

# China Economy

## Deflation pressure deepened

Oct CPI edged down and fell short of market expectations once again, dragged by the falling food and energy prices. Core CPI growth marginally rebounded from its historic low thanks to the surging tourism price. However, other service prices remained soft and durable goods price further contracted, indicating still weak consumer demand. PPI contracted at a slower pace while its YoY decline deepened, dragged by falling upstream energy price and downstream consumer goods price. The policymakers continued to focus on stabilising the housing market and relieving local fiscal distress after the housing bubble burst as the direct fiscal support to consumers was limited. The latest policy moves would help improve housing market sentiment and local government financial conditions with indirect and imperceptible impact on consumer demand. Therefore, deflation pressure might persist for at least several months. A possible escalation of China-US trade tensions in Trump 2.0 era might push Chinese policymakers to gradually shift the policy focus to boosting consumption and defying deflation in 2025. We estimate China's CPI and PPI growth rates may rise from 0.2% and -3% in 2023 to 0.4% and -2.1% in 2024 and 1% and -0.4% in 2025.

■ **CPI dipped again dragged by falling food and energy prices.** CPI YoY growth dropped to 0.3% in Oct from 0.4% in Sep, which fell short of market expectation of 0.4%. In sequential terms, CPI notably dropped 0.3% from 0% in Sep, as food price declined by 1.2% MoM after rising 0.8% in Sep and vehicle fuel price dropped by 1.5% after dropping 2.8% in Sep. The rally of food price since July has come to an end as vegetable and meat prices dropped to -3% and -2% MoM in Oct after rising 4.3% and 0.4% in Sep. Pork price saw its first MoM decline since Mar at -3.7% as inventory of breeding sows and live hogs moderately rebounded. According to high-frequency data, prices of agricultural products and vegetables saw deeper MoM declines in early Nov, while pork wholesale price continued to decline MoM yet to a smaller extent.

■ **Core CPI marginally rebounded thanks to tourism price uptick.** Core inflation marginally rebounded from one of its lowest levels in history at 0.1% YoY in Sep to 0.2% in Oct. MoM growth remained flat at 0% in Oct after dropping 0.1%. Service price rebounded to 0% MoM after declining 0.3% in Sep, thanks to the tourism price which notably expanded by 1.3% in Oct compared to -6.3% in Sep. Telecom, express, education, medical, and home services all remained unchanged MoM, while housing rent dropped another 0.1%, indicating the weak employment conditions and soft demand in the service sector. Durable goods prices remained subdued as vehicle and home equipment prices both dropped by 0.2% MoM in Oct from -0.2% and -0.1% in Sep yet their sales notably boomed in Oct, thanks to the trade-in subsidy scheme. Telecom equipment notably increased by 0.4% MoM after dropping 0.6%. Discretionary goods including clothing increased by 0.1% MoM while footwear saw a 0.2% MoM drop. Looking forward, CPI may face further pressure due to the falling meat and vegetable prices and remain in the low range under 1%. Core CPI growth might drop again in Nov due to the retreat of tourism price after the National Day holiday. Consumer inflation may remain tepid in medium term due to the absence of direct stimulus towards the household sector, lethargic consumer demand amid weak employment conditions, and oversupply pressure in durable goods.

■ **PPI contracted at a slower pace yet significantly missed expectations.** YoY contraction of PPI edged down to -2.9% in Oct from -2.8% in Sep, notably below market expectation at -2.5%. The MoM growth rebounded to -0.1% compared to -0.6% drop in Sep. For mining industries, PPI of energy

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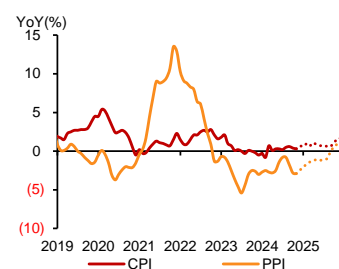
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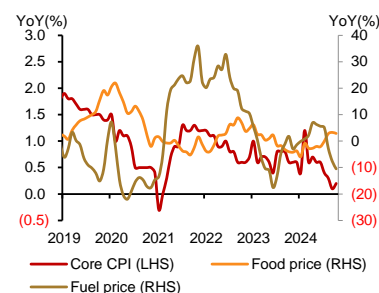
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Forecast numbers from Oct 2024  
Source: Wind, CMBIGM

