



# China Sourcing Update

October 23, 2018

## Major Price Indicators

### 1. CPI growth accelerates in September

The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> went up from 2.3% in August to 2.5% in September, which was in line with market expectations (see *exhibits 1 & 2*).

The reason for the rise in the CPI growth in September was that a faster increase in food prices outweighed a slower growth in non-food prices in the month. The year-on-year growth in the food component in the CPI climbed from 1.7% in August to 3.6% in September, due largely to a jump in vegetable prices amid bad weather and a slower year-on-year drop in pork prices caused by the African swine fever outbreaks. Meanwhile, the year-on-year growth in the non-food component fell from 2.5% in August to 2.2% in September.

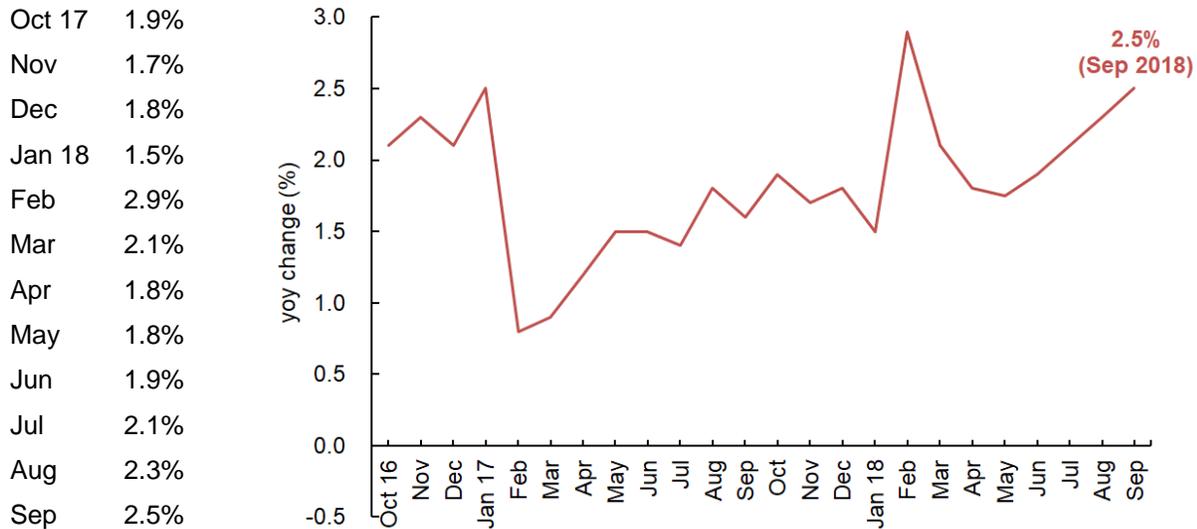
In our view, China's retaliatory tariffs on US\$110 billion worth of US imports<sup>2</sup> and the recent depreciation of the Chinese yuan are likely to push up import prices, especially

<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.

<sup>2</sup> Of which, tariffs on US\$34 billion of US goods kicked in on 6 July, US\$16 billion took effect on 23 August, and US\$60 billion became effective on 24 September.

food prices, further. Thus, we expect that China's CPI growth will trend slightly upward in the coming months.

**Exhibit 1: China's CPI growth, October 2016 to September 2018**



Source: National Bureau of Statistics, PRC

**Exhibit 2: China's CPI growth by commodity, April to September 2018<sup>3</sup>**

yoy growth (%)

	Apr 18	May	Jun	Jul	Aug	Sep
Clothing	1.1	1.1	1.1	1.2	1.3	1.2
Household articles and services	1.5	1.5	1.5	1.6	1.6	1.6
Education, culture and recreation	2.0	1.9	1.8	2.3	2.6	2.2

Source: National Bureau of Statistics, PRC

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

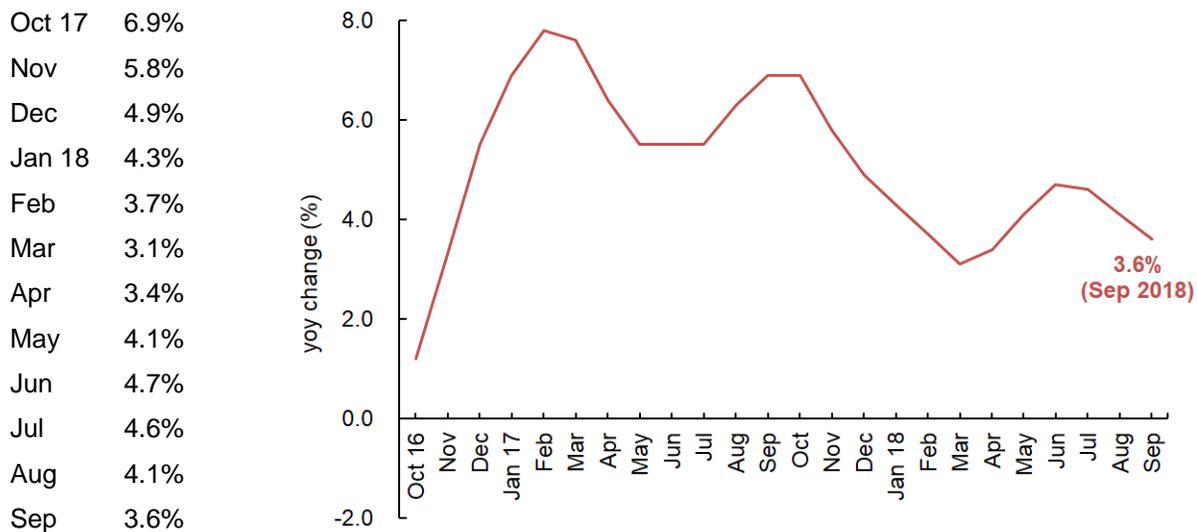
The year-on-year growth in China's producer price index of industrial products (PPI) eased from 4.1% in August to 3.6% in September (see exhibits 3 & 4).

