

# China Economy

## Deflation pressure persists

China's CPI edged down YoY in July due to higher base last year even though its MoM growth notably rebounded. Energy, service and durable goods prices rebounded while food prices remained subdued. PPI remained unchanged at two-year trough. Final consumption goods further dropped, reflecting the soft final consumption demand. Even though the recent policy effort has notably drove material prices such as cement photovoltaic modules and lithium batteries, the PPI seems still in deep contraction as it takes time for the material price to pass through to the ex-gate price. We expect the subdued PPI should persist in 3Q due to the drag from trade war and weak final demand. But we may see the recovery in 4Q due to continuous policy effort to curb involution competition and additional stimulus package on consumer demand, with corporate profit to gradually recover. CPI may remain unchanged at 0.2% in 2025, while PPI may rise from -2.2% in 2024 to -2% in 2025, in our view.

■ **CPI further recovered with rising energy prices.** China's CPI YoY dropped to 0% in July from 0.1% in June due to higher base last year, beating market expectation of -0.1%. In sequential terms, CPI notably rebounded to 0.4% in July from -0.1% in June. Food price remained subdued at -0.2% MoM in July as fruit prices dropped 3.4% MoM, even though MoM growth of pork and vegetable prices have turned positive to 0.9% and 1.3%. Vehicle fuel prices surged 3.5% MoM. High-frequency data indicated continued recovery in vegetable prices by 0.8% MoM in early Aug while its MoM growth hit 10% in Aug 2024. Pork retail prices remarkably dipped again in Aug while guideline gasoline price remained unchanged in early Aug. We expect the CPI to drop again in Aug to -0.1% YoY due to the dipping food prices and a higher base.

■ **Core CPI rebounded due to rising durable goods and tourism prices.** Core inflation remained edged up to 0.8% YoY in July from 0.7% in June, while its MoM expanded by 0.4%. Durable goods including home equipment and telecom equipment rose 2.2% and 0.3% respectively as promotion activities in June ended, while auto price stayed unchanged at 0%. It is worth noting that the discounts from trade-in scheme are excluded from CPI calculations. Discretionary goods remained muted as footwear and clothing dropped by 0.4% and 0.3% in July, since exports demand deteriorated. Service prices reflat to 0.6% MoM in July, as tourism prices sharply rebounded by 9.1% in July while medical services and housing rents rose by 0.3% and 0.1%. Other services remained subdued, with no price change recorded in categories such as education, express, telecommunications and home services.

■ **PPI remained in deep contraction.** YoY contraction of PPI stayed flat at -3.6%, missing the market expectations of -3.4%. The MoM growth mildly recovered to -0.2% in July from -0.4%. PPI of mining industries rebounded to -0.2% MoM in July from -1.2%, driven by the 3% growth of extraction of crude oil & gas in July while the mining of coal recovered to -1.5% from -3.4%. Non-ferrous metal rose 0.7% MoM while ferrous metal further dropped 1.1% MoM, indicating the domestic construction activities remained soft. Raw materials and intermediate products remained subdued, as metal products, rubber & plastic, non-metallic minerals and general machines continued to drop MoM. Final consumption goods further dropped 0.2% in July compared to -0.1% in June as food, general daily goods and durable goods dipped 0.2%, 0.2% and 0.6% respectively, indicating the soft final demand.

■ **Takes time for the policy effect to pass through.** Even though the recent policy effort has notably drove material prices such as cement, photovoltaic

**Frank Liu**

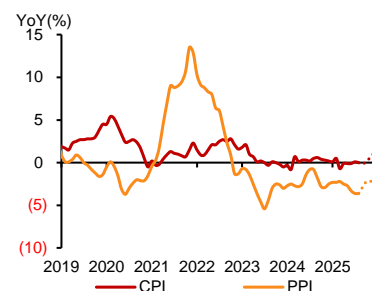
(852) 3761 8957

[frankliu@cmbi.com.hk](mailto:frankliu@cmbi.com.hk)

