China: Jan CPI inflation fell to the lowest level since 2009, likely to mark the bottom

China's January CPI inflation was weaker than forecast at -0.8% YoY, which marks the lowest level since September 2009. We expect this to mark the bottom of the current cycle.

-0.8%

China CPI inflation

YoY%

Lower than expected

Headline CPI hits lowest level since 2009

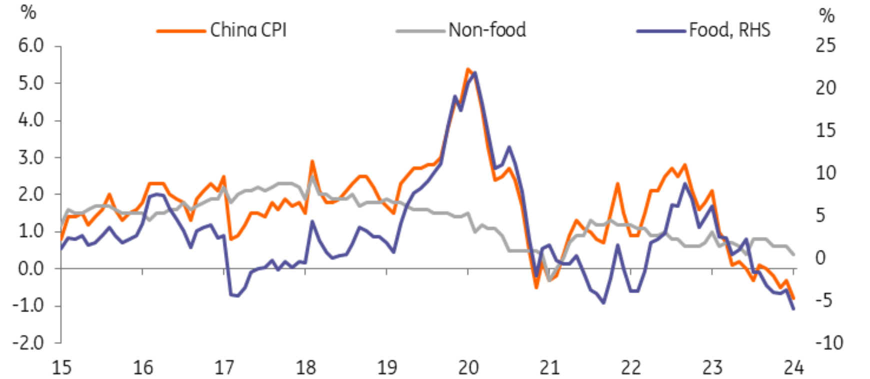
China's January CPI inflation came in at -0.8% YoY, which is the lowest level since September 2009, and marked the fourth consecutive month of negative headline inflation.

By category, the primary drag on inflation continued to be food prices, which fell by 5.9% YoY, the lowest level on record. As expected, pork prices (-17.3% YoY) continued to be a major drag on inflation, while fresh vegetables (-12.7% YoY) and fruit (-9.1% YoY) also contributed to the drag. Food inflation has been in negative territory for 7 consecutive months. However, it is worth noting that this month's data may look particularly poor due to the holiday effect from last year's Lunar

New Year occurring in January, while this year's is set for February. Household demand for food products (especially pork) for the holiday feast results in food prices surging around the holiday period.

However, non-food inflation also came in somewhat softer than expectations at 0.4% YoY. The biggest drag in non-food inflation remains in transportation & communication (-2.4% YoY), where a decline in vehicle and communication device prices continued to suppress inflation.

Headline CPI fell to 14 year low



Sources: CEIC, ING

Silver linings in sequential numbers

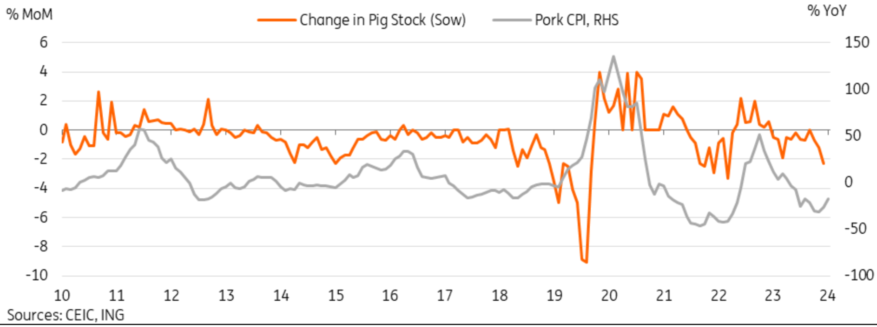
The weaker-than-expected headline numbers will likely add fuel to the fire of the debate over whether or not China is facing deflation risks.

In our view, the deflation argument is overstated, and the base effects makes January's data look worse than they are. Sequential data paints a more upbeat picture. In MoM terms, headline CPI rose 0.3%, food CPI rose 0.4%, and non-food CPI rose 0.2%. While a far cry from the above-target inflation levels seen in many other economies, these numbers do not imply China is stuck in a deflationary spiral.

Furthermore, China's pork cycle also indicates that the drag from pork prices will also fade in the coming months. While still a major drag in January's data, pork price inflation has actually risen for the past two months, and the December 2023 MoM change in the pig stock was the largest decline since March 2022. With expected demand for the Lunar New Year holiday in February, this could return to positive growth in next month's release.

As such, considering the more favourable base effects for February's data, we see a high likelihood that January's data could mark the low point for YoY inflation in the current cycle.

China's pork cycle



Sources: CEIC, ING

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