

# China Economy

## In a mild reflation

Jan CPI rebounded thanks to the Chinese New Year (CNY) holiday effect and robust service consumption. Food prices modestly increased while core CPI growth sustained its recovery thanks to the surging airfare, tourism and movie ticket prices during the CNY holiday. PPI further dropped MoM dragged by coal and ferrous metals prices as domestic property construction and global manufacturing activity remained weak. We expect China's CPI and PPI to recover from 0.2% and -2.2% in 2024 to 0.6% and -0.3% in 2025. Trump's policy may add downside pressure on China's PPI. However, China may see a mild reflation in 2025 as the continued improvement in housing and durables sales in the recent two quarters indicates a probable broad recovery in consumer demand in the next several months. In response to the Trump tariff, China might launch some countermeasures. The timing of China's rate cut may be brought forward from the second half to the first half of the year.

■ **CPI rebounded during the CNY but showed weaker seasonality.** China's CPI YoY growth rebounded to 0.5% in Jan from 0.1% in Dec, in line with market expectation. In sequential terms, CPI bounced up to 0.7% in Jan from 0% in Dec, weaker than previous CNY seasonality at 1%. Food price rose to 1.3% MoM in Jan after dropping 0.6% in Dec, but weaker than previous CNY seasonality at 2.5% during 2022-2024. Pork prices moderately rose 1% MoM in Jan, but it may remain muted as inventories of breeding sows and live hogs stay elevated. Grain and vegetable CPI saw -0.1% and 5.9% growth in Jan compared to 0% to -2.4% in Dec. High-frequency data showed the prices of agricultural products and vegetables continued to rebound in early Feb while pork wholesale price stabilized. Vehicle fuel price rebounded by 2.5% MoM in Jan from -0.3% in Dec following the hikes of crude oil price in early Jan, but we expect the growth to moderate amid the dipping crude oil price.

■ **Core CPI continued to rally thanks to the improvement of service consumption.** Core inflation rose 0.6% YoY in Jan from 0.4% in Dec, with its MoM growth further expanding 0.5% from 0.2%, slightly better than previous seasonality. Service price continued to exhibit a notable reflation, rising 0.9% MoM from 0.1%, thanks to the robust consumption in travel, entertainment and recreational activities during the CNY holiday. The prices of air tickets, car rentals, travel and movie & performance tickets increased by 27.8%, 16.0%, 11.6% and 9.6% respectively, possibly reflecting the shifting consumption pattern of younger generations during the holiday, with less house-to-house visiting but increased spending on outings. Home equipment price rose by 0.4% MoM in Jan as the trade-in discounts weakened while vehicle price stayed unchanged. Telecom equipment dropped 0.4% MoM as sellers cut their prices to meet the price range of the trade-in scheme. Discretionary goods including footwear and clothing dipped by 0.3% and 0.4% in Dec respectively.

■ **PPI continued to decline as domestic property construction and global manufacturing activity remained weak.** YoY contraction of PPI stayed flat at -2.3% in Jan, weaker than market expectations at -2.1%. The MoM growth dipped to -0.2% in Jan compared to -0.1% in Dec. For mining industries, PPI including ferrous metals and coal mining further dipped to -10.7% and -10.1% YoY, while oil & gas rebounded from -6.2% to -1.3%. For final goods, computers & electronics, textile, and medicine dropped by 0.3%, 0.4% and 0.4% while auto showed the first positive MoM growth of 0.5% in 6 months. We expect the decline of PPI to moderately narrow thanks to the base effect and pickup in construction activities. Yet, the drag from a potential trade war persists.

