

# China Economy

## Mild Reflation after Reopening

China's inflation in January was below expectations amid a mild reflation after reopening. The resumption in housing market, durable consumption and business capex should be in a gradual manner. Some manufacturing sectors may face deflation pressure amid overseas recession risk and destocking cycle. There will be no overheating risk in China's labor market as employment condition should improve very gradually. China's GDP growth remains far below its potential growth and the reflation should be mild. The priority for the country is to boost confidence and growth especially in the private sector. Therefore, the liquidity and credit policy should remain accommodative in the country in 2023.

- CPI growth was slightly below expectations in January.** The YoY growth of consumer price index (CPI) rose from 1.8% in December to 2.1% in January, slightly below market expectations. From MoM perspective, CPI rose by 0.8% in January after having unchanged in December. By item, food prices increased by 2.8% MoM, up from the MoM growth of 2.3% in last December due to Chinese New Year holiday. Fresh vegetables and fruits prices rose sharply by 19.6% and 9.2%, respectively. Due to abundant supply of live pigs, however, pork price decreased 10.8% MoM in January. With rising global recession risk, energy prices continued to retreat as China's gasoline and diesel prices respectively fell by 2.4% and 2.6% MoM in January.
- Core CPI growth gradually rebounded after reopening.** Core CPI rose 1% YoY in January after climbing 0.7% YoY last December due to a reflation in some service sectors like transportation, recreation, tourism, house cleaning and vehicle repair & maintenance. In those service sectors, demand rebounded quickly while supply had constraints due to the labor shortage in CNY holiday as well as the capacity reduction after the pandemic. In January, air tickets, vehicle lease fees, movie tickets and tourism prices respectively increased by 20.3%, 13.0%, 10.7% and 9.3% MoM. Meanwhile, house cleaning, pet care, vehicle repair & maintenance and hair cut prices also increased by 3-6% in January.
- PPI continued to decline amid the disinflation trend in most commodities.** PPI dropped 0.8% YoY in January after decreasing by 0.7% last December. From MoM perspective, PPI continued to decline 0.4% in January after dropping 0.5% in the previous month. Commodity prices retreated as overseas policy rates and recession risk increased. In January, petroleum & coal processing price dropped by 3.2% MoM and raw chemical material & product price declined by 1.3% MoM. Meanwhile, ferrous metal price increased by 1.5% MoM after rising 0.4% MoM last December as China's reopening boosted sentiment in steel market. Medicine price rose by 0.6% MoM in January as people's demand increased after the pandemic wave.
- We expect CPI to rise 2.2% in 2023 after increasing 2% in 2022 and PPI to drop 0.5% in 2023 after rising 4.1% in 2022.** China's reflation after reopening should be mild. Firstly, housing sales and durable consumption should follow a gradual and slow resumption in future. Property sales volume may drop 7.5% in 2023 after declining 24.3% in 2022. Secondly, global economy faces recession risk and disinflation process as some Chinese manufacturing sectors with high dependence on exports may see deflation pressure. Thirdly, there is no overheating risk in China's labor market as

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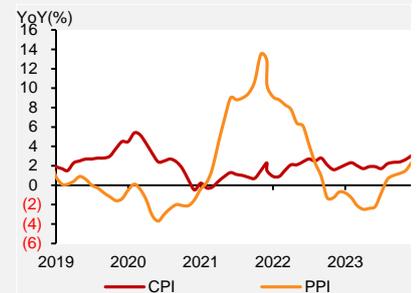
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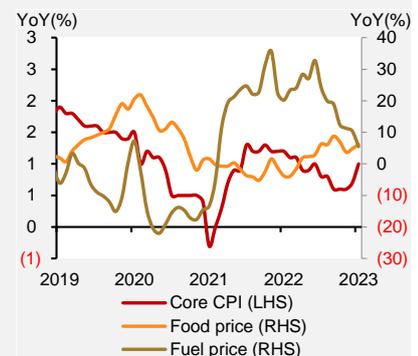
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Source: Wind, CMBIGM

