

# China Economy

## Tariff shock amplifies deflationary drag

April CPI remained in negative territory, as the trade war exerted downward pressure on energy prices and the price levels of export-oriented industries. Tourism price rebounded supported by the Qingming holiday, while prices for other services and durable goods remained subdued. PPI further deteriorated due to sliding global commodity prices and soft domestic construction activities. The tariff shock is expected to weaken external demand and dampen domestic demand through confidence channels, exacerbating overcapacity. The current stimulus package may prove insufficient amid intensifying deflationary pressures, as policy efforts in 2Q25 focus on monetary and financial market measures. Based on the assessment of economic damage and the preliminary outcome of U.S.-China negotiations, policymakers are expected to announce the scale of fiscal and consumption support for the second half of the year at the early July Politburo meeting. In 2H25, we expect a further 10 bps LPR cut, along with a possible moderate increase in the broad fiscal deficit. Policy may also strengthen transfer payments to low- and middle-income households, the social security system, and multi-child families to more effectively boost household consumption. CPI and PPI may rise from 0.2% and -2.2% in 2024 to 0.3% and -1% in 2025.

■ **CPI stays negative on falling energy prices.** China's CPI YoY stayed flat at -0.1% in Apr, slightly above market expectation at -0.15%. In sequential terms, CPI bounced up to 0.1% in Apr from -0.4% in Mar. Food price rose to 0.2% MoM in Jan after dropping 0.9% in Mar, as reduced imports drove a 3.9% increase in beef prices. Pork prices also narrowed its decline from -4.4% MoM to -1.6%, but it may remain muted as inventories of breeding sows and live hogs stayed elevated. Vegetable CPI saw -1.8% MoM decline, up from -5.1% in Mar. High-frequency data indicated continued declines in vegetable prices by 3.7% MoM, while pork retail price edged down. Vehicle fuel price dropped 2% in Apr as global crude oil price slumped in Apr. We expect subdued crude oil prices to continue weighing on overall energy prices. We expect the CPI to further edge down due to falling food and energy prices.

■ **Core CPI continued to rally thanks to the robust service price.** Core inflation remained flat at 0.5% in Apr, with its MoM growth recovering to 0.2% from 0%. Service price reflatd MoM from -0.4% to 0.3% in Apr, as tourism price surged 3.1% in Apr thanks to national holidays. Other services remained subdued, with no price change recorded in categories such as education, rent, telecommunications, and household services. Goods price remained soft, particularly the trade-in scheme items. Telecom equipment, home appliances and vehicles prices dropped 1.3%, 0% and 0.3% respectively in Apr. Discretionary goods prices declined as related moderating exports led to overcapacity pressures, with clothing prices dipping 0.1% MoM in April.

■ **PPI deteriorated due to sliding global commodity prices and trade war.** YoY contraction of PPI further dipped to -2.7% in Apr from -2.5% in Mar, slightly better than market expectations at -2.8%. The MoM growth remained flat at -0.4%. For mining industries, PPI of coal mining and oil & gas further dropped to -15.2% and -14.2% YoY compared to -14.9% and -8.5% in Mar, while ferrous and non-ferrous metals subtly moderated to 19% and -6.3%. The domestic construction activities remained soft. Final consumption goods remained subdued, falling 0.2% MoM, weighed down by declining durable goods prices. Export-oriented industries saw notable price declines in April, with autos, computers and electronics, and furniture falling by 0.5%, 0.2%, and 0.2%, respectively. We expect the subdued PPI

