Source: South China Morning Post

Date: 10/11/2018

ECONOMY

Factory inflation eases for fourth month on weak demand amid US trade war

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Price increases of goods sold by mainland factories slowed for the fourth straight month in October as the world's second-largest economy faces lower demand for industrial materials amid cooling manufacturing activity exacerbated by a trade war with the United States.

The producer price index (PPI), a measure of change in prices of goods sold by producers at the wholesale level, rose 3.3 per cent in October from a year ago, easing from a 3.6 per cent gain in September, according to data published by the National Bureau of Statistics yesterday.

The slower growth rate matched median expectation of analysts polled by Bloomberg. On a monthly basis, the PPI rose 0.4 per cent.

Nomura said it expected the downward trend in PPI "to continue in a milder manner through winter, given [that there is likely to be a] less severe anti-pollution campaign this year compared to [2017]".

Meanwhile, the rate of increase in prices paid by consumers was unchanged in October. The consumer price index (CPI) rose 2.5 per cent, at the same pace as a year ago, matching the median expectation of a poll by Bloomerg. On a monthly basis, the CPI rose 0.2 per cent.

Beijing's has targeted 3 per cent as its ceiling for inflation this year. Inflationary pressures were expected to remain mild in the short to medium term as the economy continued to grow at its slowest pace in a decade.

With exports cooling, analysts expected the trade stand-off with Washington to hit manufacturing numbers hard at the start of 2019.

The yuan has already weakened 11.4 per cent against the US dollar between April and the end of October.

11.4%

Proportion by which the yuan has weakened against the United States dollar between April and the end of last month

Modest price pressures were likely to encourage the People's Bank of China (PBOC) to further ease monetary policy to support the economy, analysts said.

The central bank has cut the reserve requirement ratio (RRR) – the amount of money banks must keep at the central bank – four times this year, freeing up more cash for banks to lend.

Alicia Garcia-Herrero, chief economist for Asia-Pacific at Natixis, expected the PBOC to pump more money into the lending market. "China will continue to use monetary conditions to support growth beyond the 250 basis point RRR cuts this year and additional targeted lending," she said.

Also, because of poor gross domestic product data and weaker-than-expected purchasing managers' index figure for October, China may launch additional fiscal stimulus to lift growth, Herrero predicted. Gross domestic product rose by 6.5 per cent in the third quarter from a year earlier, down from 6.7 per cent in the April-June period.