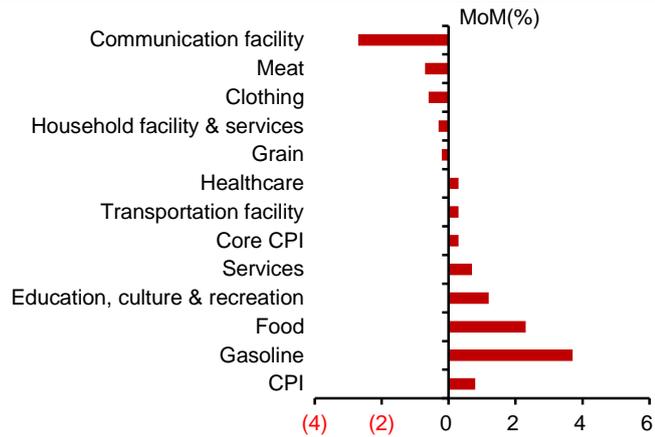


Source: Wind, CMBIGM

unemployment pressure is still high. We note the housing rent in urban region continued to decline 0.6% YoY in January after dropping 0.7% YoY last December. It indicates the employment and wage condition of the youth is still not good. Looking forward, China's CPI growth may mildly climb from 2% in 2022 to 2.2% in 2023 and 2.5% in 2024 as pork and service prices gradually rebound. The PPI may continue to decline in 1H23 and noticeably rebound in 2H23. We expect the PPI to drop 0.2% in 2023 and to rise 1.6% in 2024 after increasing 4.1% in 2022.

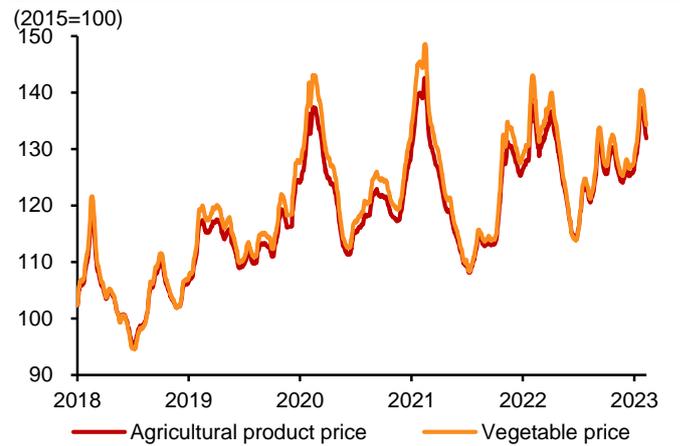
- **Liquidity and credit policy should remain accommodative in 2023.** China's GDP growth remains far below potential growth and the reflation is mild. The priority for the country is to boost the confidence and growth especially in the private sector. Therefore, the liquidity and credit policy should remain accommodative in 2023. It is possible to see additional moderate cuts in RRR and LPRs this year.