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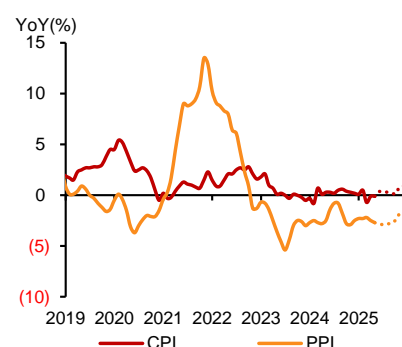
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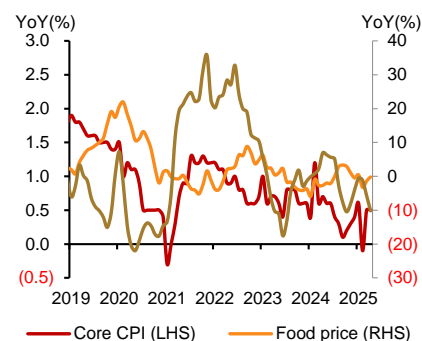
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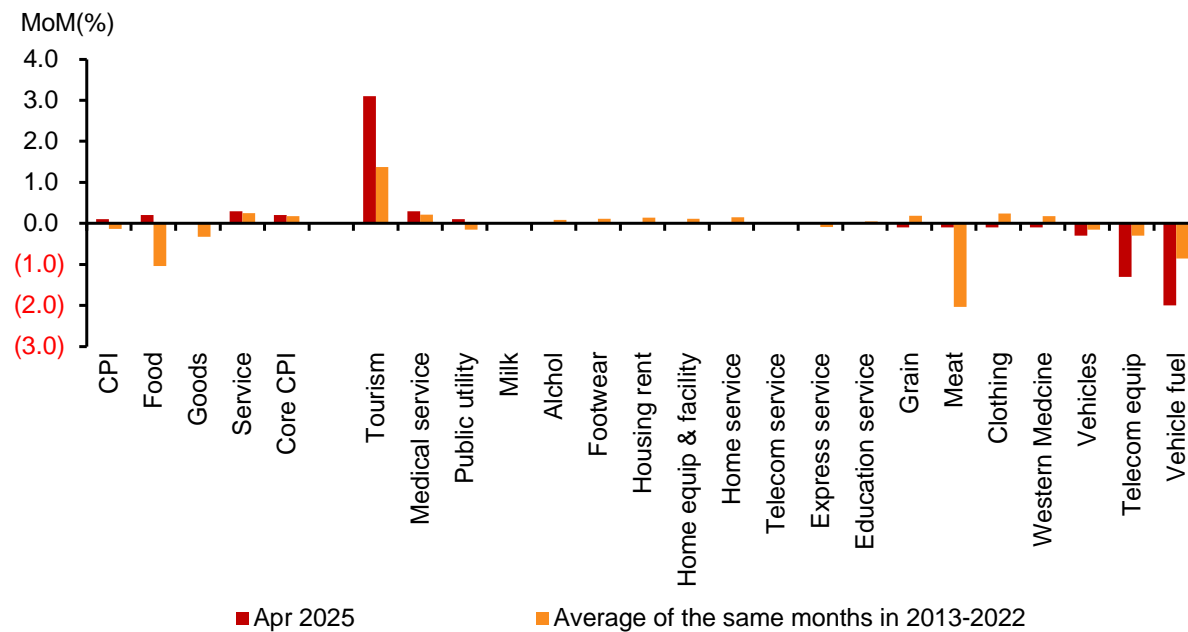
Forecast numbers from Feb 2025  
Source: Wind, CMBIGM



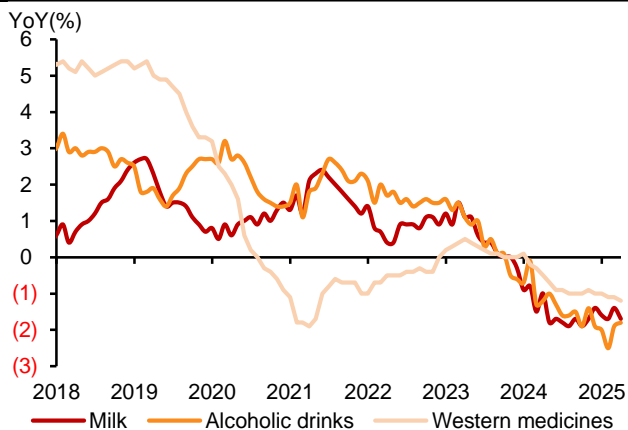
Source: Wind, CMBIGM

should persist as the drag from trade war persists. We expect PPI to remain muted in the near term as the drag from the ongoing trade war continues.

