

China inflation in Apr

Moderated inflation echoing weak demand

The NBS released inflation figures on 12 May. CPI growth moderated in Apr to 3.3% YoY (0.4ppt lower than consensus estimate) while PPI decline enlarged to 3.1% YoY (vs. consensus estimate at -2.5%). Excluding food items, inflation seemed muted as a result of slack demand amid COVID-19. Going forward, we continue to expect mild inflation outlook – CPI growth will gradually edge down and PPI growth is likely to remain in the negative territory.

- **CPI growth decelerated to 3.3% YoY in Apr**, from 4.3% in Mar and documented MoM decline of 0.9% YoY. This was primarily driven by decelerating food prices. Among the non-food items, YoY price decline of transportation and commutations enlarged as a result of gasoline price plunge and lackluster travel demand.
- **Food prices posted MoM decline for two consecutive months (-2.7%/-2.1% in Mar/Apr)**. Price growth of meat and vegetables both retreated phenomenally from the Feb peak. Price growth of eggs and fruit also decelerated in Apr due to ample supply. Dairy products, however, exhibited strengthening prices possibly thanks to rising demand for protein.
- **Pork price had peaked out**. CPI pork price rose 96.9% YoY and on MoM basis, it declined 6.9%/7.6% in Mar/Apr since its peak in Feb. We think pork price had already peaked out despite within year volatilities because 1) pork supply is recovering judging from gradually regaining sow balance, and 2) demand does not appear to be strong due to COVID-19 and consumer's adapting habits to menus that are less pork-dependent.
- **PPI decline enlarged to 3.1% YoY in Apr**, reflecting weak demand global wide. Major industries witnessed plunging PPI growth, including oil and natural gas extraction (-51.4% YoY, down 29.7ppt from Mar), procession of oil, coal and other fuel (-19.8% YoY, down 9.2ppt from Mar), chemical products manufacturing (-8.3% YoY, down 3ppt from Mar), ferrous metal processing (-7.3% YoY, down 3.4ppt from Mar), etc.
- **Mild inflation outlook and implications on monetary policy**. Excluding food items, inflation seemed muted. This primarily reflected demand-side weakness. Although COVID-19 is gradually being contained, the negative impact of lockdowns and quarantine measures on economic growth could loom for some time, weighing on global demand. We may well continue to see moderated inflation in the upcoming months, which is not likely to pose constraint for monetary easing. Nevertheless, we think China's monetary policies are directed towards targeted and structural easing rather than broad measures.

Data Summary

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	2019A	2020E
CPI, YoY (%)	4.5	5.4	5.2	4.3	3.3	2.9	3.1
CPI, MoM (%)	0.0	1.4	0.8	-1.2	-0.9	n.a.	n.a.
PPI, YoY (%)	-0.5	0.1	-0.4	-1.5	-3.1	-0.3	-2.0
PPI, MoM (%)	0.0	0.0	-0.5	-1.0	-1.3	n.a.	n.a.

Source: NBS, CMBIS estimates

Ding Wenjie, PhD

(852) 3900 0856 /
 (86) 755 2367 5597
 dingwenjie@cmbi.com.hk

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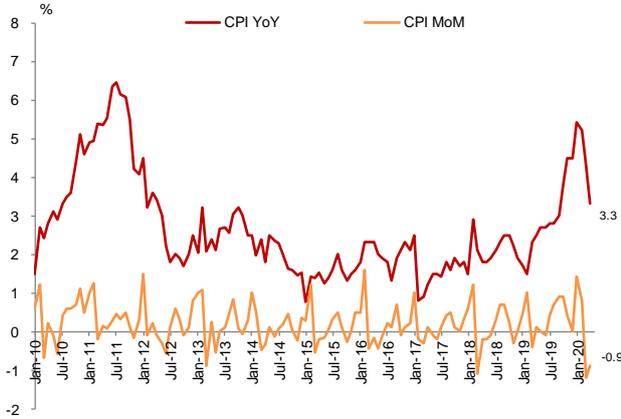
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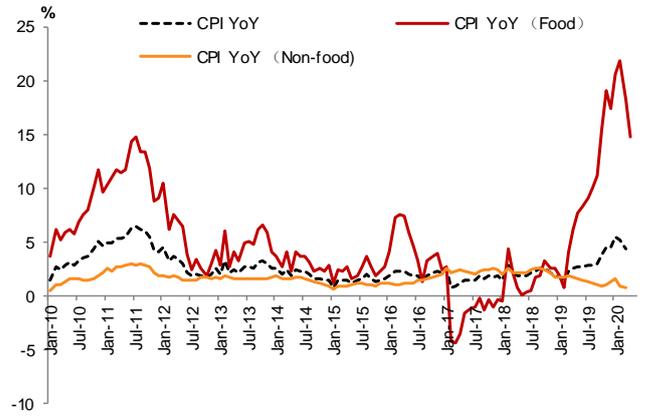
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Figure 1: CPI in Apr +3.3% YoY, -0.9% MoM