**Figure 1: MoM Changes of China Consumer Prices**



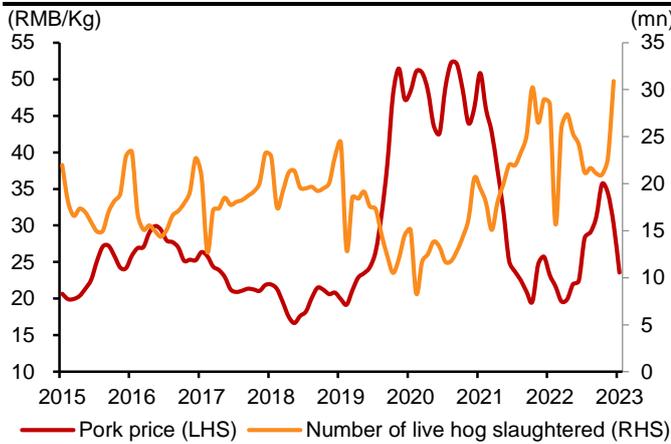
Source: Wind, CMBIGM

**Figure 2: China Agricultural Product Price**



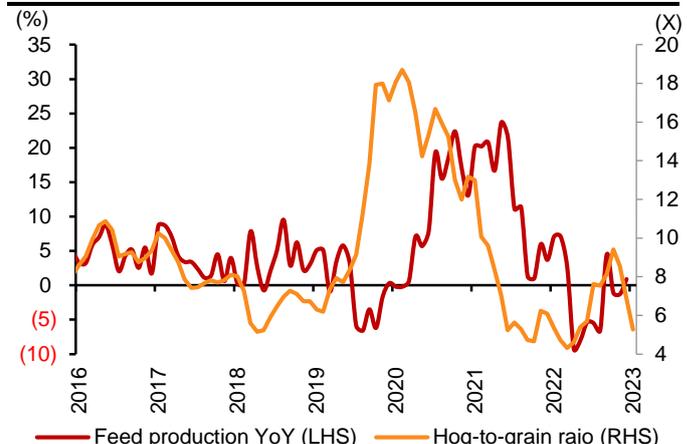
Source: Wind, CMBIGM

**Figure 3: China Pork Price and Supply**



Source: Wind, CMBIGM

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



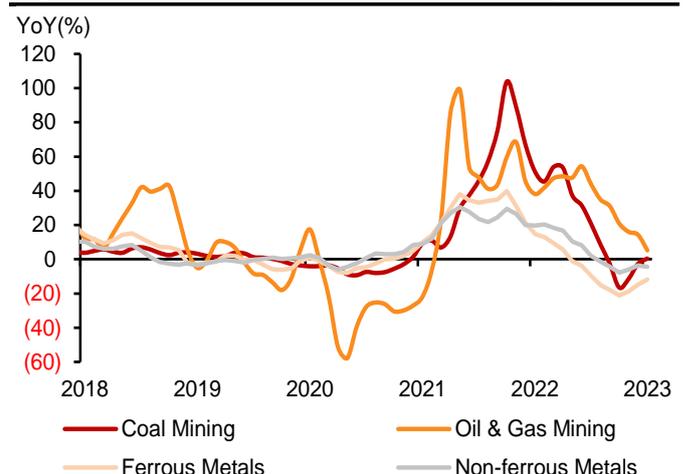
Source: Wind, CMBIGM

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



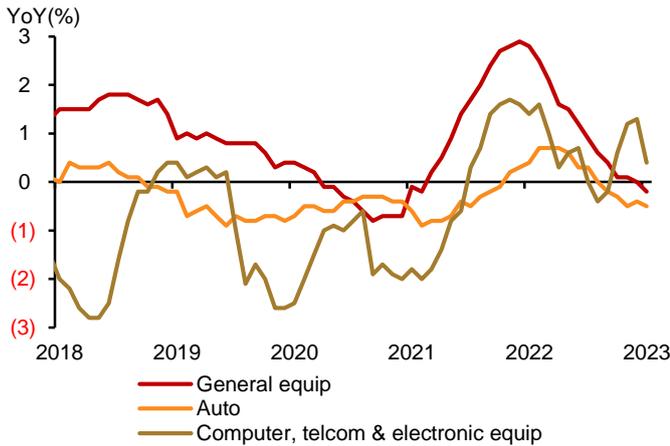
Source: Wind, CMBIGM

