PM Datanote: PPI, China, December

In one line: China's producer price deflation eases further, but overcapacity risks remain.

- China: PPI was -2.3% y/y in December, compared to -2.5% in November. Consensus was -2.4%.

China's producer price deflation eased further in December, falling at a slower pace of -2.3% y/y compared to -2.5% in November, ahead of market expectations of -2.4%. The improvement in the annual rate was largely due to producer goods prices falling less steeply (-2.6% in December versus -2.9% in November). Base effects also played a role in December's improvement. In fact, headline PPI fell by -0.1% m/m, reversing the 0.1% gain from the previous month.

Within producer goods, deflation across all three sub-sectors —

excavation, raw materials, and manufacturing processing — either eased or remained steady, coming in at -4.6%, -2.2%, and -2.7%, respectively, compared to -4.9%, -2.9%, and -2.7% in November. Consumer goods deflation, on the other hand, remained steady at -1.4%, with improvements seen in food (-1.4% vs. -1.5%), clothing (-0.3% vs. -0.1%), and daily-use articles (0.6% vs. 0.2%). The exception was durable consumer goods, where deflation deepened to -3.1% in

December, compared to -2.7% previously.

Taking a closer look at producer goods, deflation in coal mining and processing steepened to 1.9% m/m in December, driven by sufficient supply but muted demand. As we approach the festive period, infrastructure and real estate projects have started to wind down, causing demand for construction materials to wane somewhat. In particular, ferrous metal smelting prices fell by 0.6%

in December. Elsewhere, crude oil extraction and non-ferrous metal smelting prices were broadly flat, at 0.0% and 0.1%, respectively. Copper processing prices fell by 1.7%, driven by declining commodity prices. Within equipment manufacturing, producer prices for solar panels and lithium batteries were down by 0.6% and 0.3%, respectively, while NEV prices rose by 0.7% during the month.

The monthly momentum of producer prices appears to have stabilised in recent months, hovering between -0.1% m/m and +0.1%, a stark improvement from the -0.8% decline in August. The future path of producer prices depends crucially on two factors: the speed of the demand pick-up induced by stimulus measures and how China's overcapacity issue is addressed. We expect the annual PPI rate to continue improving in the coming quarter as the impact of existing stimulus measures comes through. Meanwhile, China will continue to export deflation to the rest of the world until its overcapacity problems and weak domestic demand are resolved.