

## China Watch

## December inflation data still point to tepid demand

**Exhibit 1: Dec CPI and PPI data (announced: 12 Jan 2024)**

Dec CPI inflation picked up to -0.3% yoy, slightly better than expected; PPI deflation narrowed

Dec	CPI	PPI
	% yoy	% yoy
Actual	-0.3	-2.7
Previous	-0.5	-3.0
Consensus	-0.4	-2.6
BofA Global Research	-0.4	-2.6

Source: BofA Global Research estimates, Bloomberg, NBS

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**Dec CPI inflation inched up; PPI deflation narrowed**

Headline CPI declined by 0.3% yoy in Dec, slightly beating both our and market expectations of a -0.4% reading. On a mom basis, headline CPI edged up by 0.1%. The Dec CPI print, though still weak, was nevertheless an improvement vs. -0.5% yoy in Nov. Excluding food and energy, core CPI inflation remained stable at 0.6% yoy.

Meanwhile, PPI deflation narrowed to -2.7% yoy in Dec (vs. -3.0% in Nov), slightly below market expectations (BofA and consensus both at -2.6% yoy). Sequentially, PPI fell by 0.3% mom (same as in Nov), with price declines in both producer and consumer goods.

**Food prices weigh on CPI, travel remains a bright spot**

Similar to prior months, the headline CPI inflation continued to be weighed down by low food prices, which declined by 3.7% yoy. Pork price, which accounts for a notable weight within the food category, was down 26.1% yoy. Fuel prices dropped (-1.4% yoy) as global oil prices softened. The relative bright spots within the report were in services inflation. Overall services prices held steady at 1.0% yoy in Dec, with tourism/hotel inflation showing a solid gain of 6.8%/5.5% yoy on the back of domestic travel recovery.

Within PPI, producer goods PPI fell by 0.3% mom, declining at a similar pace as in Nov and leaving the yoy rate at -3.3%. Such weakness was broad-based across mining (-1.1% mom, -7.0% yoy), raw material prices (-0.5% mom, -2.8% yoy) and manufacturing (-0.2% mom, -3.2% yoy) sectors. By industry, petroleum & gas extraction (-6.6% mom) and fuel processing (-3.0%) saw the largest declines, while ferrous metal prices rose (+3.2%). Consumer goods PPI also declined, but by a small degree (-0.1% mom, -1.2% yoy).

**Expect CPI and PPI inflation to pick up from late 1Q**

Despite continued strength in services prices, the set of Dec inflation data points to still weak domestic consumption and industrial demand. We revise down our CPI inflation forecast to 0.8% in 2024 (vs. 1.4% previously) and PPI inflation forecast to 0.3% (vs. 1.2% previously), to reflect the weaker-than-expected inflation numbers in 4Q and our global team's recent downward revision to oil price forecasts (see [Jan 7 report](#)). We expect CPI inflation to pick up slightly towards late 1Q, after the comparison base normalizes post Lunar New Year. PPI deflation should also narrow in 1Q, as the recent stimulus on infrastructure gradually kicks in and the year-ago base drifts lower.