Frank Liu

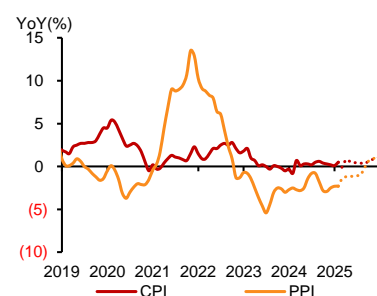
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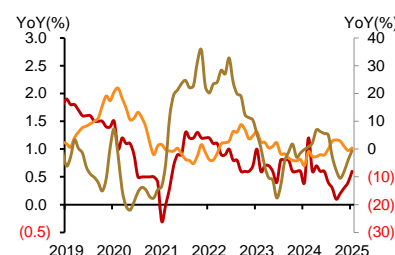
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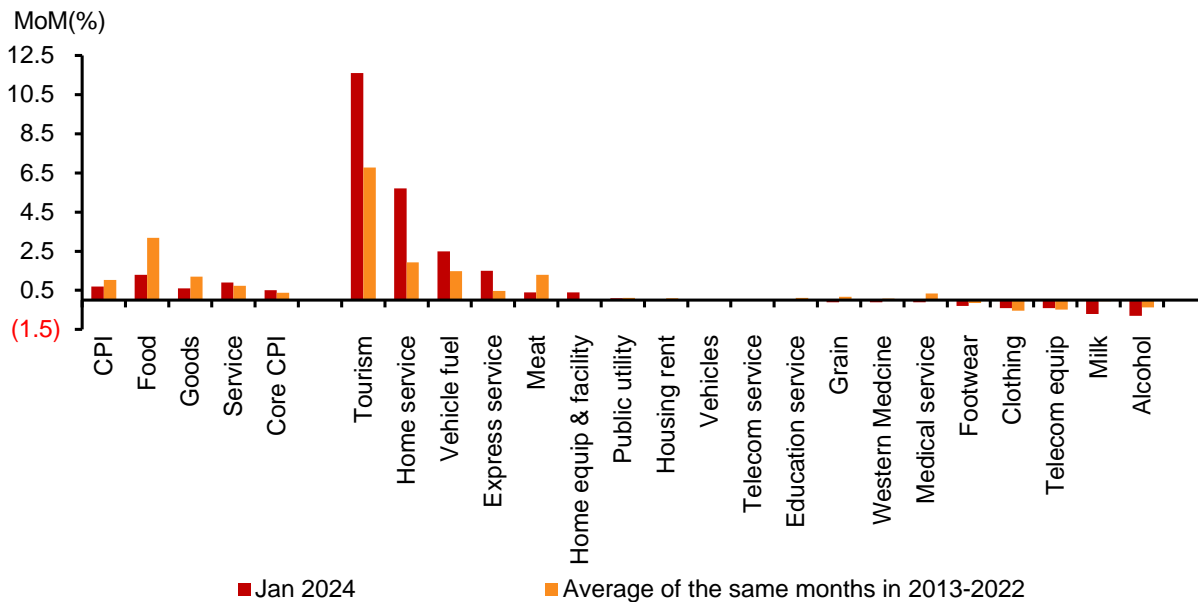


