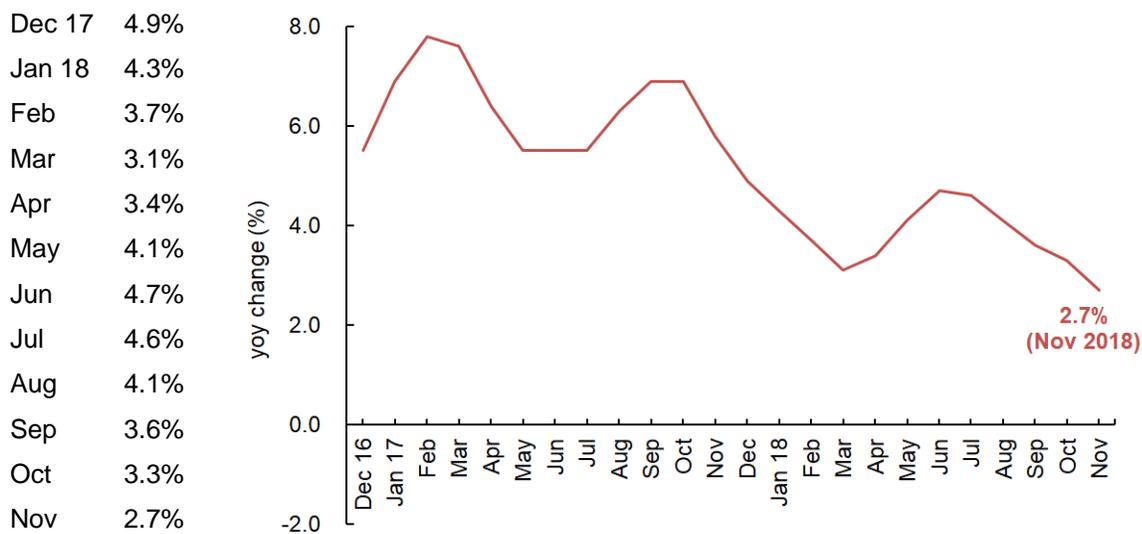
The year-on-year growth in China's producer price index of industrial products (PPI) fell from 3.3% in October to 2.7% in November (see exhibits 3 & 4).

On a month-on-month basis, the PPI dropped by 0.2% in November, posting a fall for the first time in seven months. The decrease in the PPI in the month was caused mainly by lower ex-factory prices in the 'extraction of petroleum and natural gas', 'processing of petroleum, coking, processing of nucleus fuel' and 'manufacture of chemical raw material and chemical products' industries amid a recent big fall in the crude prices.

<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'.

Going forward, we expect that China’s ex-factory prices of industrial products will drop further and thus the year-on-year growth in the PPI will continue to decelerate in the near future. The main reasons are that the demand for industrial products has continued to moderate and the upstream prices have trended downward in recent months. Moreover, there are signs that the government has recently relaxed its controls on production activities of key polluting industries such as steel and petrochemicals.<sup>3</sup> This would in turn lead to an increase in output and thus lower prices of products in these industries.

**Exhibit 3: China’s PPI growth, December 2016 to November 2018**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China’s PPI growth by selected industry, June to November 2018**

|  | <i>yoy growth (%)</i> |     |     |     |     |     |
|--|-----------------------|-----|-----|-----|-----|-----|
|  | Jun 18                | Jul | Aug | Sep | Oct | Nov |
| Textile  | 2.1                   | 2.3 | 3.0 | 3.1 | 3.1 | 2.8 |
| Textile wearing apparel and ornament   | 0.6                   | 1.1 | 1.3 | 1.4 | 1.4 | 1.6 |
| Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products | 1.9                   | 2.0 | 2.2 | 2.2 | 1.9 | 1.6 |