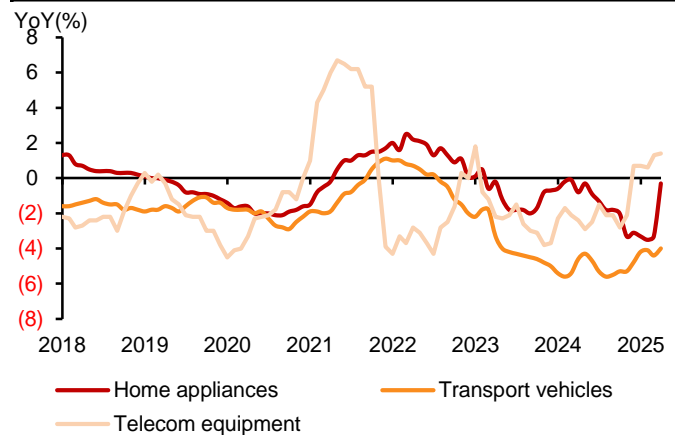
- **Rising risk of deepening deflation.** The tariff shock is expected to weaken external demand and dampen domestic demand through confidence channels, exacerbating overcapacity. In April, both the ex-factory price index and the raw material input price index in the manufacturing PMI contracted further, indicating intensifying deflationary pressure ahead. The current stimulus package might be insufficient to ease the deflation pressure, as current policy focuses on monetary and financial market measures in 2Q25. Based on the assessment of economic damage and the preliminary outcome of U.S.-China talks, policymakers may announce the scale of fiscal and consumption support for the second half of the year at the early July Politburo meeting. In 2H25, we expect a further 10 bps LPR cut, along with a possible moderate increase in the broad fiscal deficit. Policy may also strengthen transfer payments to low- and middle-income households, the social security system, and multi-child families to more effectively boost household consumption.