**Figure 6: China's PPI Growth in Commodity**



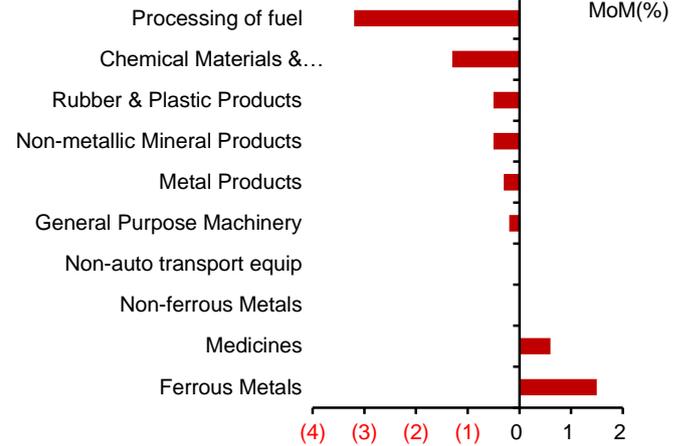
Source: Wind, CMBIGM

**Figure 7: China PPI Growth in Equipment**



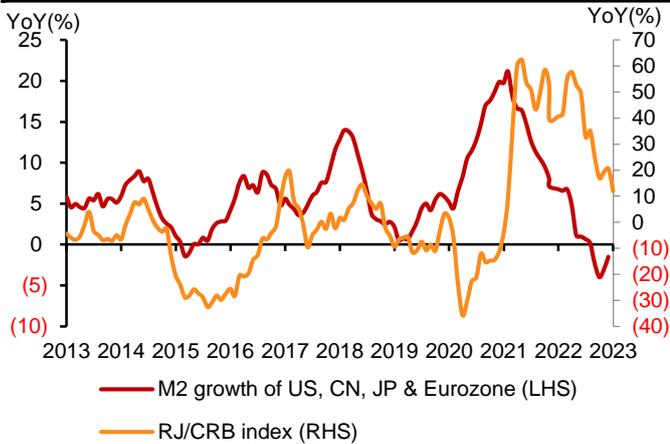
Source: Wind, CMBIGM

**Figure 8: China's PPI Growth by Product**



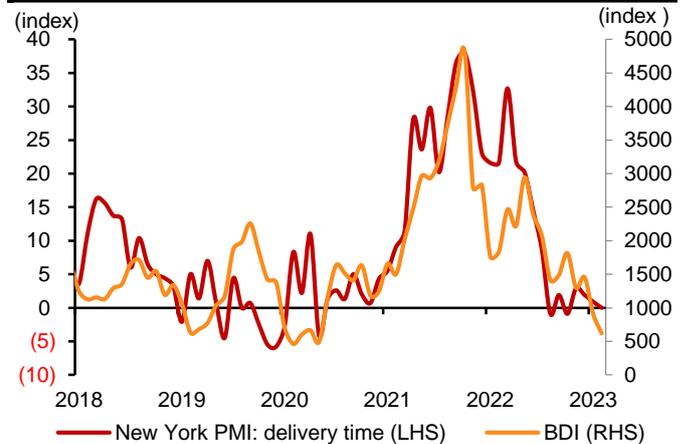
Source: Wind, CMBIGM

**Figure 9: Global M2 Growth & Commodity Price**



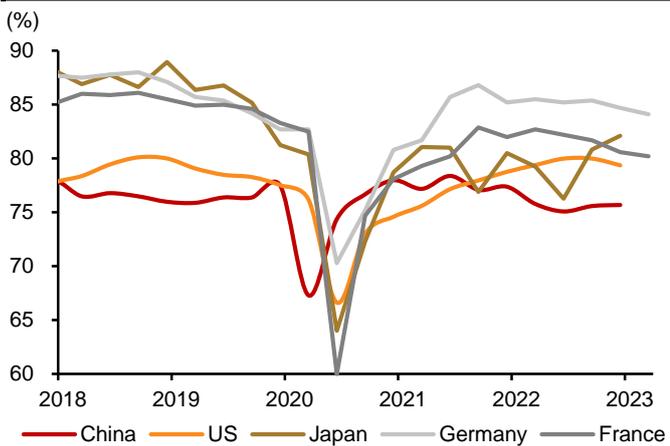
Source: Wind, CMBIGM

**Figure 10: Global Supply Chain Pressure**



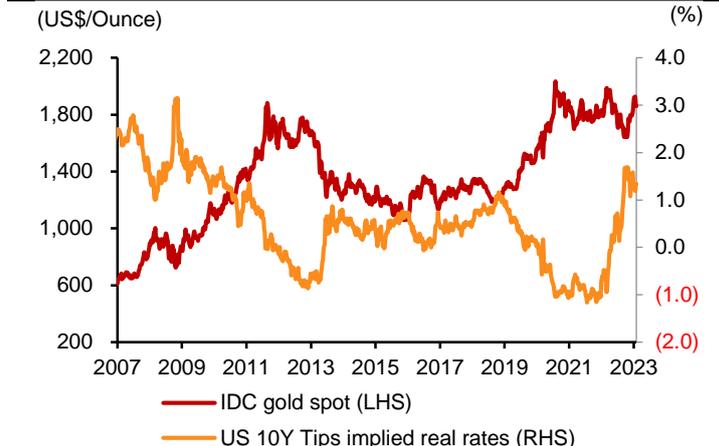
Source: Wind, CMBIGM

