

# China Sourcing Update

## Major Price Indicators

**Growth in CPI and PPI to converge as improvement in domestic demand continues to lag behind that in production and supply**

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### Key indicators

- CPI growth slowed to 1.7% yoy in September due to weaker food inflation.
- Factory gate deflation worsened as the year-on-year growth in PPI went down to minus 2.1% in September.
- Year-on-year growth rate of the purchaser price index of industrial products improved to minus 2.3% in September, indicating moderation in upstream deflation.

### Our forecasts

- We project that China's CPI growth will fall in the coming months and drop below 1.0% yoy in 4Q20 amid a continued decline in pork prices, and a high comparison base in late 2019 and early 2020.
- PPI will continue to go up on a month-on-month basis, and the year-on-year growth will improve in the coming months, given an improving industrial demand and the boost from greater infrastructure investment in the fourth quarter.
- Both the year-on-year growth and month-on-month growth in input prices will continue to pick up in the coming months, as the demand for production inputs is likely to improve further.

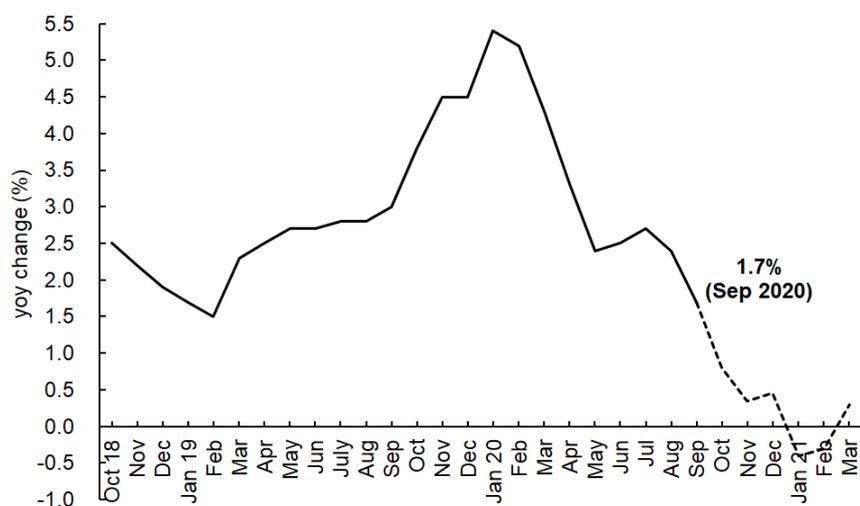
## 1. CPI growth slows to 1.7% in September

The year-on-year growth rate of China's consumer price index (CPI)<sup>1</sup> went down from 2.4% in August to 1.7% in September (see exhibits 1 & 2). The slowdown in CPI growth in September was attributed to a weaker food inflation due largely to a fall in pork prices.

Looking ahead, we project that China's CPI growth will continue to fall in the near future and drop below 1.0% yoy in 4Q20 for three reasons. First, the improvement in domestic demand continues to lag behind that in production and supply amid the COVID-19 pandemic. Second, a continued decline in pork prices will drag down food inflation. Lastly, a high base for comparison in late 2019 and early 2020 will weigh on CPI growth in the coming months.

### Exhibit 1: China's CPI growth and forecasts, October 2018 to March 2021

FY19	Oct 19	Nov	Dec	Jan 20	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
2.9%	3.8%	4.5%	4.5%	5.4%	5.2%	4.3%	3.3%	2.4%	2.5%	2.7%	2.4%	1.7%



Source: National Bureau of Statistics

### Exhibit 2: China's CPI growth by commodity, April to September 2020

	yoy growth (%)					
	Apr 20	May	Jun	Jul	Aug	Sep
Clothing	-0.4	-0.4	-0.4	-0.5	-0.5	-0.4
Household articles and services	0.1	0.1	0.0	-0.1	-0.1	-0.1
Education, culture and recreation	2.0	2.2	1.9	0.3	0.0	0.7

Source: National Bureau of Statistics

<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.

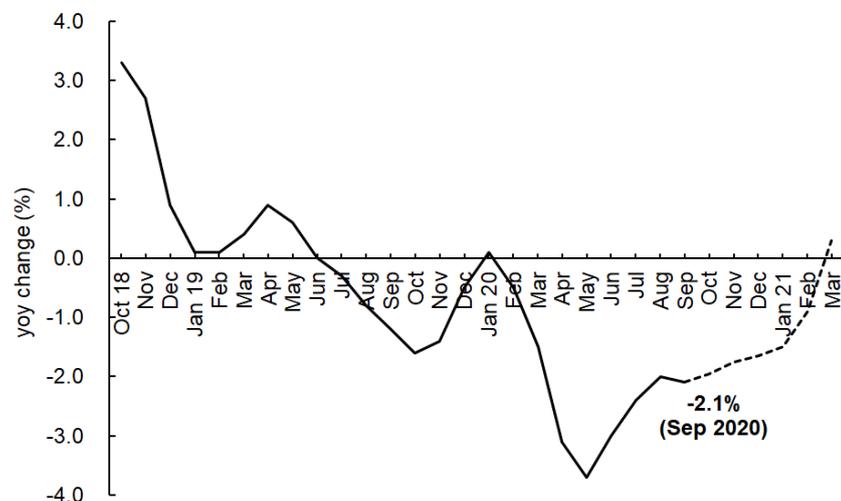
## 2. Ex-factory prices of industrial products go up month-on-month in September