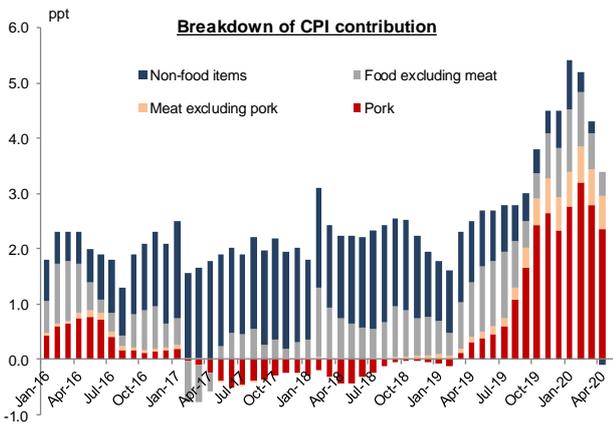
Source: NBS, Wind, CMBIS

Figure 2: Food price growth decelerated



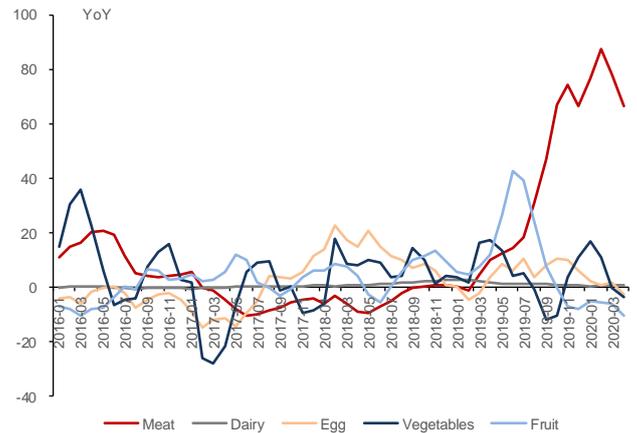
Source: NBS, Wind, CMBIS

Figure 3: CPI growth breakdown



Source: NBS, Wind, CMBIS

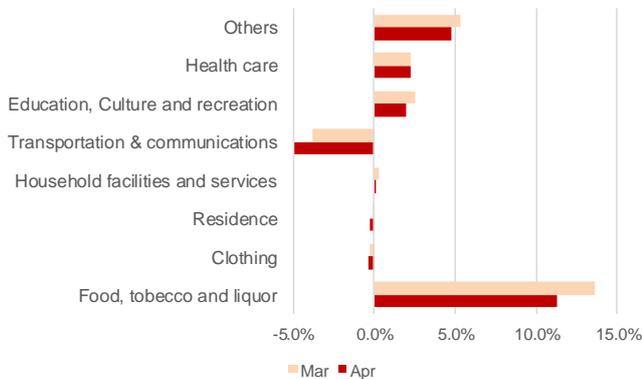
Figure 4: Food price growth by category



Source: NBS, Wind, CMBIS

Figure 5: Food price YoY growth decelerated while transportation price enlarged YoY decline in Apr