Forecast numbers from Feb 2025  
Source: Wind, CMBIGM

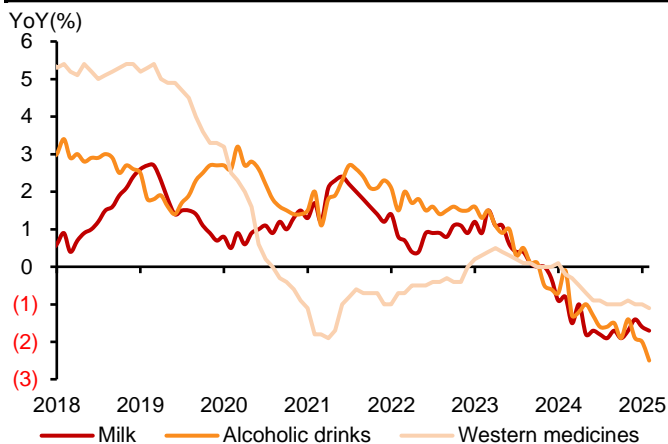


Source: Wind, CMBIGM

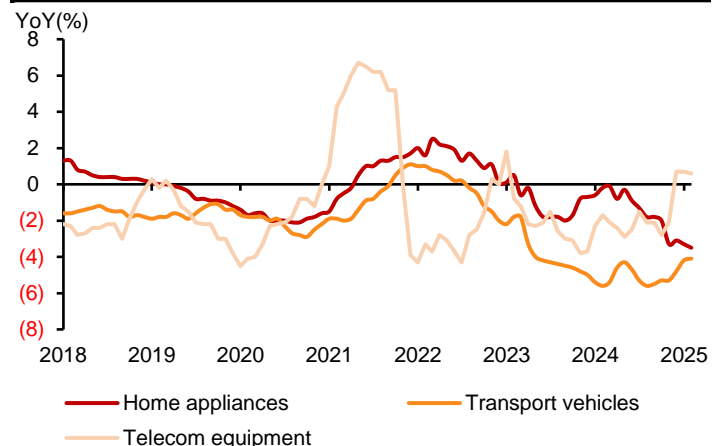
- **China might see a mild reflation in 2025.** Deflation pressure remains but may moderately alleviate in 2025, in our view. Housing and durables sales have continued to improve in the recent two quarters, probably followed by a recovery in consumer demand in the next several months. The Trump tariff might add downside pressure on China's PPI, but China may launch countermeasures. The timing of China's rate cut may be brought forward from the second half to the first half of the year, with the policy rate potentially being lowered by an additional 0.1–0.2 percentage points compared to a no-tariff scenario. Looking ahead to 2025, we might see a mild reflation as CPI may rise from 0.2% in 2024 to 0.6% in 2025, thanks to the recovery in housing sales, durables consumption and service activity. PPI might recover to -0.3% in 2025 from -2.2% in 2024.