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

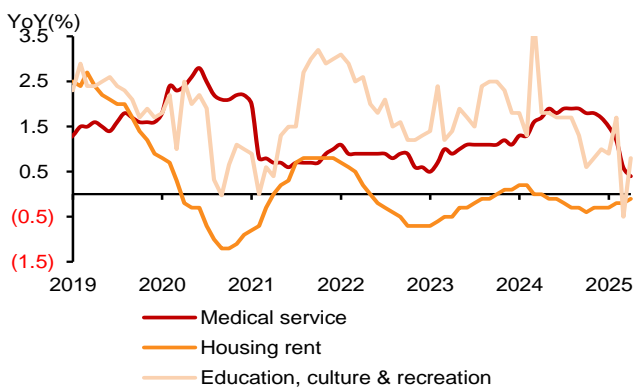
Source: Wind, CMBIGM

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

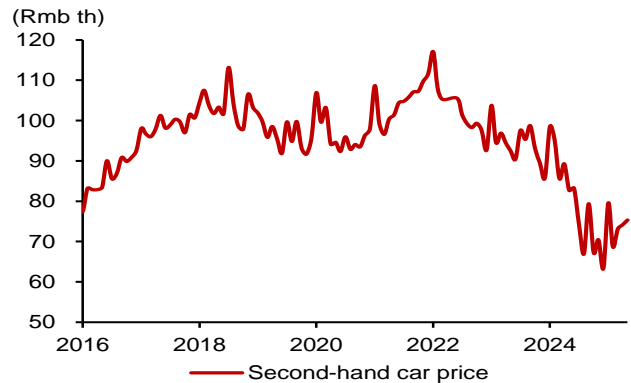
Source: Wind, CMBIGM

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

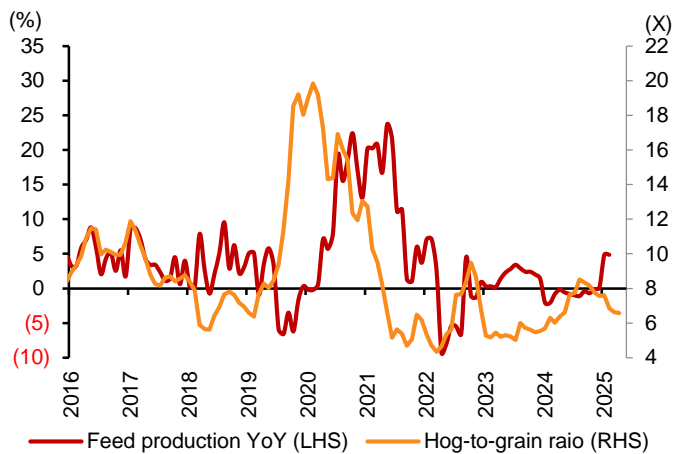
Source: Wind, CMBIGM

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

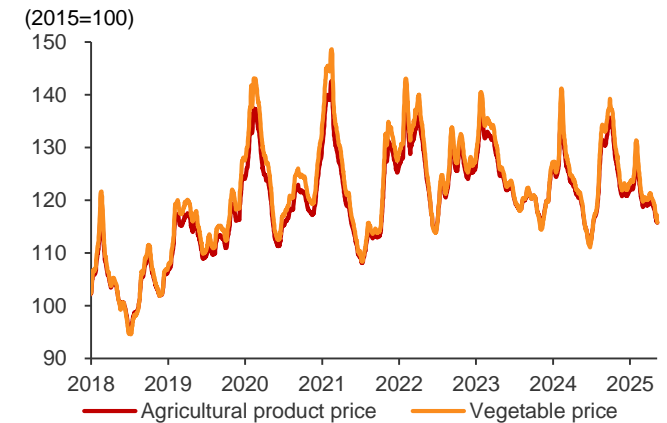
Source: Wind, CMBIGM

