



China's Inflation Softened On Weak Demand; More Room For Easing

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China's Consumer Prices moderated to 0.9% YoY in January from a 1.5% rise in December 2021, despite a seasonal demand increase for the Lunar New Year. Excluding Food and Energy, the **Core CPI** maintained a growth rate of 1.2% YoY for three consecutive months, reflecting that demand remained subdued.

Producer Prices slowed to 9.1% YoY, continuing the cooling trend following a 10.3% gain.

Details – Cooled Commodity Prices Eased PPI, While Weak Demand Dragged CPI

- **Food** prices slumped 3.8% after falling 1.2%. **Non-food** prices rose 2% after a 2.1% rise.
- Prices in **Services** accelerated to 1.7% from 1.5%. **Transportation** and **Communication** edged up to 5.2% from 5%.
- Prices in **Household Items** eased to 0.4% from 0.8%.
- The **Producer Goods** prices cooled to 11.8% from 13.4%.
- **Mining** prices slowed to 35% from 44.2%. **Raw Materials** went to 18.2% from 19.7%. **Manufacturing** prices also eased to 7% from 8.2%.
- **Producer Prices for Consumer Goods** softened to 0.8% from 1%.
- **Clothing** prices rose 1.4% following a 1% gain, and **Durable Goods** paced up to 0.6% from 0.4%. However, **Daily-use Items** slid to 1.3% from 1.4%.

Perspective – Slow Inflation Calls For More Easing

The cooling trend in factory-gate inflation continued with a high-base effect. While inflation pressure eased for upstream companies, downstream manufacturers remained squeezed with high costs. As the Government stepped up efforts on stabilizing commodity prices and supply chain snags eased, producer prices inflation is expected to slow further, though global rising commodity prices amid the uncertainty of the Russia-Ukraine tension adds upward risks.

Consumer prices remained muted, mainly weighed down by slumps in pork (-41.6% YoY from -36.7%) and fresh vegetables (-4.1% YoY from 10.6%). More notable is the stagnation of core inflation which signals weak consumer demand even during the shopping season before the Lunar New Year.

Like last year, rising infections in early January, right before the Lunar New Year and Beijing Winter Olympic Games, prompted local governments to reimpose stringent curbs. Restrictions on restaurants, hotels, and trips back to hometown, constrained people's celebration activities, largely hitting business.

China's domestic demand has been weak amid on-again-off-again stringent anti-virus restrictions. Under the "zero Covid" policy, consumer prices are expected to continue mild gains with sluggish demand and weak wages.

As the Government focuses on stabilizing growth, DE expects more easing moves to stimulate domestic demand.