

China Economy

Inflation below expectations amid weak demand

China's inflation further declined in January and was below expectations as demand weakened and supply resumed. Gasoline & gas prices picked up, but core CPI was soft as consumption remained weak amid the resurgence of the Covid-19 virus. The industrial inflation declined as prices of coal, ferrous metals, construction materials and chemical products noticeably declined as demand softened and supply continued to improve. The weakening of inflation supports further moderate easing of liquidity and credit policy in future.

- Both CPI and PPI weakened.** The YoY growth rates of CPI (consumer price index) and PPI (producer price index) respectively decreased from 1.5% and 10.3% in December 2021 to 0.9% and 9.1% in January. From the MoM perspective, CPI rose 0.4% while PPI dropped 0.2%, respectively.
- Food price seasonally increased, but at a lower rate due to the decline of pork price.** Food price rose 1.4% MoM in January, lower than the average growth of over 2% in normal years. Fresh vegetables, fruits and aquatic products rose 7.2%, 4.1% and 3.1% MoM as demand increased and supply was restrained around the Chinese New Year holiday. But pork price dropped 2.5% MoM as breeding factories accelerated supply before the holiday with the expectations of further decline of the price.
- Core CPI growth was soft as demand remained weak.** Core CPI slightly rose 0.1% in January, as consumption of clothing, durables, household facilities, residence (housing rent), education, culture & recreation articles remained weak.
- Supply disruptions continued to push up prices of some items.** Consumer prices of gasoline, communication equipment & liquefied petroleum gas increased by over 1.5% MoM in January. Meanwhile, the producer prices of petroleum & gas mining and power generation noticeably increased.
- Inflation would be tepid with a decline of industrial prices as demand weakened and supply improved.** The weak final consumption may continue to restrain the upside room of CPI. China's moderate easing of liquidity and credit cannot offset the effect of global monetary tightening especially in the US. Global money growth should further decline. China's fixed investment may see stabilization from 2Q22, but can hardly achieve a rapid growth. The deleveraging process in the property sector ended the growth era for property development investment as well as local governments' land-oriented credit expansion. Meanwhile, the supply of commodities and industrial products should continue to resume. China's adjustment of energy saving policy to stabilize growth would also bring downside pressure on coal and steel prices. We could see an increase of capacity utilization rates (CUR) in coal mining and power generation, yet with a decline of capacity utilization rates in steel products, non-ferrous metals and nonmetal mineral products.
- Implications for the market.** China's inflation in January indicated demand remained weak while supply side condition continued to improve. China's weak fixed investment, resumption of production and US's planned policy tightening implies downside risk in some industrial products. China's weak inflation supports further easing of macro policies in future.

Bingnan YE, Ph.D

(852) 3761 8967

yebingnan@cmbi.com.hk

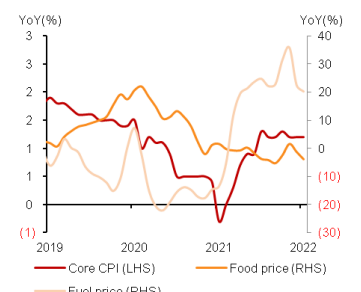
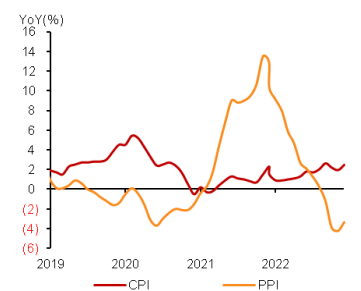
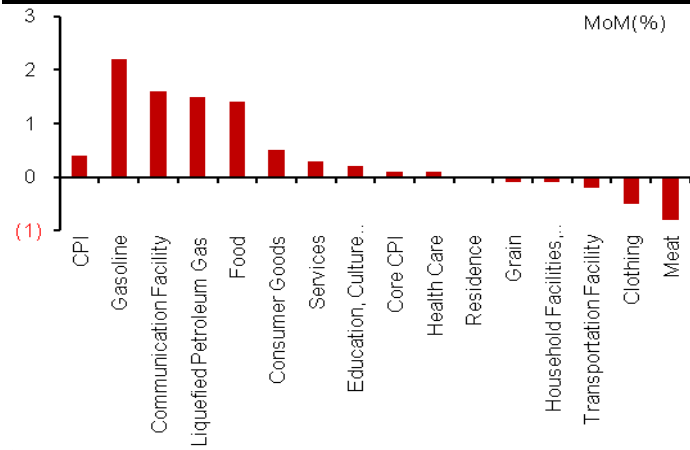
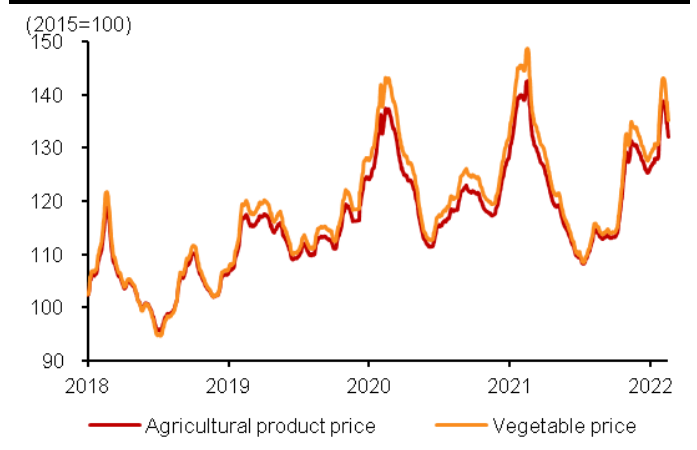