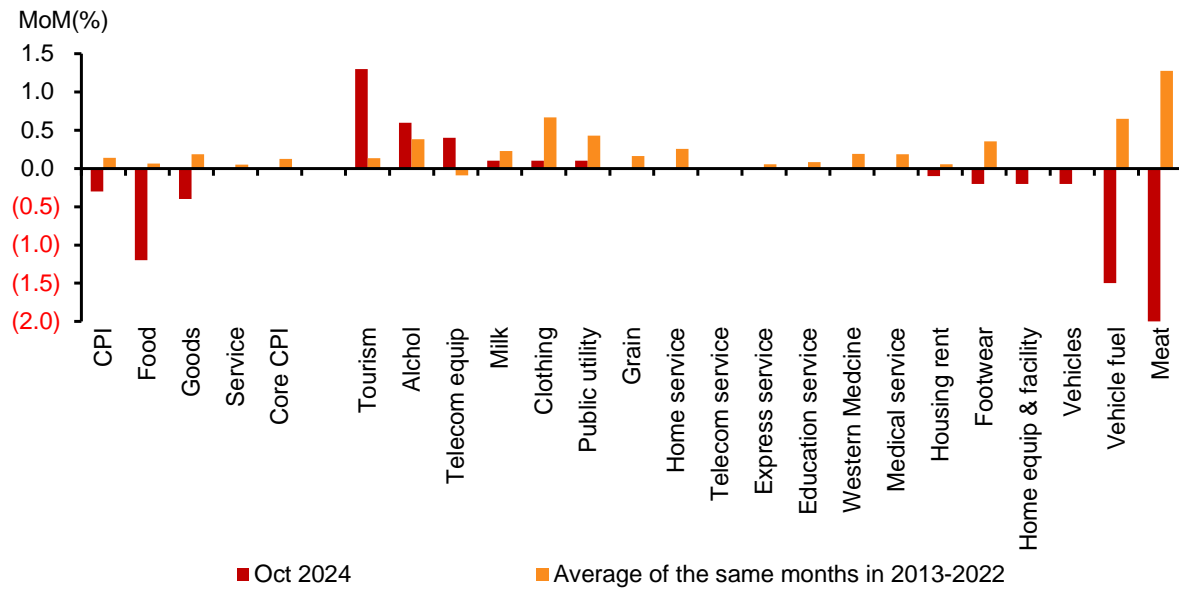


Source: Wind, CMBIGM

including coal mining and oil & gas further dropped to -5.6% and -14.6% in Oct from -2.6% and -10.1%, while smelting and pressing of ferrous and non-ferrous metals rebounded to -7.5% and 8.3% from -11.1% and 5.9% YoY in Sep. For mid-stream industries, PPI in intermediate goods such as chemical products, metal products and rubber & plastics dropped 0.9%, 0.3% and 0.1% MoM respectively. For final goods, auto and PC manufacturing further declined 0.9% and 0.5% MoM in Oct from -0.2% and -0.1%, with PPI of downstream sectors further dropping to -1.6% from -1.3%, dragged by weak consumer demand. We expect the decline of PPI to moderately narrow thanks to the lower base last year but to remain depressed in the near term due to still-weak domestic demand, and CRB commodities index to remain nearing its 6-month low.

