

# China Economy

## CPI at record lows calling for enhanced policy support

China's CPI growth came in below market expectation once again and further declined 0.5% YoY in Nov. The continuous slump of food and energy prices remained the major drag of softened CPI while drastic MoM decline across the board surpassed typical seasonal trends. Domestic demand remained subdued as core CPI stayed flat at 0.6% and dropped 0.3% MoM. The YoY decline of China's PPI widened again to 3% due to the plunge of overseas crude oil price and overcapacity in some industries. The deflation increased real-term interest rates and debt burden of the real economy sector and adversely impacted durables consumption and business capex, which indicates weak aggregate demand and calls for additional policy loosening. Looking forward, we expect CPI and PPI to remain weak next month due to the continued drop of crude price, warm weather, and floppy aggregate demand, before gradually improving in 2024. We revise down our forecast on CPI growth for 2023 from 0.4% to 0.3% while maintaining the forecast for 2024 at 1.4%. We maintain our forecast on PPI growth for 2023 at -3% and 2024 at 0.3%.

- CPI growth further weakened due to the drag of food, energy and durable prices.** CPI fell short of market expectation once again, edging down to -0.5% YoY in Nov after dropping 0.2% in Oct. The retracted YoY CPI growth is mainly driven by food and energy prices and weak domestic demand for goods and services. Food CPI noticeably dropped 4.2% YoY after declining 4% in Oct, as pork price further dropped 31.8% YoY in Nov. Pork price dipped 3% sequentially in Nov after dropping 2% in Oct. As the number of live pigs in stock and breeding sows is still elevated, as well as the warm weather weighing on the pork demand for sausages and preserved pork during winter, we expect the drag from pork price due to excessive supply and weak demand on CPI will not end just yet. The warm weather also ensures stable supply of other food like vegetables and grain. The energy price returned to negative YoY as vehicle fuel growth contracted from 1.8% to -2.9% while public utility price inched down to 0.3% after rising 0.6%. In sequential terms, CPI further dropped to -0.5% after decreasing 0.1% as declines across the board exceeded normal seasonality. Core CPI growth stayed flat at 0.6% YoY while its MoM growth further tumbled to -0.3% from 0%, the biggest MoM drop since Mar 2019. Demand for durables, which had the greatest impact on production output, further deteriorated as CPI in telecom equipment and home appliances drastically softened. Services CPI growth edged down to 1% YoY in Oct while its MoM growth further dropped to -0.4%. MoM growth of tourism significantly dropped 5.9% as national holiday ended in Oct. Employment conditions remained challenging as housing rent remained at -0.1% MoM, contracting for three months.
- PPI expanded its YoY declines as energy price continued to slump.** PPI declined 3% YoY in Nov after dropping 2.6% YoY in Oct, which has been in contraction for 14 months. The worse-than-expected PPI drop was mainly driven by the continued decline of energy price as PPI in oil & gas mining and coal mining fell 15.8% and 3.3% respectively in Nov from -15.4% and 1.7%. PPI in non-ferrous and ferrous metals moderated to 1.7% and -2.3% in Nov from 2.6% and -5.2%. From the MoM perspective, PPI inched down to -0.3% in Nov, after three consecutive months of growth. The slump of international

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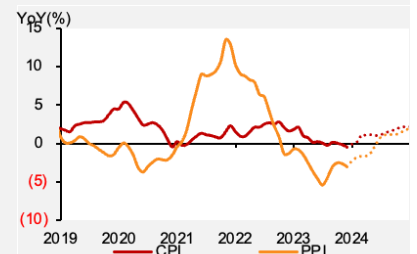
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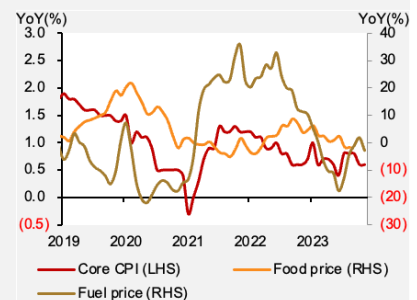
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Forecast numbers from Aug 2023  
Source: Wind, CMBIGM

