

China Economy

Inflation risk is low as pro-growth should be the priority

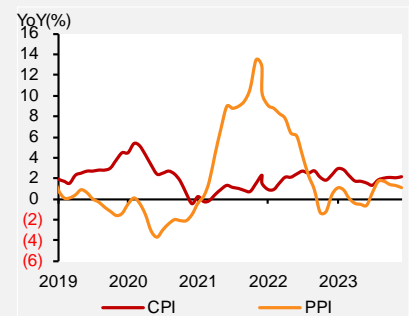
China's inflation was lower than expected in October. Energy & metal prices declined as overseas recession risk increased and domestic demand remained weak. Meanwhile, durables and housing rent saw deflation pressure as consumer confidence was low and the unemployment rate for the youth was high. The inflation risk should be low for China as its property market and individual consumption resume very slowly and overseas economy is likely to see a recession in 2023. We maintain the CPI growth forecast for 2022 and 2023 at 2.1% and 2.3% and change the PPI growth forecast for 2022 and 2023 from 4% and 1% to 4.3% and 0.6%, respectively. Pro-growth should be the priority for China as the country might have to reopen its economy and maintain easing macro policies next year.

- CPI growth was below expectations as energy inflation declined and consumer demand remained weak.** Consumer price index (CPI) rose 2.1% YoY in October, down from 2.8% in September. The CPI growth was below expectations as energy & food inflation declined and consumer demand remained weak. The YoY growth of gasoline and public utility respectively declined from 19% and 2.5% in September to 12.4% and 0.5% in October. Food price index rose 7% YoY in October, down from 8.8% in the previous month. Core CPI growth remained low at 0.6% in October, the same as September. Housing rent further decreased 0.7% YoY in October after continuous declines in 2Q22 and 3Q22 as the unemployment rates remained high for the youth. Consumer demand for durables was weak as vehicle price index dropped 1.5% YoY and the price of communication equipment slightly rose 0.3% in October.
- PPI sharply declined as commodity prices retreated amid weak Chinese economy and rising global recession risk.** Producer price index (PPI) dropped 1.3% YoY in October after rising 0.9% YoY in September. Energy and metal prices declined as demand softened and supply resumed amid property market slump and zero-Covid policy. In October, PPI in coal mining, ferrous metal and non-ferrous metal respectively dropped 16.5%, 21.1% and 7.8% YoY. Meanwhile, durable consumption remained weak. PPI in durable goods rose 0.2% YoY and the price in auto declined 0.3% YoY in October, compared to the YoY decrease of 0.6% and 0.2% in September. Business confidence and capital expenditure were also weak as the YoY growth of PPI in general equipment slowed from 0.4% in September to 0.1% in October.
- China's inflation risk should remain low as property market & individual consumption resumes slowly and overseas recession rises in future.** Both CPI and PPI should see some fluctuations of their YoY growth rates in next few quarters due to changes of base effect and commodity inflation. The CPI growth may peak at around 2.8% in January, noticeably decline from March to July and mildly rebound in 3Q next year. The PPI growth may rebound in next three months, decline in 1H23 and rise again in 2H23. We maintain our forecast for the CPI growth at 2.1% in 2022 and 2.3% in 2023 and revise the forecast for the PPI growth in 2022 and 2023 respectively from 4% and 1% to 4.3% and 0.6%.

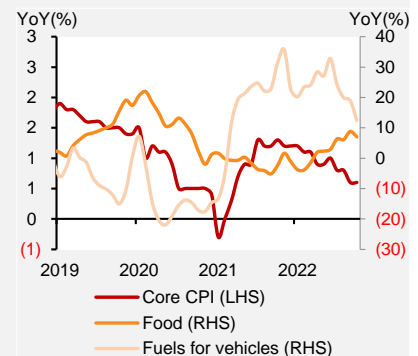
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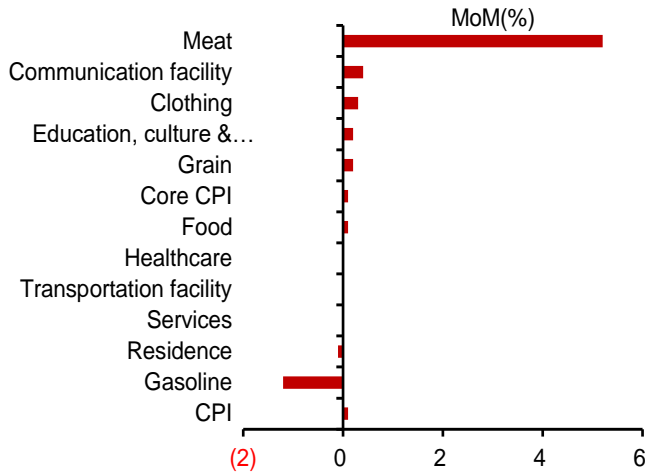
Source: Wind, CMBIGM