**Bingnan YE, Ph.D**

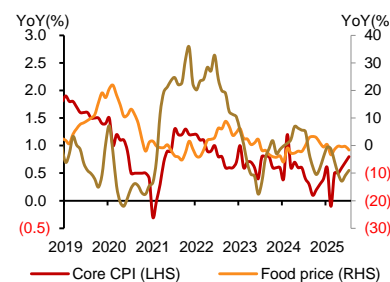
(852) 3761 8967

[yebingnan@cmbi.com.hk](mailto:yebingnan@cmbi.com.hk)



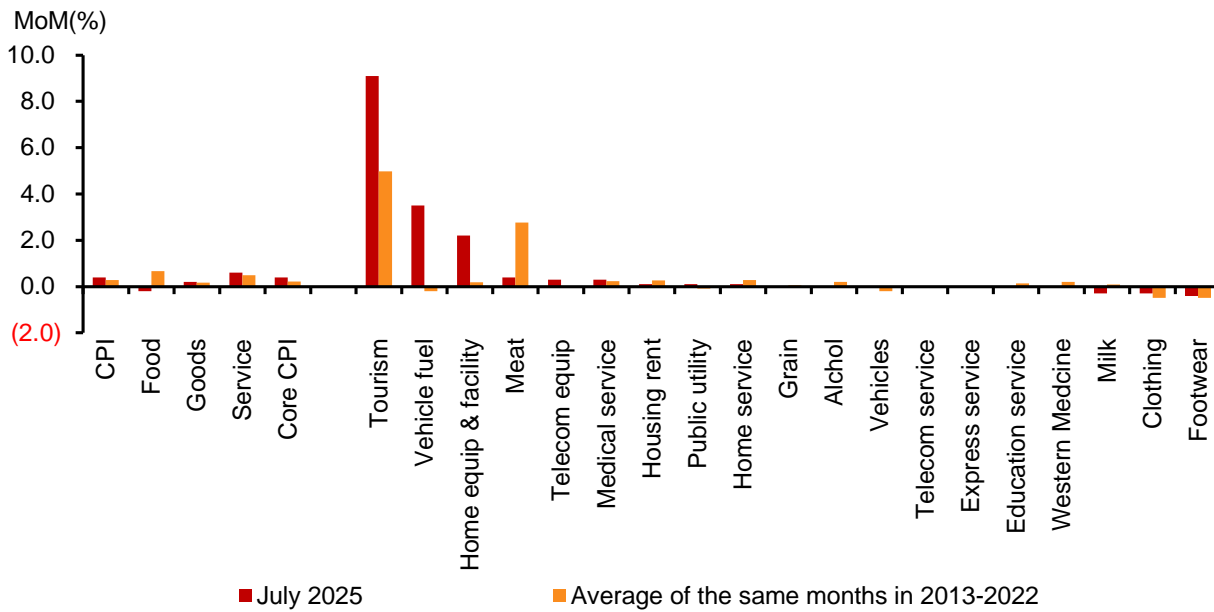
Forecast numbers from Aug 2025

Source: Wind, CMBIGM

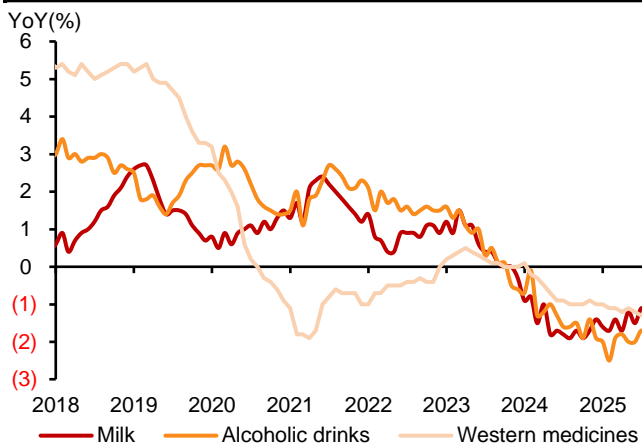


Source: Wind, CMBIGM

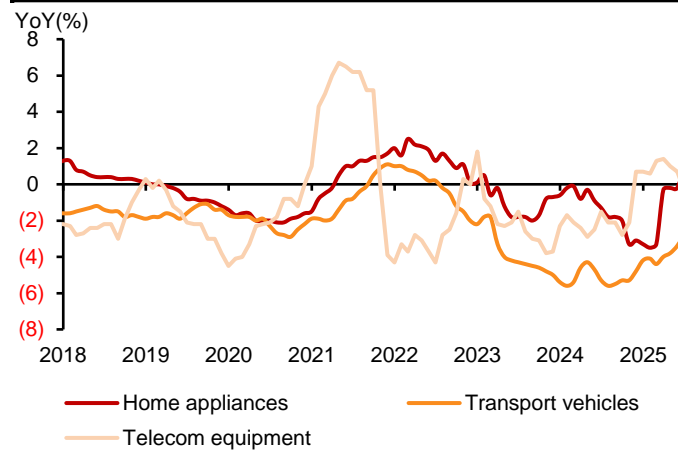
modules and lithium batteries, the PPI seems still in deep contraction as it takes time for the material prices to pass through to the ex-gate prices. We expect the subdued PPI should persist in 3Q due to the drag from trade war and weak final demand. But we may see the recovery in 4Q due to continuous policy effort to curb involution competition and additional stimulus package on consumer demand. China's economy may face further headwinds in 2H25 given the intensifying deflation, softening property sector and payback effect from export front-loading and trade-in scheme. Policy stance might remain stable and moderate in 3Q25 due to the better-than-expected economy performance in 1H25, while we expect a policy easing window in 4Q25 with further 10 bps LPR cut and 50bps RRR cut and expanding fiscal support to household and property sector.

