

## China Watch

## CPI inflation returned to positive territory helped by low base

**Exhibit 1: Feb CPI and PPI data (announced:9 Mar 2024)**

Feb CPI inflation rebounded to +0.7% yoy on LNY effect, while; PPI deflation widened

	CPI	PPI
	% yoy	% yoy
Actual	+0.7	-2.7
Previous	-0.8	-2.5
Consensus	+0.3	-2.5
BofA Global Research	+0.3	-2.5

**Source:** BofA Global Research estimates, Bloomberg, NBS

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**CPI inflation surprised on upside; PPI deflation widened**

Headline CPI inflation rebounded to +0.7% yoy in Feb (from -0.8% previously), exceeded both our expectation and market consensus (+0.3%), helped by the low base from a year ago. Sequentially, headline CPI increased by 1.0% mom (vs. 0.3% in Jan), mostly on the LNY effect. Excluding food and energy, core CPI inflation also rebounded to 1.2% yoy (vs. 0.4% in Jan).

Meanwhile, PPI deflation widened slightly to -2.7% yoy in Feb (vs. -2.5% in Jan), below market expectations. Sequentially, PPI fell by 0.2% mom (vs. -0.2% in Jan), with price declines in both producer and consumer goods.

**Food and services inflation helped sequential rebound**

Food price increased by 3.3% mom (vs. 0.4% previously), driven by the LNY effect and cold weather. As a result, declining food price inflation narrowed notably to -0.9% yoy (vs. -5.9% in Jan). In detail, pork prices surged sequentially, increased by 7.2% mom or 0.2% yoy (vs. -0.2% mom and -17.3% yoy previously); while vegetable price also picked up sequentially (12.7% mom), along with fruits (4.3%) and aquatic products (6.2%). Meanwhile, services inflation (1.0% mom) rebound resilient. Of which, tourism inflation surged to 13.1% yoy (from 1.8% in Jan), better than what historical LNY seasonality suggested. Fuel price also increased by 2% yoy. On the flip side, household facility, article & services (-0.5% mom) and clothing (-0.2%) showed sequential decline.

Within PPI, producer goods PPI fell by 0.3% mom, leaving the yoy growth contraction deepened to -3.4% (from -3.0% yoy in Jan). This was mostly due to the further sequential decline of raw material prices (-0.4%). Separately, consumer goods PPI also declined by 0.1% mom but the yoy decline was smaller at -0.9% yoy.

**Inflation may return to positive territory but remain low**

The upside surprise of Feb inflation rebound is encouraging, even though it will take some time to confirm the end of deflation. After all, the stronger print was partly due to temporary factors including the shift in LNY holidays (late-Jan last year vs. early Feb this year), and the cold winter this year. Meanwhile, the divergent trend in CPI and PPI inflation is also consistent with the dichotomy of services and industrial production recovery (see also: [Feb PMI commentary](#)). Going forward, we expect CPI inflation to return to positive territory, but remain muted after temporary drivers normalize. The industrial prices are the key to watch, and we expect the stronger fiscal impulse (see: [NPC review](#)) to help boost industrial demand in the near term.