Source: Wind, CMBIGM

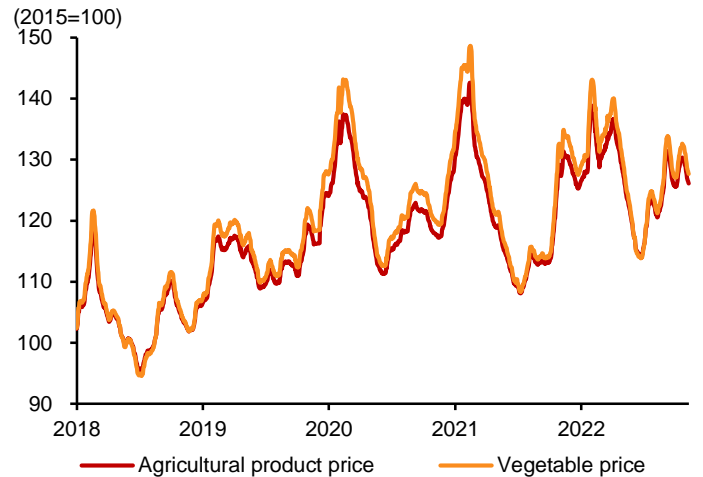
- **Policy implications.** The inflation risk should remain low in China as pro-growth is still the priority for the country. The GDP growth remains far below the potential growth as property market and consumer demand resumes very slowly. China may have to gradually reopen its economy next year as the Omicron virus may spread widely during the Chinese New Year holiday in January as people travel and gather as a tradition. Meanwhile, China will maintain proactive fiscal policy and relatively easing monetary policy in 2023. The impact of reopening on labor participation and inflation should be limited as other Asian economies indicate. Both property market and consumption may gradually resume amid economy reopening and policy support.