**Figure 1: MoM changes of China CPI in July**

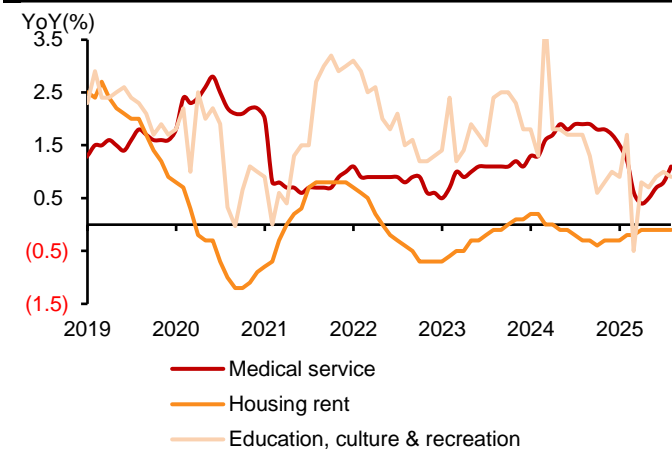
Source: Wind, CMBIGM

**Figure 2: China CPI growth in staples**

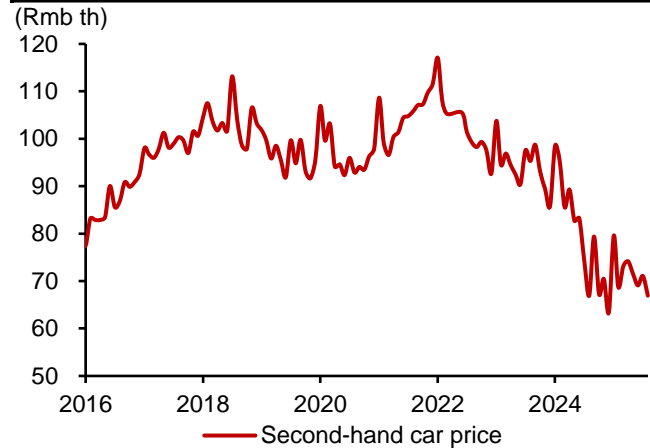
Source: Wind, CMBIGM

**Figure 3: China CPI growth in durables**

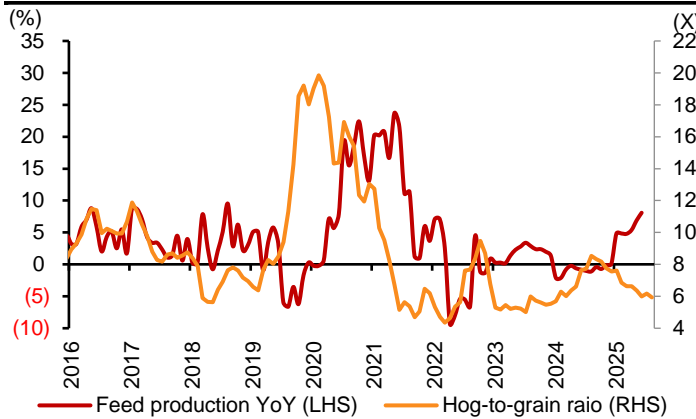
Source: Wind, CMBIGM

**Figure 4: China CPI growth in services**

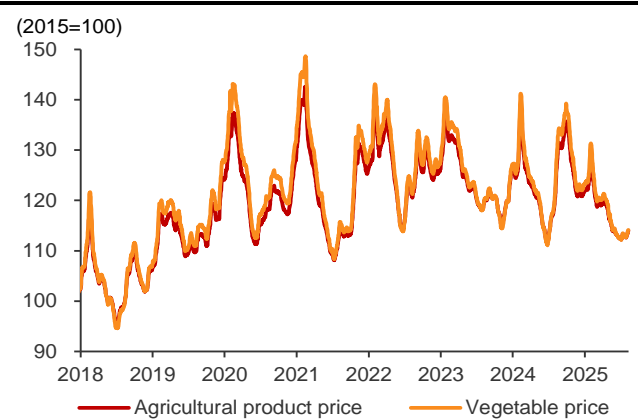
