



China Sourcing Update

October 17, 2019

Major Price Indicators

1. CPI growth accelerates in September

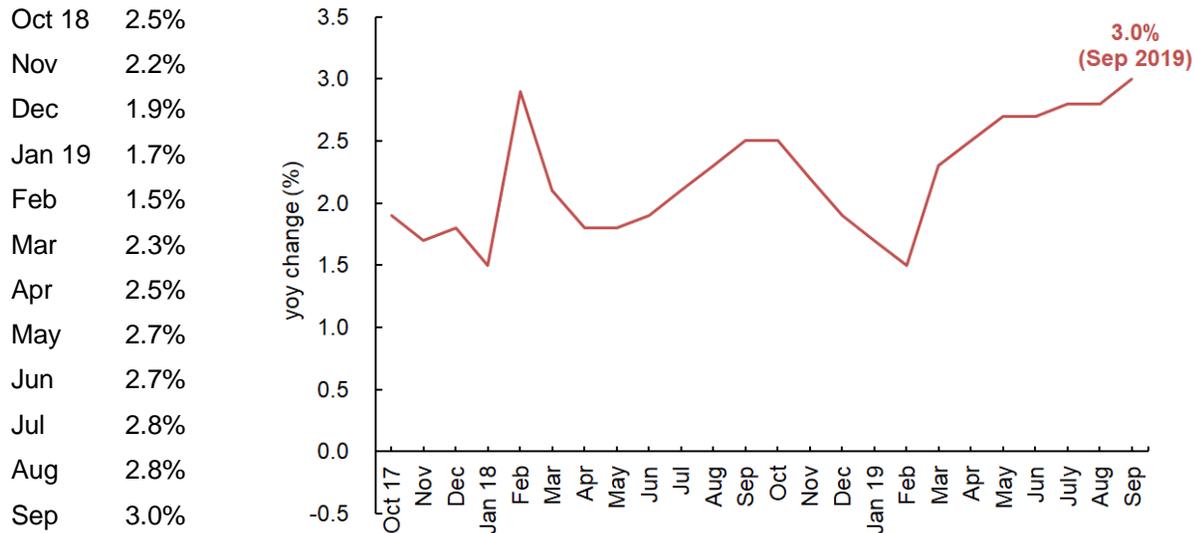
The year-on-year growth rate of China's consumer price index (CPI)¹ went up from 2.8% in August to 3.0% in September, its fastest pace in almost six years (see exhibits 1 & 2).

The reason for the increase in the CPI growth in September was that a rise in food inflation outweighed a decline in non-food inflation in the month. The year-on-year growth in the food component in the CPI jumped from 10.0% in August to 11.2% in September, due largely to a further surge in pork prices. Meanwhile, the year-on-year growth in the non-food component fell from 1.1% in August to 1.0% in September.

Looking ahead, we expect that China's CPI growth will continue to go up in the coming months, due mainly to rising pork prices.

¹ 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.

Exhibit 1: China's CPI growth, October 2017 to September 2019



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, April to September 2019

yoy growth (%)

| | Apr 19 | May | Jun | Jul | Aug | Sep |
|-----------------------------------|--------|-----|-----|-----|-----|-----|
| Clothing | 1.8 | 1.7 | 1.8 | 1.8 | 1.6 | 1.6 |
| Household articles and services | 1.1 | 1.0 | 0.8 | 0.8 | 0.7 | 0.6 |
| Education, culture and recreation | 2.5 | 2.6 | 2.4 | 2.3 | 2.1 | 1.7 |

Source: National Bureau of Statistics, PRC

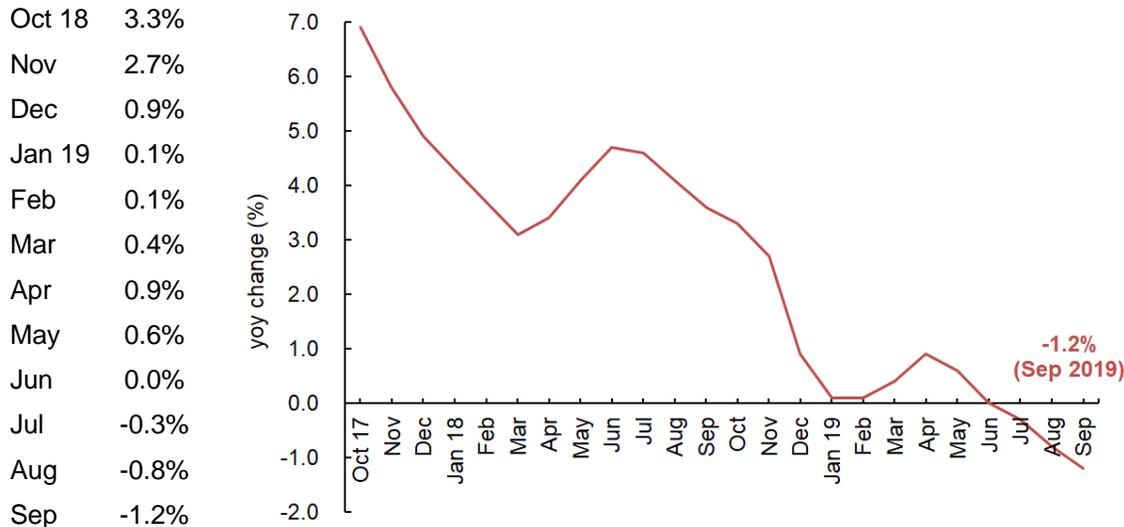
2. Ex-factory prices of industrial products edge up month-on-month in September

The year-on-year growth in China's producer price index of industrial products (PPI) dropped from minus 0.8% in August to minus 1.2% in September, the lowest level in three years (see exhibits 3 & 4).