Figure 1: MoM Changes of China Consumer Prices



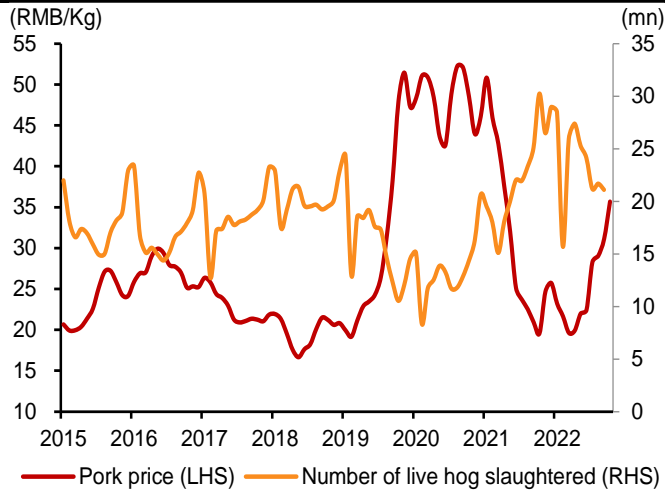
Source: Wind, CMBIGM

Figure 2: China Agricultural Product Price



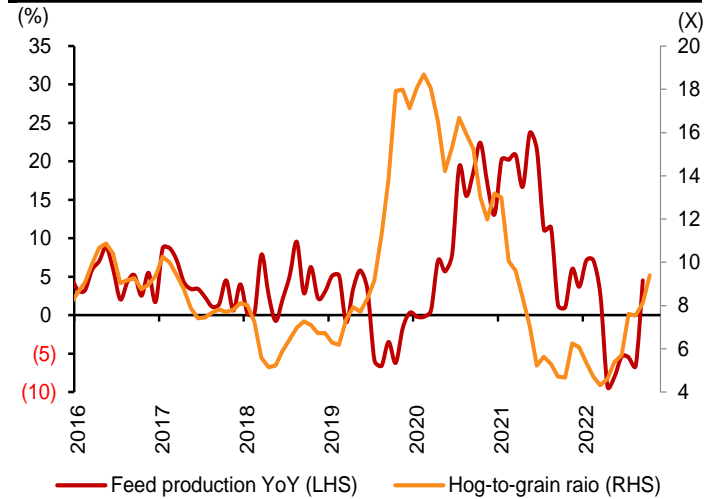
Source: Wind, CMBIGM

Figure 3: China Pork Price and Supply



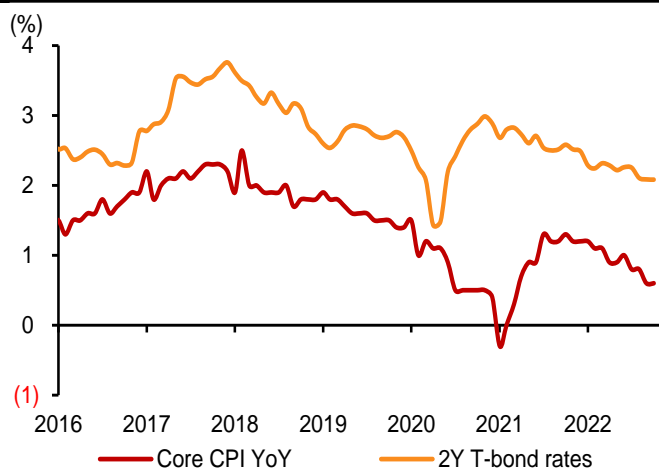
Source: Wind, CMBIGM

Figure 4: China Feed Production & Hog-to-grain Ratio



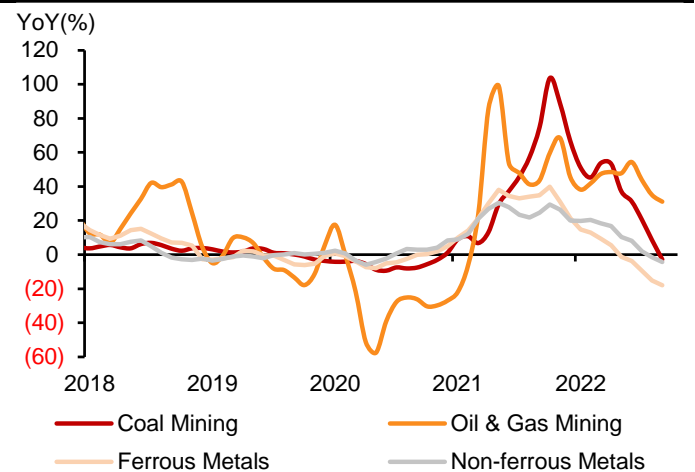
Source: Wind, CMBIGM