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**Abbreviations:**

yoy: year-over-year

mom: month-over-month

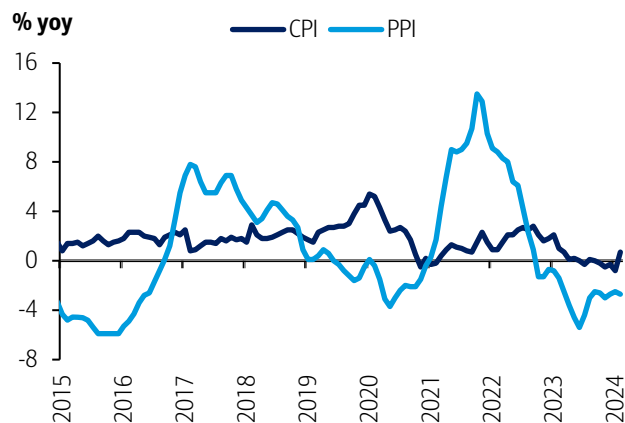
CPI: Consumer Price Index

PPI: Producer Price Index

LNY: Lunar New Year

**Exhibit 2: CPI vs. PPI inflation**

Feb CPI inflation rebounded to 0.7% yoy; PPI deflation widened to -2.7%

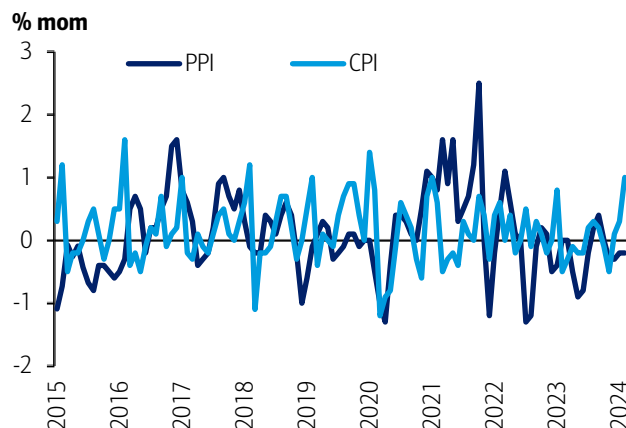


Source: BofA Global Research, NBS, CEIC

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**Exhibit 3: Sequential CPI vs. PPI inflation**

Feb CPI rose by 1% sequentially on LNY effect, while PPI fell by 0.2% mom, same as last month

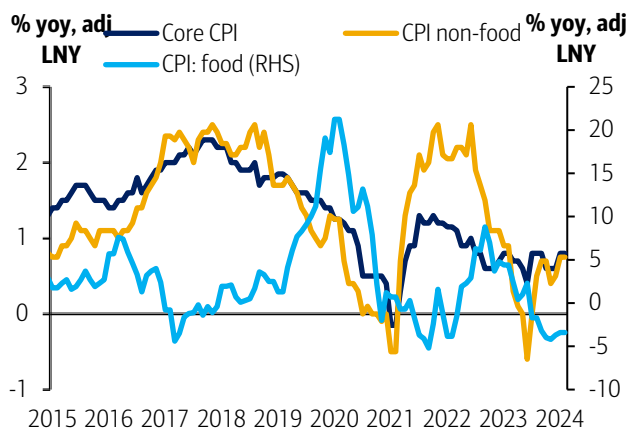


Source: BofA Global Research, NBS, CEIC

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**Exhibit 4: Core, food and non-food CPI inflation**

Jan-Feb combined food CPI fell by 3.4% yoy (vs. -3.7% in Dec); core CPI inflation rebounded to 0.8% yoy

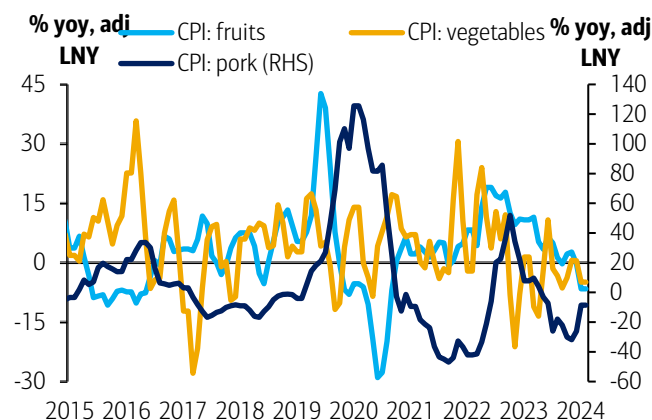


Source: BofA Global Research, NBS, CEIC

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**Exhibit 5: Food CPI inflation**

Adjusting LNY effect, pork prices remained in deep deflation; fruit and vegetable prices dropped