Figure 1: MoM Changes of CPI by Items



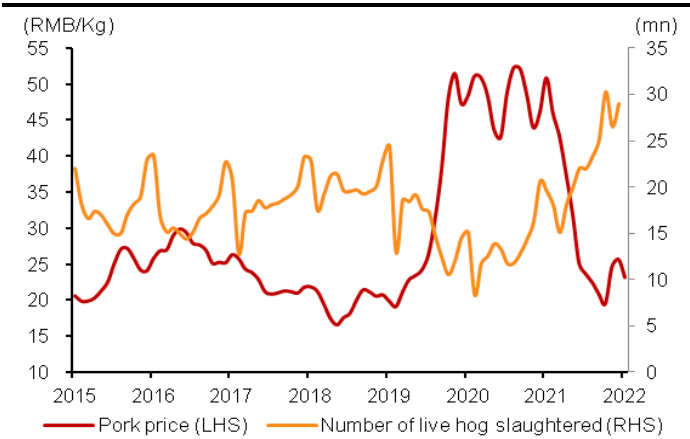
Source: Wind, CMBIS

Figure 2: Agricultural Product Price



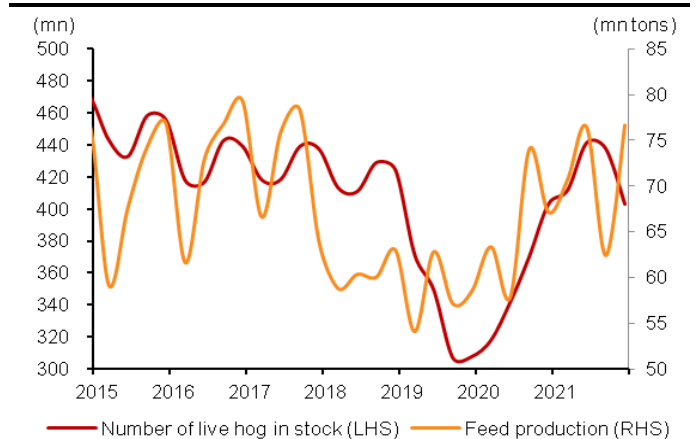
Source: Wind, CMBIS

Figure 3: Pork Price and Production



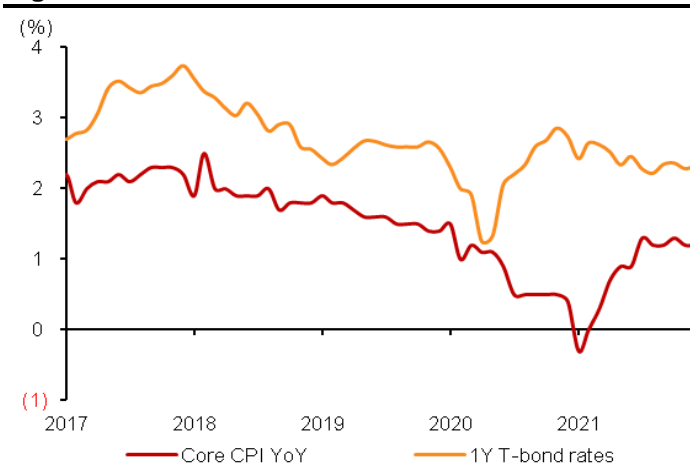
Source: Wind, CMBIS

Figure 4: Live Hog Stock and Feed Production



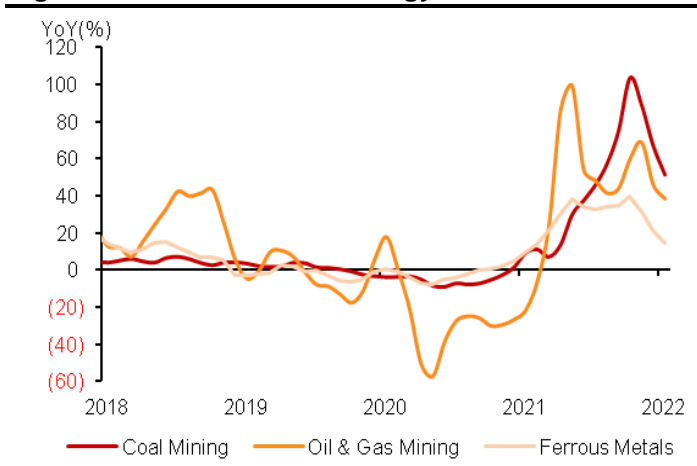
Source: Wind, CMBIS

Figure 5: Core CPI Growth and 1Y T-bond Rates



