

China: Government to push for auto stimulus amid low PPI

China's PPI inflation was down to 0.9% year-on-year in December from 2.7% previously. Apart from low energy prices, we find that some manufacturing sectors also exhibited very low PPI inflation, including automobiles. The government will likely soon provide incentives on the purchase of vehicles



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Low PPI in some sectors reveals weakness in manufacturing

Headline PPI was low at 0.9%YoY in December from 2.7% previously. We find from the breakdown of the data, metals and automobiles experienced deflation in PPI, which is alarming, and telecommunication-related industries also experienced very low inflation.

These details reveal that the manufacturing of automobiles and telecommunication parts and products weakened in December. And we think this phenomenon should continue in January if there is no stimulus support.

CPI inflation was also mild due to lower transport costs from lower energy prices, which should go up again in January from the rebound of energy prices.

China's monetary policy does not depend on inflation as the central bank does not have an inflation target. But as demand is weak in China, the central bank has started easing, and we expect more to come.

The government is going to stimulate the automobile sector

In 2018, automobile sales fell 6% in China, the first decline in 20 years. The government is going to stimulate this sector by giving incentives to purchase vehicles (most likely only for "new energy" vehicles) in rural regions, [according to the official media](#).

This should provide support for the automobile industry, and prices should stabilise once the stimulus measures start.

We expect the formal announcement of such measures before the Chinese New Year, which falls on 5 February.

Telecommunication weakness should continue until China starts 5G applications

Regarding the telecommunication weakness, it is a result of at least two factors:

1. The lack of demand for new smart device models.
2. US banning the use of Chinese-made electronic components and products.

We believe that these factors will persist until the application of 5G begins.

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