

# China Economy

## Deflation mildly alleviated while consumer demand remained weak

CPI growth remained flat in May as energy price moderated while food price rebounded. Pork price finally came out of the woods after a prolonged de-stocking cycle. Core CPI growth weakened as prices of durable goods, transport service and tourism service declined amid weak consumer demand and e-commerce promotion activities. PPI continued to recover thanks to low-base effect and rising prices of non-ferrous metals and materials. Looking forward, policymakers may continue to loosen credit policy to stabilize the housing market and boost consumer demand. Deflation pressure may mildly alleviate as commodity prices continue to rebound and service prices mildly pick up. We expect CPI and PPI may rise from 0.2% and -3% in 2023 to 0.6% and -0.8% in 2024.

### ■ CPI stayed flat as energy price moderated and food price rebounded.

CPI YoY growth remained unchanged at 0.3% in May, slightly below market expectation of 0.4%. In sequential terms, CPI dropped 0.1% after rising 0.1% in Apr. Energy price slowed down as vehicle fuel price moderated to 6.3% from 6.9% since its MoM growth was -0.8% in May compared to 2.9% growth in Apr. The recent increases in electricity and water bills have yet to be reflected in CPI, as MoM changes of public utilities have been 0 since Feb. The contraction of food price continued to improve as its MoM growth rebounded from -1% to 0% driven by pork price. After a prolonged period of de-capacity, pork prices have finally bottomed out with its YoY growth accelerating from 1.4% to 4.6%. Due to the downward trend of breeding sow and hog inventory, pork price may continue to rebound in the upcoming months, as indicated by pork wholesale price. On the other hand, non-pork food items remained subdued especially the beef price, dropping from 10.4% to 12.9% in May, which was heavily affected by growing imports.

### ■ Core CPI receded as durable goods remained subdued.

Core CPI declined by 0.2% MoM in May after expanding 0.2% while its YoY growth edged down to 0.6% from 0.7% in Apr, as a sign of weak consumer demand. Tourism, the primary driver of core CPI in the past two months, dipped 0.6% MoM in May after 2.7% growth in Apr, in line with normal seasonality following the Labor Day holiday. Other services including home service and medical service improved with 0.1% MoM increase in May while rent declined by 0.1% as weak employment conditions have yet to improve. Durable goods became the major headwind for core CPI, as home equipment, vehicles and telecom equipment further plummeted 1.1%, 0.9% and 0.4% MoM. Both home equipment and vehicle prices witnessed the largest monthly declines since Apr 2023, yet there is no sign of bottoming out. Prices of clothing and footwear notably grew. Looking forward, core CPI growth may remain restrained in the near term given the deterioration in household income and balance sheet, elevated real interest rate and fierce producer competition, but the trade-in policy could be a potential game-changer, in our view.

### ■ PPI continued to recover thanks to low base effect and commodity reflation.

PPI notably narrowed its contraction from -2.5% in Apr to -1.4% YoY, slightly better than market expectation of -1.5%. The MoM change of PPI rebounded to 0.2% from -0.2% in Apr. For mining industries, PPI of non-ferrous metals significantly accelerated to 8.9% YoY from 3.6% due to the surge of international non-ferrous commodity prices. Oil and gas mining remained unchanged at 9.4% YoY, due to a lower base last year and falling