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

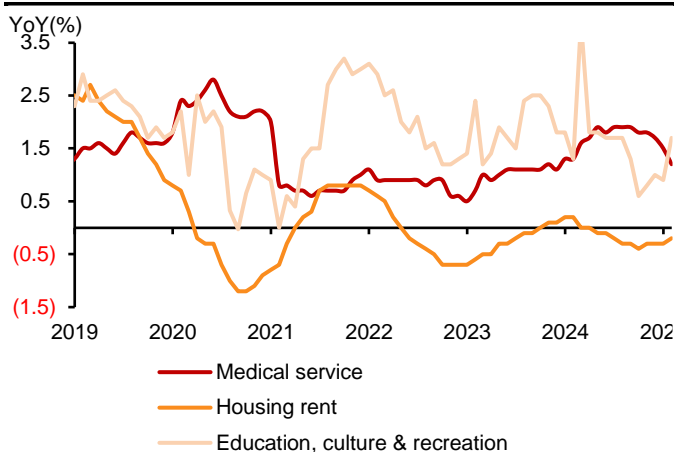
Source: Wind, CMBIGM

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

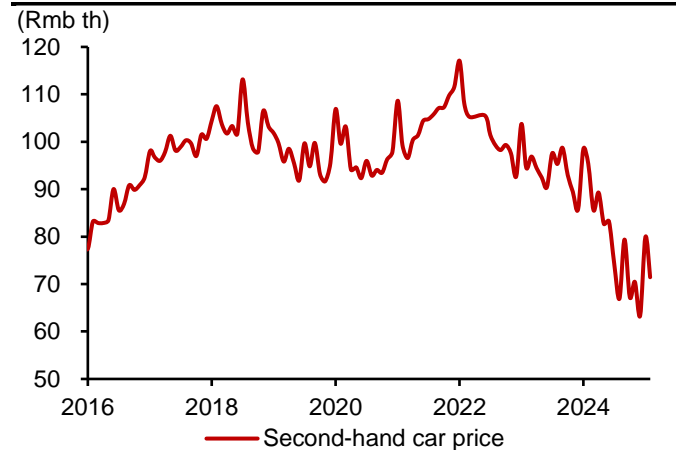
Source: Wind, CMBIGM

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

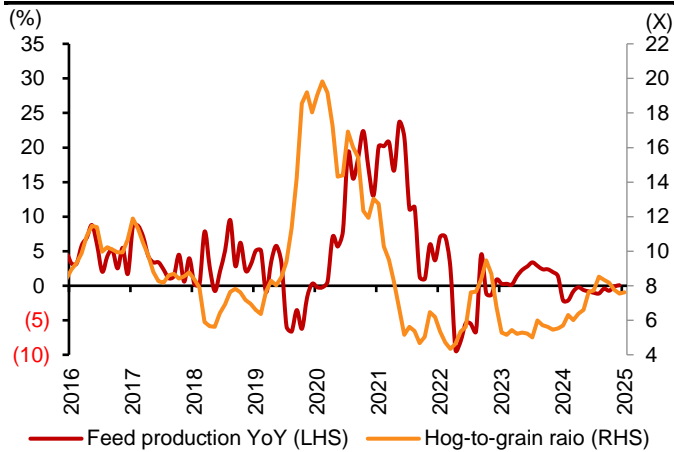
Source: Wind, CMBIGM

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

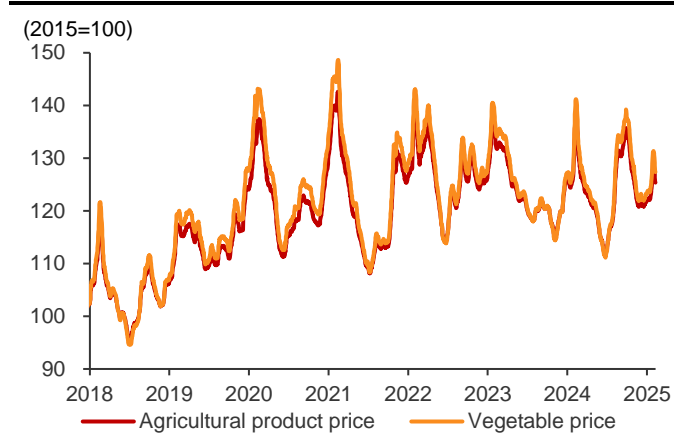
Source: Wind, CMBIGM