Source: Wind, CMBIGM

**Figure 5: Second-hand car price in Shanghai**

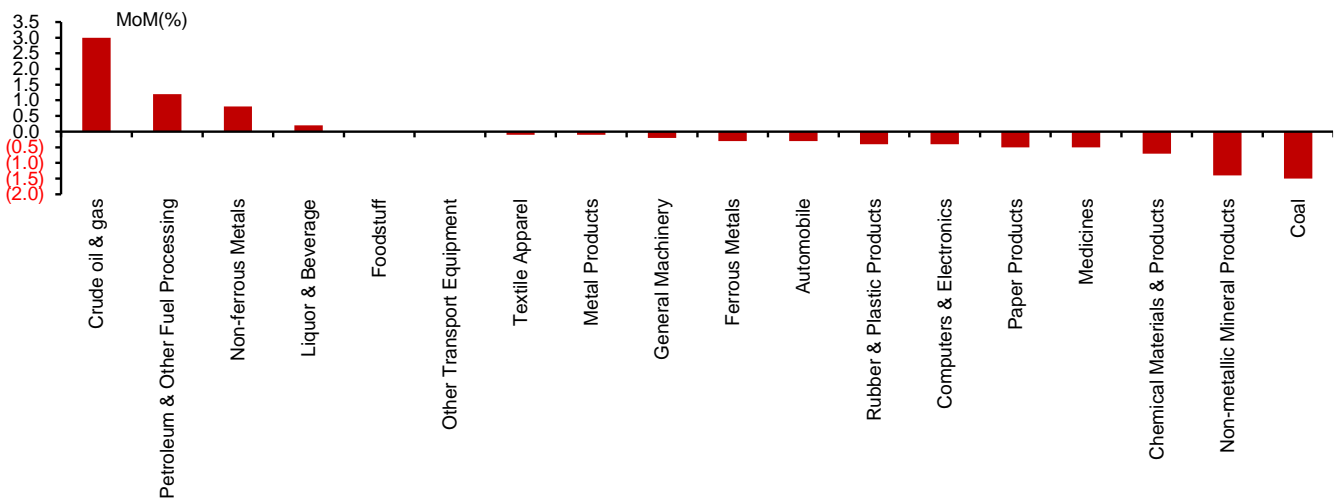
Source: Wind, CMBIGM

**Figure 6: Feed production & hog-to-grain ratio**

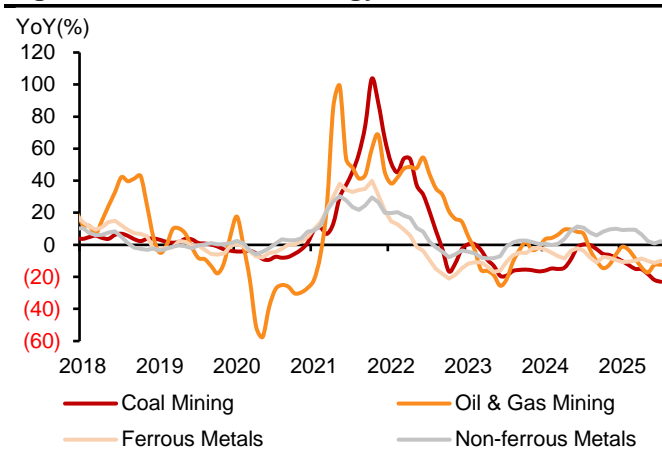
Source: Wind, CMBIGM

**Figure 7: Agricultural and vegetable price**

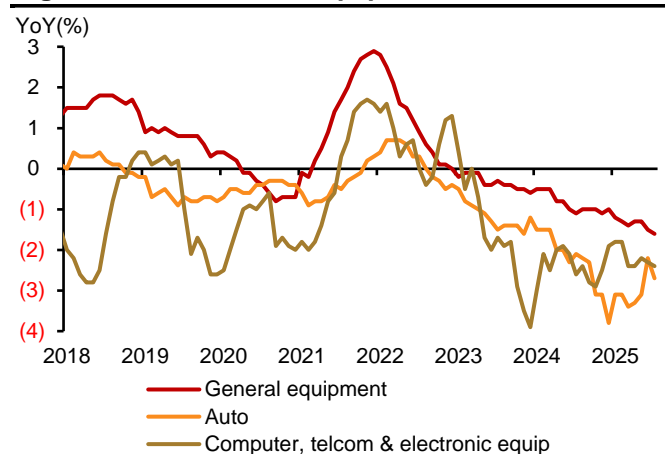