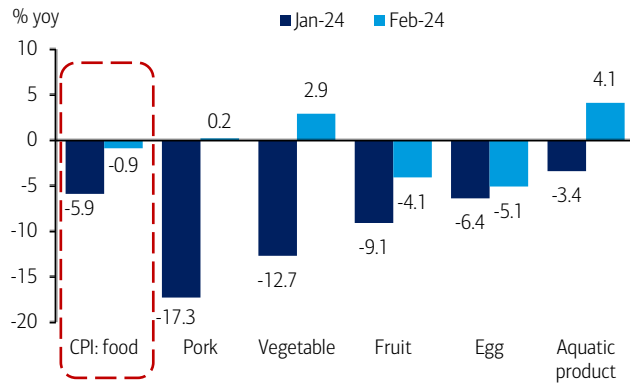


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**Exhibit 6: Food CPI inflation: details**

Food price inflation narrowed in Feb, especially with the help of the rebound in pork price (+0.2% yoy, vs. -17.3% in Jan)

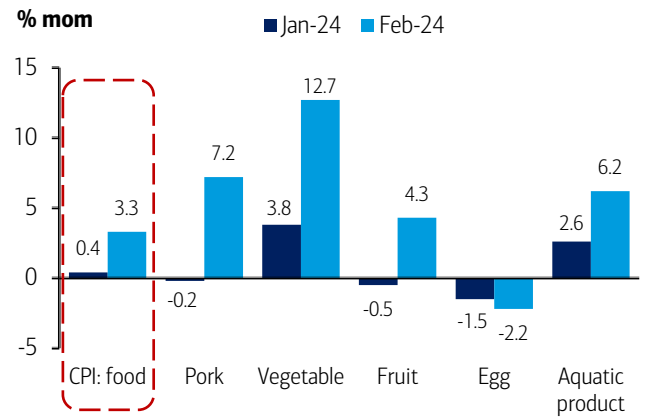


Source: BofA Global Research, NBS, CEIC

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**Exhibit 7: Sequential food CPI inflation: details**

Food prices growth picked up sequentially in Feb

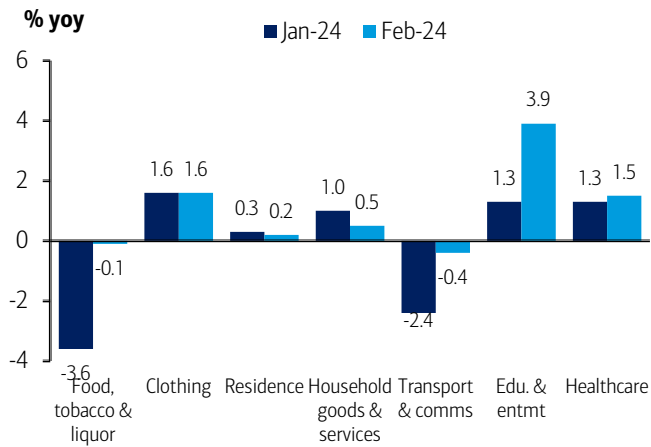


Source: BofA Global Research, NBS, CEIC

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**Exhibit 8: CPI inflation by major category**

Both food, tobacco & liquor and transport & comms saw smaller yoy price declines in Feb

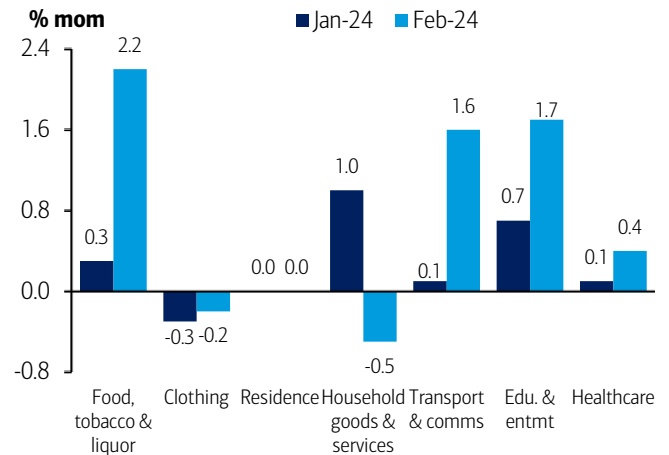


Source: BofA Global Research, NBS, CEIC

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**Exhibit 9: Sequential CPI inflation by major category**

Household goods & services prices fell sequentially while residence price remained muted