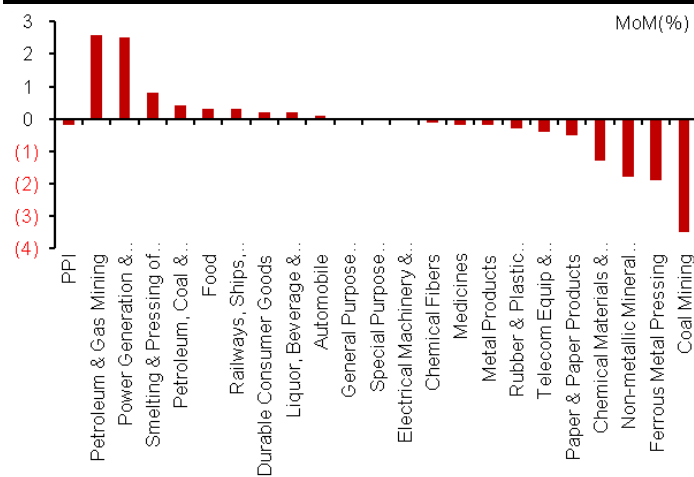
Source: Wind, CMBIS

Figure 6: Growth of PPI in Energy and Steel



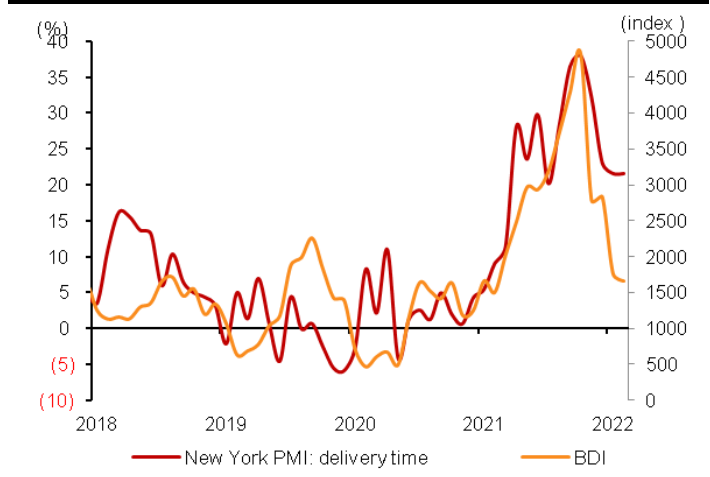
Source: Wind, CMBIS

Figure 7: MoM Change of PPI by Industries



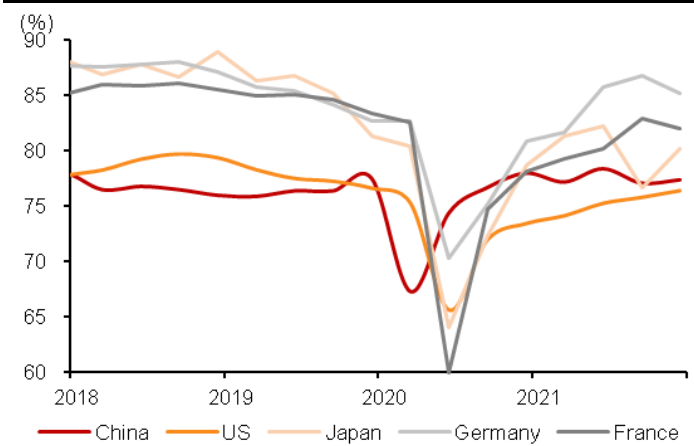
Source: Wind, CMBIS

Figure 8: Improvement of Supply Condition



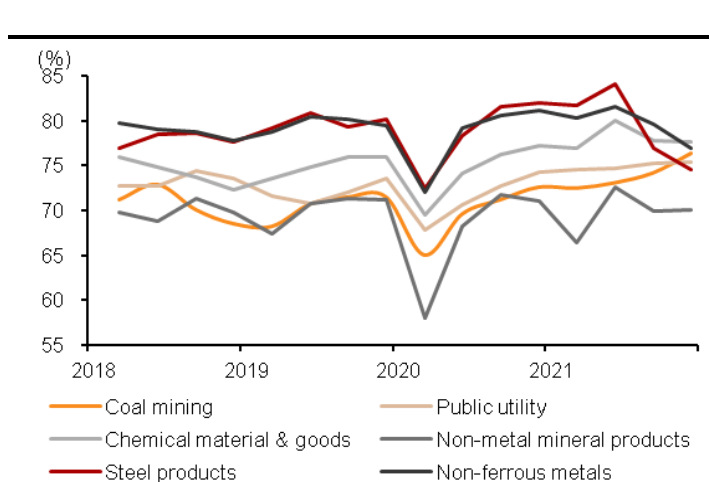
Source: Wind, CMBIS

Figure 9: Manufacturing Capacity Utilisation Rate(CUR)



