CAPITAL ECONOMICS 凯投宏观

CHINA RAPID RESPONSE

Consumer & Producer Prices (Sep.)

Deflation fears to dissipate further

- **PPI deflation continued to ease in September. CPI inflation edged down, but core inflation remained at a six-month high, with services inflation staying at its highest in 19 months. We expect deflation concerns to decrease over the coming months, as the partial economic recovery gains traction.**
- CPI inflation edged down from 0.1% y/y in August to 0.0% last month (the Bloomberg median was +0.2% and our forecast was 0.0%). (See Chart 1.) The main culprit was a decline in food price inflation, from -1.7% y/y to -3.2%. In contrast, energy price deflation eased further, due to the recent rise in oil prices. Core inflation, a better guide to underlying price pressures, remained at 0.8% y/y, with services inflation staying at a 19-month high of 1.3%. (See Chart 2.) This suggests that **China's low inflation rate is not primarily due to domestic weakness. Instead, it appears to be related to excess capacity in industry as the pandemic boom in global goods demand has reversed** – core goods inflation remained subdued at 0.3% y/y.
- Producer price deflation continued to ease last month, from -3.0% y/y to -2.5% (Bloomberg and CE: -2.4%). (See Chart 3.) This partly reflects the fading base effects due to the Russia's invasion of Ukraine. **But factory-gate prices also increased 0.4% in month-on-month terms, the most in 18 months.** The biggest increases were in energy and metal prices (see Chart 4), at least partly reflecting China's strong commodity demand recently.
- **Deflation concerns should continue to ease in the coming months.** While headline PPI inflation is likely to remain negative for the rest of the year, we think that factory-gate deflation will become less severe. And core inflation is likely to rise above 1.0% by early 2024, as a partial rebound in domestic demand continues to raise services inflation and may also lift core goods inflation. Base effects from food and energy should also contribute to an increase in headline CPI early next year, which we think will rise over the coming months and average around 1.0% in 2024 and 2025.

Chart 1: Consumer Prices (% y/y)

Chart 2 : Core CPI (% y/y)

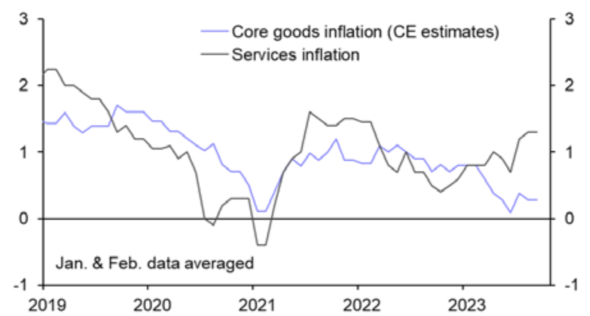


Chart 3: Producer Prices

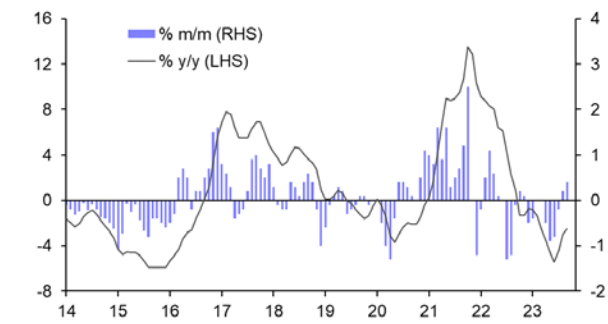
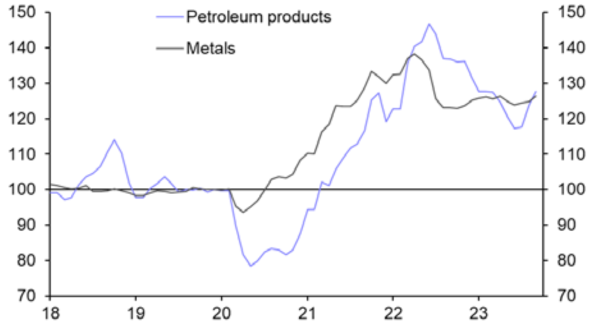


Chart 4. Producer Prices (Dec. 19 = 100, seas. adj.)



Sources: CEIC, Capital Economics

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