**Figure 11: Manufacturing Capacity Utilisation Ratio**



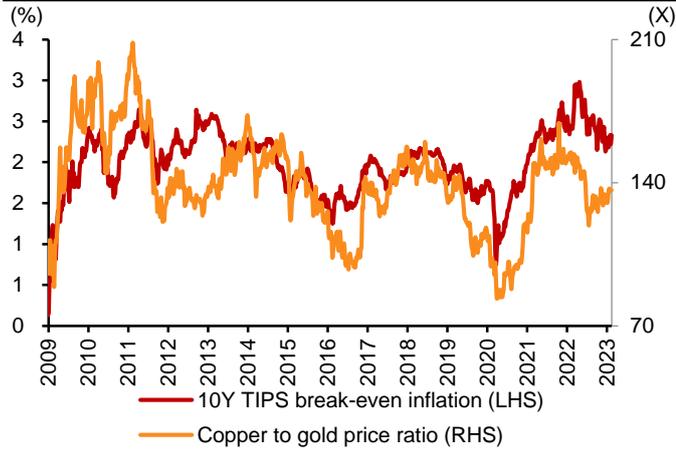
Source: Wind, CMBIGM

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



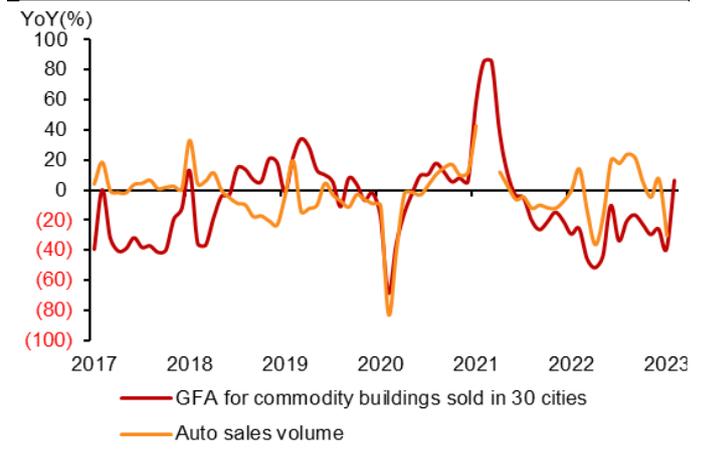
Source: Wind, CMBIGM

**Figure 13: Copper-to-Gold Price Ratio**



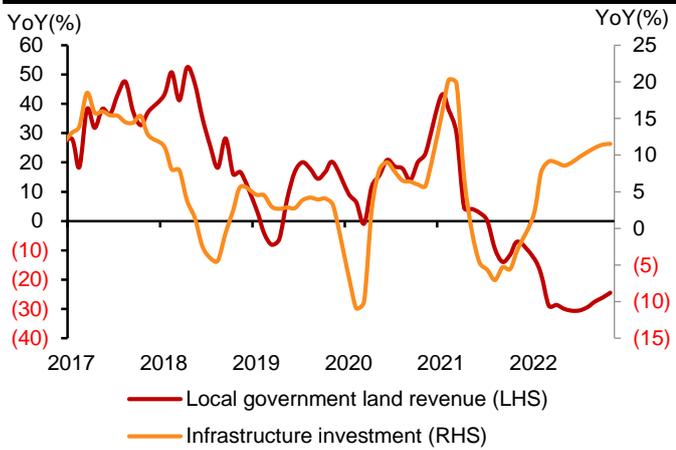
Source: Wind, CMBIGM

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



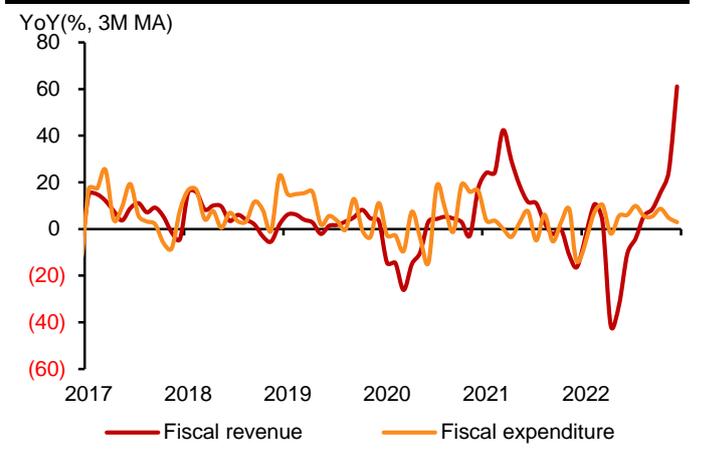
Source: Bloomberg, CMBIGM

**Figure 15: Land Revenue & Infrastructure Investment**



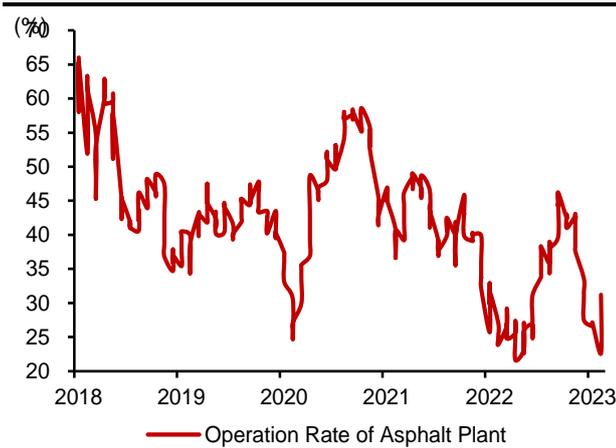
Source: Bloomberg, CMBIGM

