



# China Sourcing Update

October 19, 2017

## Major Price Indicators

### 1. CPI growth eases in September

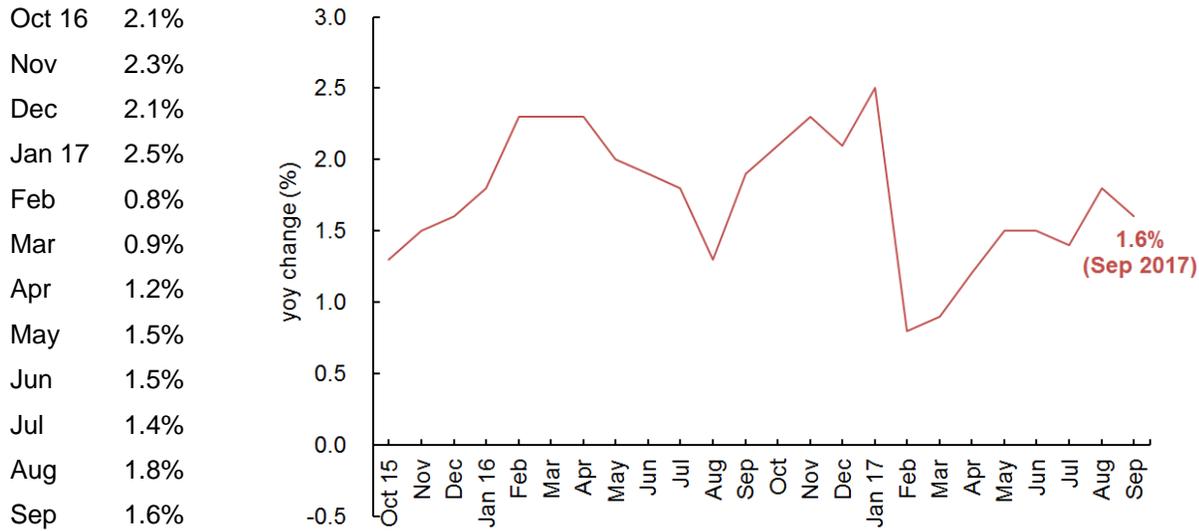
The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> dropped from 1.8% in August to 1.6% in September, which was in line with market expectations (see *exhibits 1 & 2*).

The moderation in the CPI growth in September was mainly attributable to a higher base for comparison in September last year and a decline in vegetable prices. The year-on-year growth in vegetable prices went down markedly from 9.7% in August to minus 1.0% in September. Consequently, the year-on-year growth in the food component in the CPI fell from minus 0.2% in August to minus 1.4% in September. Meanwhile, the year-on-year growth in the non-food component edged up from 2.3% in August to 2.4% in September, driven by the rise in healthcare costs and housing rents.

Looking ahead, we expect the CPI growth to stay low in the fourth quarter, due largely to a higher comparison base in the fourth quarter last year as well as continued deflation in food prices.

<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, October 2015 to September 2017**



Source: National Bureau of Statistics, PRC

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

yoy growth (%)

	Apr 17	May	Jun	Jul	Aug	Sep
Clothing	1.3	1.3	1.4	1.4	1.3	1.3
Household articles and services	0.8	1.0	1.1	1.1	1.3	1.4
Education, culture and recreation	2.6	2.6	2.5	2.5	2.5	2.3

Source: National Bureau of Statistics, PRC

## 2. Ex-factory prices of industrial products rise further in September

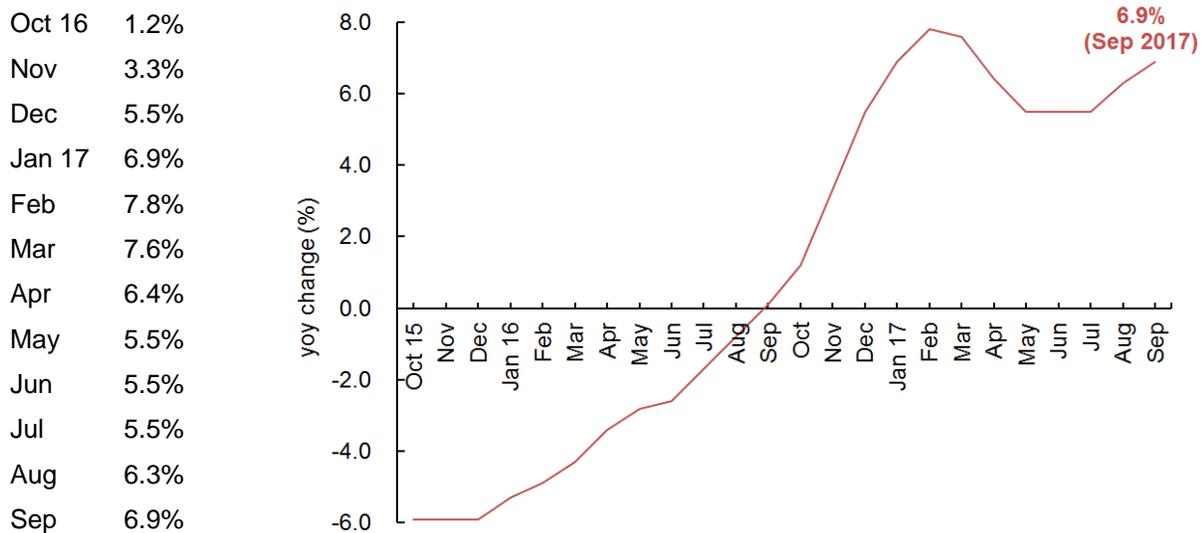
The year-on-year growth in China's producer price index of industrial products (PPI) went up from 6.3% in August to 6.9% in September, higher than market expectations (see exhibits 3 & 4).

