



# China Sourcing Update

November 12, 2018

## Major Price Indicators

### 1. CPI growth stays flat in October

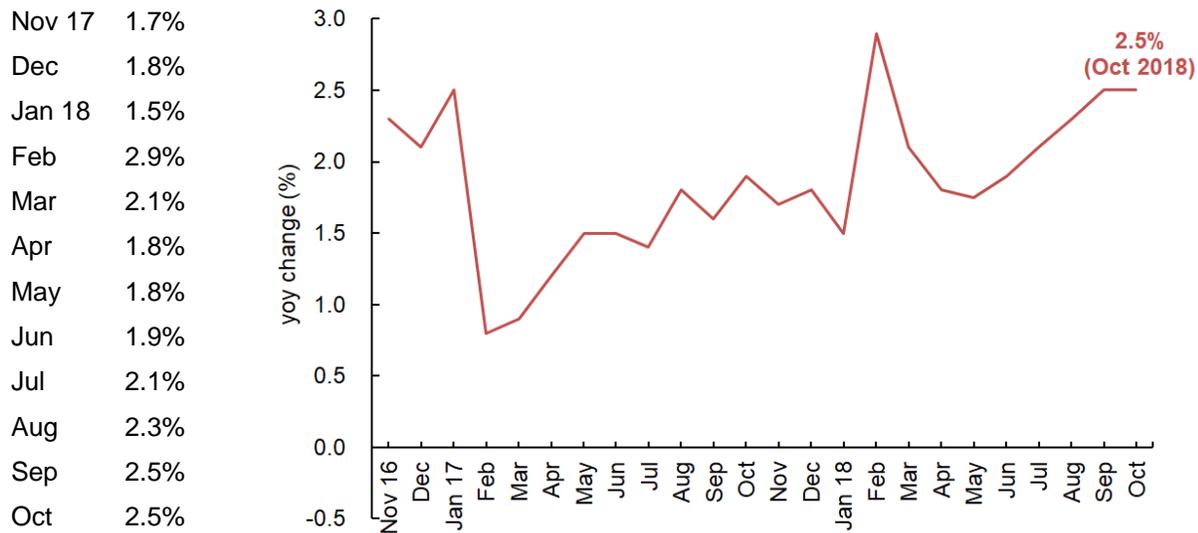
The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> was 2.5% in October, the same as in September, which was in line with market expectations (see *exhibits 1 & 2*).

The reason for the stabilisation of the CPI growth in October was that a drop in food inflation was offset by a rise in non-food inflation in the month. The year-on-year growth in the food component in the CPI fell from 3.6% in September to 3.3% in October, due mainly to the different timing of the Mid-Autumn Festival in 2017 and 2018 and an increase in the supply of vegetables. Meanwhile, the year-on-year growth in the non-food component rose from 2.2% in September to 2.4% in October.

Looking ahead, we expect that China's CPI growth will stay relatively high in near term, as the African swine fever outbreaks have spread to more regions in China and this would further push up pork prices. Nevertheless, we see limited upside risks to the CPI growth as the domestic demand has recently moderated amid the escalating China-US trade war.

<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 2016 to October 2018**



Source: National Bureau of Statistics, PRC

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

yoy growth (%)

	May 18	Jun	Jul	Aug	Sep	Oct
Clothing	1.1	1.1	1.2	1.3	1.2	1.4
Household articles and services	1.5	1.5	1.6	1.6	1.6	1.5
Education, culture and recreation	1.9	1.8	2.3	2.6	2.2	2.5

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products rise at a slower pace in October

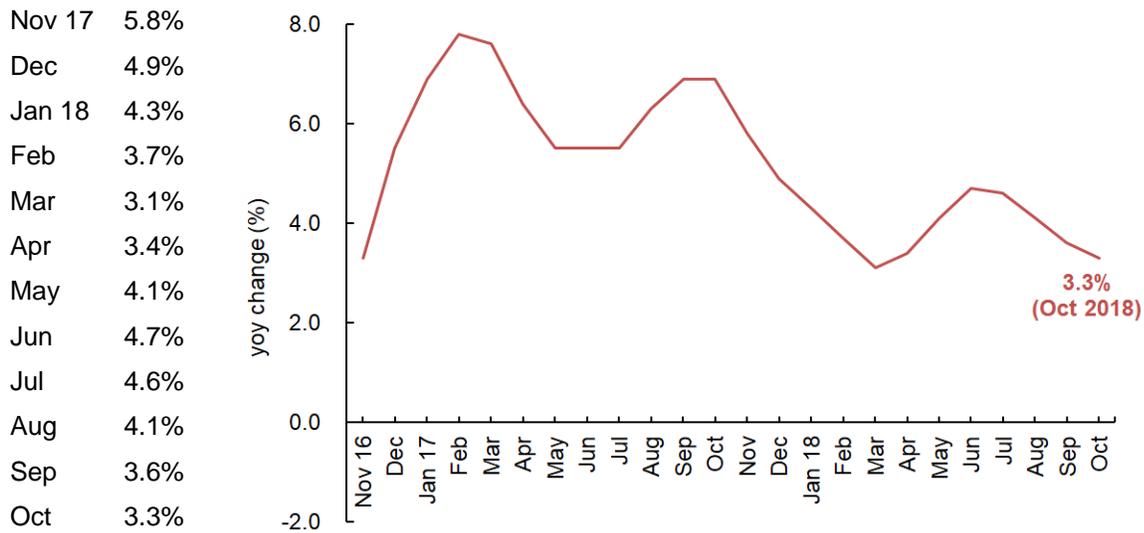
The year-on-year growth in China's producer price index of industrial products (PPI) fell from 3.6% in September to 3.3% in October (see exhibits 3 & 4).