Figure 5: China Core CPI Growth & 2Y T-bond Rates



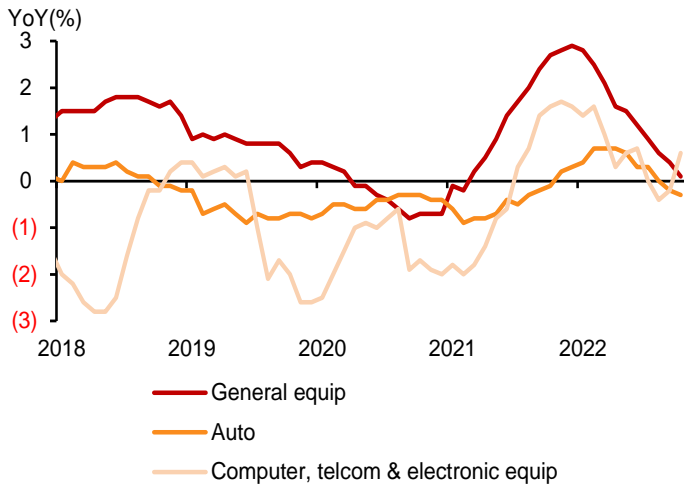
Source: Wind, CMBIGM

Figure 6: China Producer Price Growth in Commodity



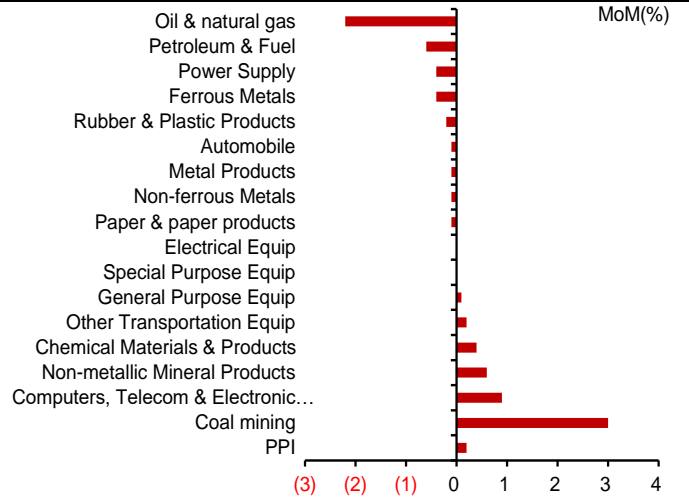
Source: Wind, CMBIGM

Figure 7: China Producer Price Growth in Equipment



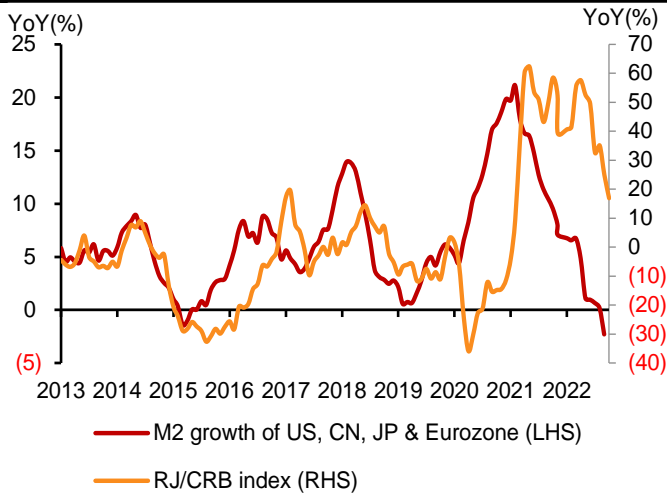
Source: Wind, CMBIGM

Figure 8: China's Producer Price



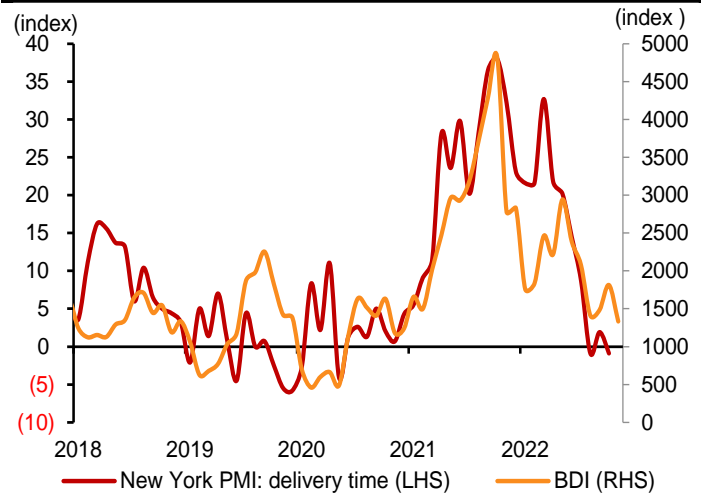
Source: Wind, CMBIGM

