PANTHEON CHINA+ DATA WRAP 10 FEB 25

In one line: China's headline consumer inflation buoyed by holiday travel and spending; underlying trend still weak

- China: PPI fell 2.3% y/y in January, unchanged from December. Consensus was -2.2%

-- CPI rose 0.5% y/y in January, after edging up 0.1% in December. Consensus was 0.4%.

Consumer inflation buoyed by holiday-related tourism and other services demand

Consumer inflation ticked up on the back of holiday-related factors in January, namely vibrant tourism activity and the earlier timing of Lunar New Year (LNY) this year. Headline consumer inflation rose 0.5% y/y in January - the highest since August - after just 0.1% in December, and accelerated to 0.2% m/m SA, from 0.1%. Core inflation, excluding food and energy prices, rose 0.6% y/y in

January, after 0.4% in December, and also sped up to 0.2% m/m SA, from 0.1%.

Services inflation jumped to 1.1% y/y in January, from 0.5% in December, contributing 0.4pp of the headline CPI at 0.5% y/y. Travel and tourism-related prices surged. Air ticket prices soared almost 9% y/y and other travel prices climbed 7%. Movie and live performance ticket prices vaulted 11%, while housekeeping services and hairdressing prices climbed around 6%, with demand boosted by the return of migrant workers to their hometowns.

Food prices gained 0.4% y/y in January, after dipping 0.25% in December, and contributing about 0.1pp overall CPI y/y. Fresh vegetables and fruits and seafood prices jumped m/m, due to holiday effects and cold weather. Meat inflation picked up to 2.5% y/y from 1.7%, but this masks a continued divergence: Pork prices leapt almost

14% y/y, contrasting with beef prices sinking 13% and lamb prices dropping 6%.

Headline consumer inflation should subside after LNY and return to weak inflation, with a still modest recovery in consumer spending and falling prices for autos and some other manufactured goods. New energy car prices dived 5.8% y/y in January, while traditional fuel car prices fell 4.6%. The car trade-in scheme offers government subsidies for eligible buyers and competition remains intense, with scale and technological development leading to falling electric vehicle costs. Auto producer prices dropped 3.1% in January, after a 3.8% fall in December. People are worried about income prospects with the still soft labour market and the risks of trade conflict. Policymakers are likely to expand targeted fiscal support for consumption at the March budget, but won't do a mega stimulus.

