Chinese economy

China’s prices fall at fastest rate in 15 years as economy battles deflation

Analysts warn prolonged price declines will undermine business and consumer confidence

China's economy slipped into deflation in July, and prices have been flat or fallen in almost every month since then © Mark R Cristino/EPA-EFE/Shutterstock

Joe Leahy in Beijing YESTERDAY

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China's consumer prices fell at the fastest annual rate in 15 years in January, missing analysts' forecasts and underlining the challenges for policymakers trying to revive investor confidence in the world's second-largest economy.

The country's consumer price index fell 0.8 per cent year on year in January, according to official statistics released on Thursday, the fourth straight month of declines and the biggest contraction since 2009.

The fall, which was steeper than a 0.5 per cent drop forecast by a Reuters poll of analysts and a 0.3 per cent decline in December, comes as China's economy contends with an extended property sector slump, a stock market meltdown and weaker export revenue.

"A multitude of indicators are now flashing red, signalling a perilous period ahead for China's economy and financial markets," said Eswar Prasad, professor of economics at Cornell University and former head of the IMF's China division.

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The CPI rose 0.3 per cent on a monthly basis, falling short of a 0.4 per cent rise forecast by the Reuters poll but stronger than a gain of 0.1 per cent in December.

The producer price index improved marginally, dropping 2.5 per cent year on year in January, a slight improvement from a 2.7 per cent decline in December and an analyst forecast of 2.6 per cent.

China's economy slipped into deflation in July, and prices have been flat or fallen in every month since except August, leading economists to warn that prolonged deflation could undermine business and consumer confidence.

The deflationary pressures are weighing on corporate earnings and fuelling a stock market rout, analysts said. China on Wednesday sacked the head of its market watchdog, Yi Huiman, a move that analysts said was intended to placate investors angry over huge equities losses.

"China's persistent deflation and struggling stock markets indicate that household demand and private sector confidence remain weak, posing significant risks to the economy's growth prospects," said Prasad. "As deflation becomes entrenched in China, an increasingly heavy policy lift will be needed to rebuild confidence and pull the economy out of the morass."

The National Bureau of Statistics said the consumer inflation figure was affected by the timing of the lunar new year holiday, which boosted spending in January last year but which this year falls in February.

ING chief economist for greater China Lynn Song said this exaggerated the decline in last month's CPI figure, adding that the impact of pork prices, which have been driving deflation, should moderate in February. Increased consumer spending during this year's festival should help push price growth into positive territory this month, he said.

The statistics bureau said while food prices dropped 5.9 per cent last month, non-food prices increased 0.4 per cent year on year.

Producer prices in January were "affected by fluctuations in international commodity prices", the bureau added. China's PPI has been in decline for 16 consecutive months.

Economists are beginning to look towards the annual "two sessions" of China's rubber-stamp parliament and its main advisory committee in March, when President Xi Jinping's government is expected to lay out priorities for the year.

Economic growth last year slightly exceeded the government target of 5.2 per cent. But to reach that level, policymakers were forced to roll out a range of measures to address the property slowdown and a less robust than expected recovery in consumption from the coronavirus pandemic.

Officials are expected to set a gross domestic product growth target of about 5 per cent in 2024 next month, similar to the 2023 goal, which was the lowest in decades.

Beijing's piecemeal stimulus measures include loosening critical lending rates and targeting strategic sectors with credit, along with selective efforts to support the property sector, which typically accounts for more than a quarter of economic activity.