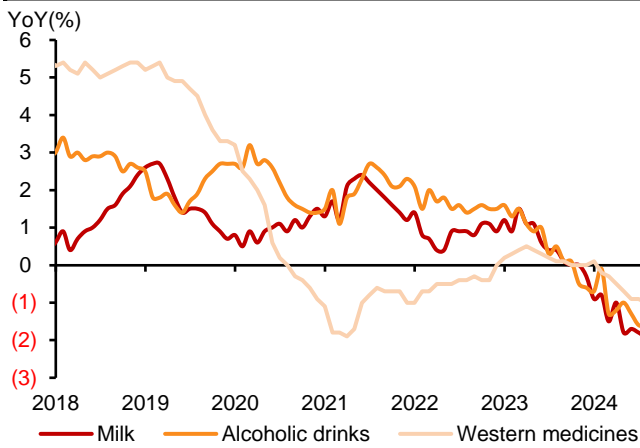
- **Deflation pressure might persist for at least several months.** The policy moves since late Sep indicated the pivot towards strong loosening to stabilize the economy. However, the policymakers continued to focus on stabilising the housing market and reliving local fiscal distress after the housing bubble burst as direct fiscal support to consumers was limited. The latest policy moves would help improve housing market sentiment and local government financial conditions with indirect and imperceptible impact on consumer demand. Private businesses accounted for 80% of China's urban employment. As they remained cautious to expand capex, employment conditions were still weak. So wage growth and consumer confidence remained low. Therefore, deflation pressure might persist for at least several months. Looking ahead to 2025, a possible escalation of China-US trade tensions may push Chinese policymakers to gradually shift its policy focus to boosting consumption and defying deflation, in our view.