China's factory gate deflation worsened in September as the year-on-year growth in the producer price index of industrial products (PPI) went down from minus 2.0% in August to minus 2.1% in September (see exhibits 3 & 4). On a month-on-month basis, the PPI rose by 0.1% in September. The increase in the PPI in September was mainly attributed to a rise in ex-factory prices in the ferrous metals and non-ferrous metals industries. Meanwhile, ex-factory prices in the crude oil and coal industries dropped amid a fall in global crude prices.

Going forward, the demand for industrial products is likely to improve as the domestic economy is set to recover further. Besides, greater infrastructure investment in the fourth quarter will also push up domestic prices of production inputs, adding cost pressures on manufacturers. Therefore, we expect that the PPI will continue to rise on a month-on-month basis, and the year-on-year growth will pick up in the coming months.

**Exhibit 3: China's PPI growth and forecasts, October 2018 to March 2021**

FY19	Oct 19	Nov	Dec	Jan 20	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
-0.3%	-1.6%	-1.4%	-0.5%	0.1%	-0.5%	-1.5%	-3.1%	-3.7%	-3.0%	-2.4%	-2.0%	-2.1%



Source: National Bureau of Statistics

**Exhibit 4: China's PPI growth by selected industry, April to September 2020**

	yoy growth (%)					
	Apr 20	May	Jun	Jul	Aug	Sep
Textile	-4.5	-5.4	-5.6	-6.0	-5.8	-6.0
Textile wearing apparel and ornament	-1.0	-1.0	-0.9	-1.3	-1.5	-1.7
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	-0.7	-0.7	-1.3	-1.4	-0.9	-1.0

Source: National Bureau of Statistics

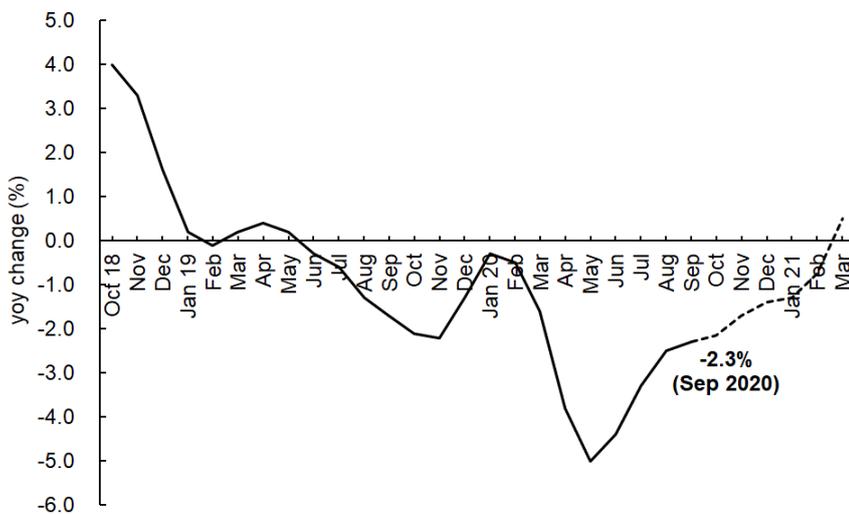
### 3. Domestic prices of production inputs rise month-on-month in September

The year-on-year growth rate of the purchaser price index of industrial products improved from minus 2.5% in August to minus 2.3% in September, indicating moderation in China's upstream deflation (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index went up by 0.4% in September, after rising by 0.6% in August.

Going forward, as domestic industrial production has continued to expand and infrastructure investment will likely accelerate in the fourth quarter, the demand for production inputs is expected to improve further in the near future. Therefore, we predict that both the year-on-year growth and month-on-month growth in input prices will continue to pick up in the coming months.

#### Exhibit 5: Growth and forecasts of China's purchaser price index of industrial products, October 2018 to March 2021

FY19	Oct 19	Nov	Dec	Jan 20	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
-0.7%	-2.1%	-2.2%	-1.3%	-0.3%	-0.5%	-1.6%	-3.8%	-5.0%	-4.4%	-3.3%	-2.5%	-2.3%



Source: National Bureau of Statistics

#### Exhibit 6: China's purchaser price index of industrial products by selected commodity, April to September 2020

	yoy growth (%)					
	Apr 20	May	Jun	Jul	Aug	Sep
Fuel and power	-11.4	-15.5	-14.2	-10.8	-9.8	-9.3
Non-ferrous metal materials and wires	-6.6	-5.5	-3.3	-0.3	2.9	2.9
Chemical raw materials	-9.3	-10.3	-9.4	-8.9	-8.4	-7.8
Wood and pulp	-2.7	-3.3	-2.9	-2.1	-1.4	-0.8
Textile raw materials	-3.6	-4.1	-4.0	-3.9	-3.9	-3.8

Source: National Bureau of Statistics

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