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

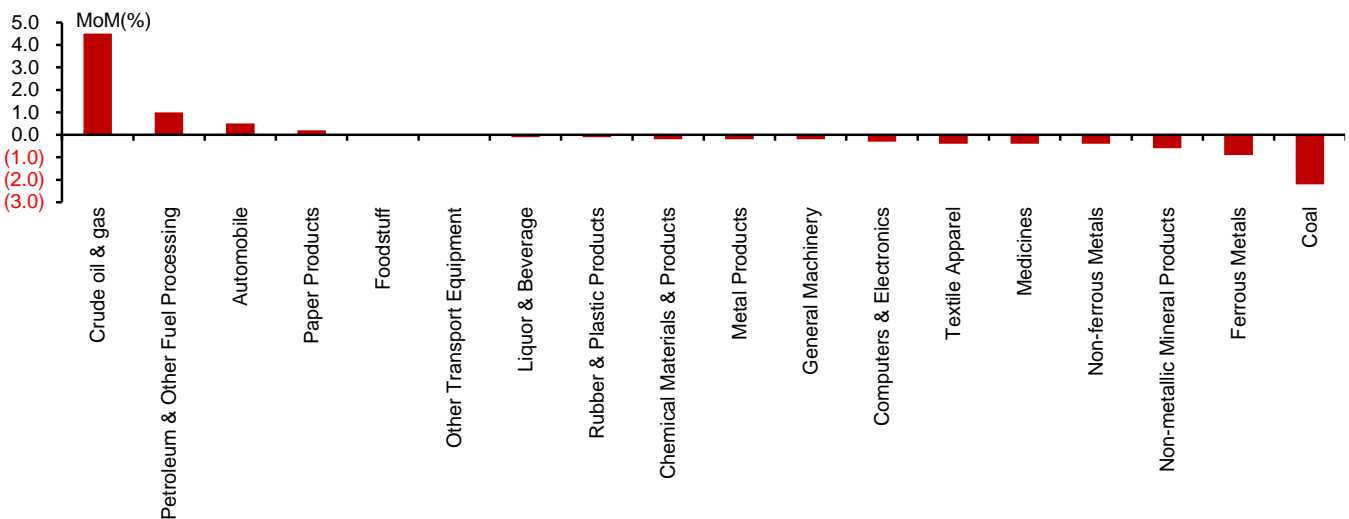
Source: Wind, CMBIGM

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

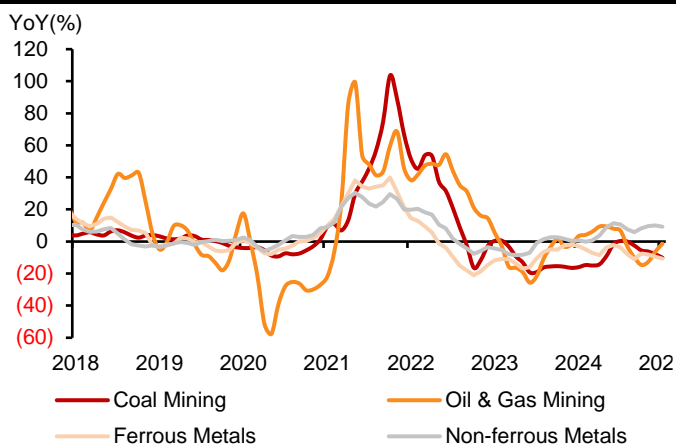
Source: Wind, CMBIGM

**Figure 7: Agricultural and vegetable price**

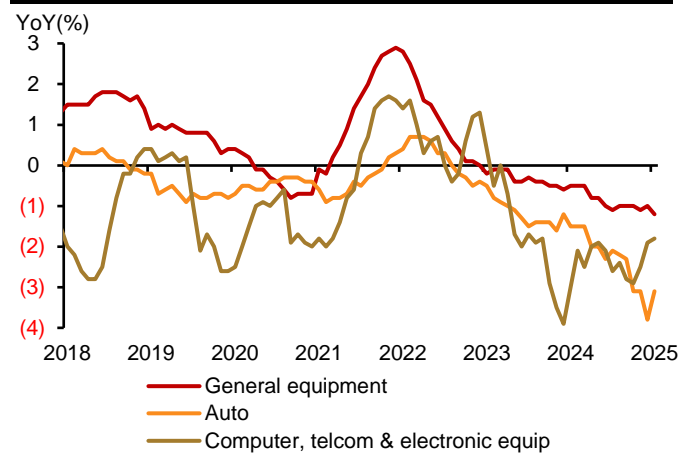
Source: Wind, CMBIGM

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

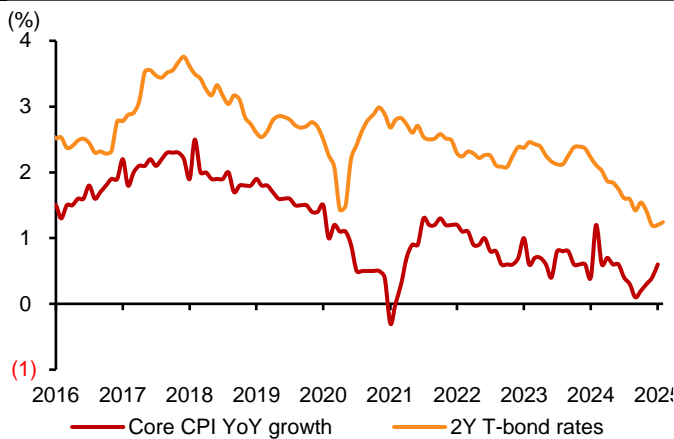
Source: Wind, CMBIGM

