

Warning sign for global economy: China tips into deflation

CPI falls in annual terms for first time in 2 years; country becomes first G20 economy to report deflation since Japan in 2021

LIANGPING GAO & RYAN WOO

Beijing, 9 August

China's consumer sector fell into deflation and factory-gate prices extended declines in July, as the world's second-largest economy struggled to revive demand and pressure mounted on Beijing to release more direct policy stimulus.

Anxiety is rising that China is entering an era of much slower economic growth akin to the period of Japan's "lost decades", which saw consumer prices and wages stagnate

for a generation, a stark contrast to the rapid inflation seen elsewhere.

China's post-pandemic recovery has slowed after a brisk start in the first quarter as demand at home and abroad weakened and a flurry of policies to support the economy failed to shore up activity.

The consumer price index (CPI) dropped 0.3 per cent year-on-year in July, the National Bureau of Statistics (NBS) said on Wednesday, compared with the median estimate for a 0.4 per cent decrease in a *Reuters* poll. It was the first decline

since February 2021. The producer price index (PPI) declined for a 10th consecutive month, down 4.4 per cent and faster than the forecast 4.1 per cent fall.

China is the first G20 economy to report a year-on-year decline in consumer prices since Japan's last negative headline CPI reading in August 2021 and the weakness adds to concerns about the hit to business among major trading partners.

"For China, the divergence between manufacturing and services is increasingly apparent, meaning

the economy will grow at two speeds in the rest of 2023, especially as the problem in real estate re-emerges," said Gary Ng, Asia Pacific senior economist at Natixis. "It also shows China's slower-than-expected economic rebound is not strong enough to offset the weaker global demand and lift commodity prices."

The data comes a day after trade figures showed exports and imports both slumping in July and follows a spate of reports on more debt troubles in China's property sector. Worried consumers and

companies are hoarding cash rather than spending or investing it, despite lower interest rates. Asian shares were on the defensive on Wednesday as the China confirmed its economic recovery was losing steam.

China's anaemic prices contrast sharply with the crippling inflation most other major economies have seen, which forced central banks elsewhere to rapidly raise interest rates. However, there are signs global inflation may be peaking and in some cases reversing. **REUTERS**