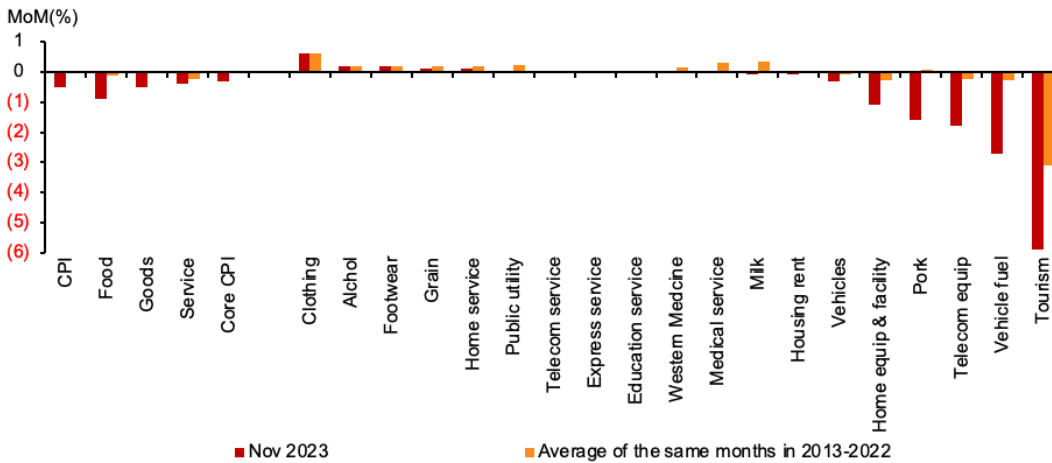


Source: Wind, CMBIGM

crude oil price drove the MoM growth of crude oil & gas and petroleum to decline 2.8% and 2.5% from rising 2.8% and 2.5%. Prices of crude oil-related industries like textile and chemical materials & products also saw a decline in MoM growth at -0.2% and -0.9%. Other industries facing intensive supply-side competition like automobiles and computers & electronics also softened two months in a row. The moving trend of PPI growth is highly related to the inventory cycle as the widened PPI decline as well as the fall of PMI indicate the overcapacity in most manufacturing industries has not been alleviated yet.

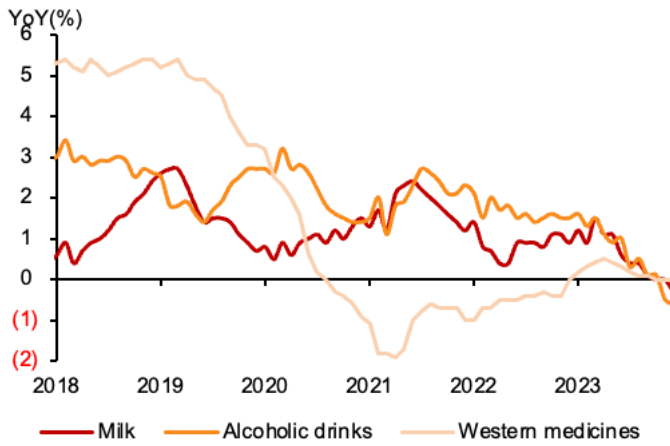
- **We expect a mild reflation in CPI and PPI in 2024 with the base effect, more expansionary fiscal policy and loosing monetary policy ahead.** We expect the central bank to maintain liquidity and credit easing policy with additional cuts in RRR, LPRs and deposit rates in the next three quarters to facilitate credit expansion. The PBOC also vows liquidity support for debt-ridden local governments. Fiscal policy will be more proactive and expansionary as the central government has allowed provincial governments to issue special bonds to repay the matured hidden debts. However, the improvement of domestic demand may remain slow due to property market slump and weak business confidence. We revise down our forecast on CPI growth for 2023 from 0.4% to 0.3% and maintain the forecast for 2024 at 1.4%. We maintain the forecast on PPI growth for 2023 at -3% and 2024 at 0.3%.