**Figure 1: MoM Changes of China CPI in Oct**



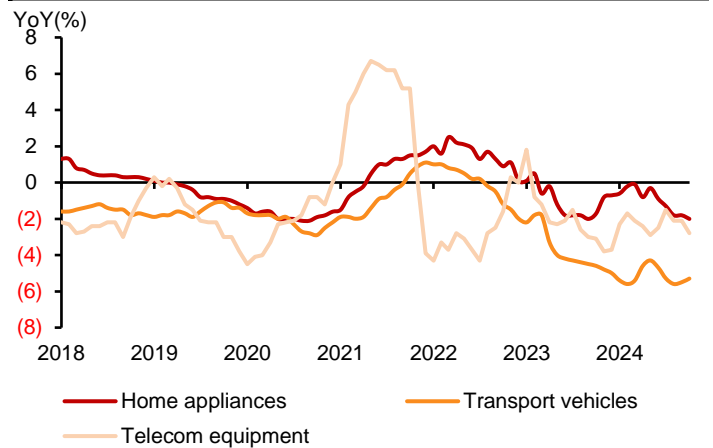
Source: Wind, CMBIGM

**Figure 2: China CPI Growth in Staples**



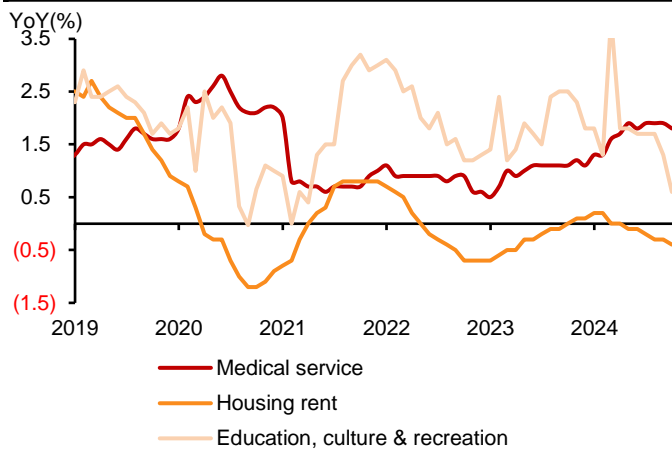
Source: Wind, CMBIGM

**Figure 3: China CPI Growth in Durables**



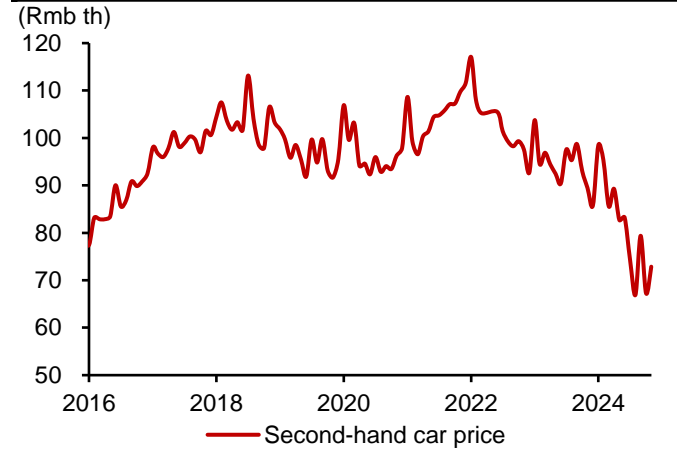
Source: Wind, CMBIGM

**Figure 4: China CPI Growth in Services**



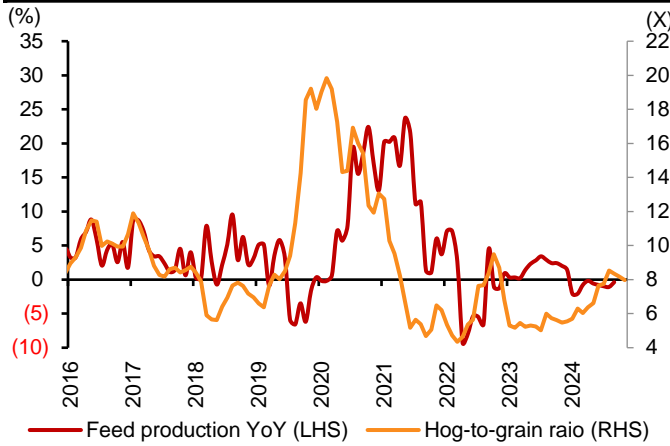
Source: Wind, CMBIGM

**Figure 5: Second-hand Car Price in Shanghai**



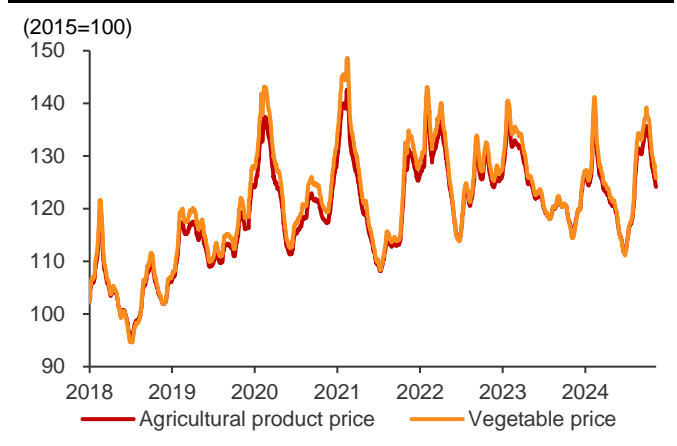
