



# China Sourcing Update

November 22, 2016

## Major Price Indicators

### 1. CPI growth edges up in October

The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> rose from 1.9% in September to 2.1% in October, which was in line with market expectations (*see exhibit 1 and 2*).

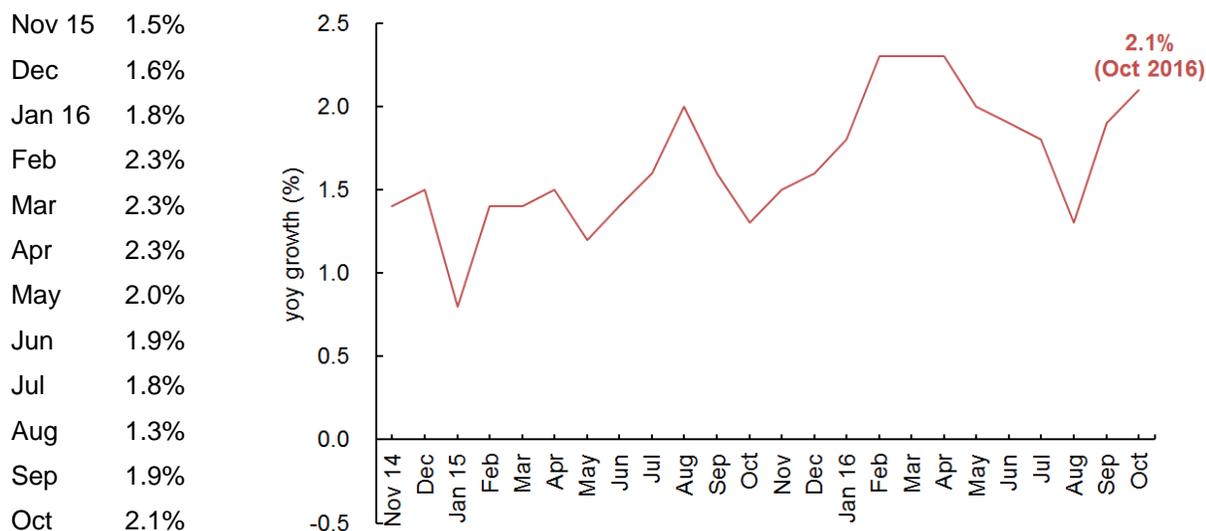
The pick-up in CPI growth in October was largely due to the rise in the year-on-year growth in the food component in the CPI, which came in at 3.7% in October after registering 3.2% in September. For example, the year-on-year growth in vegetable prices, a major driver of China's inflation, rose further to 13.0% in October from 7.5% in September. Meanwhile, the year-on-year growth in the non-food component in the CPI increased from 1.6% in September to 1.7% in October.

Looking ahead, we expect that the food inflation will stay high in the near future, due to the recent rise in vegetable prices; and we expect the non-food inflation to inch up in the coming months, given the low base for comparison in November and December 2015. Overall, in our view, the CPI growth is likely to stay around the current high level in the near term.

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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, November 2014 to October 2016



Source: National Bureau of Statistics, PRC

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

yoy growth (%)

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

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products go up further

The year-on-year growth in China's producer price index of industrial products (PPI)<sup>3</sup> rose from 0.1% in September to 1.2% in October, staying in the positive territory for two consecutive months (see exhibits 3 & 4).

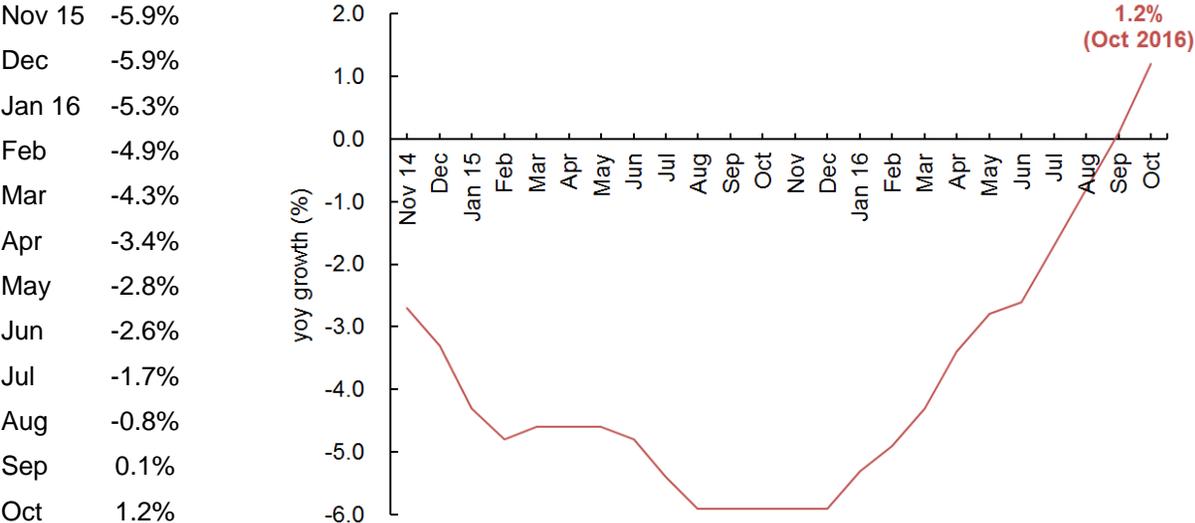
<sup>2</sup> Starting from January 2016, the old category of 'household facilities, articles and maintenance services' has been re-categorized into a new category called 'household articles and services' and the category of 'other articles and services'. The old category of 'recreation, education, culture 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 0.7% in October, posting month-on-month gain for four straight months. The rise in the PPI in October was mainly due to the increases in the ex-factory prices of the ‘mining and washing of coal’, ‘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 further improve in the coming months.

