



# China Sourcing Update

November 15, 2017

## Major Price Indicators

### 1. CPI growth accelerates in October

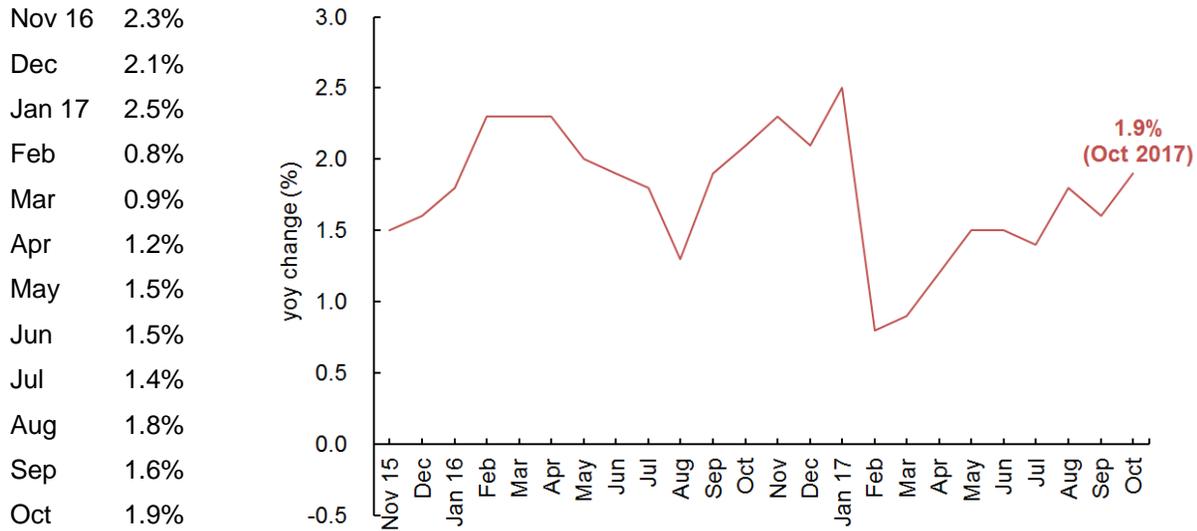
The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> went up from 1.6% in September to 1.9% in October, which was higher than market expectations (see *exhibits 1 & 2*).

The rise in the CPI growth in October was caused by a slower decline in food prices. The year-on-year growth in pork prices improved from minus 12.4% in September to minus 10.1% in October, while the year-on-year growth in vegetable prices picked up from minus 1.0% in September to 0.3% in October. Consequently, the year-on-year growth in the food component in the CPI improved from minus 1.4% in September to minus 0.4% in October. Meanwhile, the year-on-year growth in the non-food component stayed flat at 2.4% in October.

Looking ahead, the non-food inflation is likely to remain high as the recent rise in domestic ex-factory prices will be translated into higher non-food prices; meanwhile, the food inflation is expected to stay low in the near future. All in all, we expect the CPI growth to stay around the current level in the rest of the year.

<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 2015 to October 2017**



Source: National Bureau of Statistics, PRC

**Exhibit 2: China's CPI growth by commodity, May to October 2017<sup>2</sup>**

yoy growth (%)

	May 17	Jun	Jul	Aug	Sep	Oct
Clothing	1.3	1.4	1.4	1.3	1.3	1.2
Household articles and services	1.0	1.1	1.1	1.3	1.4	1.5
Education, culture and recreation	2.6	2.5	2.5	2.5	2.3	2.3

Source: National Bureau of Statistics, PRC

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

The year-on-year growth in China's producer price index of industrial products (PPI) stayed flat at 6.9% in October, higher than market expectations (see exhibits 3 & 4).

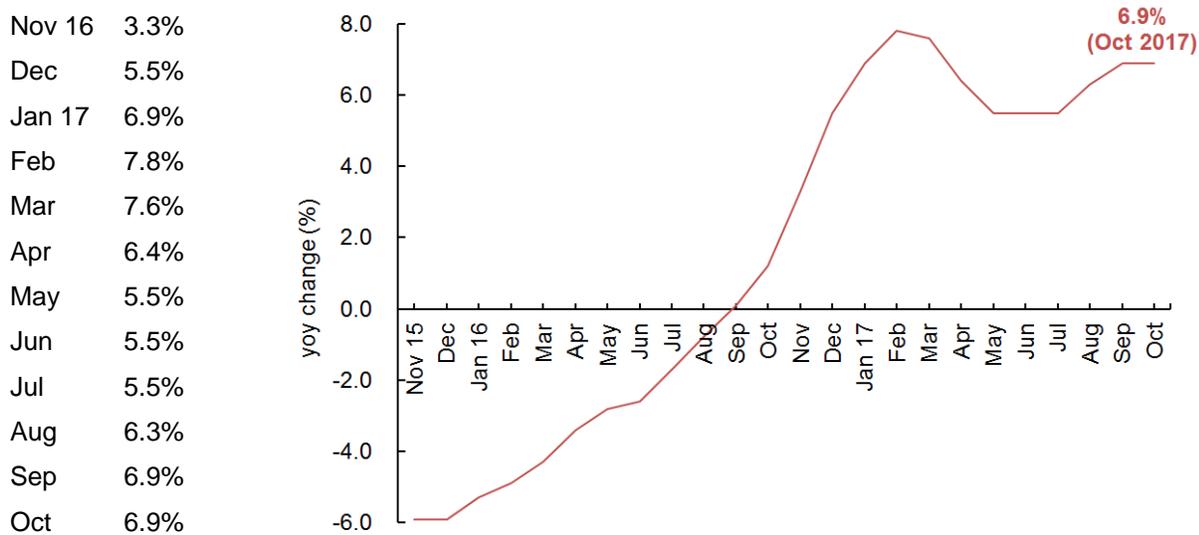
On a month-on-month basis, the PPI advanced by 0.7% in October, a smaller increase than the 1.0% growth registered in the previous month. The rise in the PPI in October

<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'.

was mainly due to increases in ex-factory prices in the ‘extraction of petroleum and natural gas’ and ‘processing of petroleum’ industries in the month.