Source: Wind, CMBIGM

**Figure 8: MoM changes of China PPI in July**

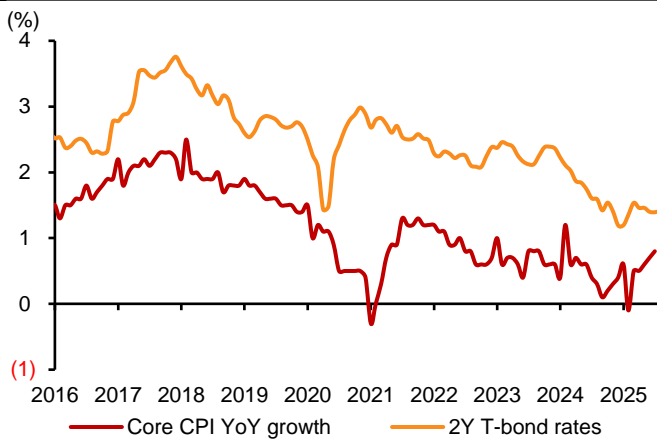
Source: Wind, CMBIGM

**Figure 9: China PPI in energy & metals**

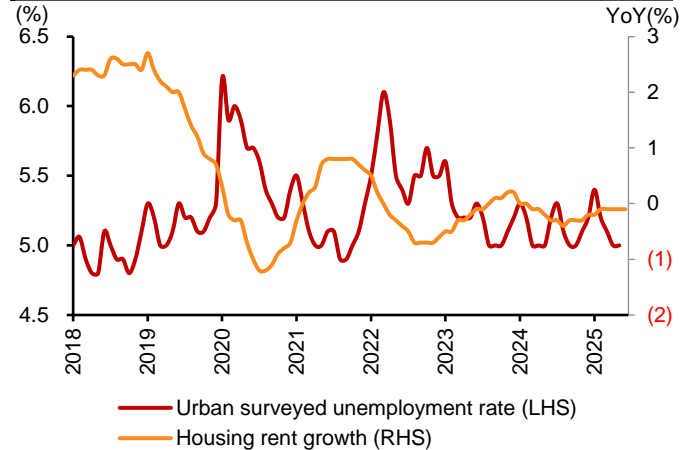
Source: Wind, CMBIGM

**Figure 10: China PPI in equipment**

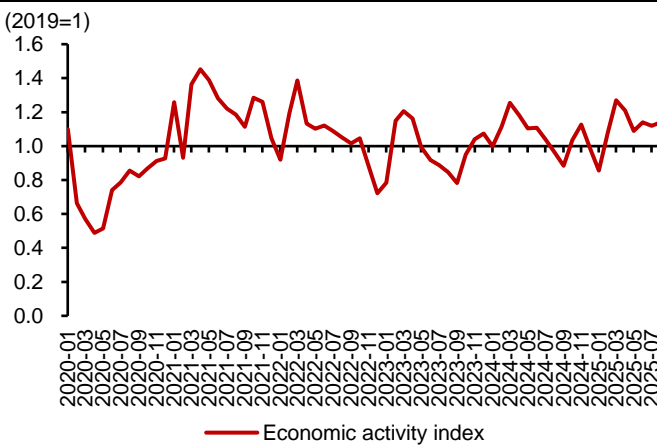
Source: Wind, CMBIGM