Source: Wind, CMBIGM

**Figure 6: Feed Production & Hog-to-Grain Ratio**



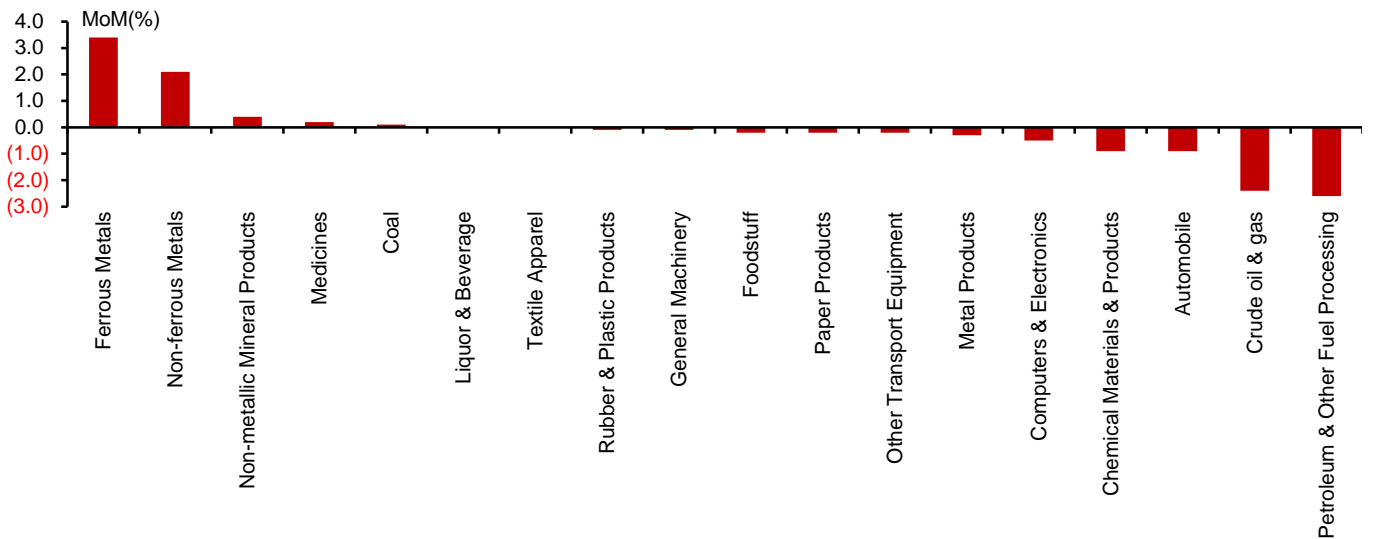
Source: Wind, CMBIGM

**Figure 7: Agricultural and Vegetable Price**



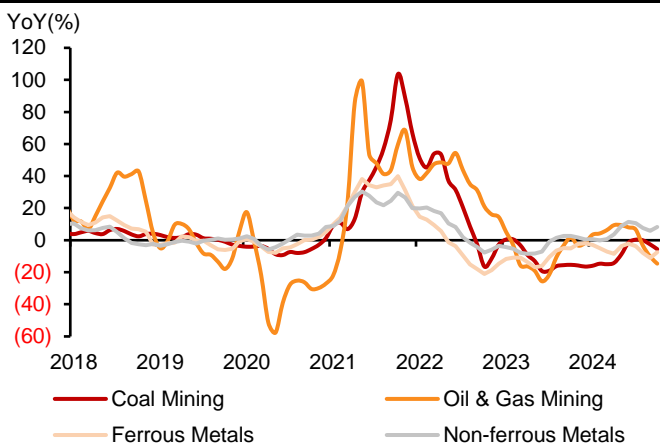
Source: Wind, CMBIGM

**Figure 8: MoM Changes of China PPI in Oct**



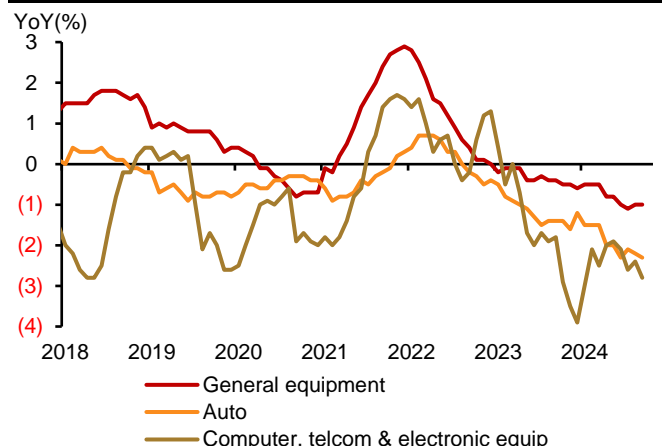
Source: Wind, CMBIGM

**Figure 9: China PPI in Energy & Metals**



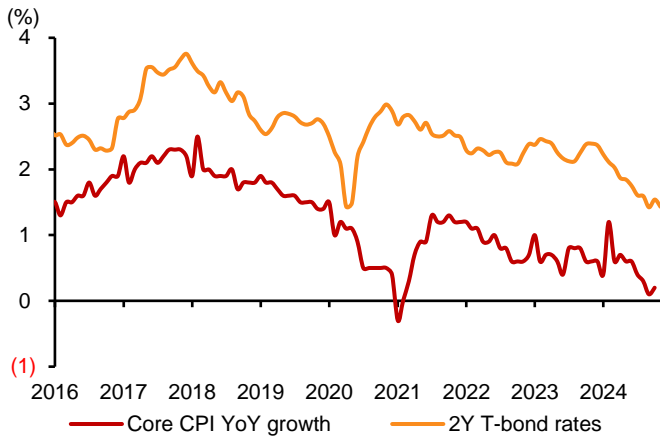
