

China Consumer Prices and Producer Prices Show Resilience in April

Niaoniao You*

April **consumer prices** edged up to 2.5% y/y from 2.3% in March as expected, driven mostly by higher food prices which was up 6.1% y/y versus 4.1% in prior month. Core measures were relatively stable, with excluding food and energy gauge edging down to 1.7% y/y and excluding vegetable and fruits gauge accelerating slightly to 2.0% y/y. In month-over-month terms, CPI increased 0.1%, with food prices down 0.1% and non-food prices up 0.1%.

Producer prices surprised to the upside again in April, rising to 0.9% y/y (DE: 0.4%; Consensus: 0.6%) from 0.4% in prior month. The increase was broad-based, with prices in each major industry rising. Both producer goods and consumer goods prices climbed 0.9% y/y in the month but the scale of improvement was bigger in producer goods. Looking forward, producer prices should keep recovering but very likely not return to the high levels in 2018 due to worldwide weakness.

Details:

- Fresh food prices contributed the most to the year-over-year headline CPI increase, with fresh vegetables up 17.4%, fresh fruit up 11.9%, and pork price up 14.4%.
- Health care, education, culture and entertainment, along with residence prices led the increase in non-food prices, contributing 0.93 percentage point to the year-over-year measure.
- In terms of producer prices, mining industry led the acceleration, which was up 5.3% y/y in April compared to 4.2% in March; raw materials prices were unchanged y/y and manufacturing prices were up 0.9%.

Overall, consumer prices remain stable with little upside pressure in core measure, which will not be a concern for either the central bank or the government to issue more stimuli for the slowing economy.

Trade-related uncertainties became heightened again earlier this week due to another threat of raising tariffs on Chinese goods from the U.S. President Donald Trump. China also released official statement reiterating the possibility of retaliation if the new tariff was put in place. Still, we believe China and the United States will reach an agreement in the coming months eventually. Nevertheless, it has become clearer that the potential trade deal will likely be **under satisfactory** for both sides. As a result, we expect **more policy support** for domestic business, technology, and consumption from the Chinese government to combat the trade talk uncertainties and the related pessimistic sentiment.