



China's August PPI Expanded Gains On Commodity Prices

Lu Yu*

China's **Producer Prices** expanded gains in August on inflated commodity prices, rising 9.5% YoY after growing 9% in July.

Consumer Prices slowed to rise 0.8% YoY following a 1% growth in July. Declines in Food prices due to the slump in pork prices remained to drag the headline prices. The **Core CPI** (excluding Food and Energy) grew 1.2% YoY after a 1.3% rise.

Details – Demand Recovery Steadied; Elevated Commodity Prices Left Pressures To PPI

- **Food** prices plunged 4.1% YoY after falling 3.7%. **Non-food** prices rose 1.9% YoY from 2.1%.
- Prices in **Services** maintained steady growth, rising 1.5% YoY following a 1.6% rise. Prices in **Household Items** accelerated to grow 0.6% YoY. **Transportation** and **Communication** grew 5.9% YoY after a 6.9% growth.
- The **Producer Goods** prices advanced 12.7% YoY, speeding up from a 12% rise.
- **Mining** surged 41.8% YoY after jumping 38.7%. **Raw Materials** grew 18.3% YoY, pacing up from a 17.9% rise. **Manufacturing** prices grew 8% YoY after rising 7.5%.
- **Consumer Goods** prices maintained at 0.3% YoY for the third month.
- **Clothing** prices tallied the first flat rate after falling for twenty months. **Daily-use Items** eased to 0.1% YoY, while **Durable Goods** narrowed contraction to 0.1% YoY after falling 0.3%.

Perspective – PPI Hike Could Continue As Commodity Prices Keep Rising

The rally in commodity prices remained a major driver to push up factory prices, even though the Government has taken steps to curb soaring prices. The Government's price control has limited effect as the global outbreaks of the Delta virus variant added difficulties to already strained supply chains, leaving commodity prices staying high. While upstream industries are benefiting from inflated raw material prices, downstream companies continue to experience profit squeezes.

Improvement in consumer prices remained subdued due to constrained demand and spending amid strict lockdowns against the highly contagious Delta variant. However, the virus has been well under control, and restrictions have been lifted. The upcoming holidays for the Mid-Autumn Festival in September and National Day in October are expected to stimulate demand for tourism and services.

Looking ahead, the CPI is likely to pick up speed on pent-up demand for traveling during the upcoming holidays. On the other hand, factory prices should maintain strength as hikes in commodity prices could last longer amid the current global outbreaks.