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

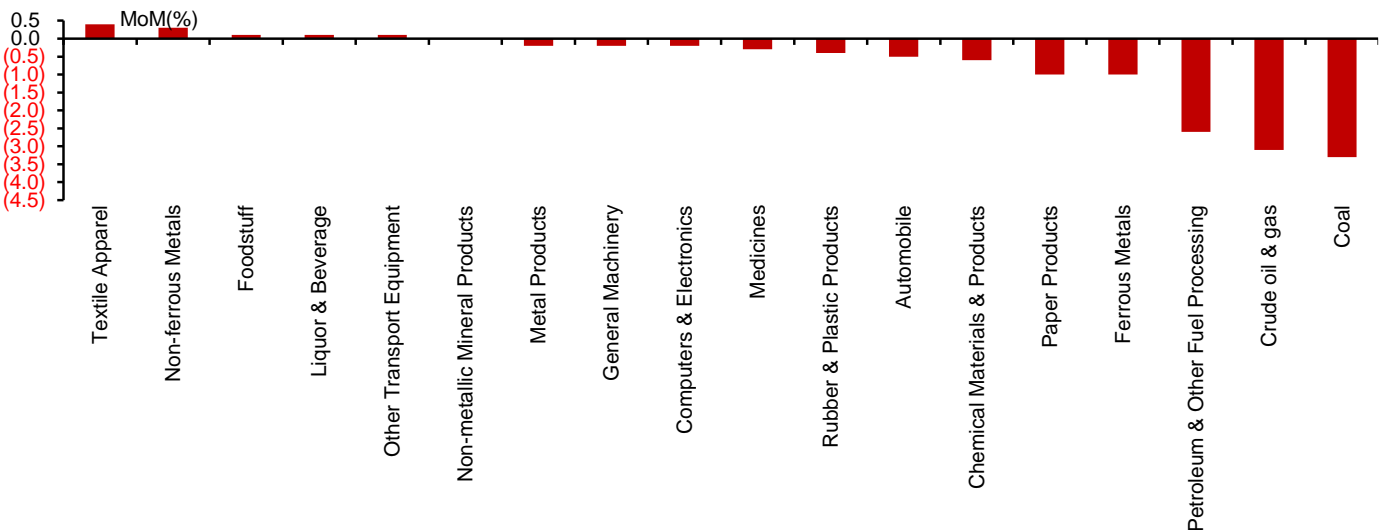
Source: Wind, CMBIGM

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

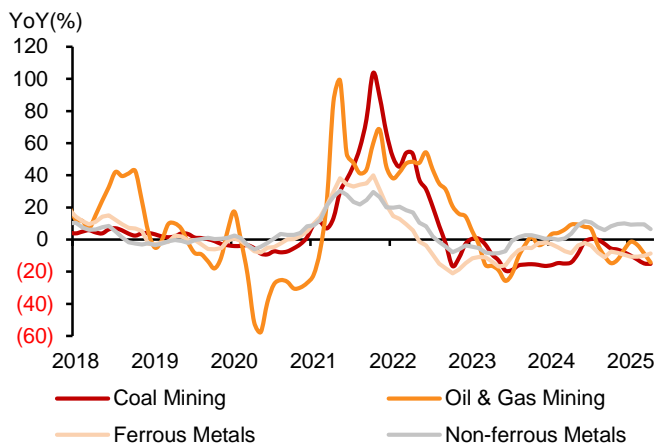
Source: Wind, CMBIGM

**Figure 7: Agricultural and vegetable prices**

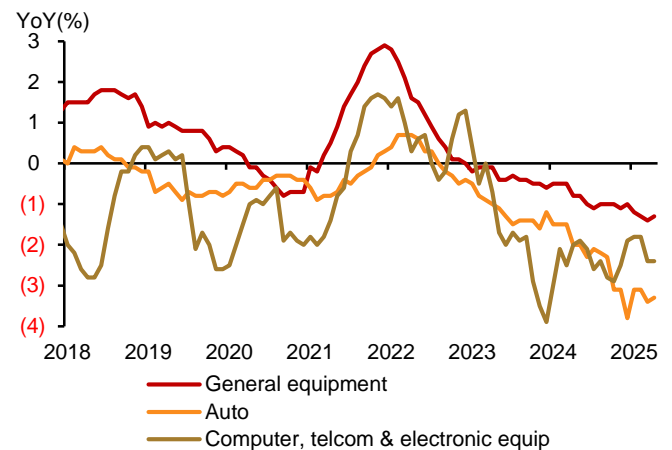
Source: Wind, CMBIGM

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

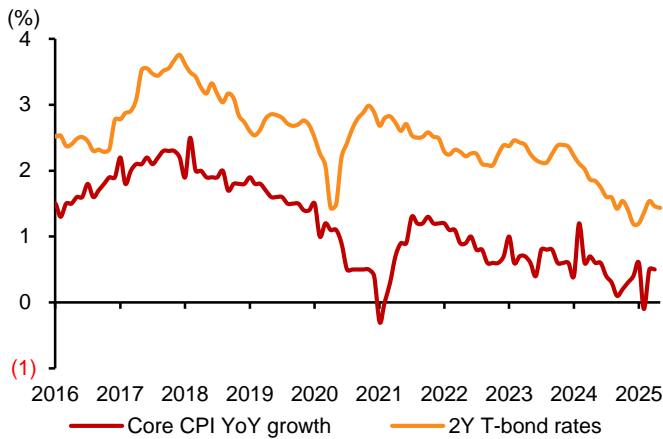
Source: Wind, CMBIGM