**Figure 16: China Fiscal Revenue & Expenditure**



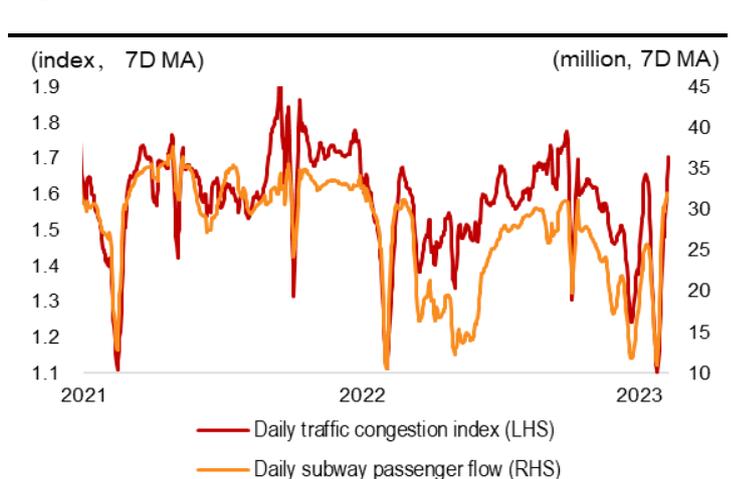
Source: Wind, CMBIGM

**Figure 17: Operation Rate of Asphalt Plant in China**



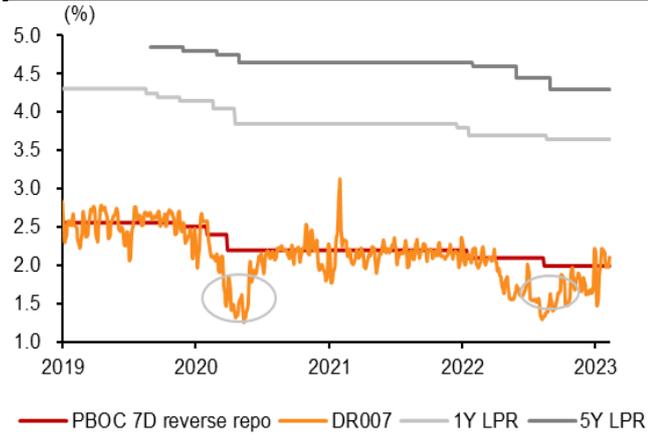
Source: Bloomberg, CMBIGM

**Figure 18: Mobility Index in China's Tier-one Cities**



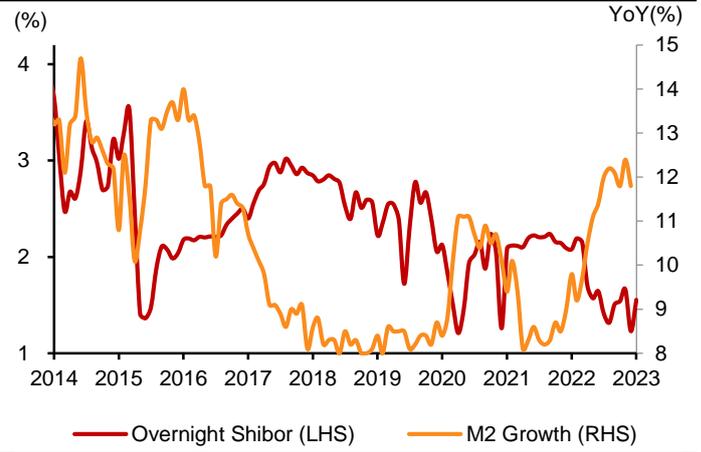
Source: Wind, CMBIGM

**Figure 19: PBOC Policy Rates**



Source: Bloomberg, CMBIGM

**Figure 20: Liquidity Easing & M2 Expansion**



Source: Wind, CMBIGM

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