

Chinese economy

China's deflation worsens as economic pressures mount

Consumer price data comes after policymakers pledge to step up fiscal and monetary support



China's consumer prices fell 0.5% year on year in November © Mark R Cristino/EPA-EFE/Shutterstock

Thomas Hale in Shanghai 13 HOURS AGO

China's consumer prices fell 0.5 per cent year on year in November, the sharpest decline in three years as the world's second-largest economy grapples with worsening deflation.

Consumer prices dropped by more than the 0.2 per cent decline forecast by a Bloomberg survey of economists and exceeded October's fall of 0.2 per cent.

Producer prices, which are measured at factory gates and heavily driven by the cost of commodities and raw materials, dropped by 3 per cent and have remained in negative territory for the past year.

Consumer prices entered deflationary territory in July and briefly rose in August before falling again in October. The deflationary trend adds to an array of economic pressures facing the country's policymakers, including a liquidity crunch in the property sector, weak trade data and a slowing recovery from three years of zero-Covid lockdowns and border closures.

Consumer demand has struggled to fully rebound in 2023, while policymakers have set an economic growth target of just 5 per cent, the lowest rate in decades.

China falls further into deflationary territory

Consumer price index, year-on-year change (%)



Source: China's National Bureau of Statistics

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Beijing has faced calls to step up stimulus this year in light of a prolonged property slowdown after several developers defaulted. The government has cut key lending rates and issued new bonds to support growth but has stopped short of any major bailouts of developers.

China's leader Xi Jinping this week warned that the country's economic recovery was still at a "critical stage" as officials pledged to step up fiscal and monetary support.

Rating agency Moody's Investors Service on Tuesday [cut its outlook](#) on China's sovereign credit rating to negative, citing growing risks of lower midterm economic growth and the rising likelihood of greater financial support to weak regions.

Economic momentum in China has been hit in recent months by the default of Country Garden, the country's biggest private developer by sales, as well as [turmoil at investment company Zhongzhi](#) in a sign of spillover effects from a troubled real estate market.

Policymakers in August stopped publishing youth unemployment data after the metric hit a record since they began reporting it in 2019.

Consumer prices have been affected this year by declining pork prices, an important constituent in the basket of goods in China's consumer index. Food prices fell by 4.2 per cent in November.

The prolonged weakness in consumer prices contrasts with inflation in other major

economics after they lifted Covid-19 measures and points to anaemic demand from households in the face of continued caution in their spending. [Data this week](#) showed imports dropped 0.6 per cent last month.

Data next week will indicate the pace of retail sales growth in November. In October, they grew 7.6 per cent, buoyed by a low-base effect from a year earlier, when Covid shutdowns intensified just before they were abruptly abandoned at the end of the year.

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