**Bingnan YE, Ph.D**

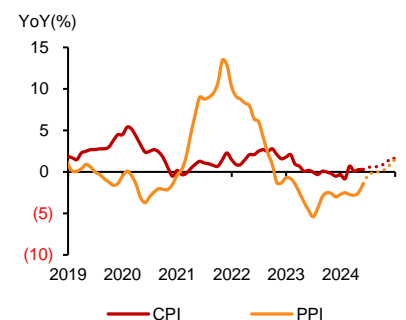
(852) 3761 8967

yebingnan@cmbi.com.hk

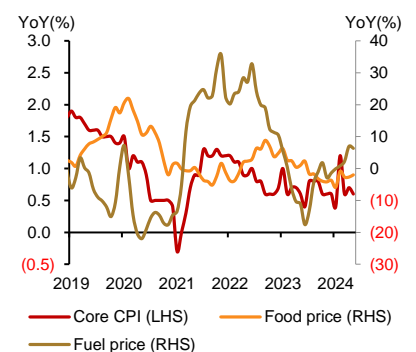
**Frank Liu**

(852) 3761 8957

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



Forecast numbers from Mar 2024  
Source: Wind, CMBIGM

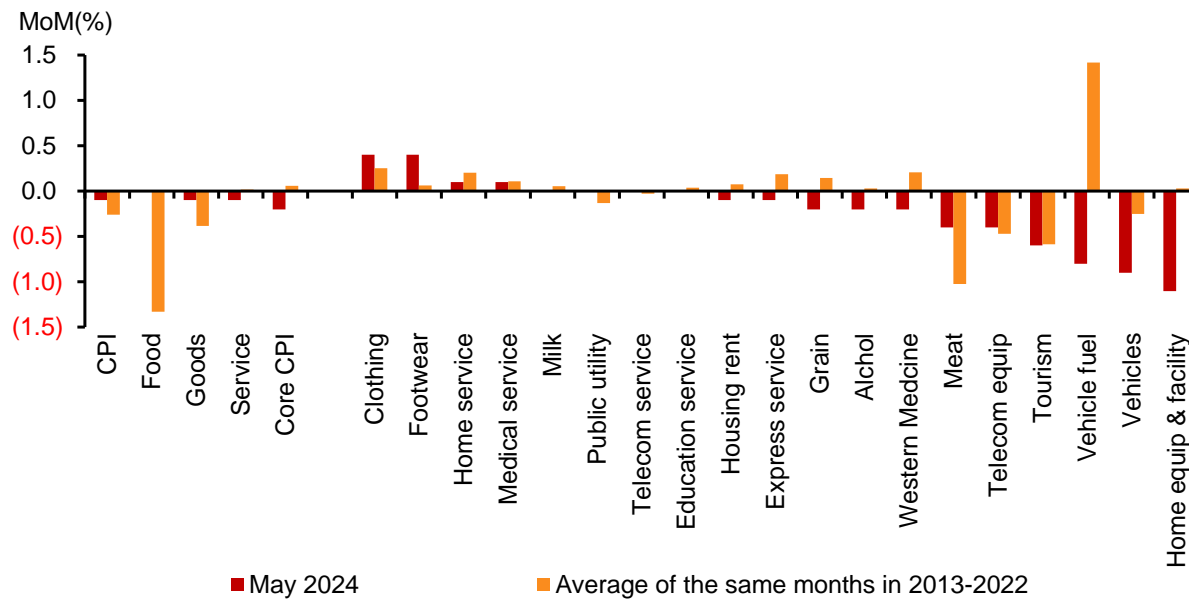


Source: Wind, CMBIGM

oil price. Coal mining and ferrous metals both narrowed their decline from -8.5% and -14.2% YoY to -2.7% and -9% YoY in May. For mid-stream industries, PPI in intermediate goods such as rubber & plastics and non-metallic mineral products continued to drop by 0.2% and 0.8% MoM. Final goods such as auto manufacturing and computers & electronics remained muted, dropping 0.3% and 0.2% MoM in May. Looking forward, PPI may continue its MoM growth while its YoY decline may gradually close in on 0 thanks to lower-base effect and rising raw materials costs, based on our estimates.

