China Sourcing Update

Major Price Indicators

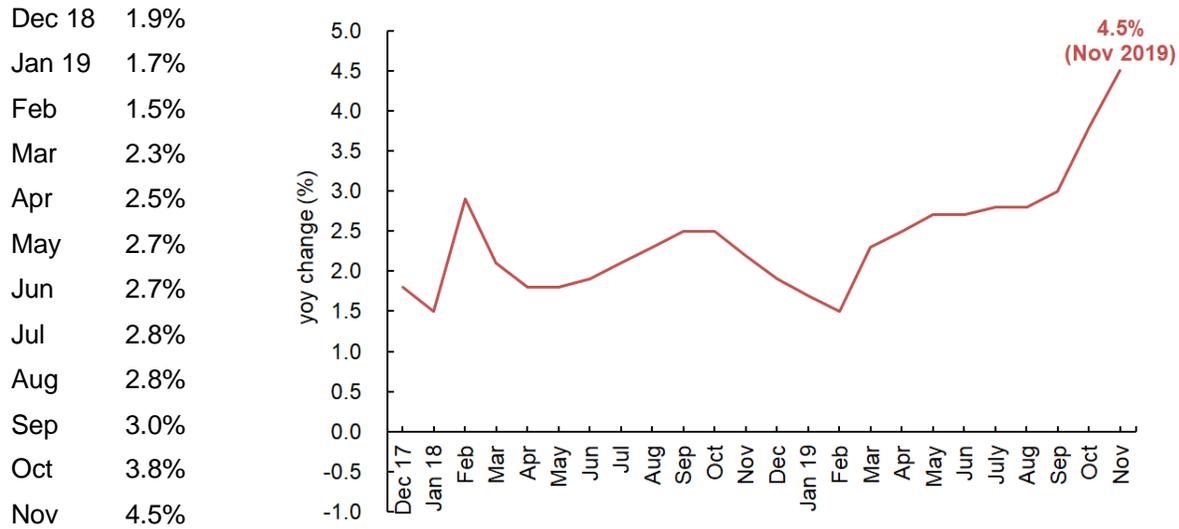### 1. CPI growth surges in November

The year-on-year growth rate of China's consumer price index (CPI)[1] went up markedly from 3.8% in October to 4.5% in November, the highest level in almost eight years *(see exhibits 1 & 2)*.

The main reason for the jump in the CPI growth in November was an increase in food inflation. The year-on-year growth in the food component in the CPI went up from 15.5% in October to 19.1% in November, due largely to a further rise in pork prices, which increased by 110.2% yoy and 3.8% mom in the month. Meanwhile, the year-on-year growth in the non-food component edged up from 0.9% in October to 1.0% in November.

Looking ahead, we expect that China's CPI growth will go up further in the coming couple of months, due mainly to high pork prices and a lower base for comparison in the same period last year.

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[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, December 2017 to November 2019

Month	Value
Dec 18	1.9%
Jan 19	1.7%
Feb	1.5%
Mar	2.3%
Apr	2.5%
May	2.7%
Jun	2.7%
Jul	2.8%
Aug	2.8%
Sep	3.0%
Oct	3.8%
Nov	4.5%

Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, June to November 2019

yoy growth (%)

	Jun 19	Jul	Aug	Sep	Oct	Nov
Clothing	1.8	1.8	1.6	1.6	1.2	1.1
Household articles and services	0.8	0.8	0.7	0.6	0.6	0.4
Education, culture and recreation	2.4	2.3	2.1	1.7	1.9	1.7

Source: National Bureau of Statistics, PRC

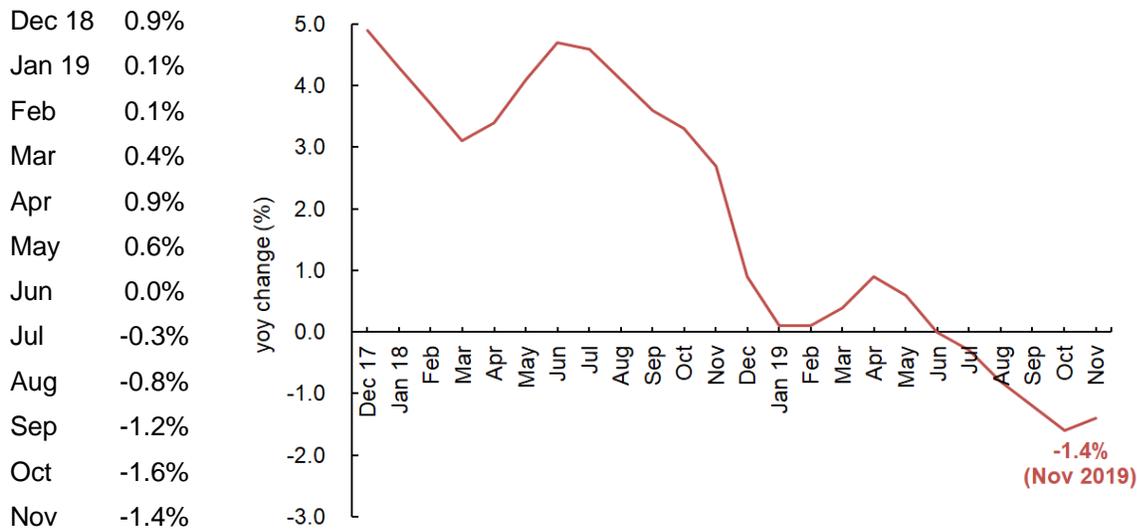## 2. Ex-factory prices of industrial products fall in November

The year-on-year growth in China's producer price index of industrial products (PPI) improved from minus 1.6% in October to minus 1.4% in November *(see exhibits 3 & 4).*

On a month-on-month basis, the PPI went down by 0.1% in November, after having risen for two consecutive months. The decrease in the PPI in November was mainly attributed to the drop in ex-factory prices in the ferrous metals, non-ferrous metals, and chemical industries in the month.