Looking ahead, the PPI is expected to go up further on a month-on-month basis in the near future, as the October reading of the input prices sub-index of China’s manufacturing PMI, which registered 63.4, indicates a recent hike in the domestic prices of production inputs, thereby putting upward pressure on prices of industrial products. Meanwhile, the year-on-year growth in the PPI is likely to drop sharply in the coming months, due partly to a higher base for comparison in the same period last year.

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



Source: National Bureau of Statistics, PRC

**Exhibit 4: China’s PPI growth by selected industry, May to October 2017**

	yoy growth (%)					
	May 17	Jun	Jul	Aug	Sep	Oct
Textile	3.8	3.8	3.2	2.9	3.0	2.7
Textile wearing apparel and ornament	1.0	0.9	0.8	1.0	0.8	0.7
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.5	0.4	-0.3	0.3	0.6	0.8

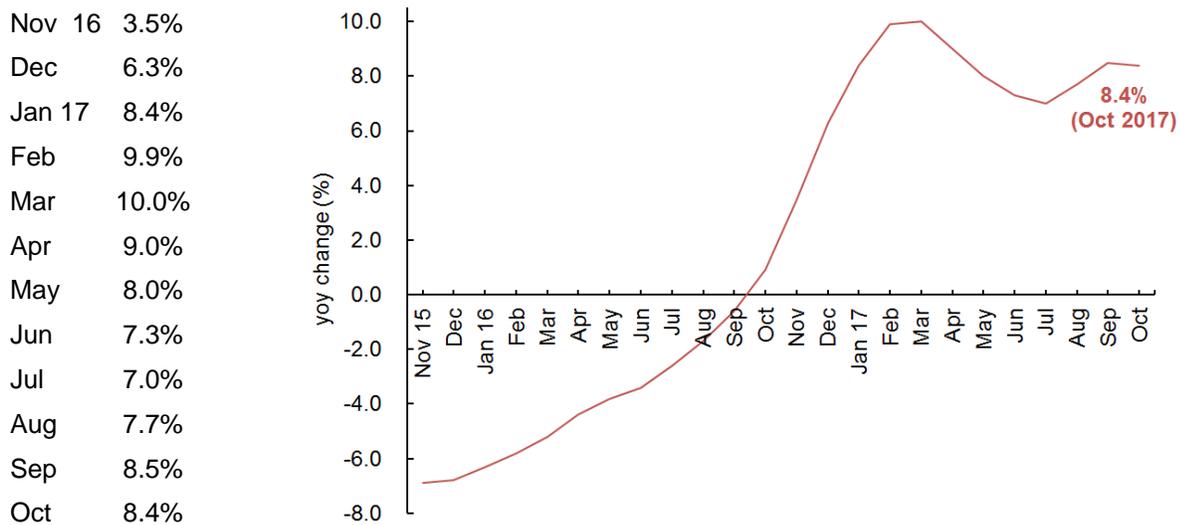
Source: National Bureau of Statistics, PRC

### 3. Purchaser price index of industrial products rises in October

The year-on-year growth rate of the purchaser price index of industrial products edged down from 8.5% in September to 8.4% in October (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index of industrial products went up by 0.9% in October, after rising by 1.2% in the previous month.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, registered 63.4 in October. The index reading is well above the neutral level of 50 but lower than that of last month (68.4), indicating that domestic prices of production inputs have increased at a slower pace recently. Therefore, we believe 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 term. Meanwhile, the year-on-year growth rate of the purchaser price index is expected to fall markedly in the coming months, due partly to a higher comparison base in the same period last year.

**Exhibit 5: Growth of China’s purchaser price index of industrial products, November 2015 to October 2017**



Source: National Bureau of Statistics, PRC

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

yoy growth (%)

	May 17	Jun	Jul	Aug	Sep	Oct
Fuel and power	15.8	12.5	10.7	11.8	11.9	10.6
Non-ferrous metal materials and wires	13.9	14.1	13.2	15.3	18.6	19.5
Chemical raw materials	7.1	7.0	7.1	7.7	9.0	9.4
Wood and pulp	4.9	5.3	5.8	6.5	8.5	9.8
Textile raw materials	4.9	4.8	4.2	4.0	4.1	3.8

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 went down to 10.6% in October from 11.9% in September (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 19.5% yoy, in October, after rising by 18.6% yoy in September (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 registered 9.4% in October, up from 9.0% in September (see exhibit 6).

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

The purchaser price index of wood and pulp gained 9.8% yoy in October, compared with the 8.5% yoy growth 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 eased to 3.8% in October from 4.1% in September (see exhibit 6).

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