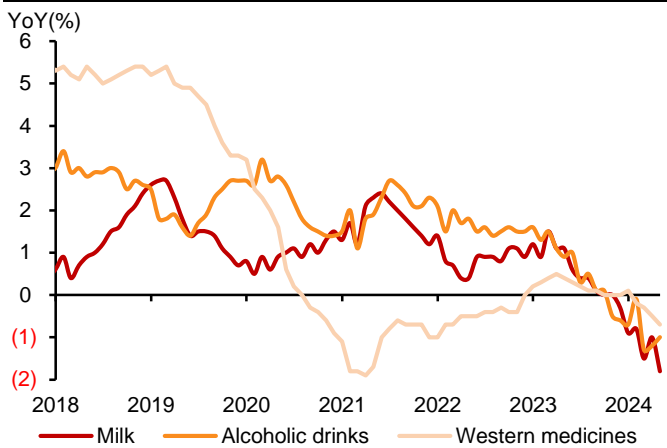
- **Deflation pressure may mildly alleviate.** China may continue to loosen credit policy to stabilize the housing market and boost consumer demand. We expect smaller YoY declines of housing sales and gradual improvement of service consumption in the next several quarters. Deflation pressure may mildly alleviate as commodity prices continue to rebound and service prices gradually pick up. We maintain our forecast on China's GDP growth at 5% for 2024. CPI and PPI growth rates are expected to rise from 0.2% and -3% in 2023 to 0.6% and -0.8% in 2024, driven by a reduction in pig production capacity, an improvement of urban service activities and an end of the destocking cycle in global manufacturing.