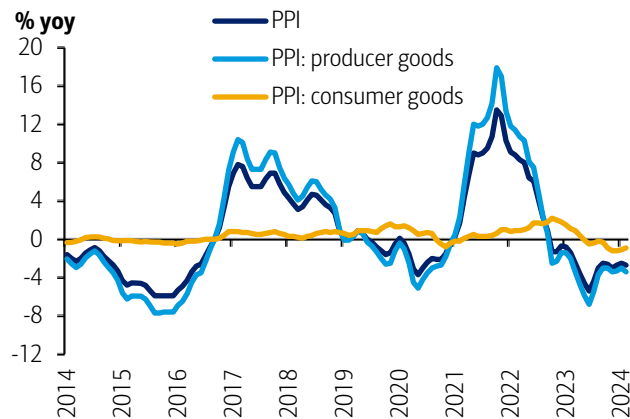


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**Exhibit 10: PPI inflation for producer vs. consumer goods**

PPI deflation widened in Feb despite improving producer goods prices

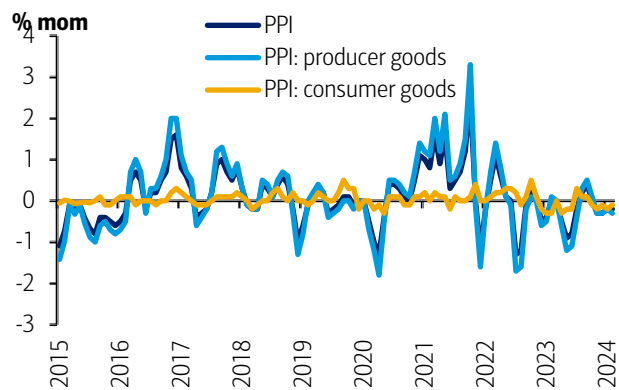


Source: BofA Global Research, NBS, CEIC

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**Exhibit 11: Sequential PPI inflation for producer vs. consumer goods**

Sequentially, producer and consumer goods prices fell by 0.2% and 0.1% respectively in Feb

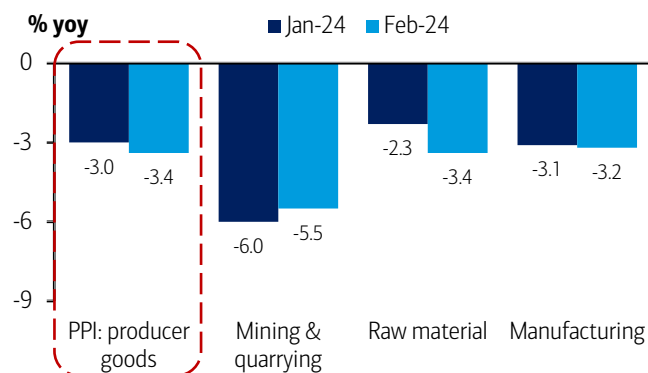


Source: BofA Global Research, NBS, CEIC

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**Exhibit 12: Producer goods PPI: details**

PPI deflation for producer goods widened in Feb, mostly on falling raw material prices

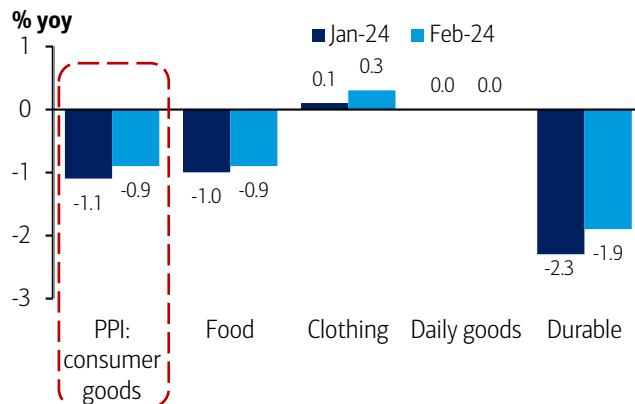


Source: BofA Global Research, NBS, CEIC

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**Exhibit 13: Consumer goods PPI: details**

PPI deflation for food and durable goods narrowed in Feb



Source: BofA Global Research, NBS, CEIC

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