Producer prices extend their decline with broad price falls

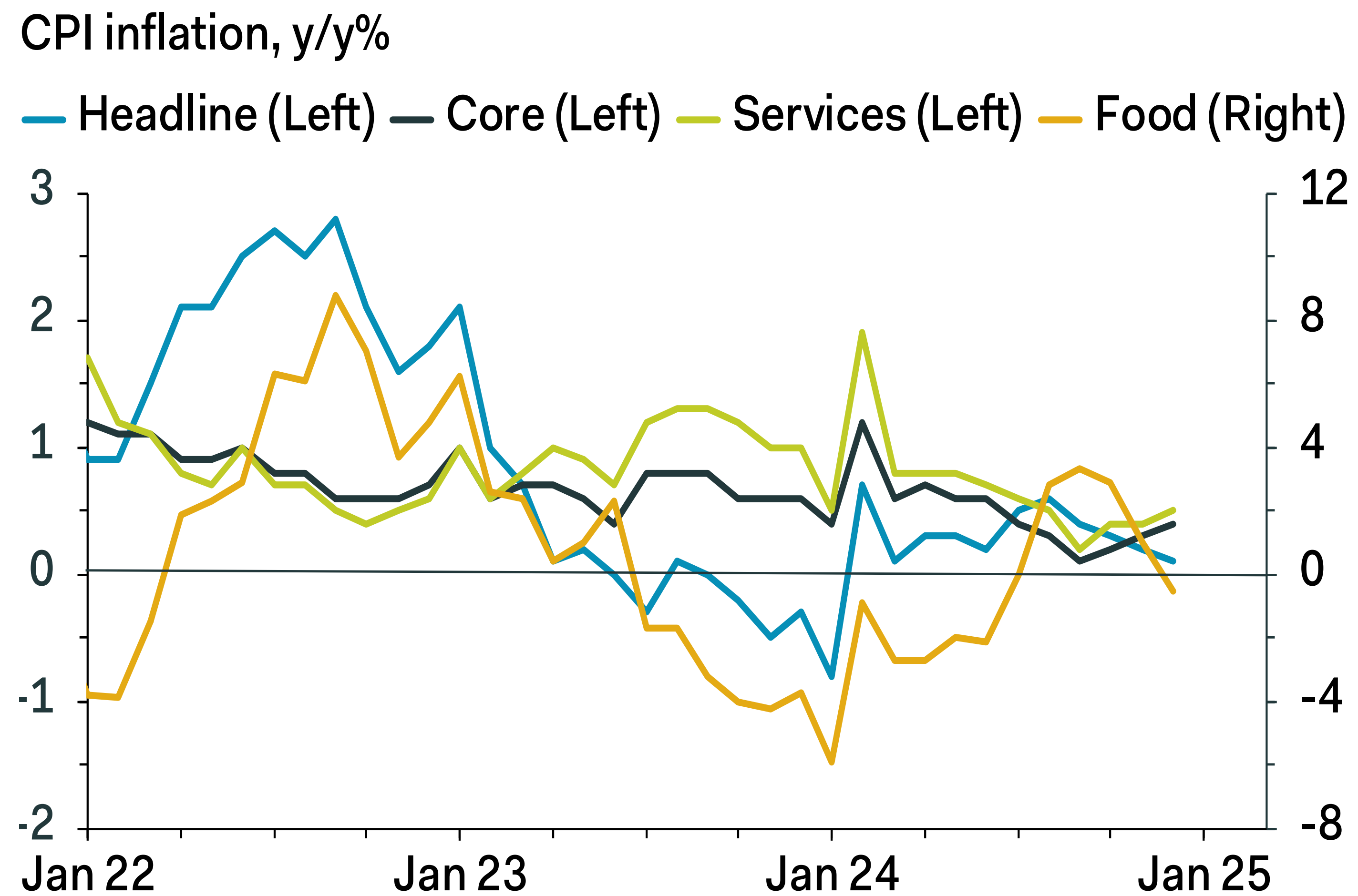
Producer prices fell at a steady 2.3% y/y in January, extending the decline begun in October 2022, with broad deflation across in the major industrial sectors. Capital goods prices dropped 2.6%, unchanged from the previous month, while consumer goods prices slid 1.2%, after 1.4% fall. Mining prices sank 4.9%, after a 4.6% drop, while manufacturing processing prices dipped 2.7%, unchanged from the prior month.

China’s shift from construction-led growth to high-tech and green manufacturing sectors is underlined by the contrasting prices of the iron & steel and copper and other non-ferrous metal. Iron & steel processing prices plunged 10.7% in January, and have declined since May 2022. Non-ferrous metal processing prices gained 9.3% in January, having rise in all but one month since August 2023.