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



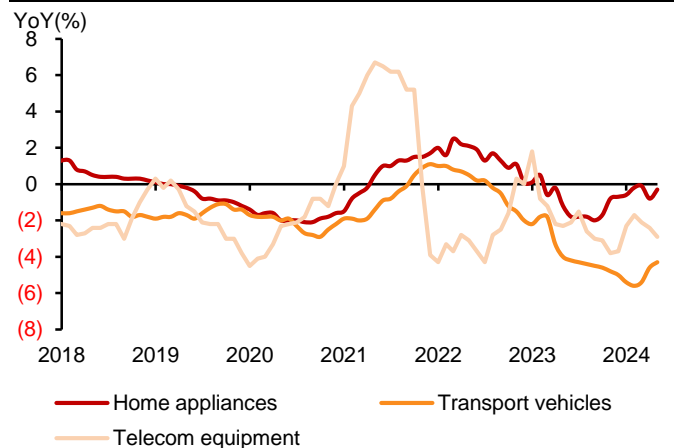
Source: Wind, CMBIGM

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



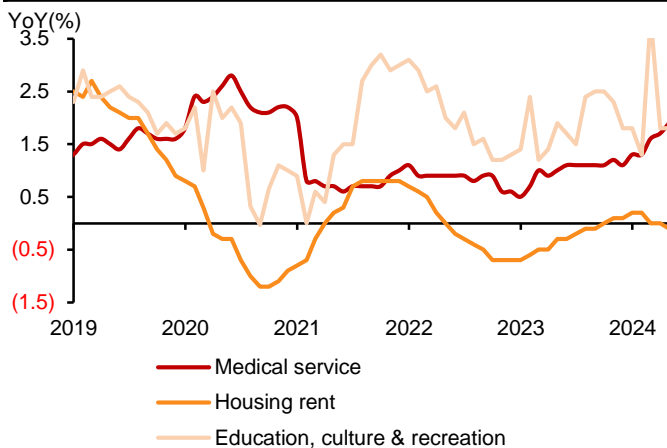
Source: Wind, CMBIGM

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



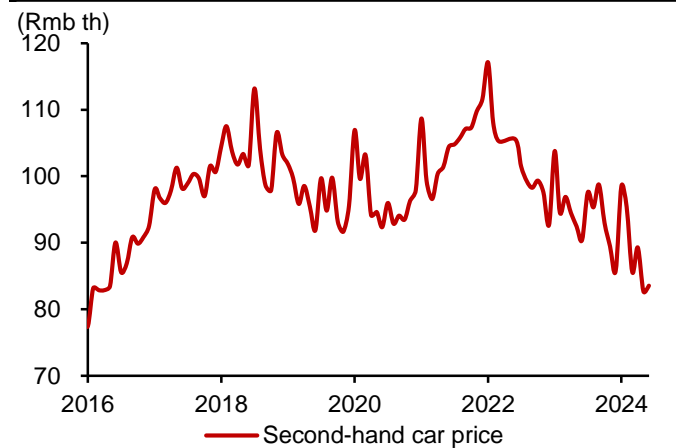
Source: Wind, CMBIGM

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



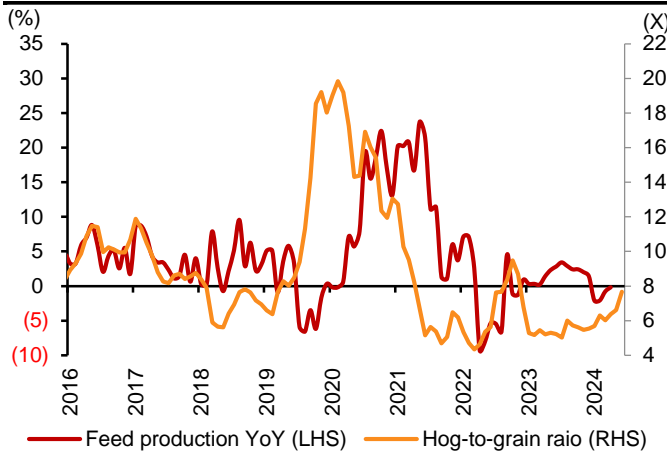
Source: Wind, CMBIGM