<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'.

On a month-on-month basis, the PPI gained 1.0% in September after rising by 0.9% in the previous month. The readings of the PPI in the last couple of months indicate that the ex-factory prices of industrial products increased again after a few months of correction and consolidation.

Looking ahead, the growth in the PPI is likely to stay high in the near future, as the September reading of the input prices sub-index of China’s manufacturing PMI, which registered 68.4, shows a recent jump in the domestic prices of production inputs.

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



Source: National Bureau of Statistics, PRC

**Exhibit 4: China’s PPI growth by selected industry, April to September 2017**

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

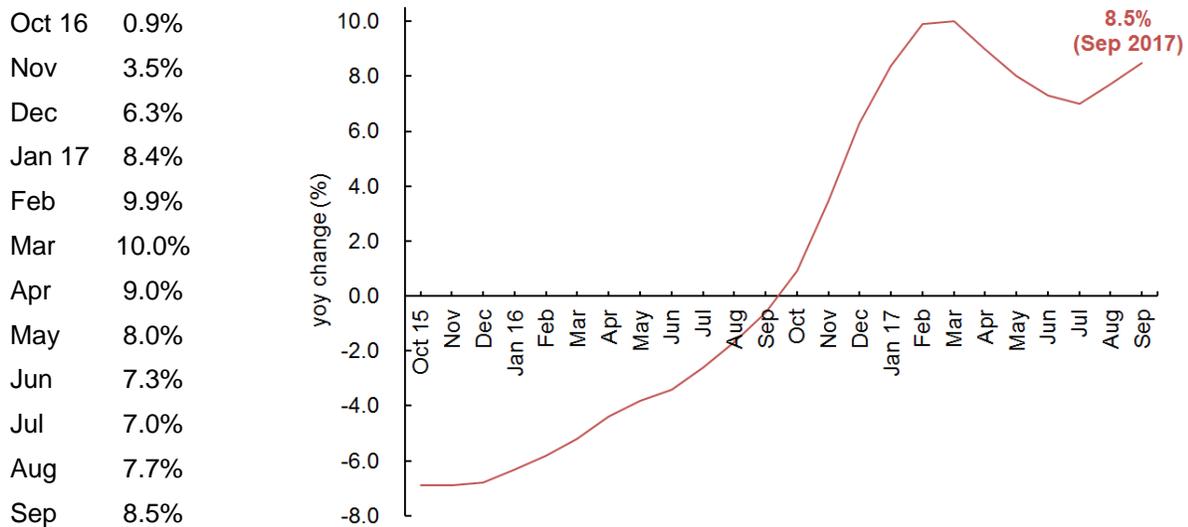
Source: National Bureau of Statistics, PRC

### 3. Purchaser price index of industrial products goes up in September

The year-on-year growth rate of the purchaser price index of industrial products rose from 7.7% in August to 8.5% in September (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index of industrial products went up by 1.2% in September, a larger increase than the 0.8% growth registered in the previous month.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, registered 68.4 in September. The index reading is higher than that of last month (65.3) and is well above the neutral level of 50, indicating that domestic prices of production inputs have risen strongly recently. Therefore, we believe that the purchaser price index of industrial products is likely to go up further in the near term.

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



Source: National Bureau of Statistics, PRC

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

*yoy growth (%)*

	<b>Apr 17</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>
Fuel and power	17.6	15.8	12.5	10.7	11.8	11.9
Non-ferrous metal materials and wires	15.4	13.9	14.1	13.2	15.3	18.6
Chemical raw materials	8.1	7.1	7.0	7.1	7.7	9.0
Wood and pulp	4.7	4.9	5.3	5.8	6.5	8.5
Textile raw materials	4.7	4.9	4.8	4.2	4.0	4.1

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 edged up to 11.9% in September from 11.8% in August (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 18.6% yoy, in September, after rising by 15.3% yoy in August (see exhibit 6).

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

The purchaser price index of chemical raw materials gained 9.0% yoy in September, compared with the 7.7% yoy growth in August (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 registered 8.5% in September, up from 6.5% in August (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 went up to 4.1% in September from 4.0% in August (see exhibit 6).

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