# China consumer inflation falls to 30-month low

By Kevin Yao BEIJING (Reuters) – China's annual consumer inflation fell to a 30-month low in July, suggesting the central bank has scope to ease monetary policy further after rate cuts in June and July to keep China's economy on track to meet an official 2012 growth target of 7.5 percent. The consumer price index rose 1.8 percent last month compared with a 2.2 percent rise in June, official data released on Thursday showed, a big pullback from a three-year high last July of 6.5 percent. Economists polled by Reuters had forecast inflation to ease to 1.7 percent in July. "This number gives more room for policy easing," said Zhang Zhiwei, chief China economist at Nomura in Hong Kong. "It is now pretty clear that CPI will likely be below the official 4 percent target for the year, so the policy focus for the government can stay clearly on growth." Industrial output and fixed-asset investment data, due for release later on Thursday, were expected to show signs of a pick-up in activity, indicating that the economy is starting to stabilise after sliding for six straight quarters. Still, any economic improvement will be fragile as the euro zone debt crisis and a sluggish U.S. recovery keep global growth at a low ebb, the main factor that pushed China's new export orders in July into their steepest fall in eight months. "The recovery will be very modest – more like stabilisation and gradual improvement," said Yiping Huang, chief economist for emerging Asia at Barclays Capital in Hong Kong, speaking before Thursday's data releases. "Some further policy actions are needed to ensure gradual recovery of growth – we start to see some improvements that really need to be consolidated and supported." FALLING PRODUCER PRICES The central bank said in a report last week consumer inflation might rebound after August due to seasonal factors and the rising cost of labour and resources. Still, there is little sign of inflationary pressures coming from factories. July's data showed that producer prices fell in July by 2.9 percent from a year earlier, a sharper decline than the 2.5 percent forecast and the steepest fall since October 2009. It marked a fifth straight month of falling producer prices, reflecting the pressures eating into corporate earnings and capping capital spending. China's industrial output growth is forecast to pick up to a four-month high of 9.8 percent year-on-year in July from 9.5 percent in June, a Reuters poll showed. Annual growth in fixed-asset investment, in the likes of real estate, roads and bridges, is seen nudging up in January-to-July to 20.5 percent from January-to-June's 20.4 percent, as the government seeks to spur infrastructure investment. Growth of retail sales, the biggest driver of the economy's expansion in the first quarter, is seen steady though at 13.7 percent. Economic growth has been sliding since the beginning of 2011, reaching 7.6 percent in the second quarter, the weakest pace since the global financial crisis. Analysts see a pick up in the third quarter to 7.9 percent and full-year growth of 8 percent, above the official target. President Hu Jintao and Premier Wen Jiabao have promised to step up policy "fine tuning" in the second half of the year to support the economy. Apart from cutting rates, Beijing has cut banks' reserve requirements to free up an estimated 1.2 trillion yuan for lending in a series of moves since November 2011. It has tweaked taxes and promised to fast-track key government-backed projects. Wen said boosting investment is key to stabilising growth, setting the stage for local officials to roll out ambitious projects. (Editing by Alex Richardson and Neil Fullick)