

Macro & Markets Radar

China: Falling PPI is a worrying sign of industrial weakness, while the CPI surge could start to weigh on households.

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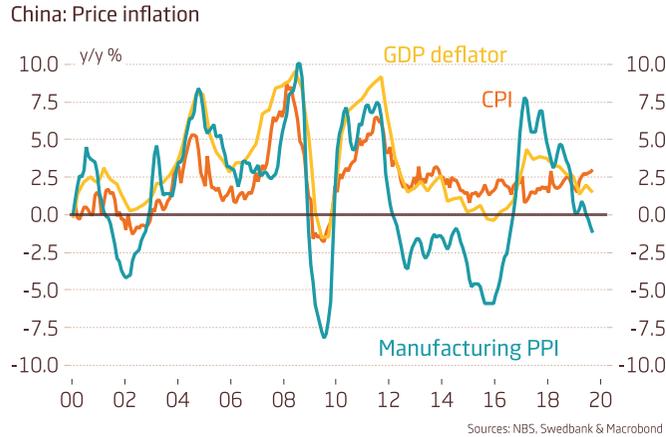
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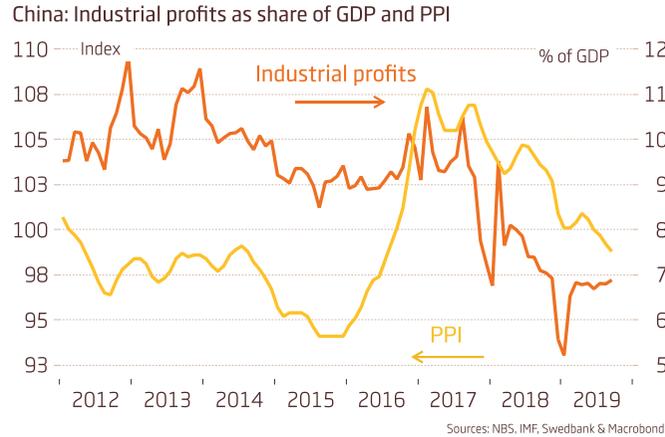
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China: Falling PPI is a worrying sign of industrial weakness, while the CPI surge could start to weigh on households.

Consumer prices rise but producer prices fall.



Falling PPI is bad news for the industry...



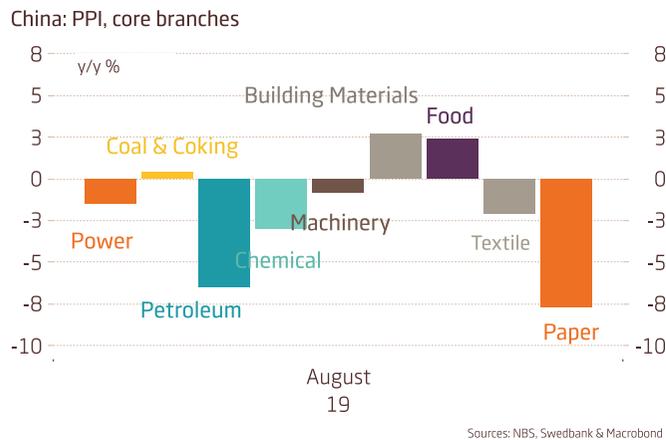
Falling PPI is bad for industrial profits...

- Producer prices have been falling since July, a sign of lower demand due to the trade war and economic slowdown.
- PPI weakness weighs on industrial profits, which held up in September but have trended down since 2017.
- The PPI downturn has been broad-based, with marked declines in paper, petroleum, chemicals and textile sectors.

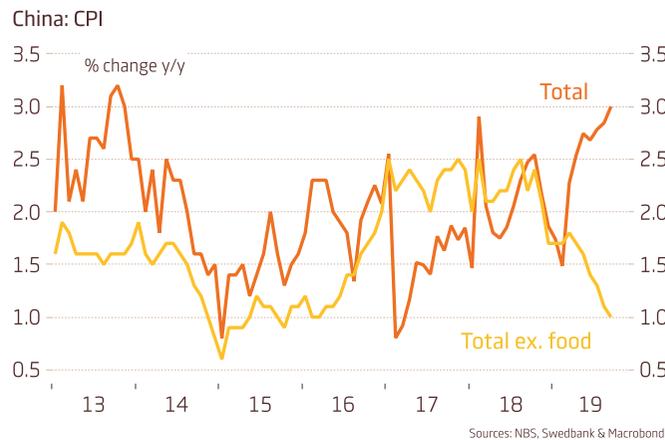
...while rising CPI could start to hurt consumers

- At the same time, consumer prices have increased due to higher price of pork resulting from the African swine flu epidemic, a problem that will remain for a while.
- Higher food prices could start to weigh on consumption and become an extra drag on the economy. So far real incomes have remained largely unaffected, however.
- As the CPI upturn has a single explanation while the PPI is low and growth slowing, monetary easing will continue.

...especially as weakness is broad based...



...while the CPI surge is explained by swine flu.



