

CHINA DATA RESPONSE

Consumer & Producer Prices (Apr.)

Fluctuations in food and energy prices outweigh impact of reopening

- **Producer price deflation deepened further last month to a 35-month low, and consumer price inflation dropped to its smallest in more than two years. Although the impact of reopening pushed up services inflation, this was more than offset by lower food and energy inflation, driven largely by base effects. The labour market is tightening, which should continue to put some upward pressure on services inflation over the coming months. But the government’s ceiling of “around 3.0%” for the headline figure won’t be tested this year.**
- CPI inflation dropped from 0.7% y/y in March to 0.1% last month (see Chart 1), below market expectations (the Bloomberg median was 0.3% and our forecast was 0.2%). **Services inflation rose last month, reflecting an increase in demand for travel and other in-person services following reopening.** (See Chart 2.) But this was more than offset by a decline in food inflation, resulting from a 3.8% m/m drop in pork prices and a 6.1% m/m fall in vegetable prices. Fuel price inflation was pulled down to its lowest in 27 months by base effects – global commodity prices surged a year ago due to the Russian invasion of Ukraine.
- Producer price deflation deepened from -2.5% y/y in March to -3.6% last month (Bloomberg: -3.2% and CE: -3.5%). (See Chart 3.) As with CPI, base effects played a key role. But factory-gate prices fell 0.5% in month-on-month terms too, with the biggest declines in metal and energy prices. Consumer durable prices are once again falling, which was the norm before the pandemic. (See Chart 4.)
- We think the tightening of labour market will put upward pressure on services inflation in the coming months. **But headline rate will remain well below the government’s ceiling of “around 3.0%”.** That gives breathing room for PBOC officials concerned about the durability of the economic rebound to keep policy rates on hold.

Chart 1: Consumer Prices (% y/y)

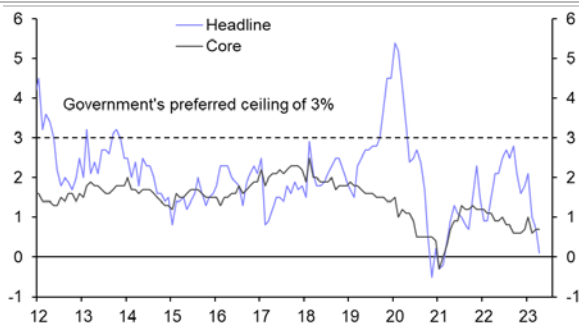


Chart 2: CPI – Tourism Services (% y/y)

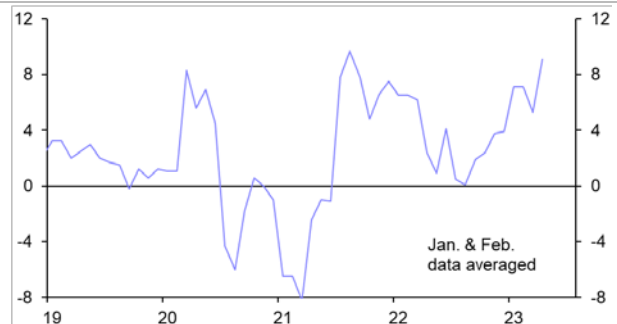


Chart 3: Producer Prices

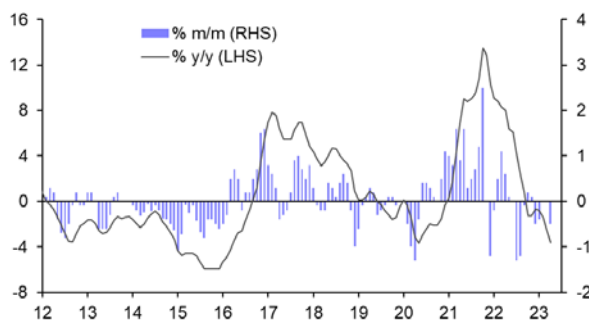
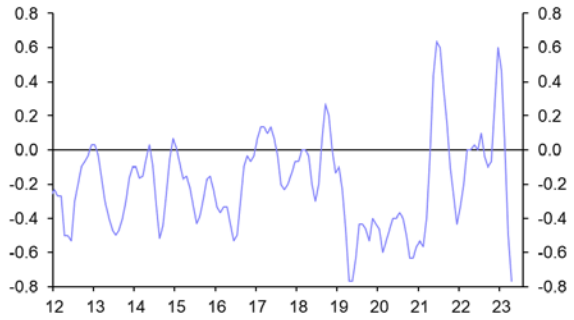


Chart 4: PPI – Durable Consumer Goods (% 3m/3m)



Sources: CEIC, Capital Economics



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