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



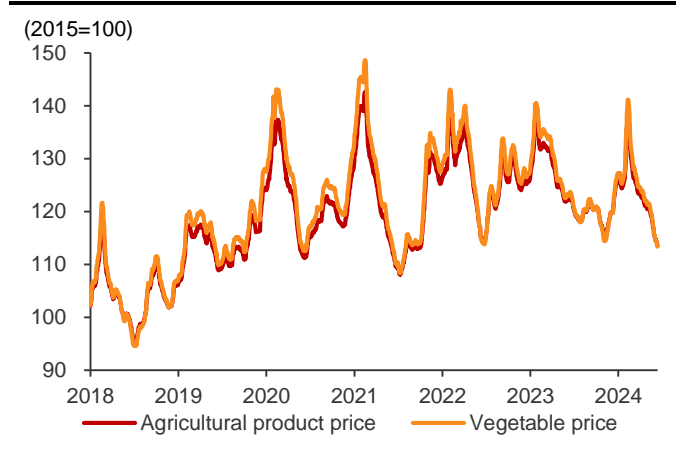
Source: Wind, CMBIGM

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



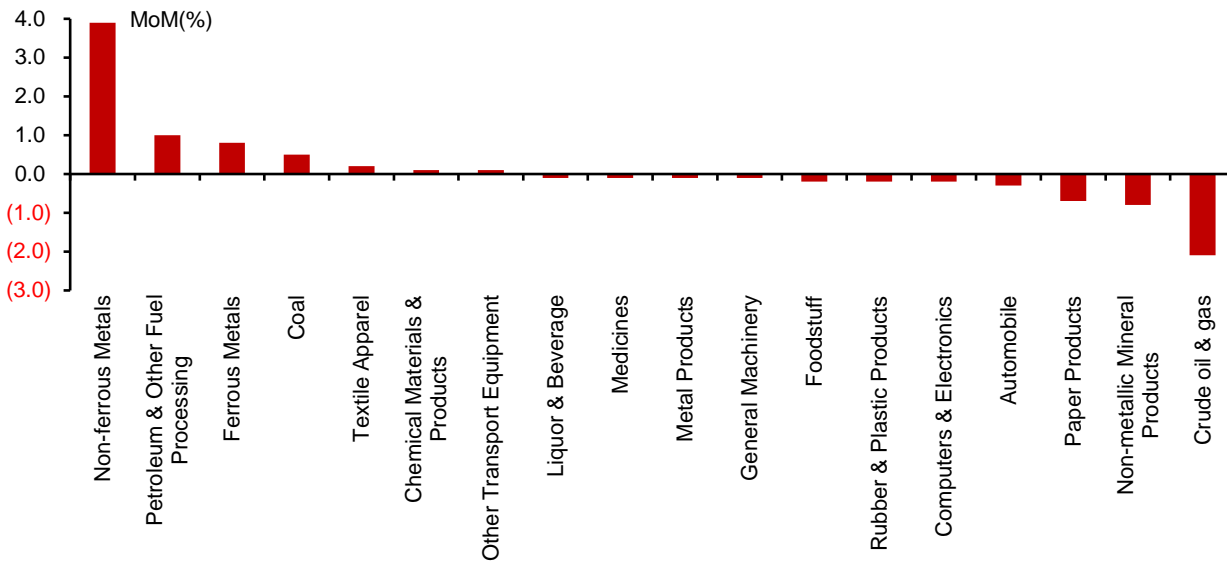
Source: Wind, CMBIGM

**Figure 7: Agricultural and Vegetable Price**



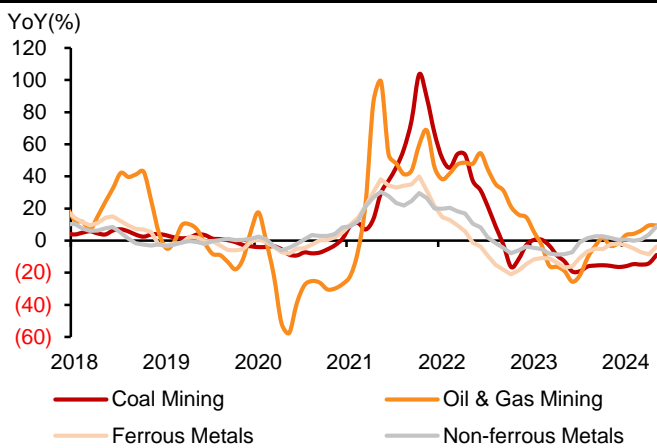
Source: Wind, CMBIGM

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



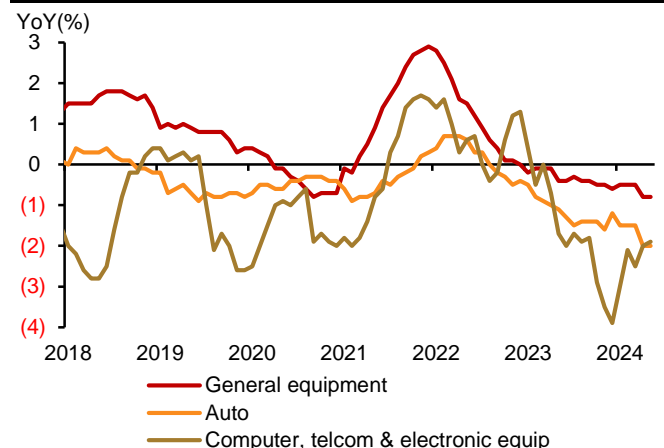
Source: Wind, CMBIGM