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



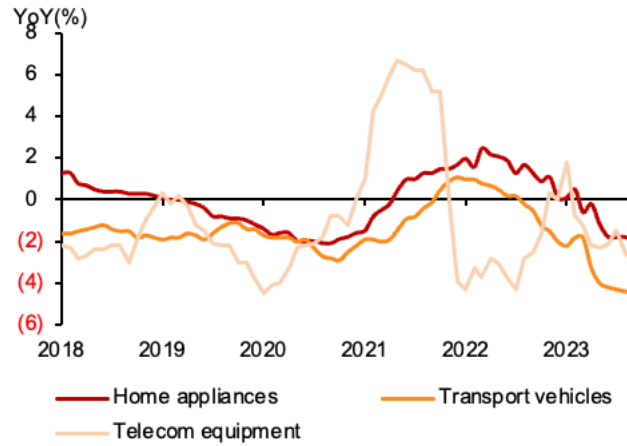
Source: Wind, CMBIGM

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



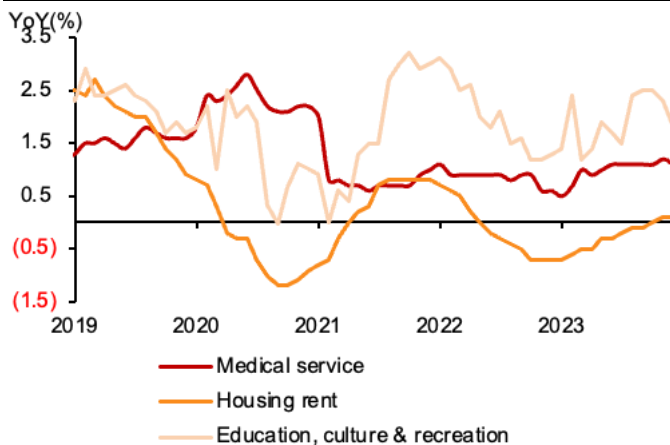
Source: Wind, CMBIGM

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



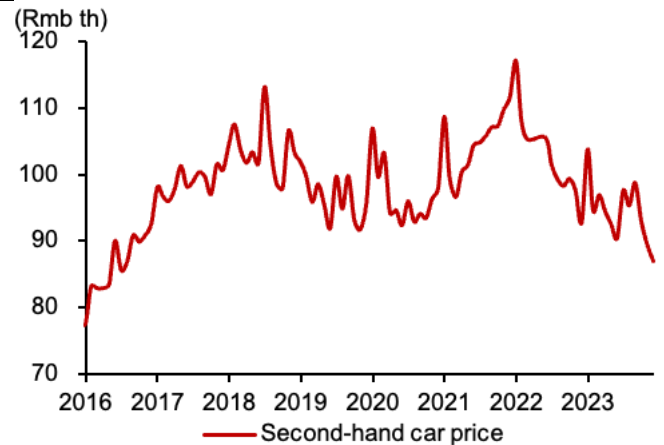
Source: Wind, CMBIGM

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



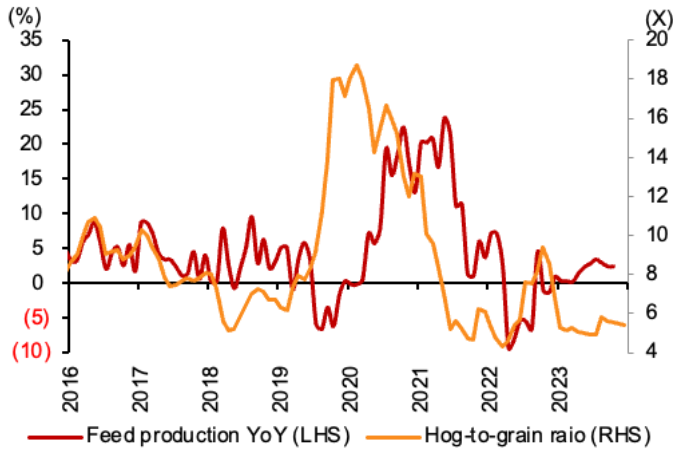
Source: Wind, CMBIGM