**Figure 11: China core CPI growth & 2Y T-bond rates**

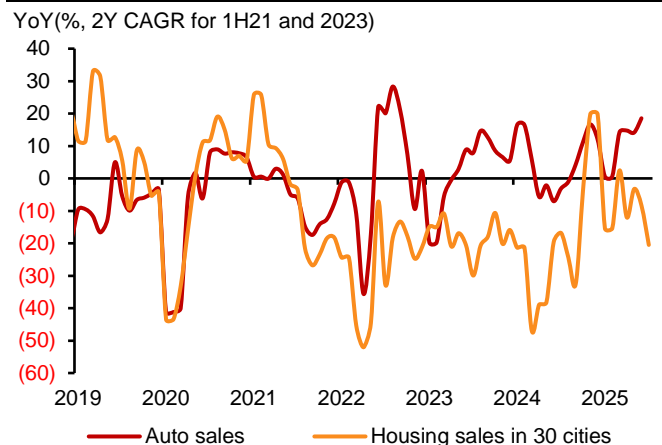
Source: Wind, CMBIGM

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

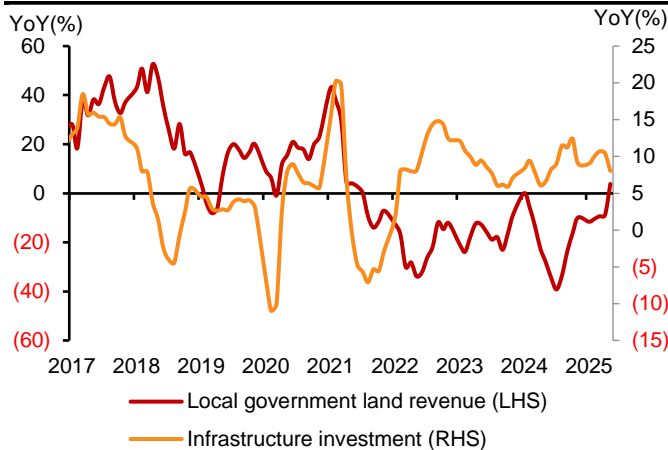
Source: Wind, CMBIGM estimates

**Figure 13: China Economic Activity Index**

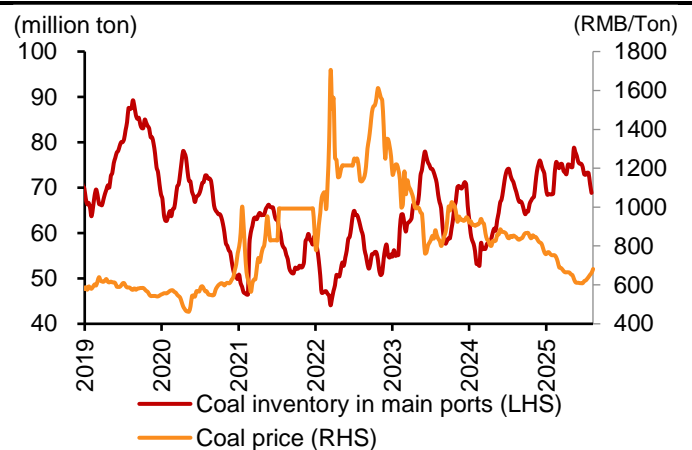
Source: Wind, CMBIGM

**Figure 14: China auto & housing sales**

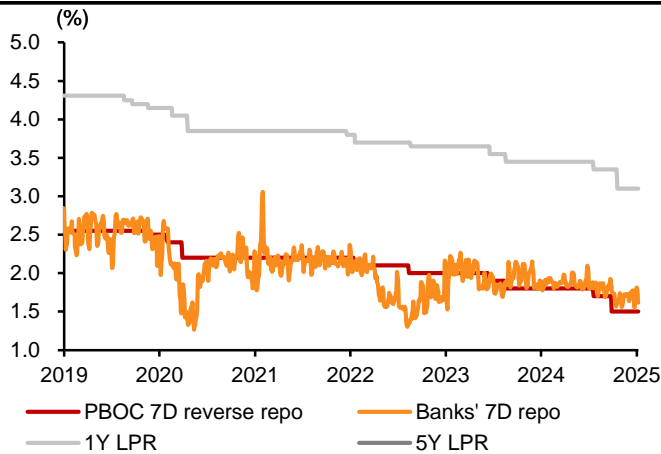
