CAPITAL ECONOMICS 凯投宏观

CHINA DATA RESPONSE

Consumer & Producer Prices (Mar.)

Inflation set to remain below government's ceiling this year

- **Producer price deflation deepened further last month to a 33-month low, and consumer price inflation dropped below 1% for the first time in over a year. The key driver was lower food and fuel inflation. While we still expect some upward pressure on inflation as the labour market tightens again, we think it will remain below the government's ceiling of "around 3.0%", and the increase will be far smaller than what was seen in other economies after they loosened virus restrictions.**

- CPI inflation dropped from 1.0% y/y in February to 0.7% last month (see Chart 1), well below market expectations (the Bloomberg median was 1.0% and our forecast was 0.9%). **The main driver was a decline in food inflation** (see Chart 2), resulting from a 7.2% m/m drop in vegetable prices and a 4.2% m/m fall in pork prices. **And fuel price inflation retreated into negative territory for the first time since March 2021 due to a higher base for comparison – oil prices surged early last year because of the Russian invasion of Ukraine.**

- Producer price deflation deepened from -1.4% y/y in February to -2.5% last month (Bloomberg: -2.5% and CE: -2.6%). (See Chart 3.) But this was due to a stronger base for comparison. **Factory-gate prices continued to stabilise in month-on-month terms in March. Consumer durable prices dropped back further, as supply chain disruption caused by the reopening wave of infections eased.** (See Chart 4.) But this was offset by higher metal prices, driven by the rebound in domestic demand.

- **We think consumer price inflation will rebound in the coming months as the labour market tightens again and will peak at 2.3% in early 2024. But it will be well below the government's ceiling of "around 3.0%", and the increase in inflation will be far smaller than what was seen elsewhere when they opened up.** The reports presented at the National People's Congress (NPC) appear to share our sanguine view on inflation, highlighting that China has "a solid foundation for stable prices". With inflation set to remain below the government's ceiling, we expect the PBOC to keep policy rates unchanged.

Chart 1: Consumer Prices (% y/y)

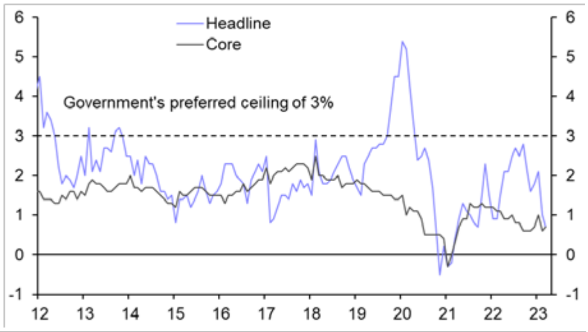


Chart 2: Consumer Prices (100 = Dec. 19, seas. adj.)

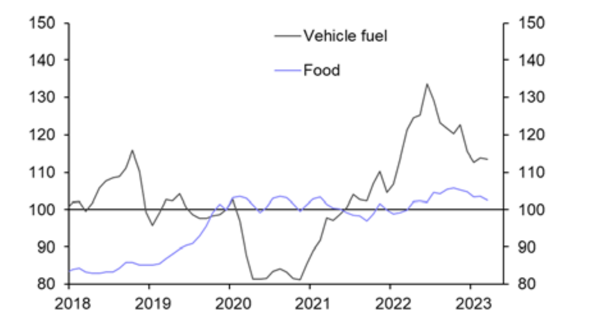


Chart 3: Producer Prices

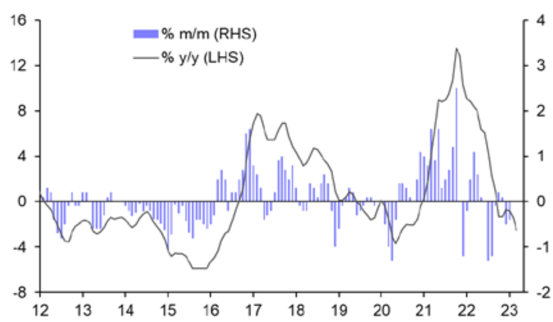
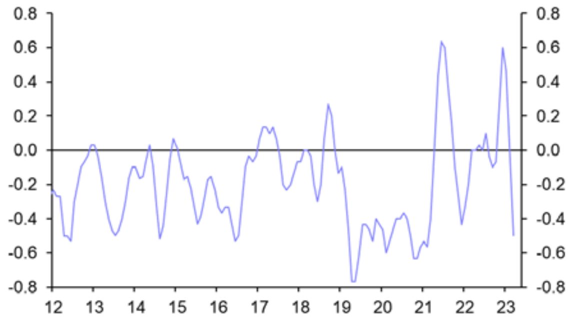


Chart 4: PPI – Durable Consumer Goods (% 3m/3m)



Sources: CEIC, Capital Economics

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