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



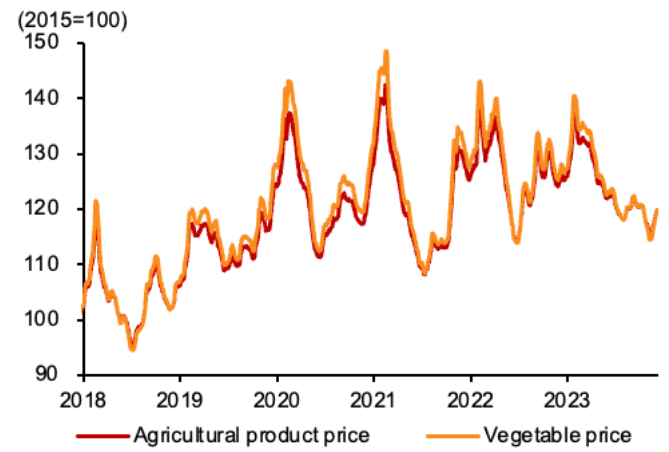
Source: Wind, CMBIGM

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



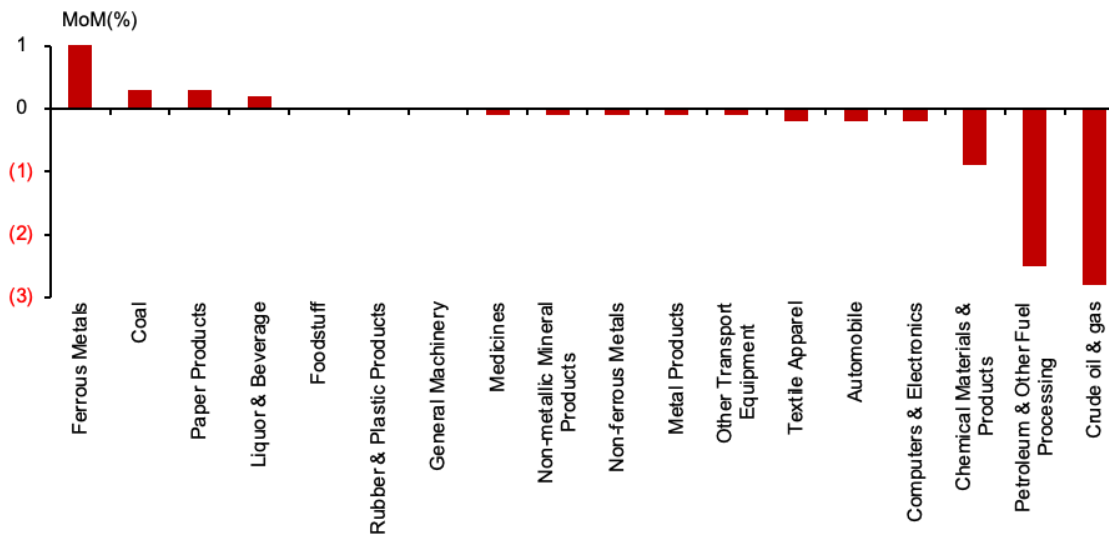
Source: Wind, CMBIGM

**Figure 7: Agricultural and Vegetable Price**



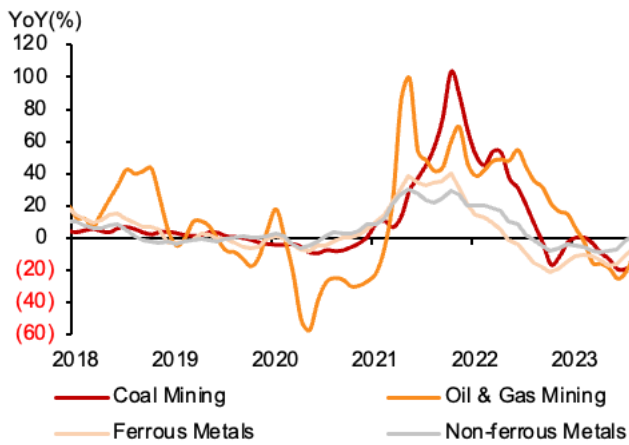
Source: Wind, CMBIGM

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



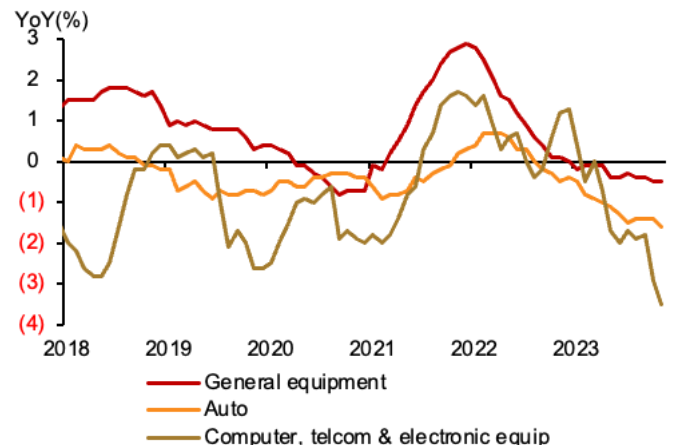