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



Source: National Bureau of Statistics, PRC

**Exhibit 4: China’s PPI growth by selected industry, May to October 2016**

yoy growth (%)

	May 16	Jun	Jul	Aug	Sep	Oct
Textile	-2.6	-2.3	-1.4	-0.8	-0.4	0.3
Textile wearing apparel and ornament	0.5	0.6	0.7	0.4	0.3	0.3
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	-0.5	-0.3	0.4	-0.2	-0.2	0.0

Source: National Bureau of Statistics, PRC

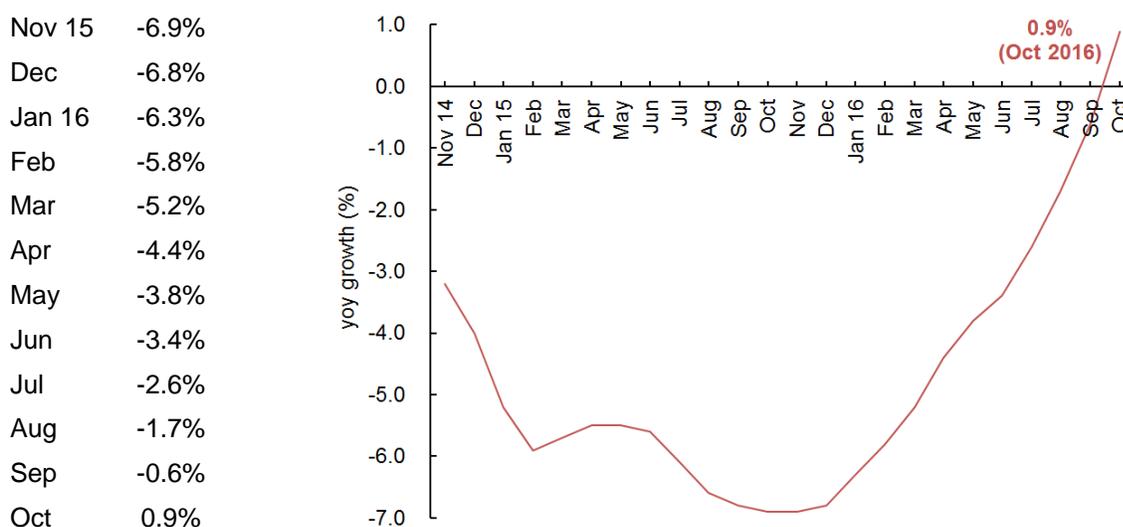
**3. Domestic prices of production inputs rise further**

The year-on-year growth rate of the purchaser price index of industrial products improved from minus 0.6% in September to 0.9% in October, returning to the positive territory for the first time in more than four years (see exhibits 5 & 6).

On a month-on-month basis, the purchaser price index of industrial products rose by 0.9% in October, posting month-on-month gain for eight consecutive months. The increase 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 sub-index of China's manufacturing PMI, a leading indicator of upstream prices, registered a five-year high of 62.6 in October, 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, November 2014 to October 2016**



Source: National Bureau of Statistics, PRC

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

	yoy growth (%)					
	May 16	Jun	Jul	Aug	Sep	Oct
Fuel and power	-8.3	-7.2	-6.2	-5.0	-1.9	1.8
Non-ferrous metal materials and wires	-7.0	-5.7	-2.5	-0.3	0.3	2.2
Chemical raw materials	-4.1	-4.2	-3.6	-2.5	-1.6	-0.1
Wood and pulp	-0.7	-0.8	-0.8	-0.6	-0.7	-0.3
Textile raw materials	-1.3	-1.2	-0.4	0.1	0.1	1.0

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 returned to the positive territory with a 1.8% growth in October (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 increased at a faster pace, by 2.2% yoy, in October, after rising by 0.3% yoy in September (see exhibit 6).

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

The purchaser price index of chemical raw materials dropped by 0.1% yoy in October, improving markedly from the minus 1.6% yoy growth in September (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 went up to minus 0.3% in October from minus 0.7% in September (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 1.0% in October, up from 0.1% in September (see exhibit 6).

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