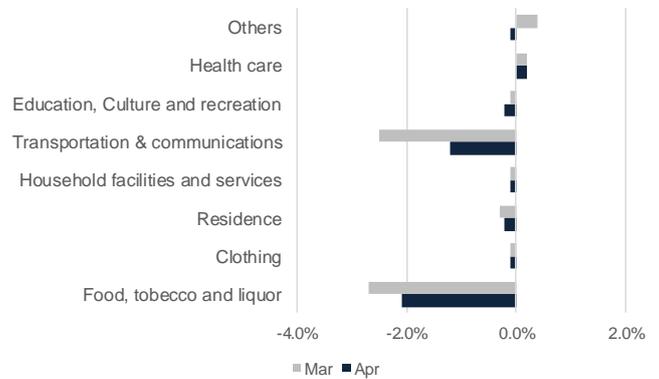
YoY CPI change by category



Source: NBS, Wind, CMBIS

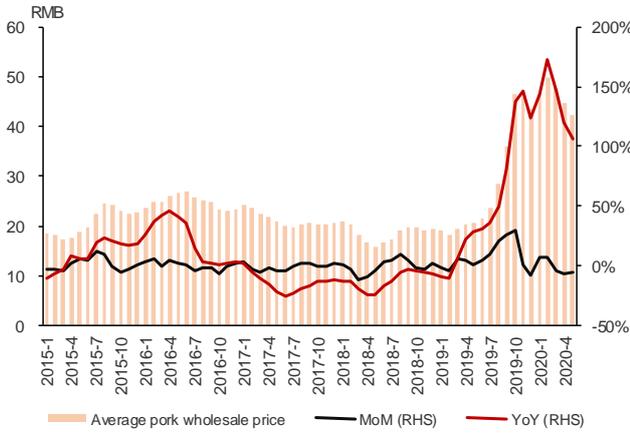
Figure 6: On MoM basis, prices of food and transportation continued to decrease

MoM CPI change by category



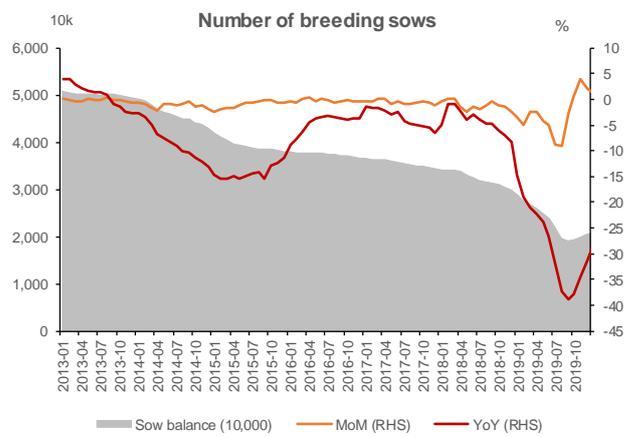
Source: NBS, Wind, CMBIS

Figure 7: Taming pork prices



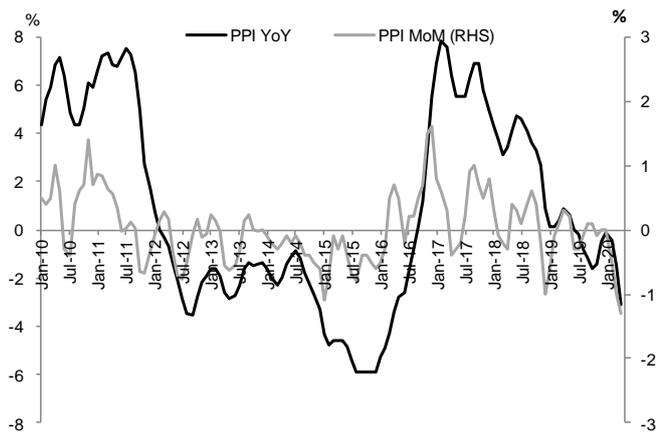
Source: Ministry of Agriculture, Wind, CMBIS

Figure 8: Sow balance regained gradually



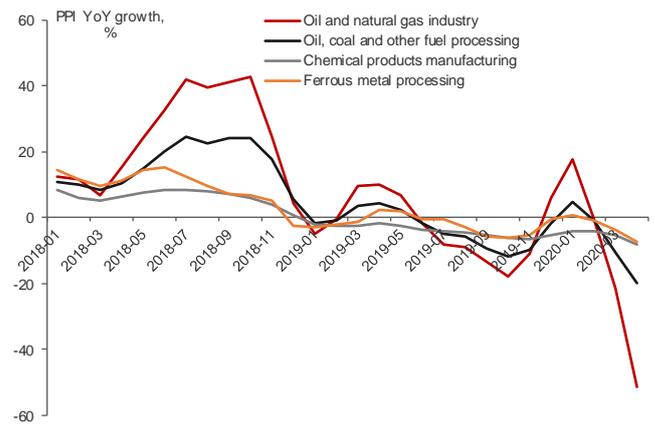
Source: Ministry of Agriculture, Wind, CMBIS

Figure 9: PPI in Apr -3.1% YoY and -1.3% MoM



Source: NBS, Wind, CMBIS

Figure 10: PPI growth of major industries dipped



Source: NBS, Wind, CMBIS

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Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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