Source: Wind, CMBIGM

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



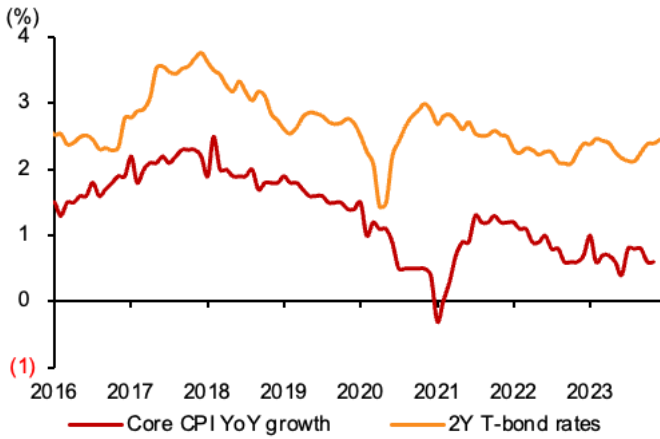
Source: Wind, CMBIGM

**Figure 10: China PPI in Equipment**



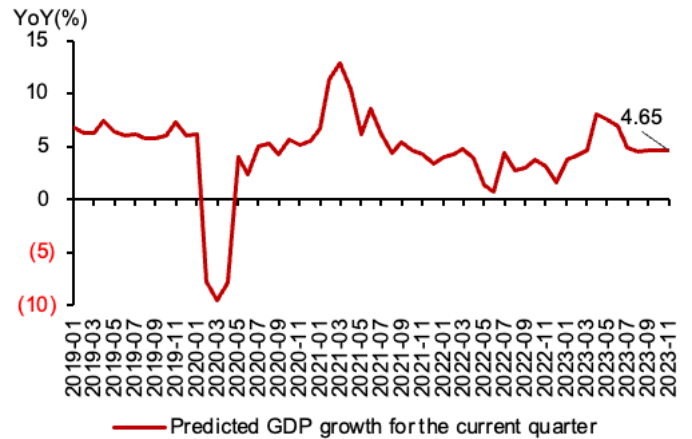
Source: Wind, CMBIGM

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



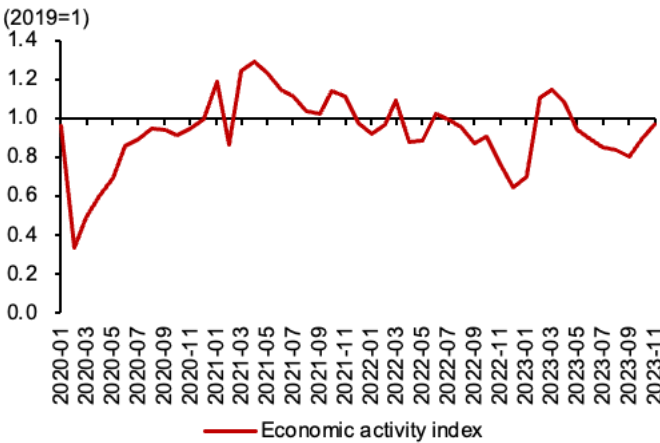
Source: Wind, CMBIGM

**Figure 12: China Predicted GDP Growth**



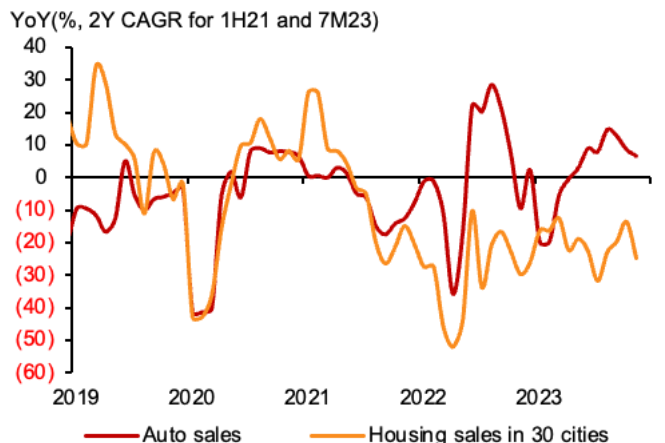
Source: Wind, CMBIGM estimates