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

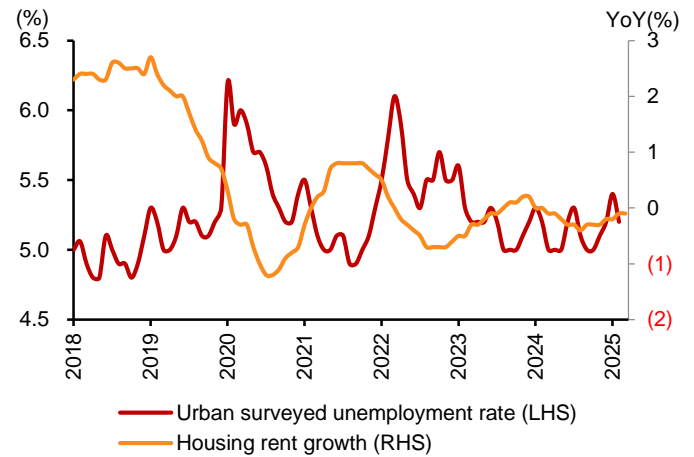
Source: Wind, CMBIGM

**Figure 10: China PPI in equipment**

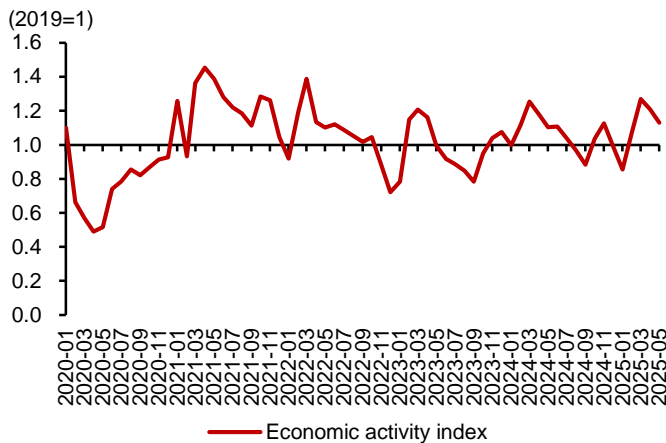
Source: Wind, CMBIGM

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

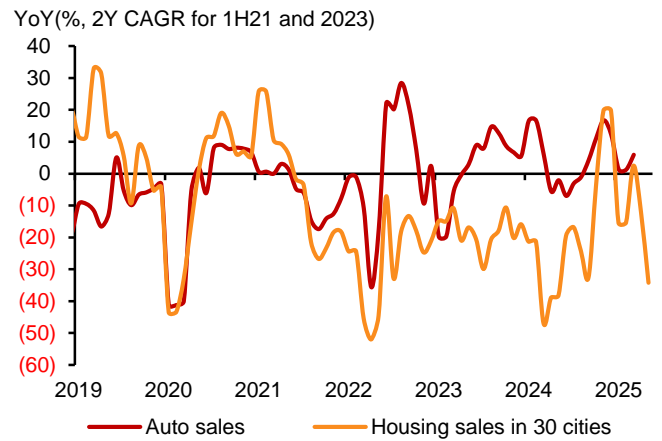
Source: Wind, CMBIGM

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

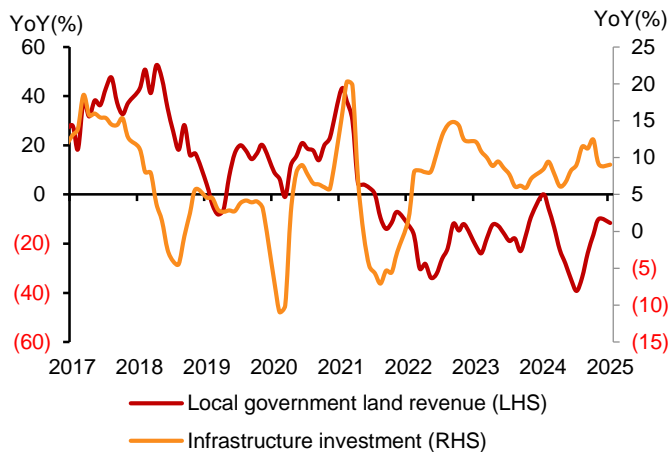
Source: Wind, CMBIGM estimates