Source: Bloomberg, CMBIGM

**Figure 15: Infrastructure investment in China**

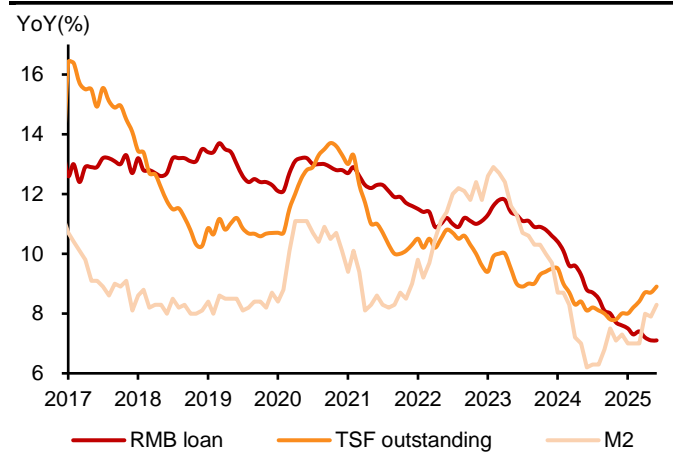
Source: Bloomberg, CMBIGM

**Figure 16: China coal inventory & price**

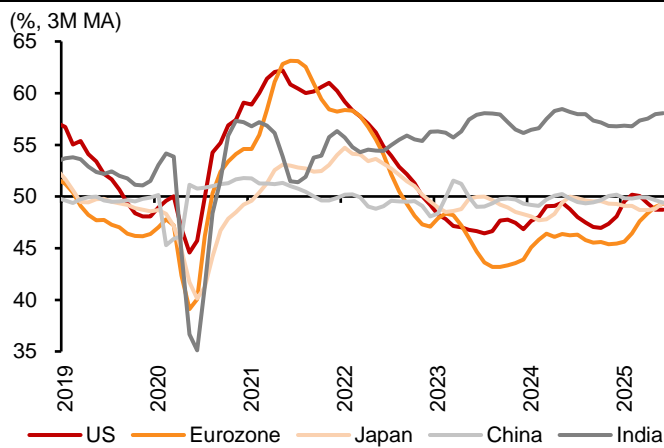
Source: Wind, CMBIGM

**Figure 17: PBOC policy rates & liquidity condition**

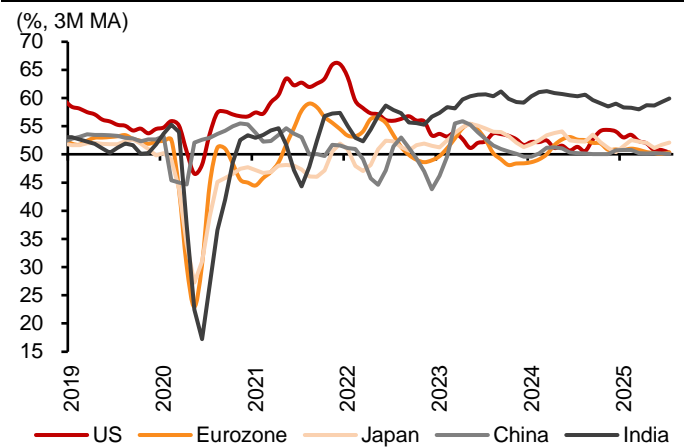