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

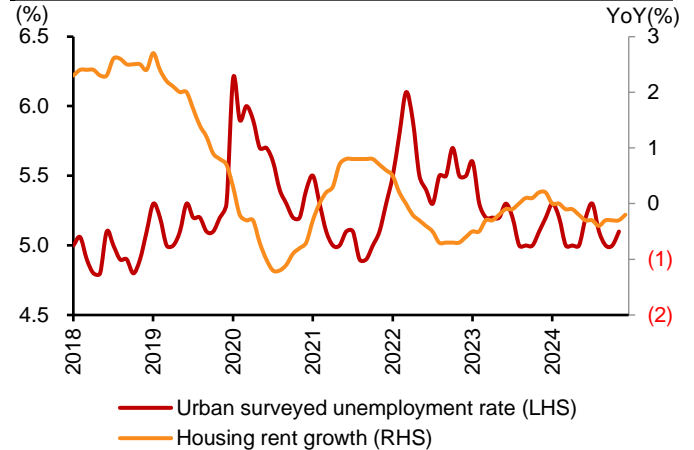
Source: Wind, CMBIGM

**Figure 10: China PPI in equipment**

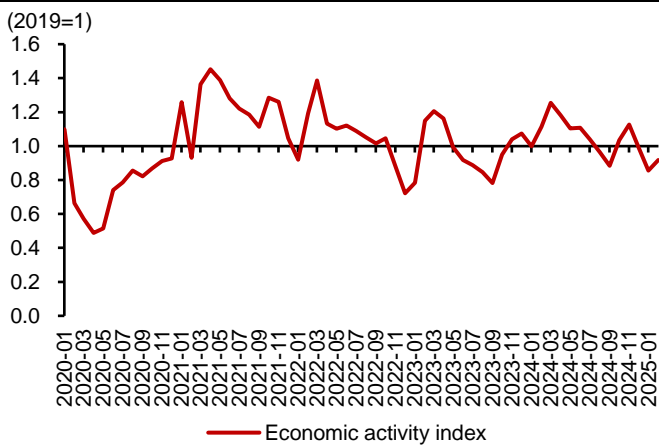
Source: Wind, CMBIGM

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

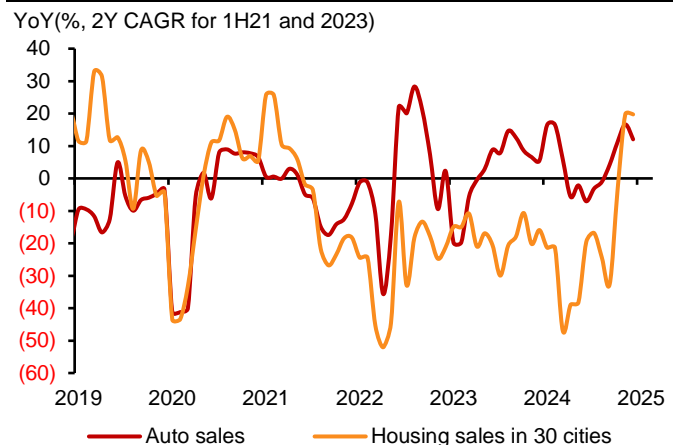
Source: Wind, CMBIGM

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

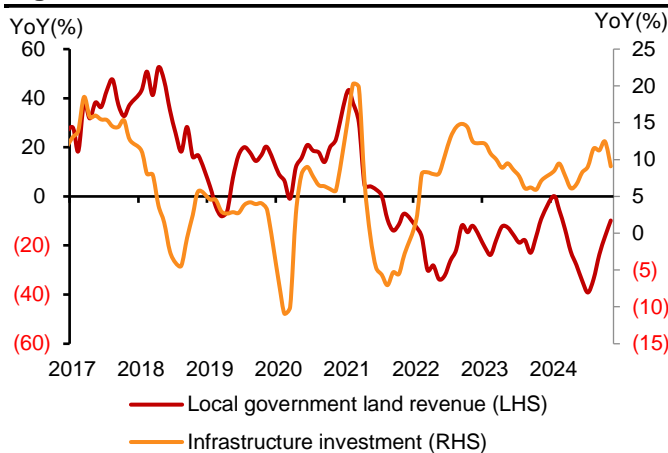
Source: Wind, CMBIGM estimates