Figure 9: Global M2 Growth & Commodity Price



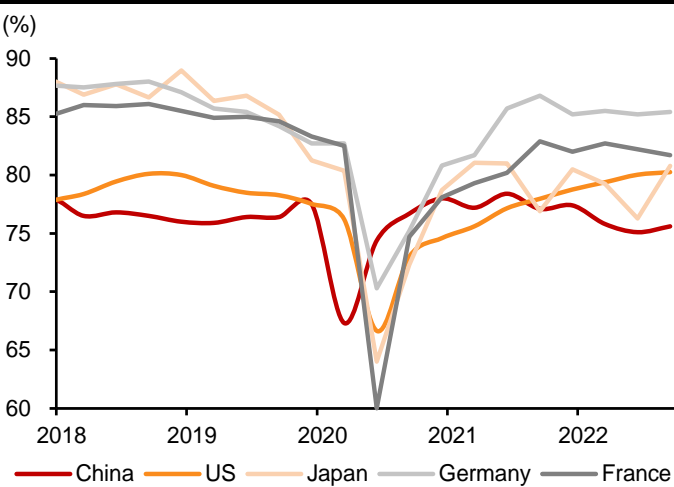
Source: Wind, CMBIGM

Figure 10: Global Supply Chain Pressure



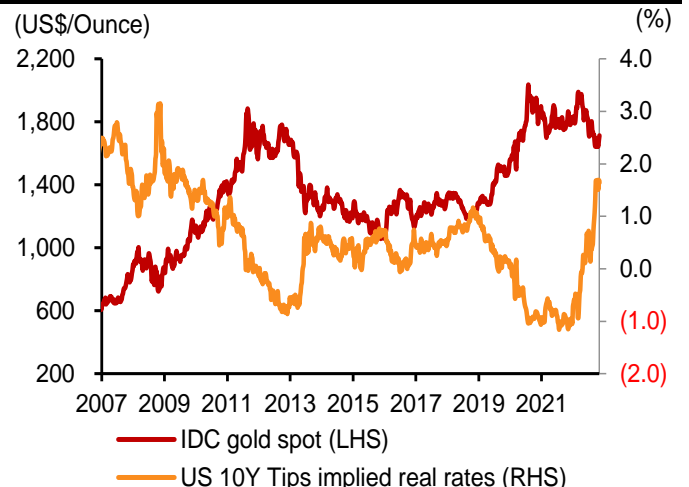
Source: Wind, CMBIGM

Figure 11: Manufacturing Capacity Utilisation Ratio



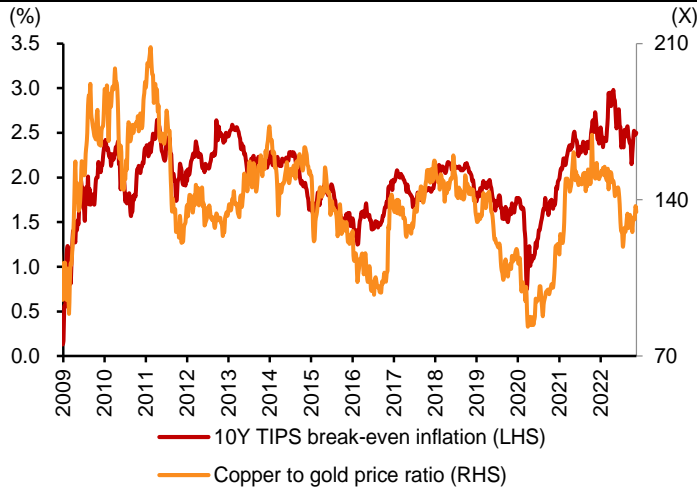
Source: Wind, CMBIGM

Figure 12: Gold Price and US\$ Real Interest Rates



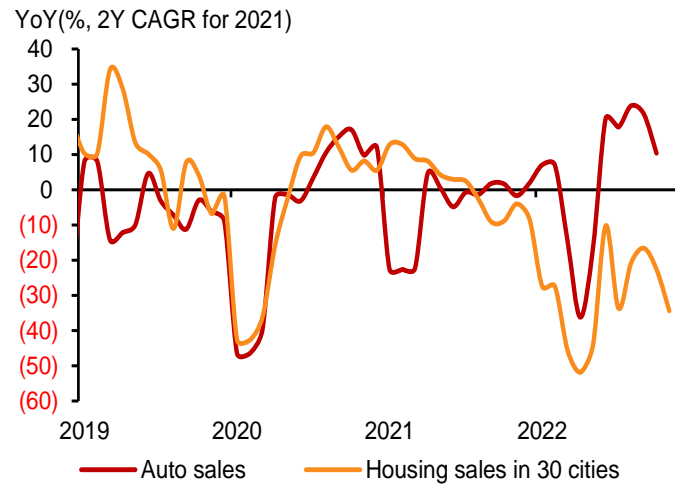
Source: Wind, CMBIGM