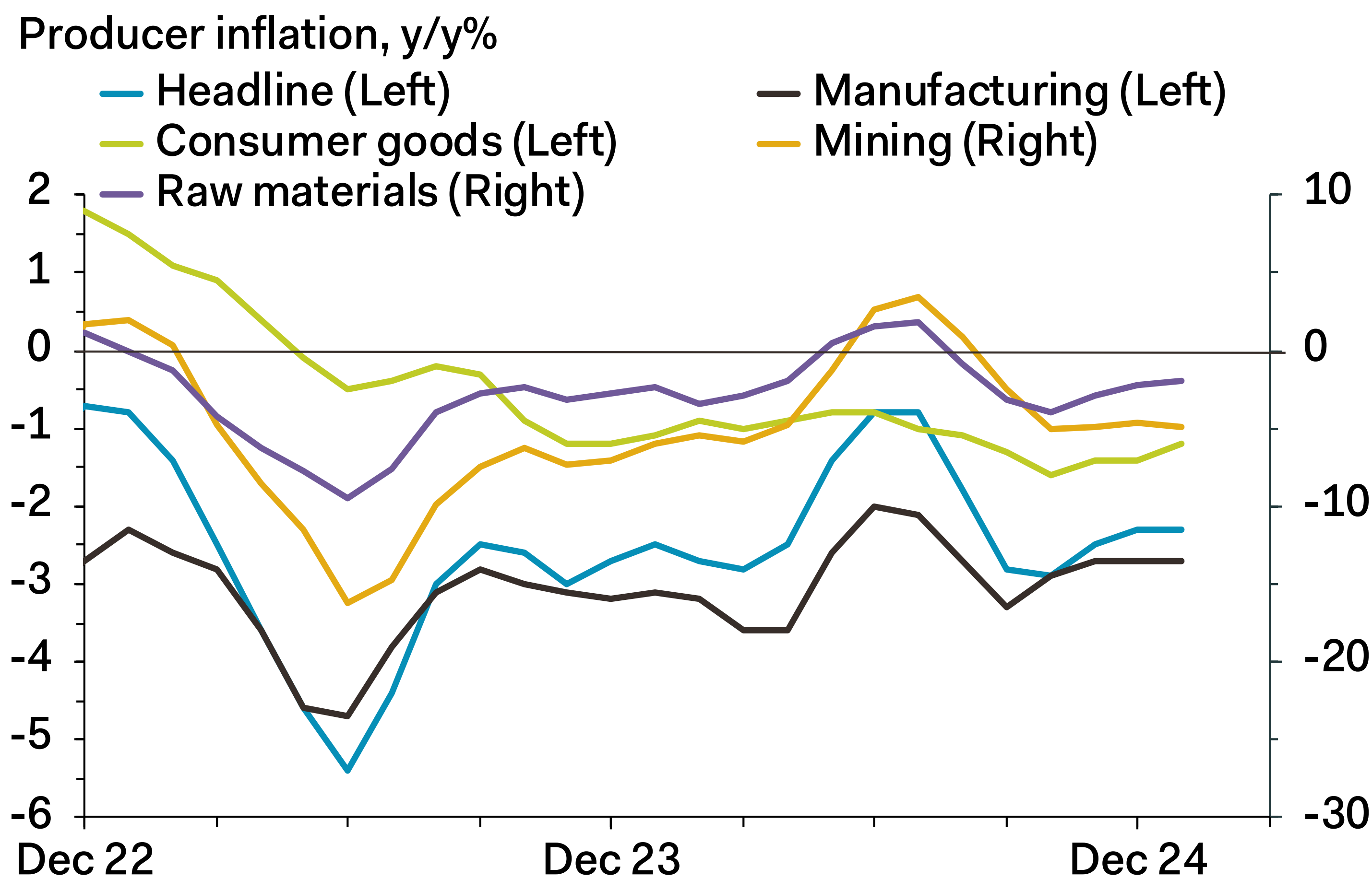
Equipment prices are still falling, despite the industrial equipment upgrade scheme driving sales. General equipment prices fell 1.2% in January, after a 1.0% fall in December. IT equipment prices sank 1.8%, barely changed from the previous month. China has ramped up production of low-end chips, but the Biden's expansion of the scope of rules preventing China's access to high-end chip production technology now seems to be hitting the chip packaging sector.

Producer deflation is likely to continue this year, given the domestic supply-demand imbalance, barring an external energy price shock. China's stimulus policies are likely to boost domestic demand only gradually, though are likely to be stepped up if export growth is threatened by an escalating trade war with the US. Our base case is a limited trade war that drags on into H2 and 2026, with an increasingly large growth impact. But even then we don't expect China to do a US-style large consumer handouts.

Manufacturing investment remains a key channel for stimulus policies, including equipment upgrade and replacement, R&D and new capacity. Excess supply and falling costs are likely to persist in sectors like solar - where a domestic self-discipline pledge among 33 manufacturers signed in December appears to be breaking down - and electric vehicles.



CPI inflation, y/y%
Headline (Left)
Core (Left)
Services (Left)
Food (Right)
3
2
1
0
-1
-2
12
8
4
0
-4
-8
Jan 22
Jan 23
Jan 24
Jan 25



Producer inflation, y/y%
Headline (Left)
Manufacturing (Left)
Consumer goods (Left)
Mining (Right)
Raw materials (Right)
2
1
0
-1
-2
-3
-4
-5
-6
10
0
-10
-20
-30
Dec 22
Dec 23
Dec 24