Source: National Bureau of Statistics, PRC

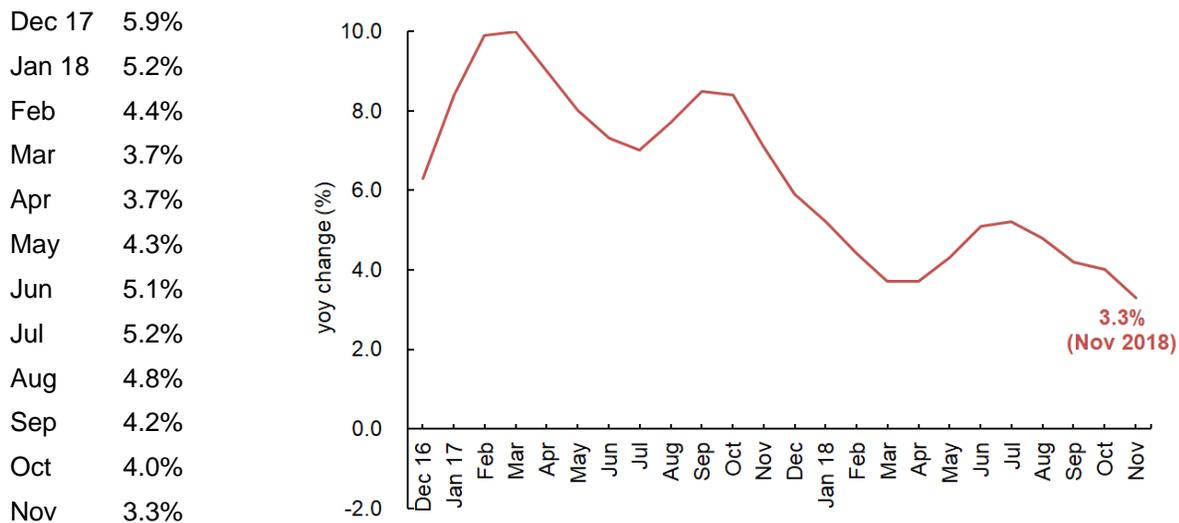
<sup>3</sup> <https://www.icis.com/explore/resources/news/2018/10/04/10263657/china-relaxes-environmental-rules-as-trade-war-bites/>

### 3. Domestic prices of production inputs stabilise in November

The year-on-year growth rate of the purchaser price index of industrial products moderated from 4.0% in October to 3.3% in November (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index stabilised in November, after having risen for six consecutive months.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, dropped markedly from 58.0 in October to 50.3 in November, the lowest level since June last year. We therefore expect the purchaser price index of industrial products to fall further in the near future.

**Exhibit 5: Growth of China's purchaser price index of industrial products, December 2016 to November 2018**



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products by selected commodity, June to November 2018**

|                                       | yoy growth (%) |     |     |      |      |      |
|---------------------------------------|----------------|-----|-----|------|------|------|
|                                       | Jun 18         | Jul | Aug | Sep  | Oct  | Nov  |
| Fuel and power                        | 8.1            | 9.9 | 9.7 | 9.2  | 9.4  | 7.9  |
| Non-ferrous metal materials and wires | 7.9            | 5.6 | 2.5 | -0.4 | -1.7 | -2.1 |
| Chemical raw materials                | 5.8            | 5.7 | 6.1 | 5.8  | 5.3  | 3.2  |
| Wood and pulp                         | 7.4            | 7.1 | 6.6 | 4.5  | 2.6  | 1.6  |
| Textile raw materials                 | 2.1            | 2.4 | 2.6 | 2.9  | 2.7  | 2.3  |

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 7.9% in November, down from 9.4% 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 stayed in negative territory, posting a 2.1% decline in November (see *exhibit 6*).

*(iii) Purchaser price index of chemical raw materials*

The purchaser price index of chemical raw materials increased at a slower pace, by 3.2% yoy, in November, after rising by 5.3% yoy in the previous month (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 fell to 1.6% in November from 2.6% in October (see *exhibit 6*).

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

The purchaser price index of textile raw materials gained 2.3% yoy in November, compared with the 2.7% yoy growth in October (see *exhibit 6*).

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