Figure 13: Copper-to-gold Ratio & Inflation Expectation



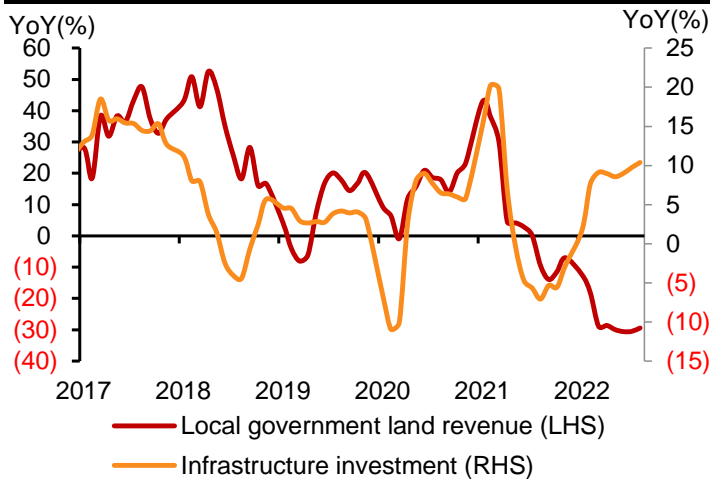
Source: Wind, CMBIGM

Figure 14: China Auto & Housing Sales Growth



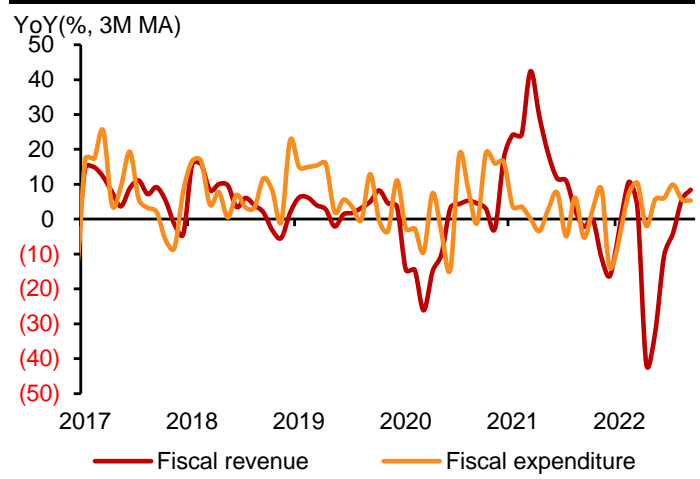
Source: Bloomberg, CMBIGM

Figure 15: Land Revenue & Infrastructure Investment



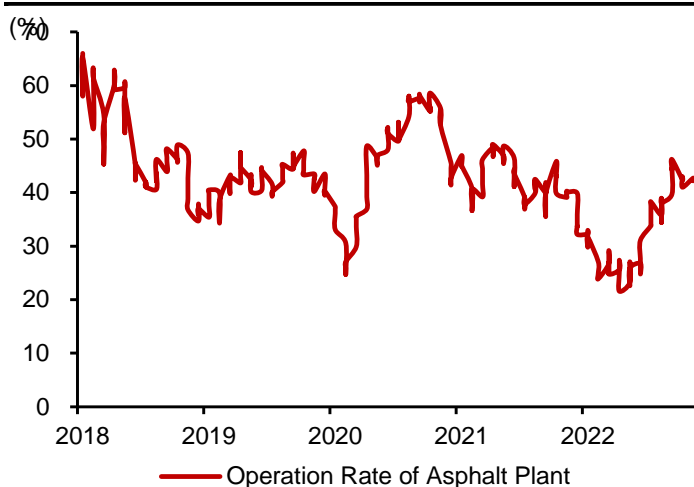
Source: Bloomberg, CMBIGM

Figure 16: China Fiscal Revenue & Expenditure



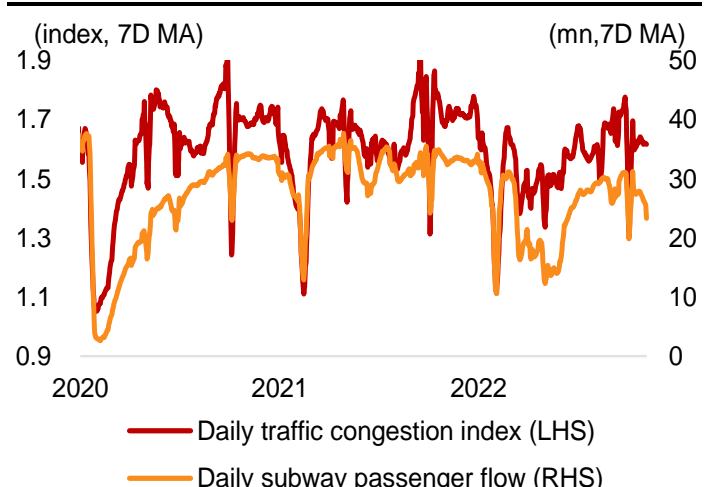
