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CHINA

Energy prices lift China's inflation gauges in September

China's PPI inflation hit its highest level since 2022, while consumer prices also edged higher amid rising energy and tech prices. Overall, Chinese inflation remains relatively under control compared to global peers



Source: Shutterstock

5.0% YoY

China's September PPI inflation

Highest since 2022

Higher than expected

CPI inflation edges up overall amid offsetting factors

China's CPI inflation rose 0.9% year-on-year in September, up slightly from 0.8% in August, and broadly in line with forecasts (market: 1.0%, ING: 1.0%). Through the first three quarters of the year, CPI inflation is 0.9% YoY. Chinese prices look set to end the year solidly in positive

territory.

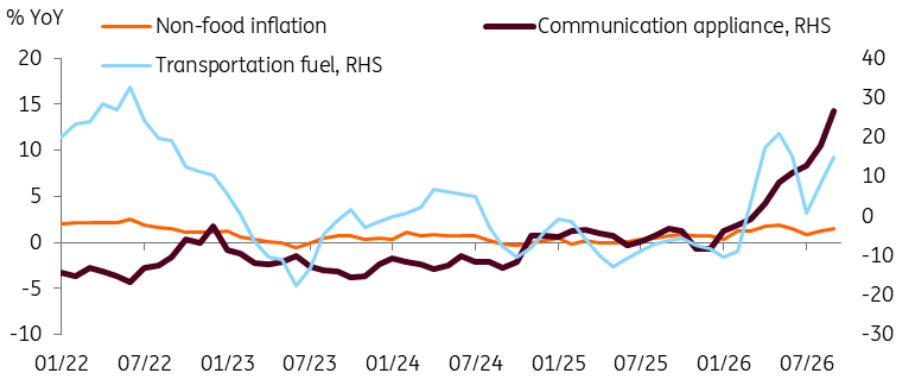
The big question for markets is whether China has successfully exited deflation. We think the worst of deflationary pressure may have passed, though downside pressures remain.

Several notable drags remain. The first is food prices, which fell -1.7% YoY in September. The biggest drag in this category remains pork prices (-10.0%). Yet, this is starting to diminish as pork price inflation has risen for 4 consecutive months. The second is rental prices, which fell -0.6% YoY for a sixth consecutive month. This component looks likely to remain a drag on overall inflation, as housing prices have yet to confirm a bottom. We've observed price stabilisation in tier 1 cities this year. Together, food and housing account for around half of the CPI basket. Auto prices (-1.7%) are also adding to deflationary pressures amid heightened competition among Chinese automakers.

On the flip side, energy and tech remain the main drivers of inflation, with transportation fuels up 14.9% YoY and communication devices up 14.3% in September.

Overall, inflation remains comfortably below the 2% target set at this year's Two Sessions. The People's Bank of China has rolled out targeted easing measures over the past few weeks. So, inflation still isn't impeding policy easing.

Energy and tech prices are driving China's reflation



Sources: CEIC, ING

PPI inflation hits the highest level since 2022

PPI inflation rose sharply to 5.0% YoY in September, up from 3.8% in August, and comfortably beating forecasts (market: 4.4%, ING: 4.3%). PPI inflation is now up 2.3% YoY through the first three quarters of the year.

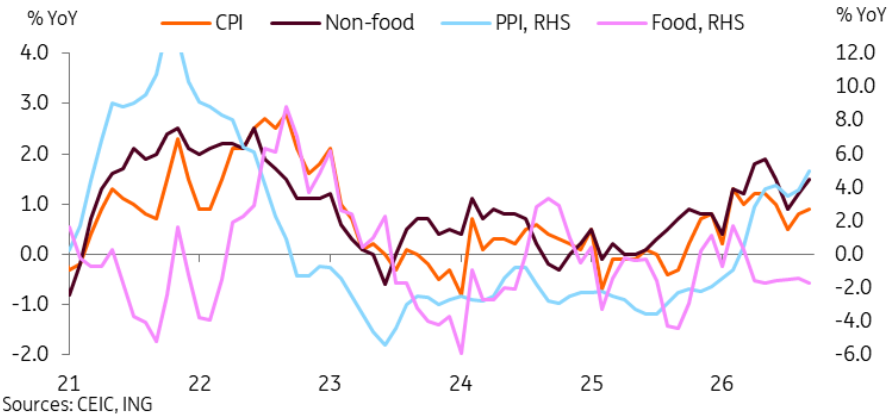
PPI rose mainly on producer goods inflation (6.5%), driven by mining (25.4%) and raw materials (9.4%). Producer prices of consumer goods, by contrast, were still contracting at -0.1% YoY, though they have been trending higher and may soon return to positive territory

for the first time since 2023.

Ex-factory prices saw the biggest spikes in energy-related industries. Coal mining and washing (35.3%) and oil and gas extraction (24.5%) saw the highest year-on-year rises of all industries. Non-ferrous metals mining and beneficiation (21.4%) also continued a strong run.

Higher producer prices have not yet fully passed through to consumers. But if prices stay higher for longer, that could change.

PPI inflation has outpaced CPI since April amid higher energy prices



Sources: CEIC, ING

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