<sup>3</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 jumped by 0.6% in September, a larger increase than the 0.4% growth recorded in the previous month. The increase in the PPI in the month was caused mainly by higher ex-factory prices in the oil and chemical industries due largely to higher global crude prices in recent months.

In our view, the retaliatory tariffs levied on US\$110 billion worth of US goods by China and the recent depreciation of the Chinese yuan would raise the import prices of materials and intermediate goods, thereby putting inflationary pressures on ex-factory prices of industrial products. That being said, we expect that the year-on-year growth in the PPI will continue to fall in the fourth quarter, due partly to a higher base for comparison in the same period last year.

**Exhibit 3: China's PPI growth, October 2016 to September 2018**



Source: National Bureau of Statistics, PRC

**Exhibit 4: China's PPI growth by selected industry, April to September 2018**

	yoy growth (%)					
	Apr 18	May	Jun	Jul	Aug	Sep
Textile	1.7	1.9	2.1	2.3	3.0	3.1
Textile wearing apparel and ornament	0.5	0.6	0.6	1.1	1.3	1.4
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	1.6	1.7	1.9	2.0	2.2	2.2

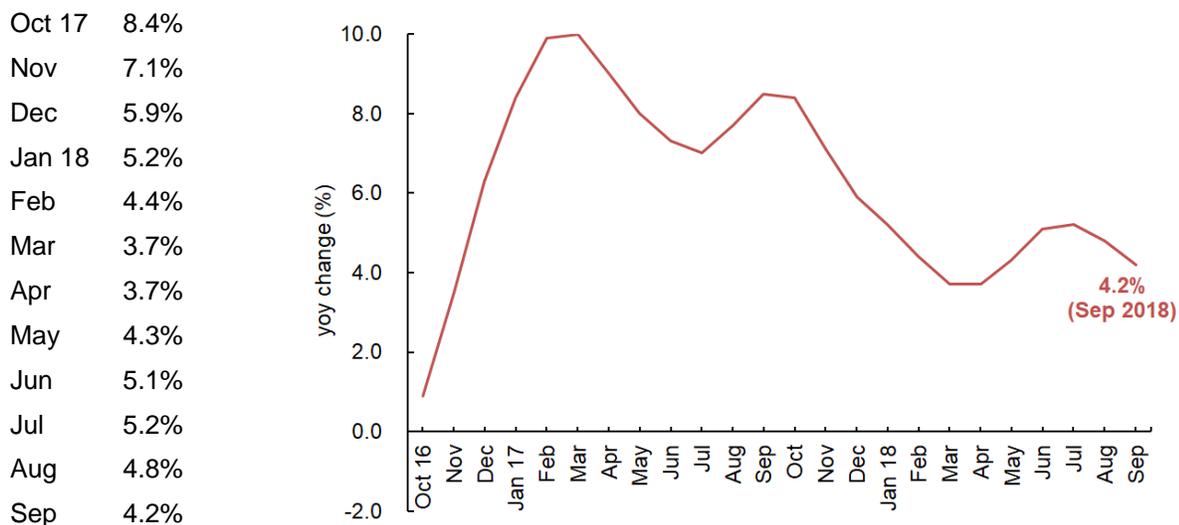
Source: National Bureau of Statistics, PRC

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

The year-on-year growth rate of the purchaser price index of industrial products slowed from 4.8% in August to 4.2% in September (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index went up by 0.6% in September, posting month-on-month rise for five 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, October 2016 to September 2018**



Source: National Bureau of Statistics, PRC

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

	yoy growth (%)					
	Apr 18	May	Jun	Jul	Aug	Sep
Fuel and power	4.6	5.5	8.1	9.9	9.7	9.2
Non-ferrous metal materials and wires	6.4	7.6	7.9	5.6	2.5	-0.4
Chemical raw materials	4.2	5.3	5.8	5.7	6.1	5.8
Wood and pulp	7.0	7.8	7.4	7.1	6.6	4.5
Textile raw materials	1.7	1.7	2.1	2.4	2.6	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 registered 9.2% in September, down from 9.7% in August (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 dipped into negative territory with a 0.4% decline in September (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 5.8% yoy, in September, after rising by 6.1% 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 4.5% in September from 6.6% last month (see *exhibit 6*).

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

The purchaser price index of textile raw materials gained 2.9% yoy in September, compared with the 2.6% yoy growth in August (see *exhibit 6*).

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