Source: Wind, CMBIGM

Figure 17: Operation Rate of Asphalt Plant in China



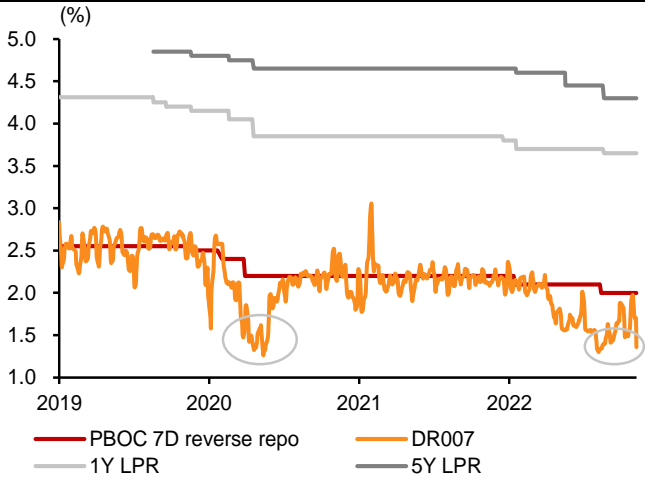
Source: Bloomberg, CMBIGM

Figure 18: Mobility Index in Tier-1 Cities



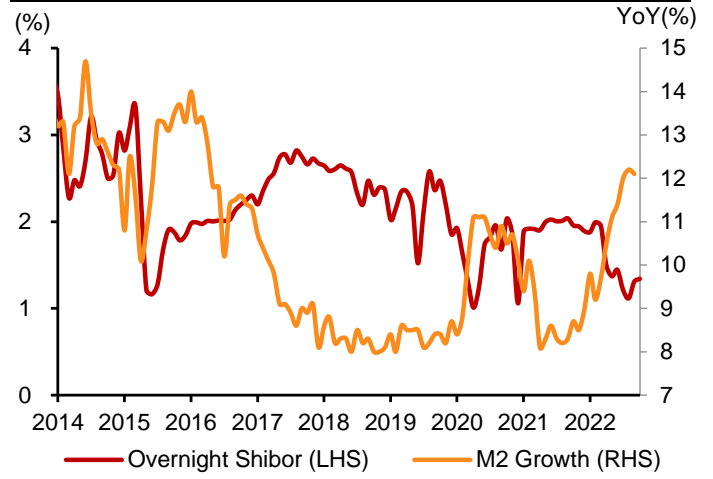
Source: Wind, CMBIGM

Figure 19: PBOC Policy Rates



Source: Bloomberg, CMBIGM

Figure 20: Liquidity Easing & M2 Expansion



Source: Wind, CMBIGM

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