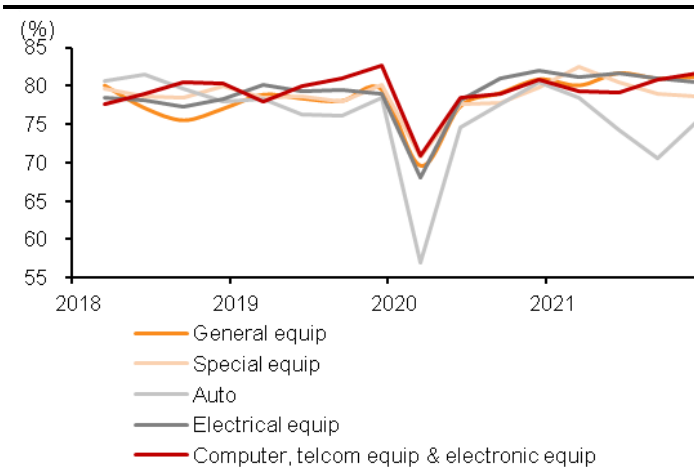
Source: Wind, CMBIS

Figure 10: CUR for China's Mineral Products



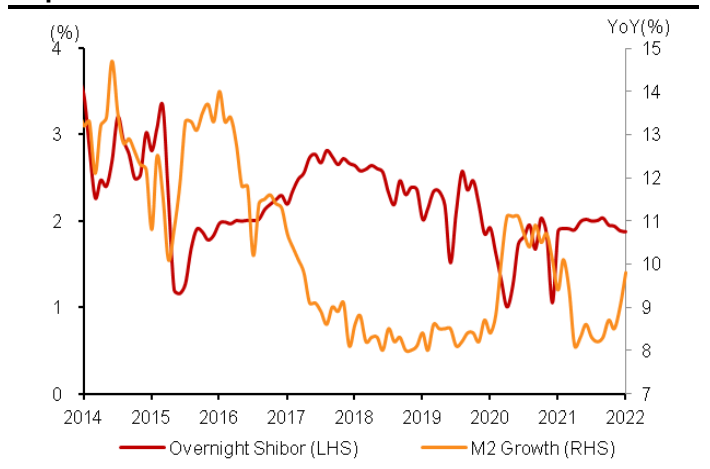
Source: Wind, CMBIS

Figure 11: CUR for China's Machinery & Equipment Industries



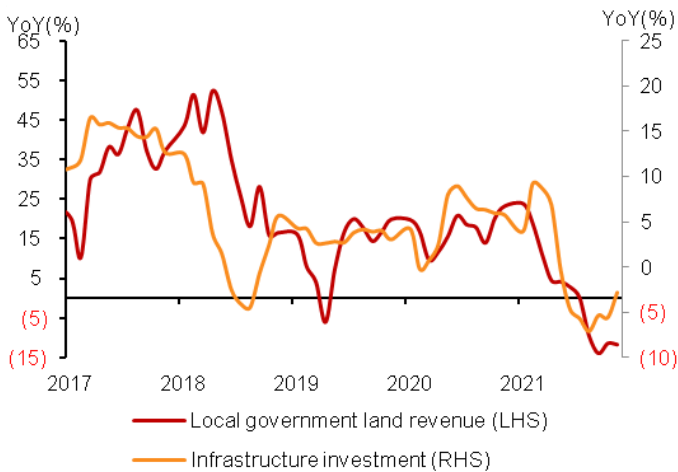
Source: Wind, CMBIS

Figure 12: From Liquidity Easing to Moderate Credit Expansion



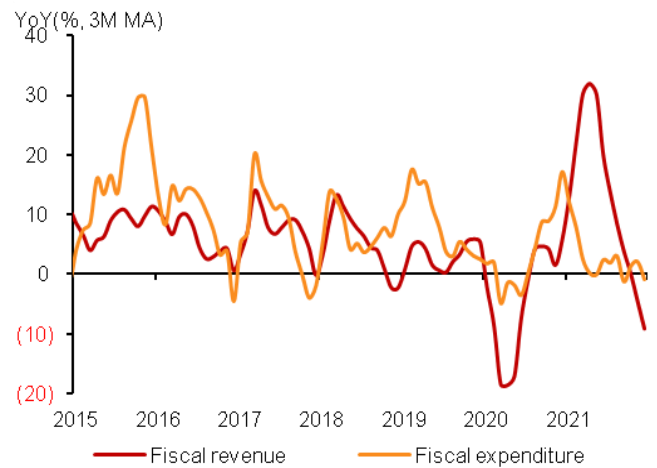
Source: Wind, CMBIS

Figure 13: Land Revenue and Infrastructure Investment



