PM Datanote: CPI, China, Nov

In one line: China's consumer inflation sinks further in November, led by weaker food prices, but core inflation shows signs of stabilisation

- China: CPI slid to 0.2% y/y in November, after rising 0.3% y/y in October Consensus was 0.4%.

China's consumer inflation continued

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deteriorating for the third consecutive month in November, to 0.2% y/y, following a muted reading of 0.3% in October. The market had expected the headline to improve slightly to 0.4%. November's headline was largely dragged down by weaker food inflation, partially offsetting the slight improvement in energy and core goods inflation. Note that core inflation, which excludes volatile items such as food and energy, actually ticked up to 0.3% y/y from 0.2% in October, improving for the second

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straight month. On a monthly basis, headline CPI fell for the second successive month, by 0.6% m/m in November, according to the NBS. Food inflation (excluding beverages) was affected by the warmer-than-usual weather, rising at a much slower pace of 1.0% y/y in November, compared to 2.9% in October, adding just 0.2pp to overall CPI. The NBS said the average temperature in November was the highest since 1961, facilitating the production of fresh fruits and vegetables. Indeed,

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fresh fruit and vegetable inflation slowed sharply to -0.3% and 10.0%, respectively, from 4.7% and 21.6% a month ago, making a much smaller combined contribution of 1.2pp versus 3.1pp previously. Pork prices saw double-digit increases but also eased to 13.7% from 14.2%, contributing 0.1pp less to overall CPI in November, at 2.1pp. Our estimation of energy inflation was -3.2% y/y, improving from -4.9% a month ago, shaving -0.2pp off overall CPI. The NBS said petrol prices were down 8.2% in

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November. Elsewhere, our measure of core goods inflation, which deducts food and fuels from consumer goods, bucked the falling trend and came in at 0.2% y/y in November, adding 0.1pp to the overall headline. Services inflation was steady at 0.4% y/y, unchanged from October's reading, adding 0.1pp.

Although China's headline CPI was still teetering on the brink of deflation, there are silver linings in the underlying data. First, headline

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inflation is weighed down by slower food inflation caused by the abundant supply of fresh fruits and vegetables due to milder weather; these factors are likely temporary. Second, services and core goods inflation, which reflect domestic demand and the impact of wage growth, are either improving or remain steady, suggesting that demand conditions are at least not deteriorating. Third, producer prices are falling at a slower pace in November, pointing to less pressure on high-street prices further down

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the chain in the near future. That said, we need more time and data to ascertain whether inflation is bottoming out. Indeed, the situation in the job market has not improved materially according to anecdotal evidence, and it remains surrounded by economic uncertainty ahead. A US Republican victory recently is pointing to more protectionist trade policies in 2025, which does not bode well for reflationary hopes. On top of that, the real estate market has not improved significantly and still remains in the

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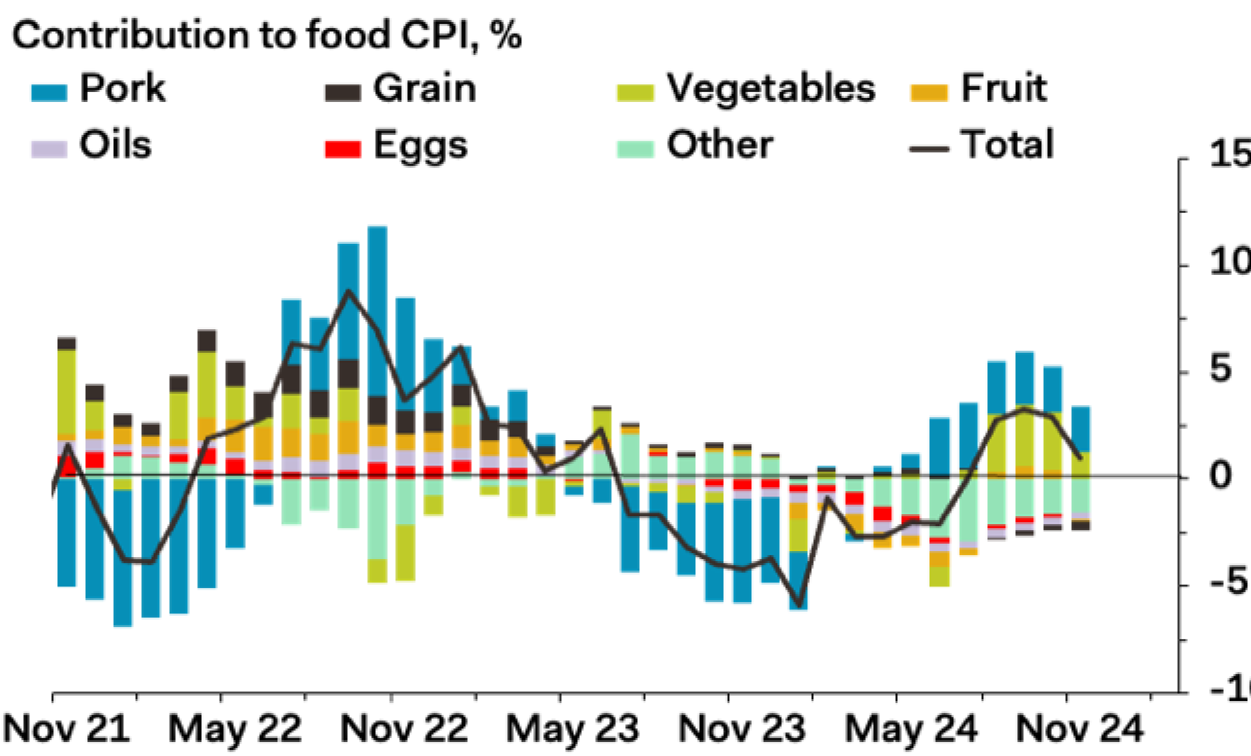
doldrums despite stimulus efforts. On a brighter note, the impact of the previously announced subsidy plans for consumer goods, auto trade-ins, and business equipment upgrades is finally feeding through to retail sales and investment data in October, which could partly explain the stabilisation in this round of core inflation data.



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