On a month-on-month basis, the PPI rose by 0.4% in October, a smaller increase than the 0.6% growth recorded in the previous month, as ex-factory prices in the industries of 'processing of petroleum, coking, processing of nucleus fuel' and the 'manufacture of chemical raw material and chemical products' posted smaller gains 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'.

Despite the moderation in the demand for industrial products, we expect that China's ex-factory prices of industrial products will stay high, supported by factors such as the government's move to limit production of key polluting industries and to impose retaliatory tariffs on US\$110 billion worth of US goods and the weak Chinese yuan. That being said, we expect that the year-on-year growth in the PPI will continue to fall 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 2016 to October 2018**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China's PPI growth by selected industry, May to October 2018**

	yoy growth (%)					
	May 18	Jun	Jul	Aug	Sep	Oct
Textile	1.9	2.1	2.3	3.0	3.1	3.1
Textile wearing apparel and ornament	0.6	0.6	1.1	1.3	1.4	1.4
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.7	1.9	2.0	2.2	2.2	1.9

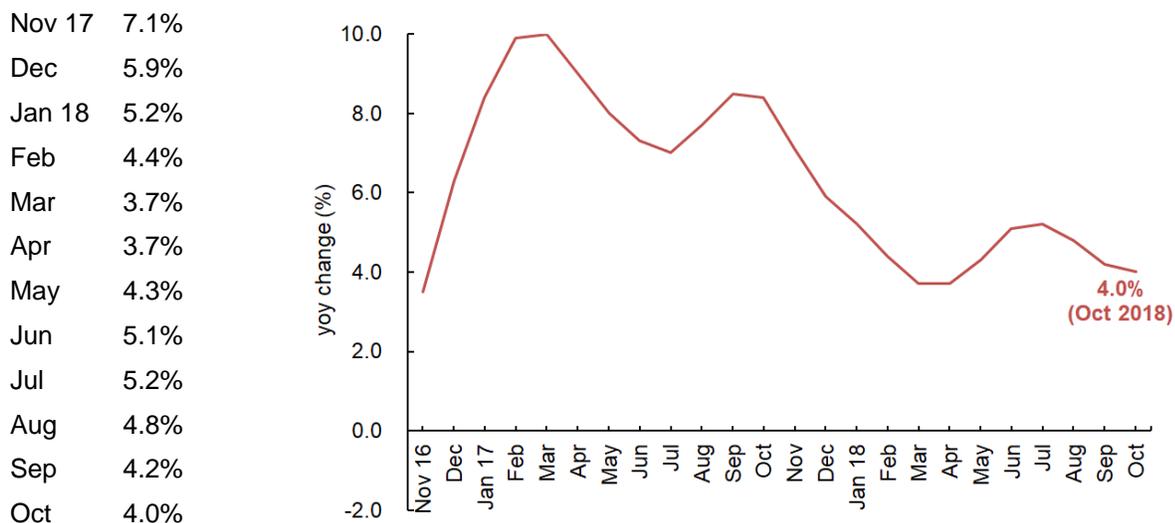
Source: National Bureau of Statistics, PRC

### 3. Domestic prices of production inputs rise in October

The year-on-year growth rate of the purchaser price index of industrial products moderated from 4.2% in September to 4.0% in October (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index went up by 0.7% in October, posting month-on-month rise for six consecutive months.

In our view, China's tariffs imposed on US\$110 billion worth of US imports and the Chinese yuan's recent weakness would lead to a rise in the prices of imported production inputs. That being said, the year-on-year growth in the purchaser price index is likely to drop further in the rest of the year, due mainly to a higher comparison base in the same period last year.

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



Source: National Bureau of Statistics, PRC

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

	yoy growth (%)					
	May 18	Jun	Jul	Aug	Sep	Oct
Fuel and power	5.5	8.1	9.9	9.7	9.2	9.4
Non-ferrous metal materials and wires	7.6	7.9	5.6	2.5	-0.4	-1.7
Chemical raw materials	5.3	5.8	5.7	6.1	5.8	5.3
Wood and pulp	7.8	7.4	7.1	6.6	4.5	2.6
Textile raw materials	1.7	2.1	2.4	2.6	2.9	2.7

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 9.4% in October, up from 9.2% in September (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 1.7% decline in October (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 5.3% yoy, in October, after rising by 5.8% 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 sharply to 2.6% in October from 4.5% in September (see exhibit 6).

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

The purchaser price index of textile raw materials gained 2.7% yoy in October, compared with the 2.9% yoy growth in September (see exhibit 6).

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