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



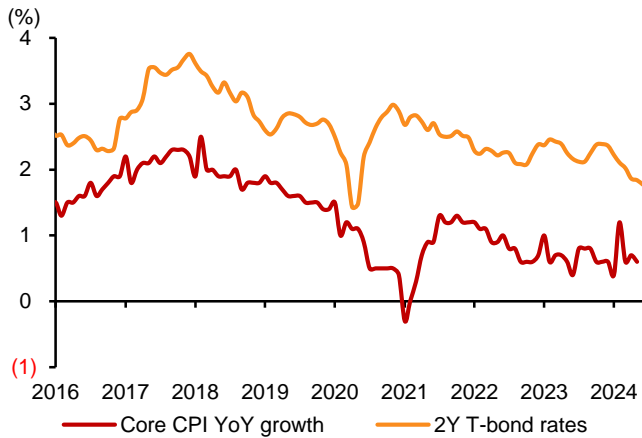
Source: Wind, CMBIGM

**Figure 10: China PPI in Equipment**



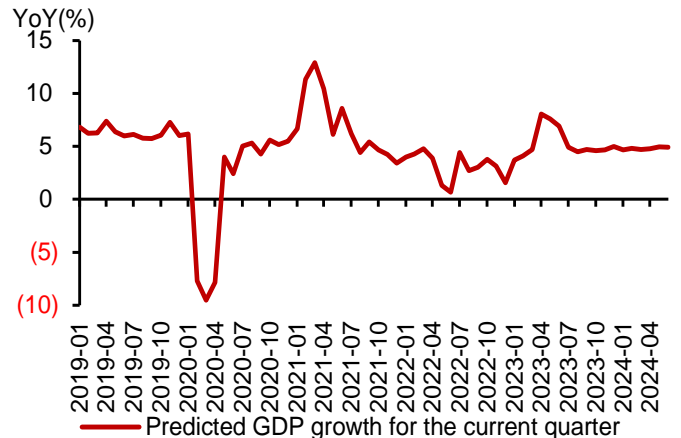
Source: Wind, CMBIGM

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



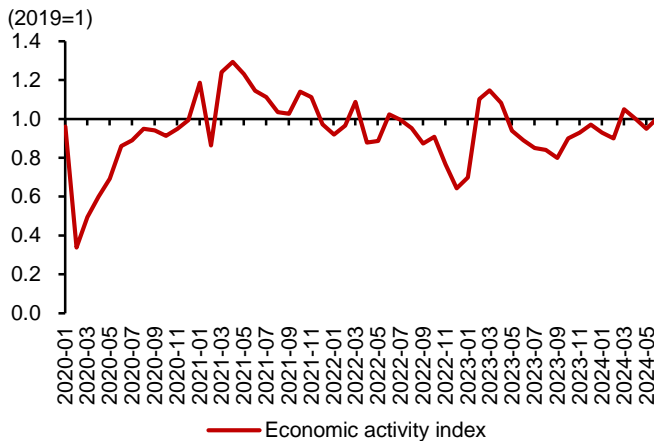
Source: Wind, CMBIGM

**Figure 12: GDP Growth Predicted by AI**



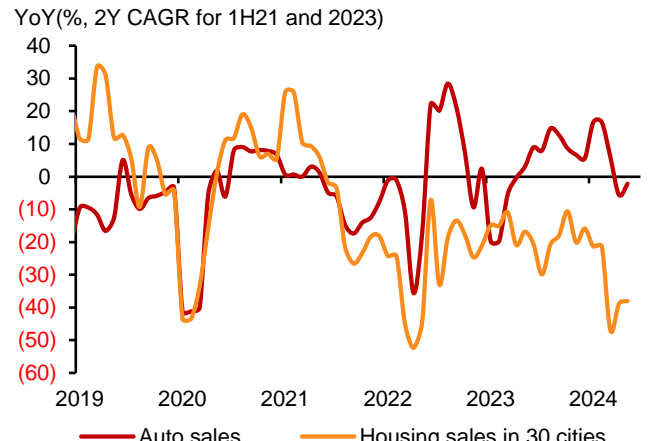
Source: Wind, CMBIGM estimates

