

## China's Inflation Further Softened On Weak Demand

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**China's Consumer Prices grew 0.9% YoY** in February, the same pace as January. A bigger drop in Food prices (-3.9% YoY from -3.8%), especially pork prices (-42.5% YoY from -41.6%), mainly weighed down the headline growth. Excluding Food and Energy, the **Core CPI softened** to 1.1% YoY after staying at 1.2% for three months.

**Producer Prices eased again to 8.8% YoY** following a 9.1% gain, mainly dragged by a high base a year ago.

### Details – Demand Remained Muted

- **Non-food** prices rose 2.1% after growing 2%.
- Prices in **Services** softened to 1.2% from 1.7%. **Transportation** and **Communication** edged up to 5.5% from 5.2%.
- Prices in **Household Items** accelerated to 0.6% from 0.4%.
- The **Producer Goods** prices cooled to 11.4% from 11.8%.
- **Mining** prices slowed to 33% from 35%. **Raw Materials** eased to 17.9% from 18.2%. **Manufacturing** prices slid to 6.6% from 7%.
- **Producer Prices for Consumer Goods** inched up to 0.9% from 0.8%.
- **Clothing** prices unchanged at 1.4%, while **Durable Goods** rose 0.7% from 0.6% and **Daily-use Items** increased 1.5% from 1.3%.

### Perspective – Upward Pressure on PPI from Global Oil Spike; Stronger Stimulus To Stoke Demand

While the high-base effect mainly drove the softness in China's factory inflation, the growth in PPI from the prior month, 0.5% MoM, the first gain since November 2021, suggests greater pressure on the supply side. Soaring raw material prices are threatening to buoy cost again, squeezing profits of downstream companies.

The Government has ramped up efforts to rein in commodity price hikes. However, spikes in global energy prices and exacerbating global supply chain disruptions amid the Russia-Ukraine war are adding upward pressure to PPI.

Consumer prices remained weak as pork prices cooled further. The moderation in Core inflation also indicated muted demand due to stringent anti-virus restrictions.

The Government has set an inflation target of 3% for 2022. In the face of such sluggish demand, more easing policies are needed to achieve the goal, and the Government has pledged more substantial stimulus to boost domestic demand.

With the Russian-Ukraine war roiling global trade and pushing up commodity prices, China's PPI is set to restore momentum. However, higher oil prices and continuing strict restrictions against sporadic infections should hamper demand further, keeping the Core CPI subdued.