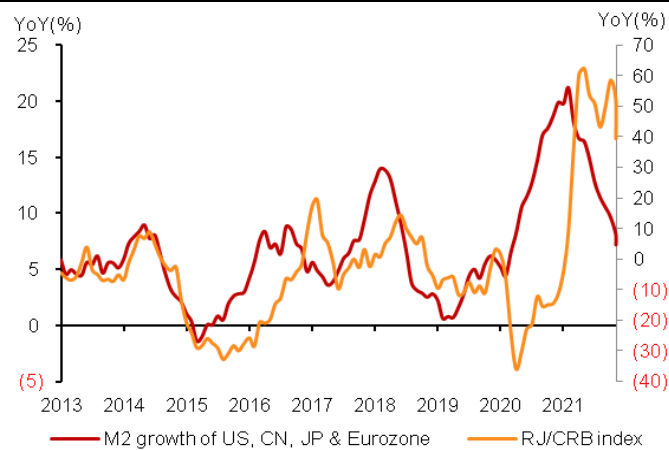
Source: Wind, CMBIS

Figure 14: Fiscal Revenue and Expenditure



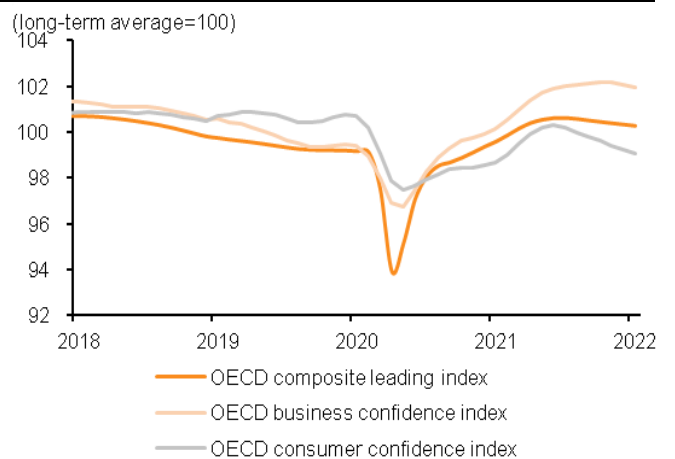
Source: Bloomberg, CMBIS

Figure 15: Global Money Supply and Commodity Price



Source: Bloomberg, CMBIS

Figure 16: Leading Indicators for Global Economy



Source: Wind, CMBIS

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Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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