**Figure 13: China Economic Activity Index**



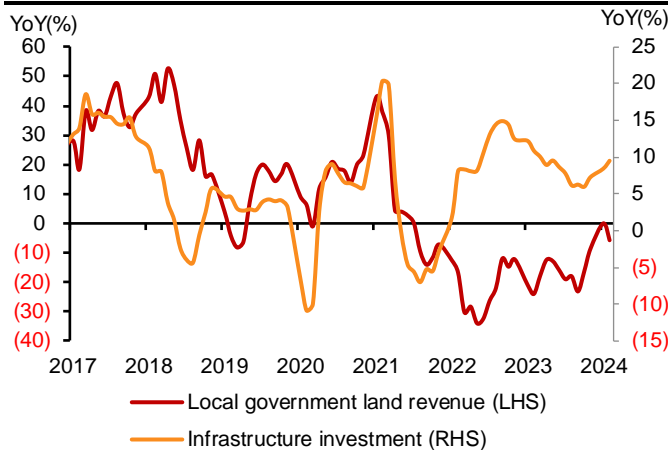
Source: Wind, CMBIGM

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



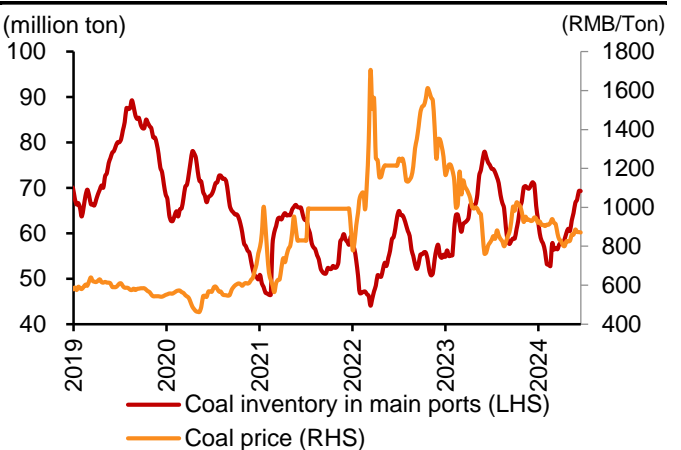
Source: Bloomberg, CMBIGM

**Figure 15: Infrastructure Investment in China**



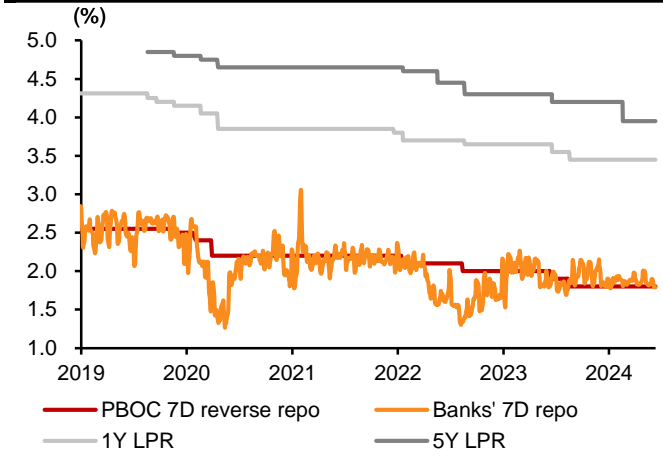
Source: Bloomberg, CMBIGM

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



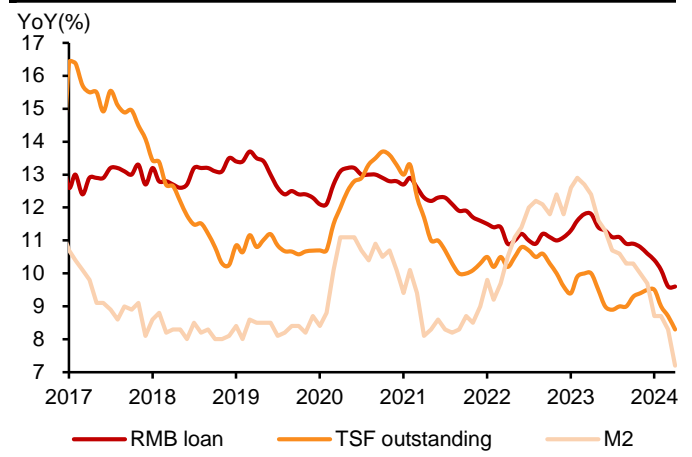
Source: Wind, CMBIGM

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