**Figure 13: China Economic Activity Index**

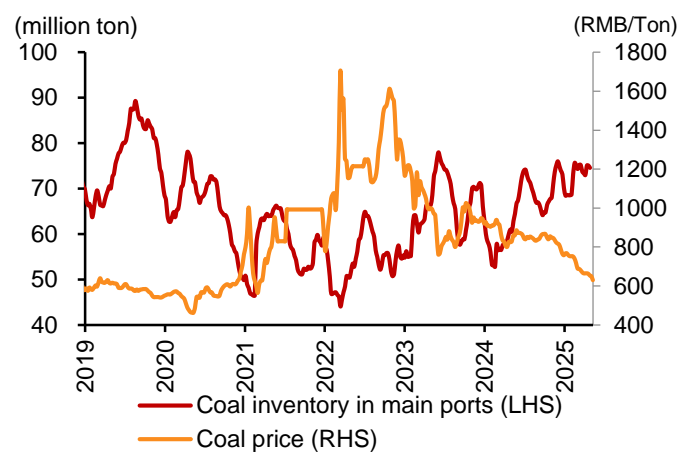
Source: Wind, CMBIGM

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

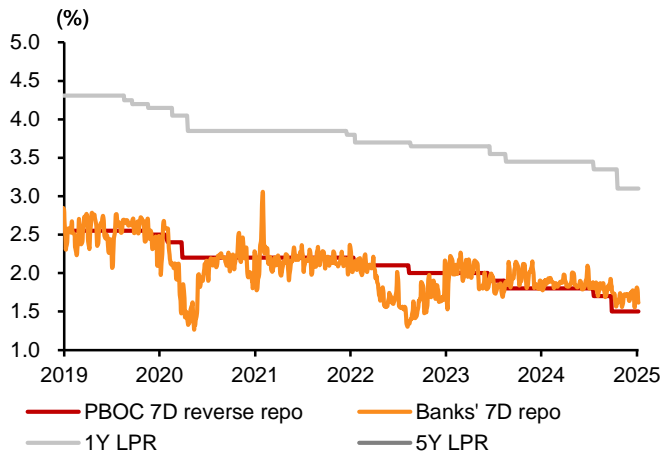
Source: Bloomberg, CMBIGM

**Figure 15: Infrastructure investment in China**

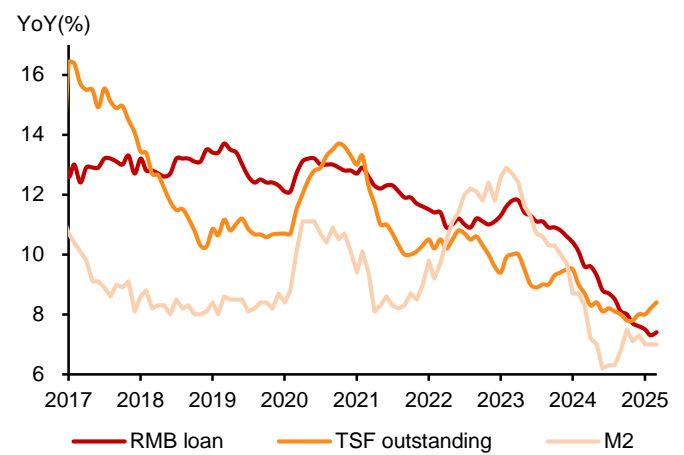
Source: Bloomberg, CMBIGM

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

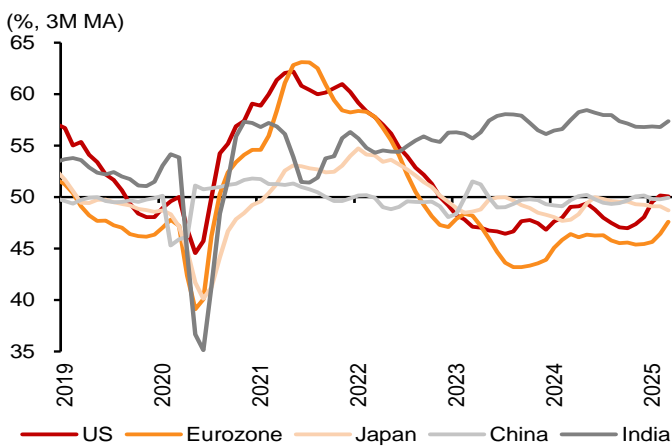