**Figure 13: China Economic Activity Index**



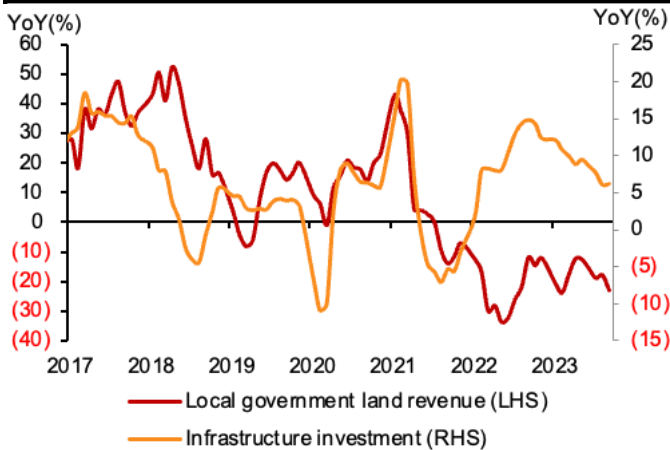
Source: Wind, CMBIGM

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



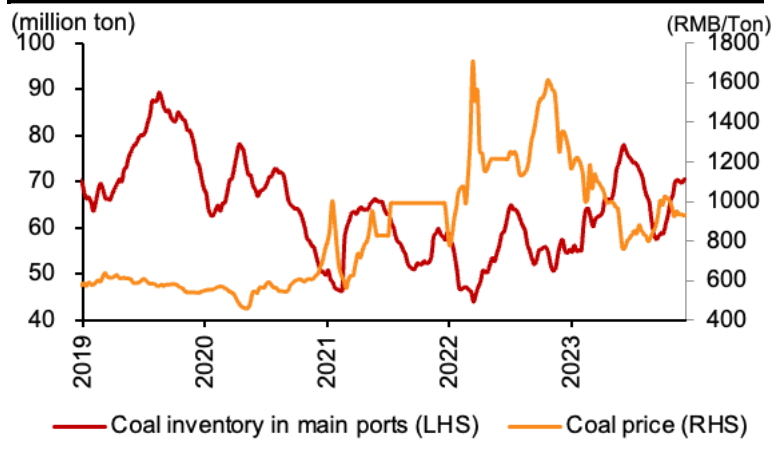
Source: Bloomberg, CMBIGM

**Figure 15: Infrastructure Investment in China**



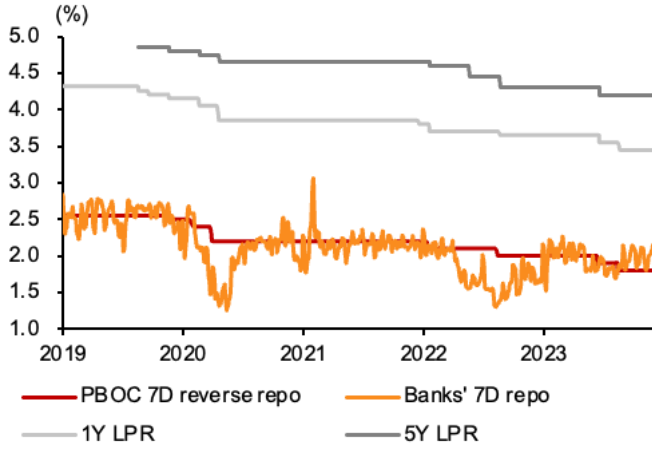
Source: Bloomberg, CMBIGM

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



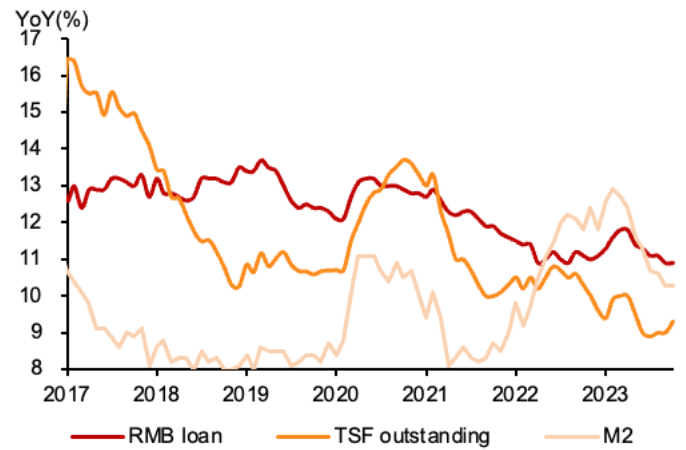