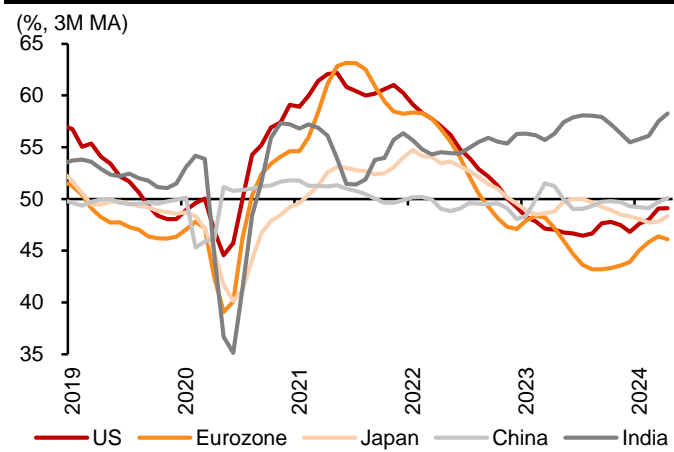
Source: Bloomberg, CMBIGM

**Figure 18: China Credit Growth**



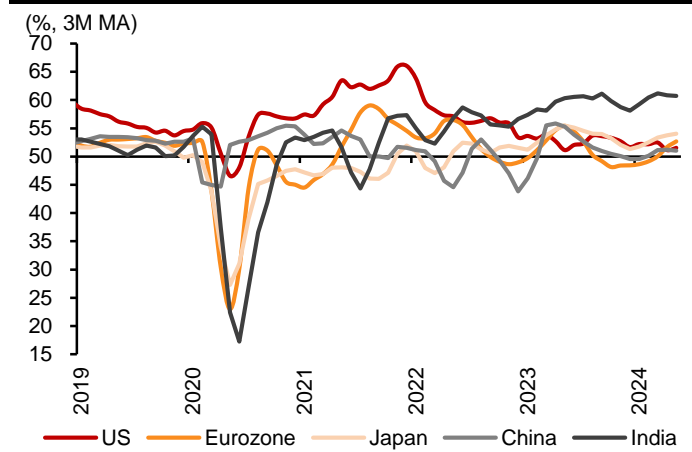
Source: Wind, CMBIGM

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



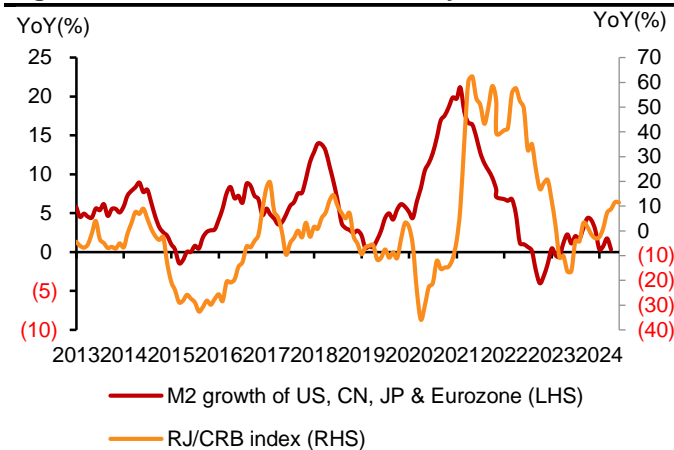
Source: Bloomberg, CMBIGM

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



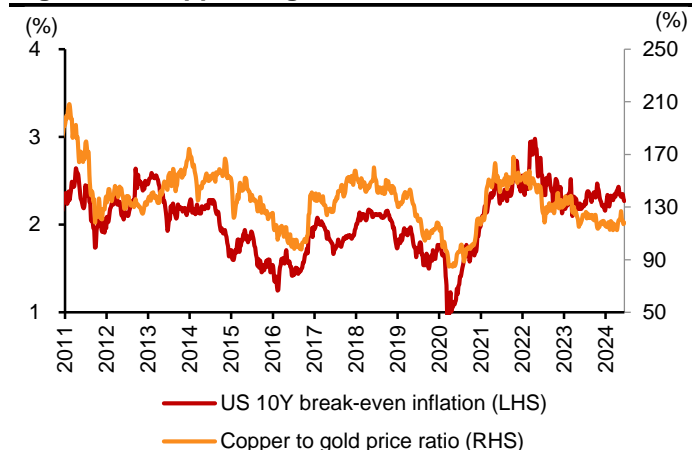
Source: Wind, CMBIGM

**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.