

China's CPI inflation eases unexpectedly as food prices slow

Deflationary pressure remains an overhang as slowdown of food prices and continued soft non-food prices led to inflation coming in barely above 0% in November



Food prices came in softer than expected in China - a new challenge to staving off deflation

0.2% YoY

 China's November CPI inflation

Lower than expected

China's CPI inflation unexpectedly fell to a five-month low

China's November CPI inflation slowed to 0.2% year-on-year, down from 0.3% YoY and falling short of both market and our forecasts. The 0.2% YoY level was the lowest since June.

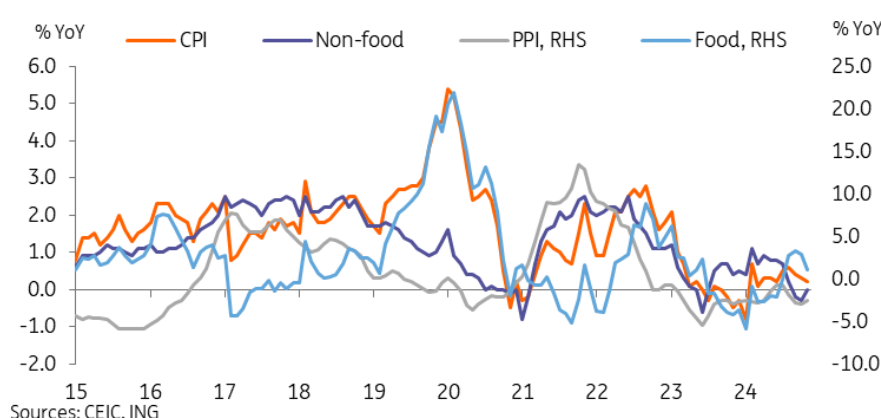
The main reason for the slowdown was food prices, which fell -2.7% month-on-month to bring the YoY level to just 1.0%. Drags from beef (-13.5%), mutton (-5.3%), and edible oils (-3.6%) pulled food prices lower. Pork prices and vegetable prices continued to see YoY gains of 13.7% and 10.0% but

saw unexpectedly steep MoM declines of -3.4% and -13.2% respectively. Pork inflation fell to the lowest level in six months and signalled that the pork cycle could be turning once more. Food inflation was expected to offset soft non-food inflation in the next several months, but November's data shows that the support from food prices could be less than previously expected.

Non-food inflation, on the other hand, managed to bounce back to 0.0% YoY after two months of YoY deflation. Non-food prices remain under pressure amid high price competition in China. The biggest drag on non-food inflation remained the transportation and communications category (-3.6%) which has been in deflation for 20 of the past 21 months amid falling prices of automobiles as well as electronic devices. The residence category saw a -0.1% YoY drag for the third consecutive month. Joining the categories in deflation this month were household goods, which fell from 0.1% YoY to -0.3% YoY.

Finally, PPI inflation unsurprisingly remained in negative territory for a 26th consecutive month. Raw material prices slumped -2.9% YoY.

China's food prices failed to boost headline inflation in Nov



Deflationary pressure should give the PBoC room for further easing ahead

The unexpectedly weak November read further confirms our view that there is still plenty of room for monetary policy easing in the months ahead.

Markets have been discussing the possibility of an imminent RRR cut which is certainly on the table, but the inflation data shows that there is capacity to bundle an RRR cut with a further interest rate cut as well. We are expecting 30bp of rate cuts and 100bp of RRR cuts before the end of 2025.

As we outlined in our [10 questions for China in 2025](#) piece, we are expecting inflation will remain low in 2025 but to avoid deflation at least in terms of headline CPI inflation thanks to an expected acceleration of monetary and fiscal policy stimulus. While this is still the base case, November's data does raise the possibility that we could see several months of negative YoY growth if food prices continue to come in softer than expected, as non-food prices continue to show deflationary pressure.

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