Source: Bloomberg, CMBIGM

**Figure 18: China credit growth**

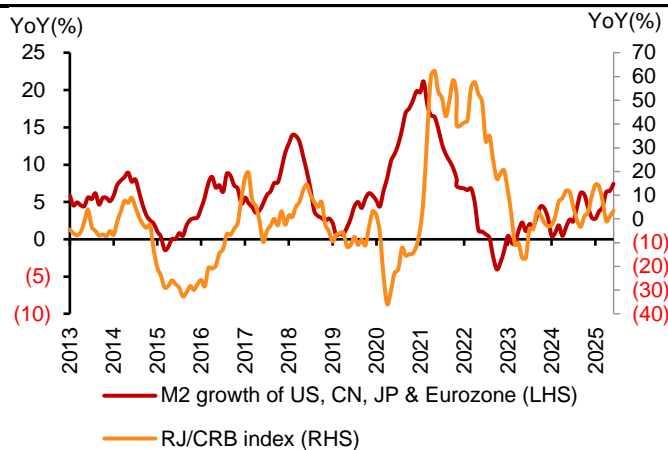
Source: Wind, CMBIGM

**Figure 19: Manufacturing PMI of major economies**

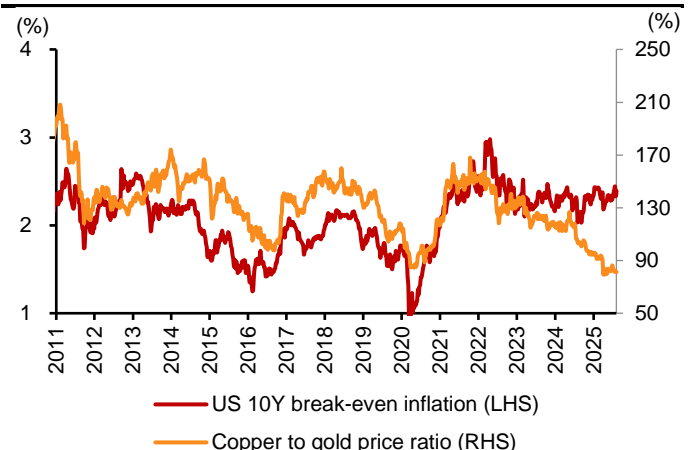
Source: Bloomberg, CMBIGM

**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

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.