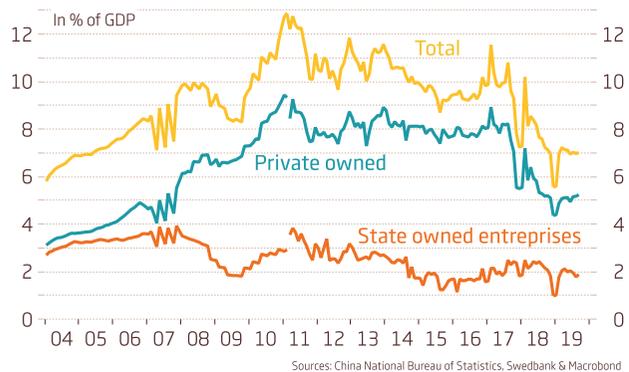
...and both pose risks for China's macro outlook.

- Continued PPI weakness implies lower profits and hence both weaker investment and increased difficulties in loan repayment. The latter also means that stimulus has larger negative side effects for financial stability.
- High CPI could start to weigh on real disposable income and hence add to downward pressure on consumption.
- Weakness in the industry and potentially households could spread to other sectors. This risks a negative spiral, where general weakness starts to feed itself, a downside risk to our main scenario of a gradual economic slowdown.

Weak trend in industrial sector data is already apparent. Weaker consumption is still mostly due to economic slowdown.

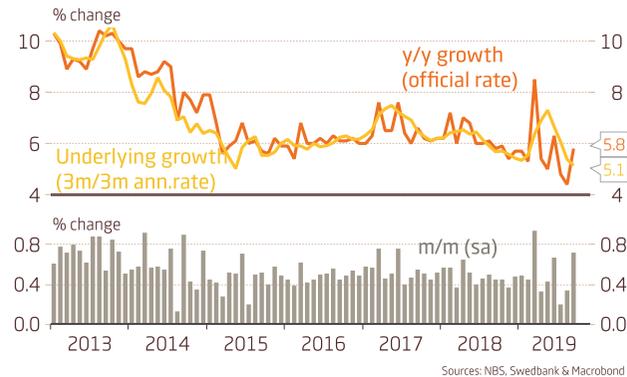
Industrial profits are trending down...

China: Industrial profits



...as is industrial production, while...

China: Industrial production



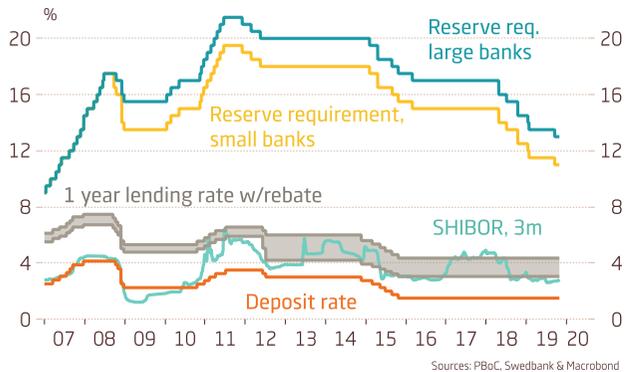
...only public investment has recovered.

China: Fixed investment



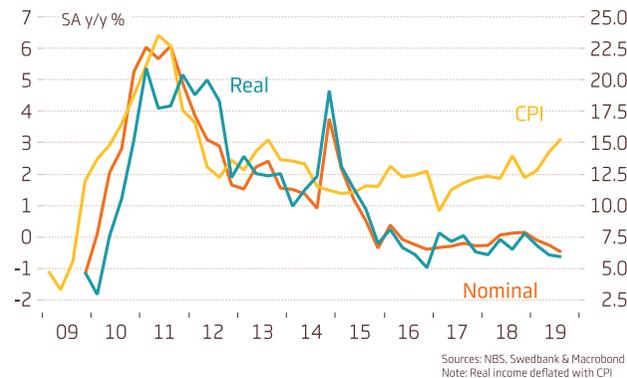
CPI will not affect monetary policy...

China: Monetary policy



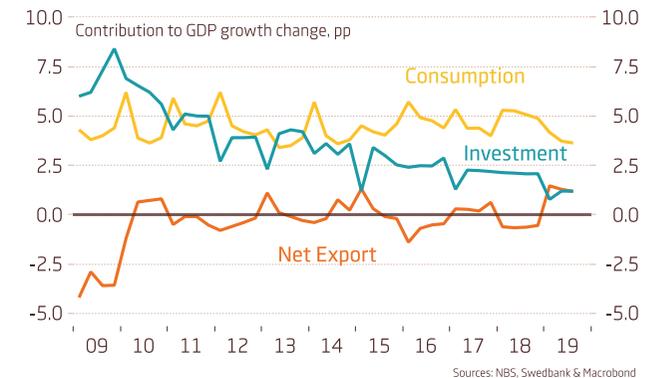
...but could start to pressure consumption...

China: Migrant worker average monthly income and CPI



...which would be bad for the economy.

China: Contribution to headline GDP growth



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