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**Abbreviations:**

yoy: year-over-year

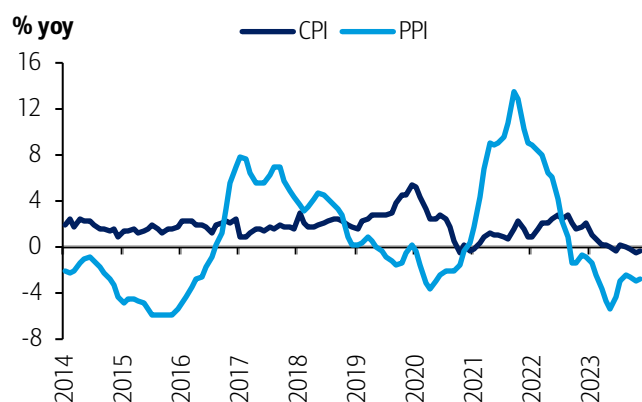
mom: month-over-month

CPI: Consumer Price Index

PPI: Producer Price Index

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

Dec CPI inflation inched up to -0.3% yoy; PPI deflation narrowed to -2.7%

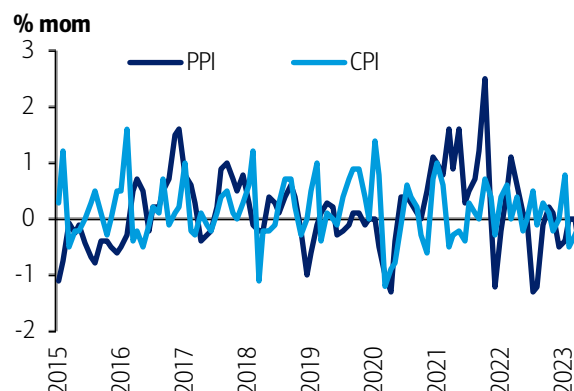


Source: BofA Global Research, NBS, CEIC

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

Dec CPI rose by 0.1% sequentially while PPI fell by 0.3% mom

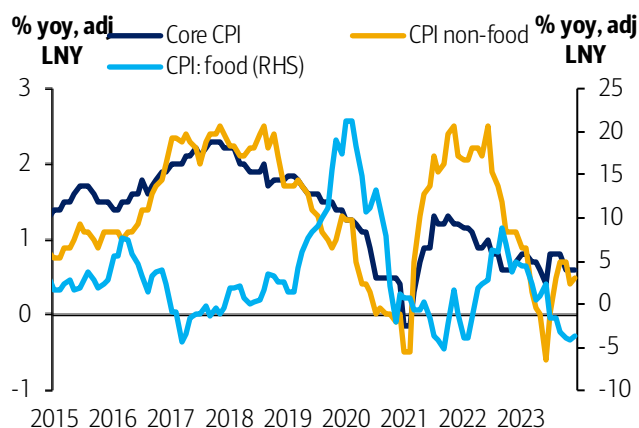


Source: BofA Global Research, NBS, CEIC

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

Food CPI fell by 3.7% yoy in Dec (vs. -4.2% in Nov); core CPI inflation remained unchanged at 0.6% yoy

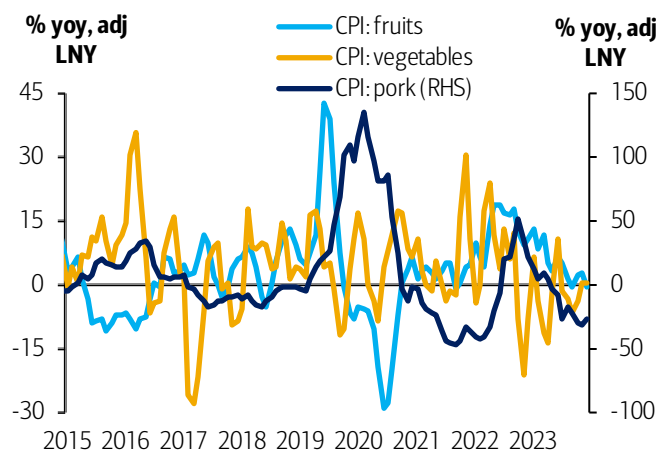


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**Exhibit 5: Food CPI inflation**

Pork prices remained in deep deflation; fruit prices fell by 0.3% yoy

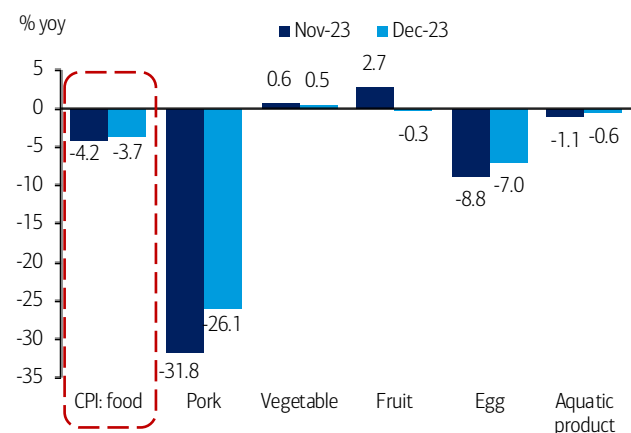


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**Exhibit 6: Food CPI inflation: details**