Source: Wind, CMBIGM

**Figure 10: China PPI in Equipment**



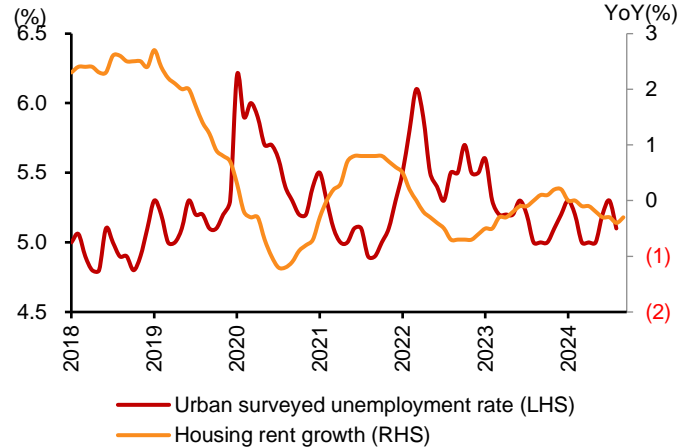
Source: Wind, CMBIGM

**Figure 11: China Core CPI Growth & 2Y T-bond Rates**



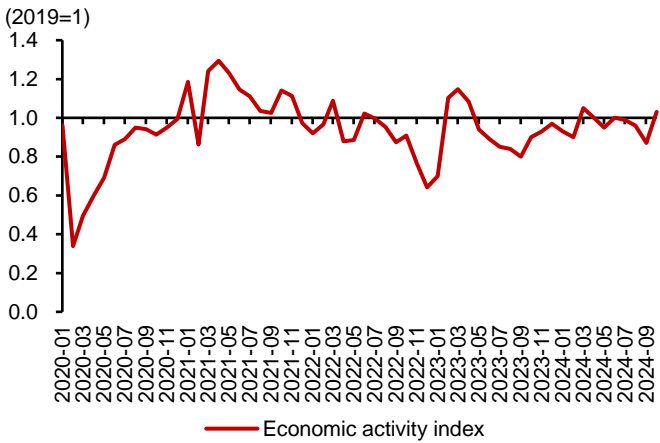
Source: Wind, CMBIGM

**Figure 12: Unemployment rate and rent growth**



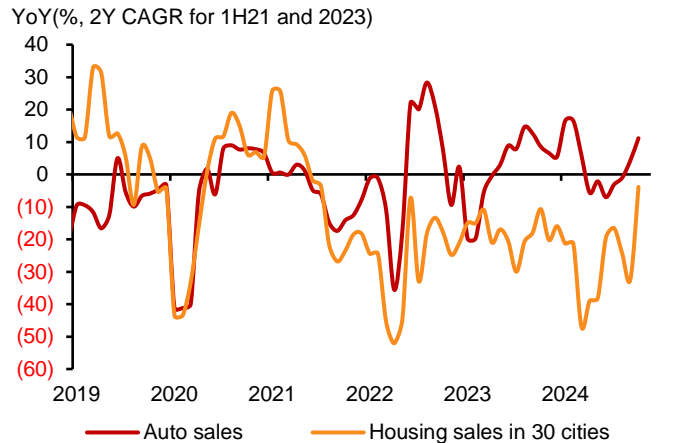
Source: Wind, CMBIGM estimates

**Figure 13: China Economic Activity Index**



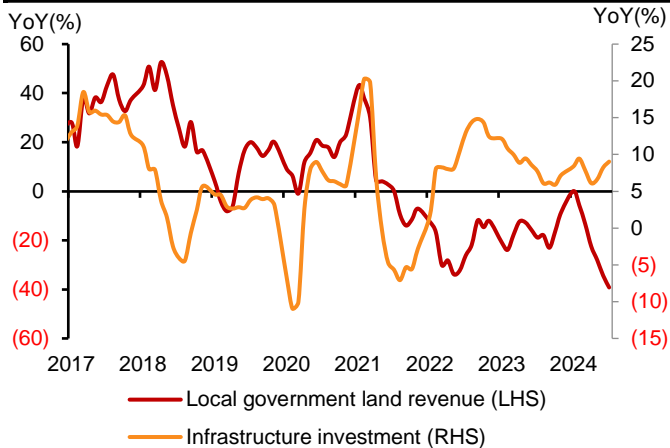
Source: Wind, CMBIGM