**Figure 13: China Economic Activity Index**

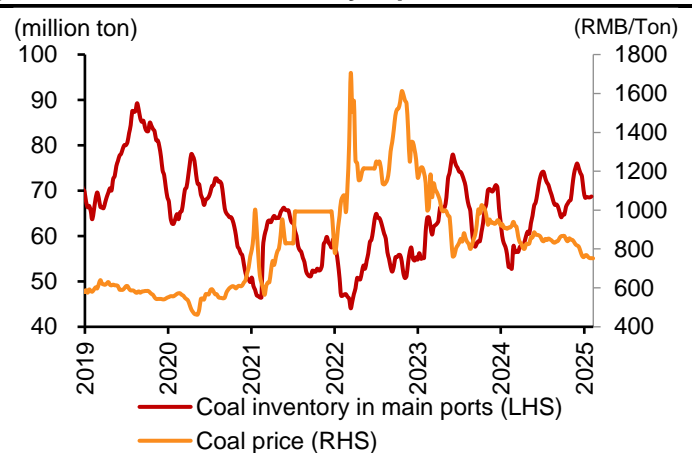
Source: Wind, CMBIGM

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

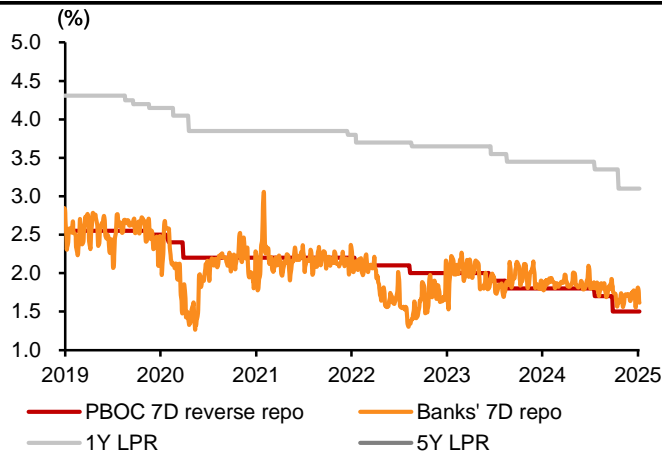
Source: Bloomberg, CMBIGM

**Figure 15: Infrastructure investment in China**

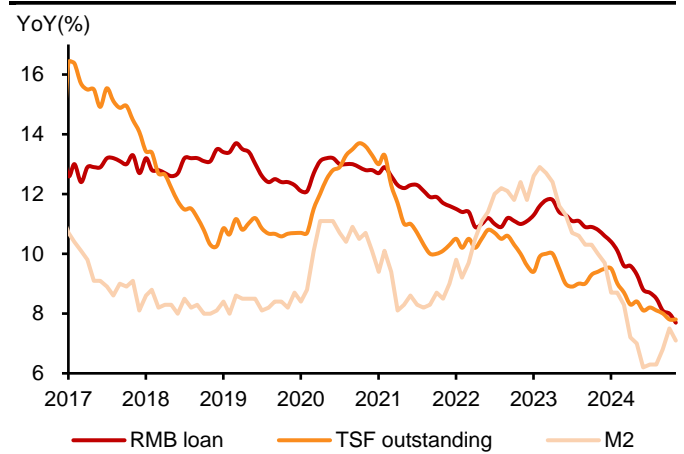
Source: Bloomberg, CMBIGM

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

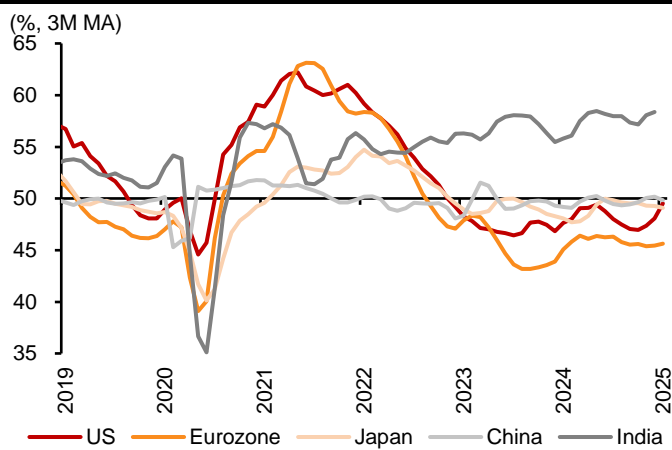