Food price inflation narrowed in Dec

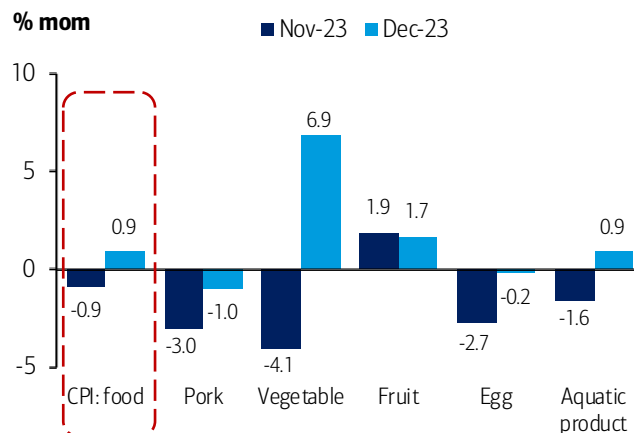


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**Exhibit 7: Sequential food CPI inflation: details**

Food prices picked up sequentially in Dec, mainly due to vegetables

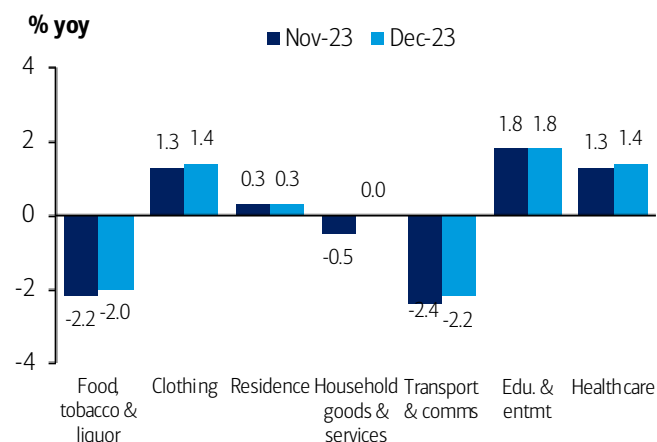


Source: BofA Global Research, NBS, CEIC

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

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

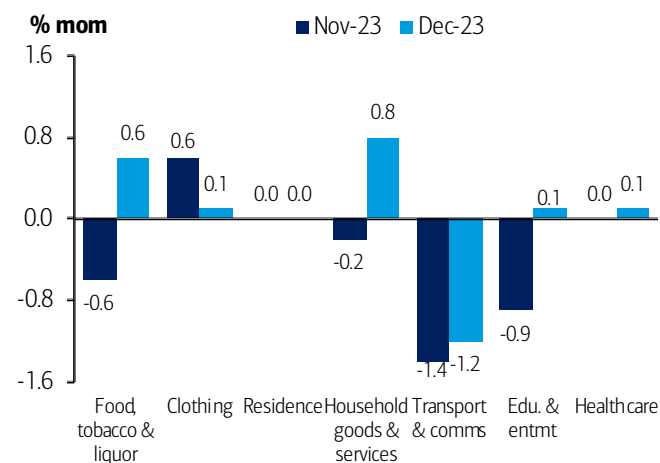


Source: BofA Global Research, NBS, CEIC

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

Food, tobacco & liquor, household goods & services and education & entertainment prices rose sequentially