**Figure 14: China Auto & Housing Sales**



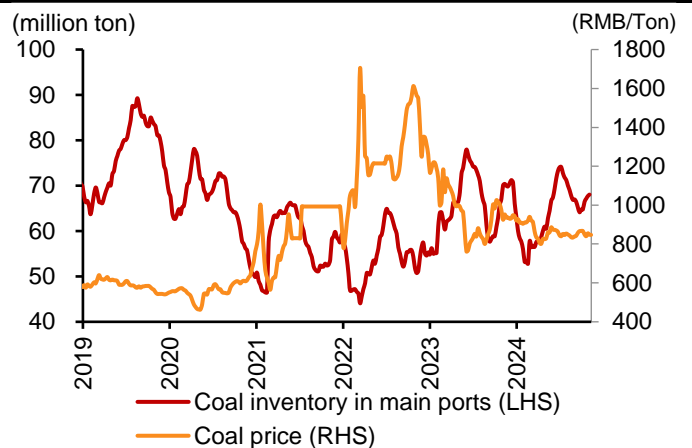
Source: Bloomberg, CMBIGM

**Figure 15: Infrastructure Investment in China**



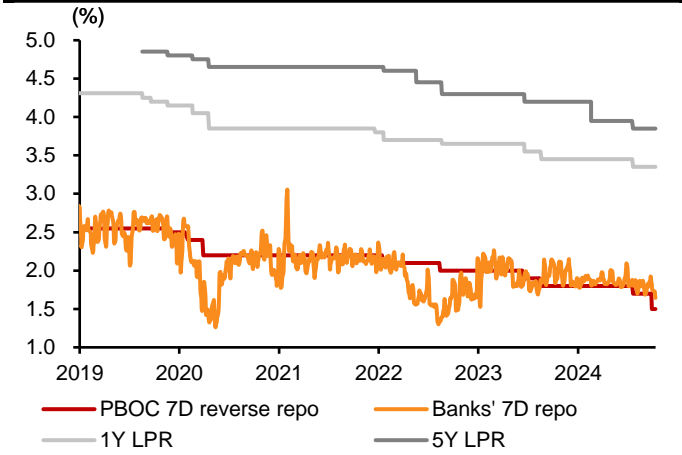
Source: Bloomberg, CMBIGM

**Figure 16: China Coal Inventory & Price**



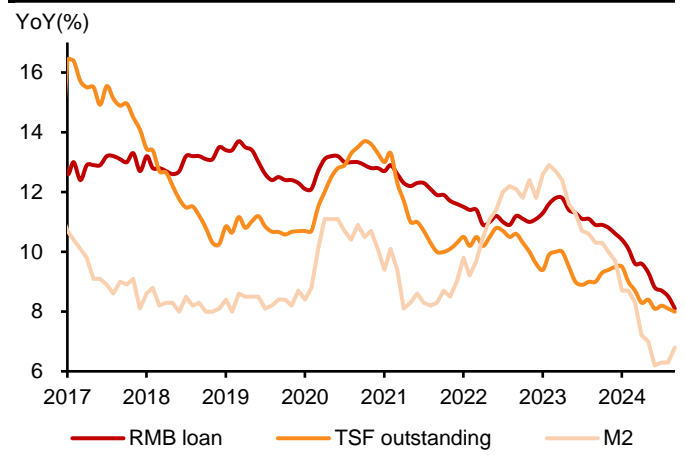
Source: Wind, CMBIGM

**Figure 17: PBOC Policy Rates & Liquidity Condition**



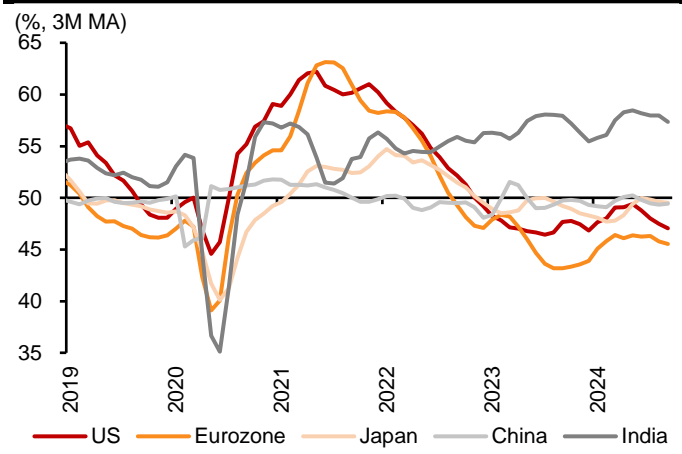
Source: Bloomberg, CMBIGM