Source: Wind, CMBIGM

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

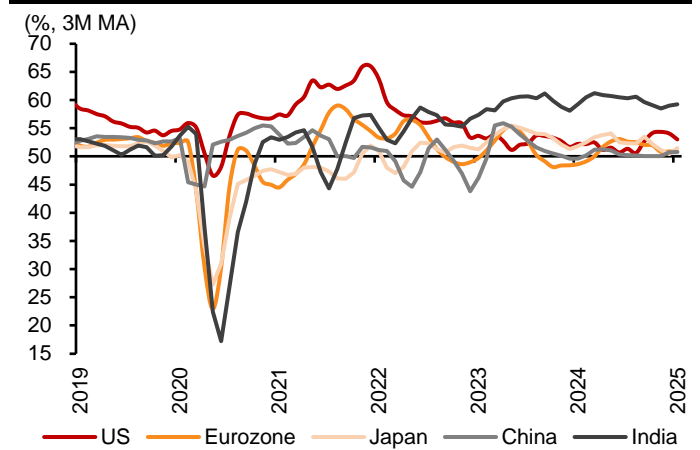
Source: Bloomberg, CMBIGM

**Figure 18: China credit growth**

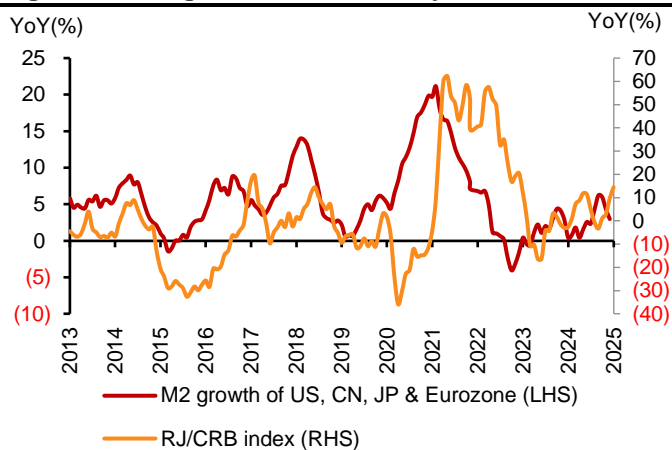
Source: Wind, CMBIGM

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

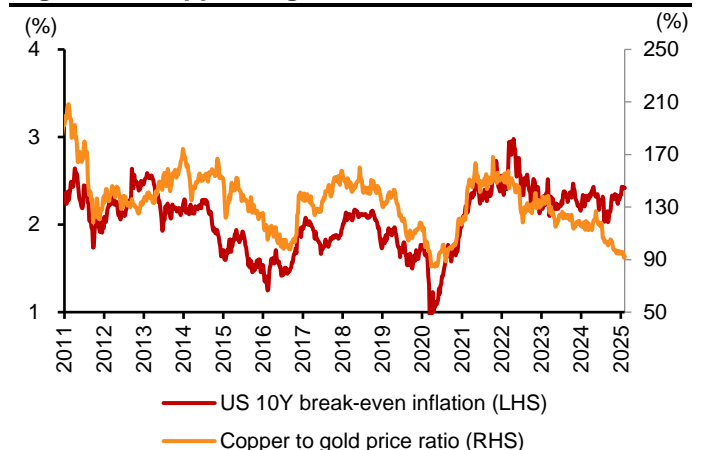
Source: Bloomberg, CMBIGM

**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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