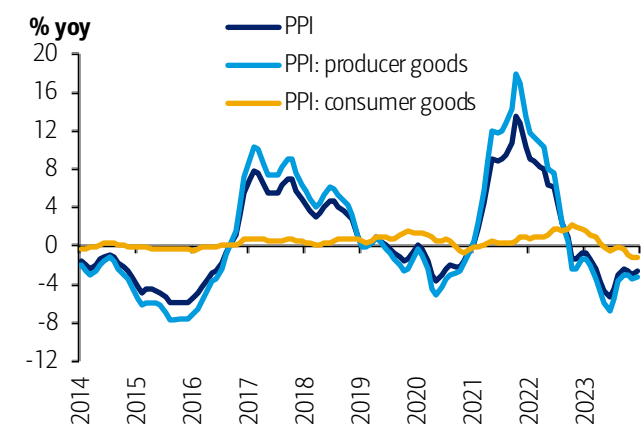


Source: BofA Global Research, NBS, CEIC

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

PPI deflation narrowed to -2.7% yoy in Dec (vs. -3.0% yoy in Nov)

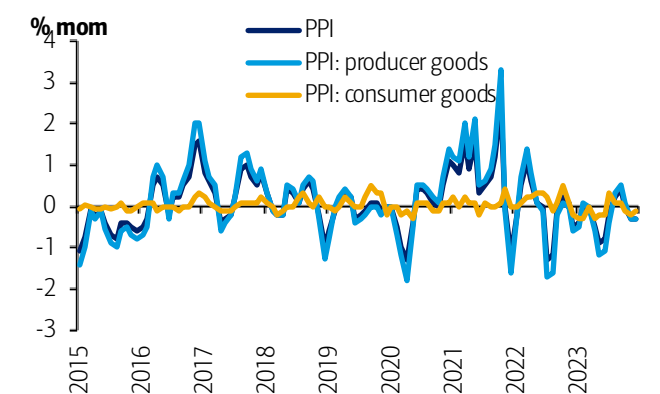


Source: BofA Global Research, NBS, CEIC

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

Sequentially, producer and consumer goods prices fell by 0.3% and 0.1% respectively in Dec

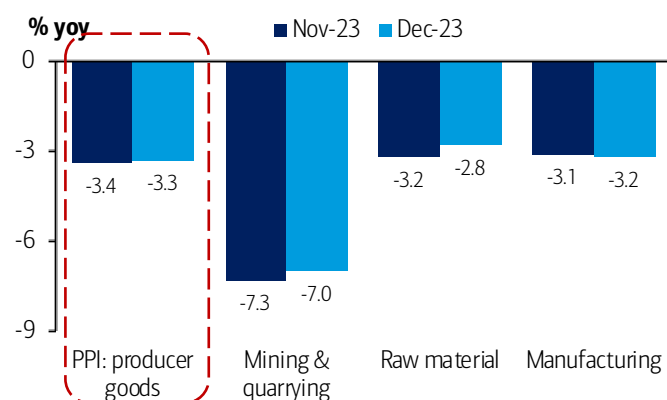


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**Exhibit 12: Producer goods PPI: details**

PPI deflation for producer goods narrowed marginally in Dec

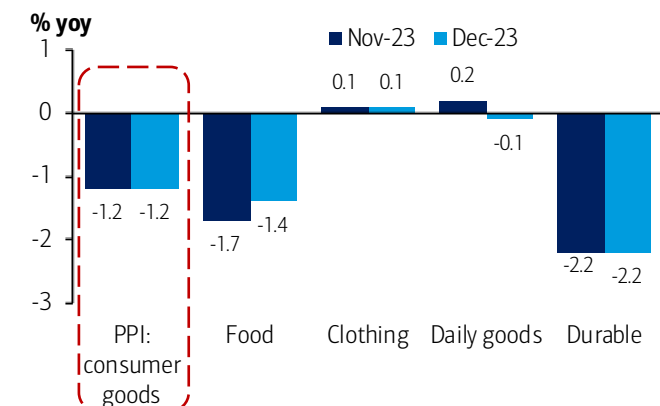


Source: BofA Global Research, NBS, CEIC

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

PPI deflation for food narrowed in Dec



Source: BofA Global Research, NBS, CEIC

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