**Figure 18: China Credit Growth**



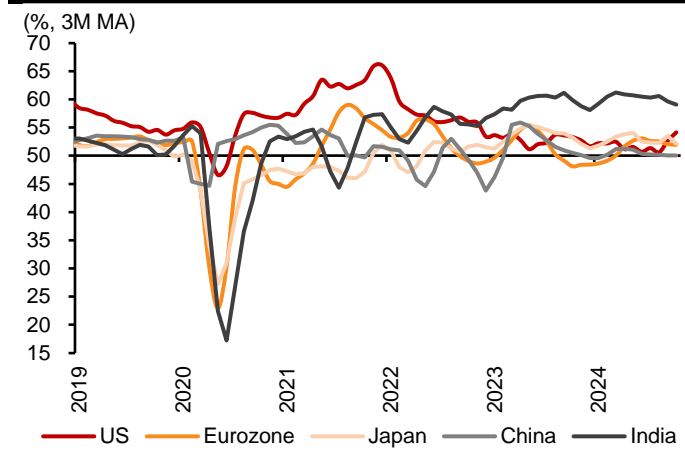
Source: Wind, CMBIGM

**Figure 19: Manufacturing PMI of Major Economies**



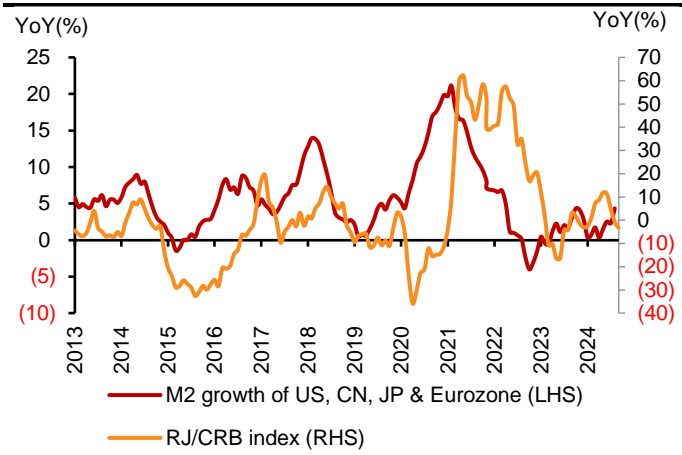
Source: Bloomberg, CMBIGM

**Figure 20: Service PMI of Major Economies**



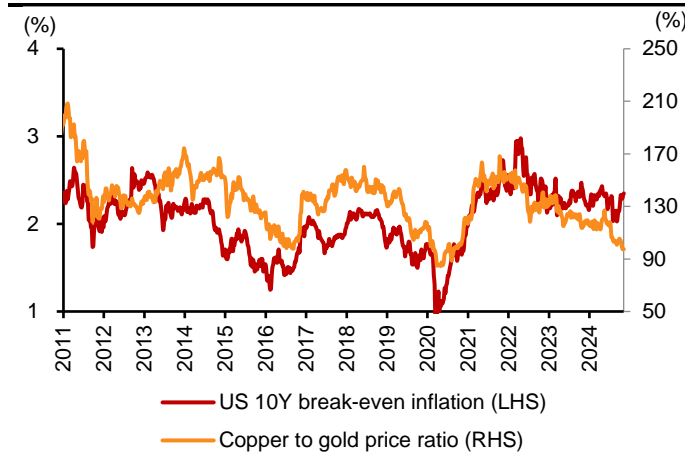
Source: Wind, CMBIGM

**Figure 21: M2 Growth & Commodity Inflation**



Source: Bloomberg, CMBIGM

**Figure 22: Copper-to-gold Ratio**



Source: Wind, CMBIGM

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