

China: PPI inflation close to its cycle peak

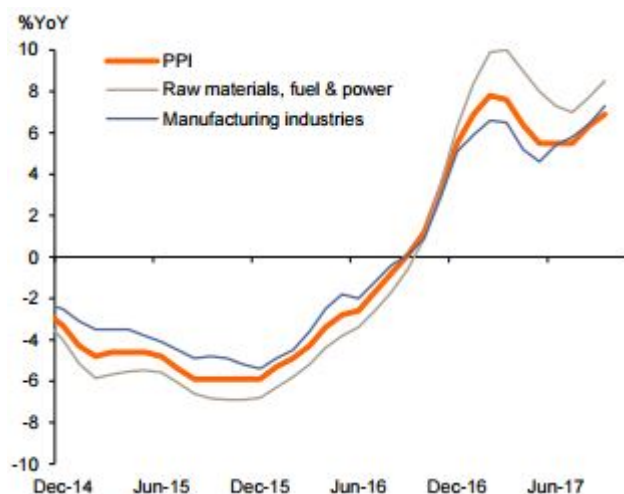
High PPI has not translated into higher consumer inflation as it has been mostly affected by food prices



Source: istock

The focus of tomorrow's inflation data for October should be producer prices. Despite a high base effect we expect deleveraging in the raw material sector to continue to push PPI inflation. ING forecast is 7.3% YoY which is above consensus at 6.6%. The previous figure was 6.9%. We believe PPI inflation will peak in October as a more pronounced base effect will start to drive it lower from November.

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Source: ING, Bloomberg

There is a lack of direct transmission channel from PPI to CPI in China. Higher PPI means producers are making profits, but we don't see similar wage rise to support consumer spending.

And because the raw materials are mostly used in construction, it does not affect costs of consumer products directly, and so not changing the CPI. Food prices drive CPI inflation, and higher vegetable prices due to adverse weather impart upside risk to our forecast. Here the ING forecast is lower than consensus at 1.5% while consensus is 1.7%. The prior figure was 1.6%.