Looking ahead, we expect that the month-on-month growth in the PPI will remain negative in the near future, as the ex-factory prices sub-index of China's manufacturing PMI came in at 47.3 in November, indicating deflationary pressure on ex-factory prices.

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Meanwhile, the year-on-year growth in the PPI is likely to improve markedly in the coming months, due largely to a lower base for comparison in the same period last year.

Exhibit 3: China's PPI growth, December 2017 to November 2019

Dec 18	0.9%
Jan 19	0.1%
Feb	0.1%
Mar	0.4%
Apr	0.9%
May	0.6%
Jun	0.0%
Jul	-0.3%
Aug	-0.8%
Sep	-1.2%
Oct	-1.6%
Nov	-1.4%

Source: National Bureau of Statistics, PRC

**Exhibit 4: China's PPI growth by selected industry,
June to November 2019**

yoy growth (%)

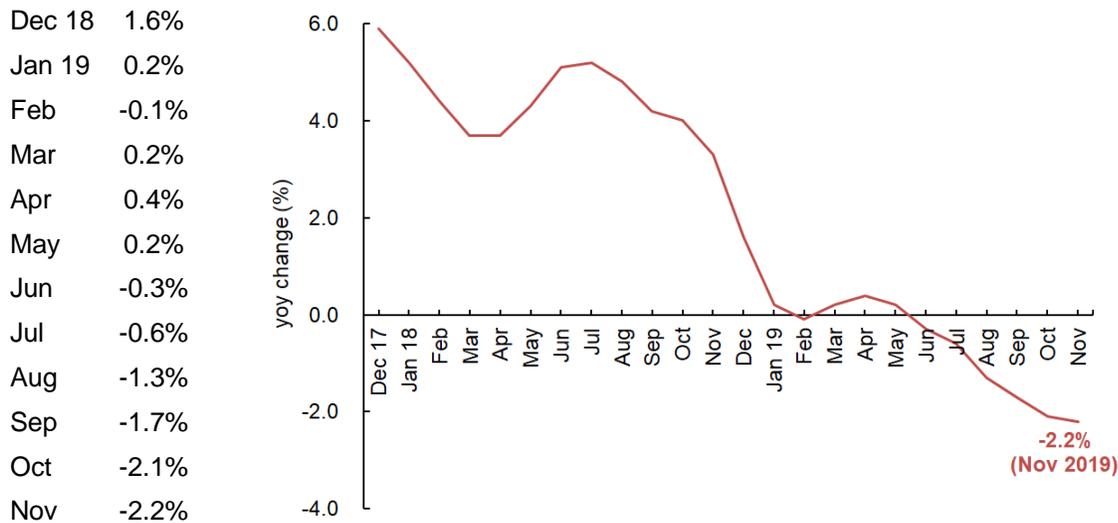|	Jun 19	Jul	Aug	Sep	Oct	Nov
Textile	0.1	-0.4	-1.6	-2.4	-3.0	-3.0
Textile wearing apparel and ornament	0.9	0.6	0.4	0.3	0.1	-0.3
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.2	1.1	0.6	0.5	0.4	0.4

Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs drop in November

The year-on-year growth rate of the purchaser price index of industrial products went down from minus 2.1% in October to minus 2.2% in November, the lowest level since July 2016 *(see exhibits 5 & 6)*. On a month-on-month basis, the purchaser price index declined by 0.1% in November, after having posted an increase for two consecutive months.

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The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, came in at 49.0 in November, indicating deflationary pressure on input prices. Therefore, we expect that the month-on-month growth in the purchaser price index of industrial products will stay negative in the near term. Meanwhile, the year-on-year growth rate of the index is likely to improve sharply in the coming months, due mainly to a lower comparison base in the same period last year.

Exhibit 5: Growth of China's purchaser price index of industrial products, December 2017 to November 2019

Dec 18	1.6%
Jan 19	0.2%
Feb	-0.1%
Mar	0.2%
Apr	0.4%
May	0.2%
Jun	-0.3%
Jul	-0.6%
Aug	-1.3%
Sep	-1.7%
Oct	-2.1%
Nov	-2.2%

-2.2%
(Nov 2019)

Source: National Bureau of Statistics, PRC

Exhibit 6: China's purchaser price index of industrial products by selected commodity, June to November 2019

yoy growth (%)

	Jun 19	Jul	Aug	Sep	Oct	Nov
Fuel and power	-0.2	-2.1	-3.2	-4.2	-5.5	-5.8
Non-ferrous metal materials and wires	-3.5	-2.5	-2.3	-1.5	-2.4	-2.3
Chemical raw materials	-4.7	-5.4	-6.8	-7.9	-8.5	-8.4
Wood and pulp	-3.0	-3.7	-4.5	-4.8	-4.4	-3.7
Textile raw materials	-0.1	-0.8	-1.6	-2.3	-2.9	-2.9

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 stayed in negative territory, posting a 5.8% decline in November *(see exhibit 6)*.

(ii) Purchaser price index of non-ferrous metal materials and wires

The purchaser price index of non-ferrous metal materials and wires dropped at a slower pace, by 2.3% yoy, in November, after falling by 2.4% yoy in the previous month *(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 improved to minus 8.4% in November from minus 8.5% in October *(see exhibit 6)*.

(iv) Purchaser price index of wood and pulp

The purchaser price index of wood and pulp fell by 3.7% yoy in November, compared with a 4.4% yoy drop in the previous month *(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 was minus 2.9% yoy in November, the same as in October *(see exhibit 6)*.

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