On a month-on-month basis, the PPI went up by 0.1% in September, after having fallen for three consecutive months. The increase in the PPI in September was mainly attributed to the rise in ex-factory prices in the 'processing of food from agricultural products', 'manufacture and processing of non-ferrous metals' and 'manufacture of computer, communication equipment and other electronic equipment' industries in the month.

Looking ahead, we expect that the month-on-month growth in the PPI will remain low or even turn negative in the near future, as the ex-factory prices sub-index of China’s manufacturing PMI came in at 49.9 in September, indicating slight deflationary pressure on ex-factory prices. Meanwhile, the year-on-year growth in the PPI is likely to go down further in October, due largely to a sluggish aggregate demand and a higher base for comparison in the same period last year.

Exhibit 3: China’s PPI growth, October 2017 to September 2019



Source: National Bureau of Statistics, PRC

Exhibit 4: China’s PPI growth by selected industry, April to September 2019

| | yoy growth (%) | | | | | |
|--|----------------|-----|-----|------|------|------|
| | Apr 19 | May | Jun | Jul | Aug | Sep |
| Textile | 1.1 | 0.9 | 0.1 | -0.4 | -1.6 | -2.4 |
| Textile wearing apparel and ornament | 1.1 | 1.0 | 0.9 | 0.6 | 0.4 | 0.3 |
| Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products | 1.1 | 1.1 | 1.2 | 1.1 | 0.6 | 0.5 |

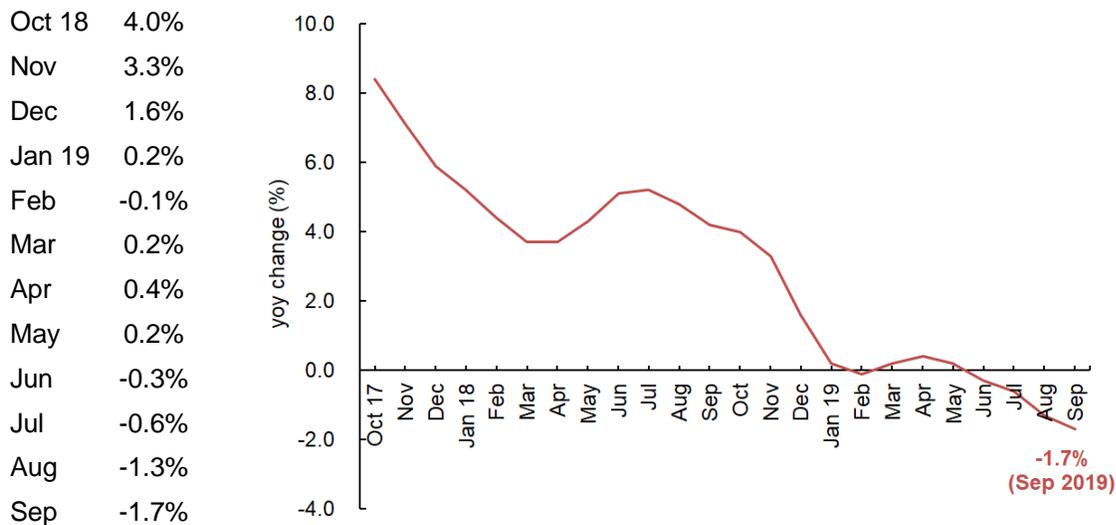
Source: National Bureau of Statistics, PRC

3. Domestic prices of production inputs rise month-on-month in September

The year-on-year growth rate of the purchaser price index of industrial products went down from minus 1.3% in August to minus 1.7% in September, the lowest level in three years (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index increased by 0.2% in September, after having posted a fall for three consecutive months.

The input prices sub-index of China’s manufacturing PMI, a leading indicator of upstream prices, came in at 52.2 in August, indicating weak inflationary pressure on input prices. Therefore, we expect that the month-on-month growth in the purchaser price index of industrial products will stay low in the near term. Meanwhile, the year-on-year growth rate of the index is likely to drop further in October, due mainly to a weak demand for production inputs and a higher comparison base in the same period last year.

Exhibit 5: Growth of China’s purchaser price index of industrial products, October 2017 to September 2019



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products
by selected commodity, April to September 2019**

yoy growth (%)

| | Apr 19 | May | Jun | Jul | Aug | Sep |
|---------------------------------------|--------|------|------|------|------|------|
| Fuel and power | 1.6 | 1.4 | -0.2 | -2.1 | -3.2 | -4.2 |
| Non-ferrous metal materials and wires | -1.6 | -2.5 | -3.5 | -2.5 | -2.3 | -1.5 |
| Chemical raw materials | -2.8 | -3.5 | -4.7 | -5.4 | -6.8 | -7.9 |
| Wood and pulp | -1.3 | -2.5 | -3.0 | -3.7 | -4.5 | -4.8 |
| Textile raw materials | 1.1 | 0.7 | -0.1 | -0.8 | -1.6 | -2.3 |

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 minus 4.2% in September, down from minus 3.2% 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 improved to minus 1.5% in September from minus 2.3% in the previous month (see exhibit 6).

(iii) Purchaser price index of chemical raw materials

The purchaser price index of chemical raw materials fell by 7.9% yoy in September, compared with a 6.8% yoy drop in August (see exhibit 6).

(iv) Purchaser price index of wood and pulp

The purchaser price index of wool and pulp dropped at a faster pace, by 4.8% yoy, in September, after falling by 4.5% yoy in the previous month (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 stayed in negative territory, posting a 2.3% decline in September (see exhibit 6).

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