Source: Wind, CMBIGM

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

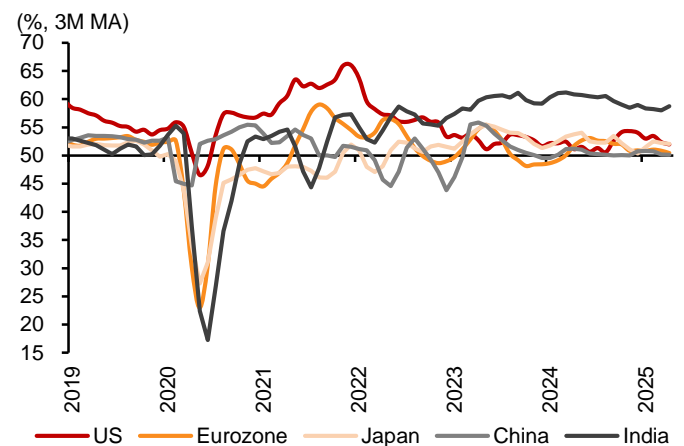
Source: Bloomberg, CMBIGM

**Figure 18: China credit growth**

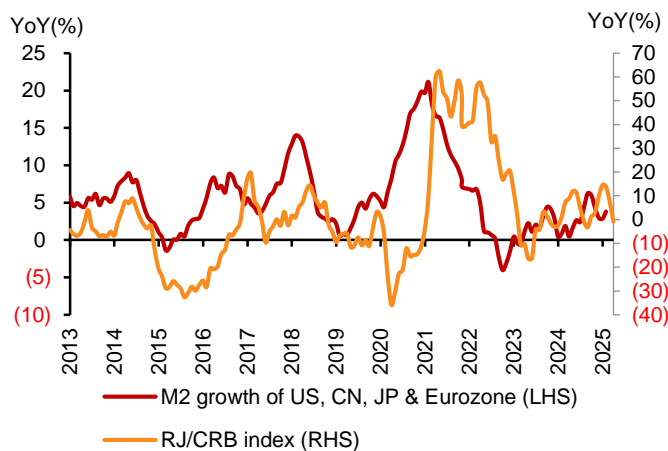
Source: Wind, CMBIGM

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

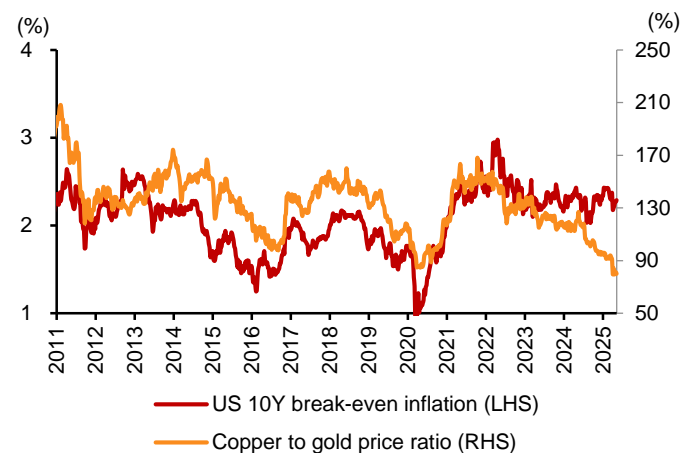
Source: Bloomberg, CMBIGM

**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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