

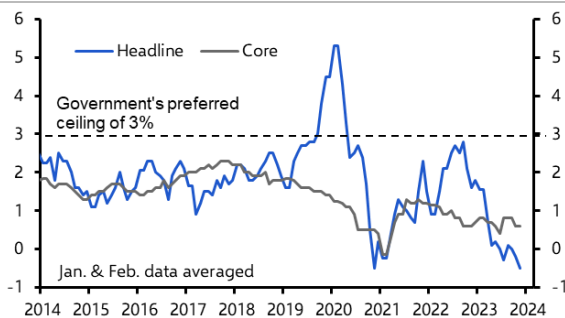
CHINA RAPID RESPONSE

Consumer & Producer Prices (Nov.)

Decline in services inflation a concern

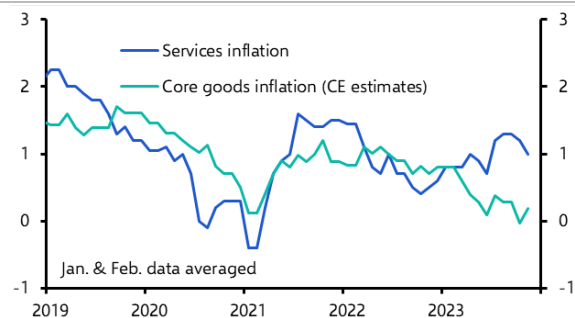
- **CPI fell deeper into deflationary territory last month. The main culprit continues to be food and energy prices – the rate of core inflation held steady and remains positive. Services inflation, the best guide to domestic economic conditions, has picked up this year. But it has reversed some of its earlier gains during the past couple months, consistent with a renewed softening in the labour market.**
- CPI dropped from -0.2% y/y in October to -0.5% last month, well below expectations (the Bloomberg median and our forecast were -0.2%). (See Chart 1.) The main culprit was a deepening of food price deflation, from -4.0% y/y to -4.2%, with food prices falling 0.5% m/m last month after accounting for seasonality. In addition, energy prices fell 2.7% m/m, which pushed energy price inflation back into negative territory again.
- **Core inflation stayed unchanged at 0.6% y/y last month.** Core goods inflation rebounded last month, from 0.0% y/y to 0.2%. (See Chart 2.) But it remains low, reflecting price cutting by Chinese manufacturers in a bid to defend export market share as the pandemic boom in global goods demand peters out. More importantly, services inflation, which more narrowly reflects domestic conditions, declined from 1.2% to a five-month low of 1.0%, adding to evidence of renewed weakness in the labour market.
- Meanwhile, producer price deflation deepened further, falling from -2.6% y/y to -3.0%, also below expectations (Bloomberg and CE: -2.8%). (See Chart 3.) Factory-gate prices dropped 0.3% m/m, the most since July. The biggest declines were in energy and chemical prices. (See Chart 4.)
- **Chinese inflation looks set to stay low in the near term, but we don't think it will enter a deflationary spiral.** Core inflation is likely to rise in the first half of 2024, with the recent step up in policy support on course to boost domestic demand and push up services inflation. In addition, food and energy price deflation is likely to alleviate soon due to shifting base effects. We expect CPI inflation to average 1.0% in 2024, up from 0.3% so far this year.

Chart 1: Consumer Prices (% y/y)



Sources: CEIC, Capital Economics

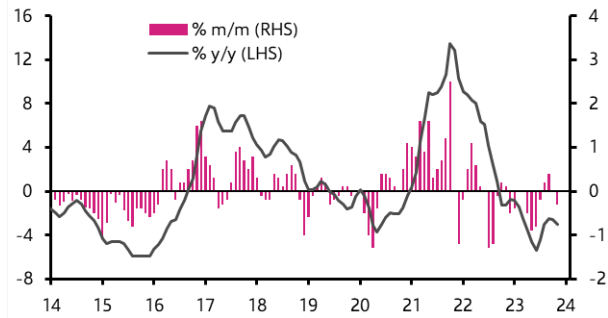
Chart 2: Core CPI (% y/y)



Sources: CEIC, Capital Economics

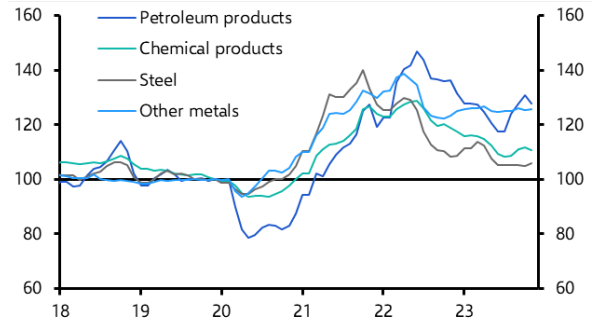


Chart 3: Producer Prices



Sources: CEIC, Capital Economics

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



Sources: CEIC, Capital Economics



Disclaimer: While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Capital Economics Limited and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or investments.

Distribution: Subscribers are free to make copies of our publications for their own use, and for the use of members of the subscribing team at their business location. No other form of copying or distribution of our publications is permitted without our explicit permission. This includes but is not limited to internal distribution to non-subscribing employees or teams.