Source: Wind, CMBIGM

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



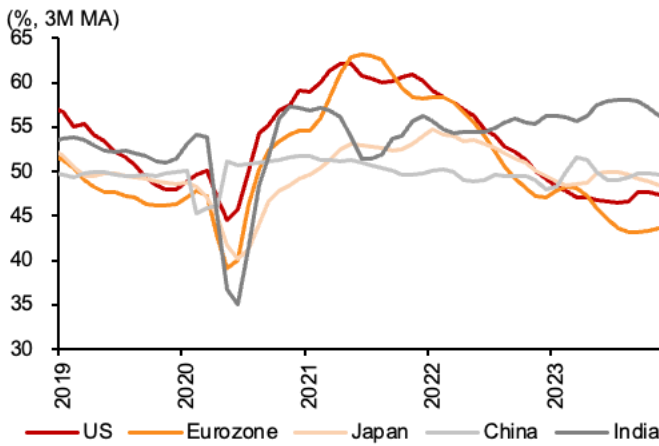
Source: Bloomberg, CMBIGM

**Figure 18: China Credit Growth**



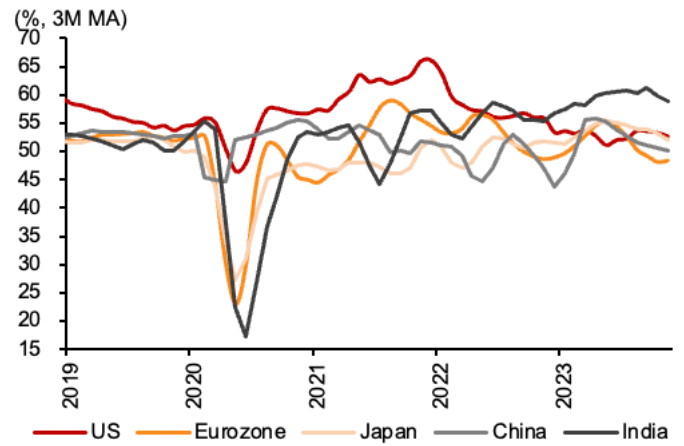
Source: Wind, CMBIGM

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



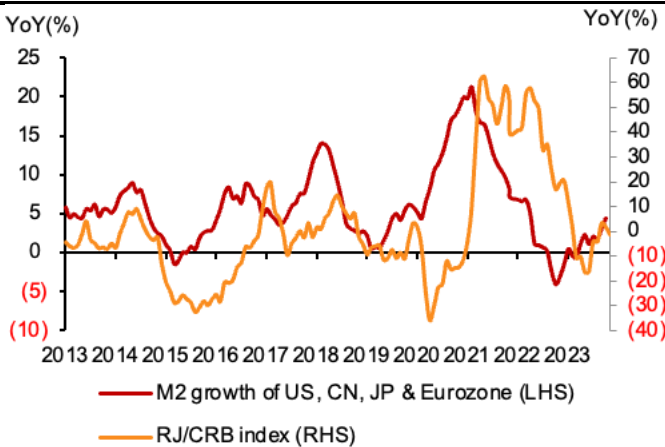
Source: Bloomberg, CMBIGM

**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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