Snap | 9 June 2025 CHINA UNITED STATES

China’s trade growth moderates and deflation persists in May

China’s consumer price index remained unchanged at -0.1% year on year for a third consecutive month as food deflation persists, while exports and imports both slowed on the month

4.8% YoY **China's May exports growth**

Lower than expected

China's trade growth moderated in May

China's export growth slowed to 4.8% year on year in May, down from 8.1% YoY in April. The data came in a little softer than market forecasts, and brought year-to-date export growth to 6.0% YoY.

Exports to the US surprisingly decelerated despite the trade war reprieve, sliding -34.5% YoY in

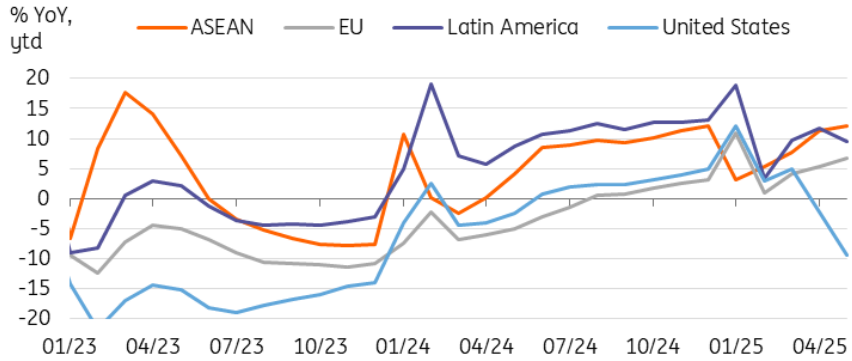
May to the $28.8bn level. That's down from -21.0% YoY in April. It’s likely that the May data continued to be weighed down by the peak tariff period. We expect that export growth to the US could recover in the coming months. We could see import front-loading amid the still elevated risk that tariffs could once again move higher in light the uncertainty about trade talks over the past month.

However, exports to other regions continued to show solid growth on the month. Exports to ASEAN (14.8%) led the way, while exports to the EU (12.0%) picked up on the month. The acceleration of exports to other economies has helped China's exports remain relatively buoyant in the face of the trade war.

Meanwhile, imports slowed to -3.3% YoY, the third straight month of negative growth.

On net, China's trade balance actually beat forecasts yet again, rising to $103.2bn, good for a 4-month high. Compared to the same period in 2025, the trade surplus year-to-date of $471.9bn is $135.6bn, or 40.3%, higher YoY.

Exports to non-US destinations has kept overall export growth solid



Sources: CEIC, ING

Key indicators remained in deflation in May

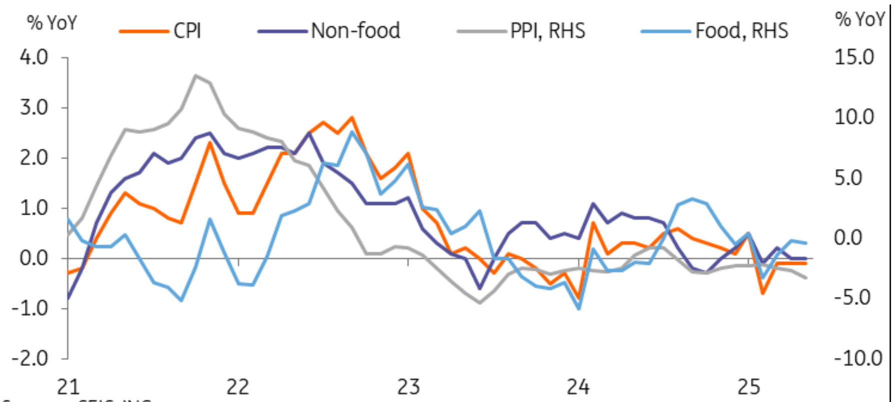
China's CPI inflation remained unchanged at -0.1% year on year in May, coming in line with our forecast and a hair higher than consensus forecasts.

Food inflation remained the primary drag on the headline CPI, registering at -0.4% YoY. Many food products are now seeing YoY deflation, with fresh vegetables (-8.3%) and eggs (-3.5%) leading the way. Pork prices (3.1%) have driven food inflation over the past 12 months. It would not be surprising if the downtrend teetered into deflation in the coming months as well.

Non-food inflation was flat at 0.0% YoY in May, also unchanged from April. The big drag on non-food inflation was in transportation and communication (-4.3%), which featured drops in transportation facilities (-3.4%) and fuel (-12.9%). Rents (-0.1%) also remained in deflation for the eleventh straight month. This offset still positive inflation in most other non-food inflation categories, such as apparel (1.5%), education, culture, and entertainment (0.9%), and healthcare (0.3%).

Producer price index inflation unsurprisingly remained in contraction for a 32nd consecutive month, hitting a 22-month low of -3.3% YoY in May. Weakness was broad-based, with most producer price categories in deflation.

Food inflation continues to drag headline inflation negative



Sources: CEIC, ING

Deflationary pressure present a case for further monetary easing

The May data shows that deflationary pressures remain significant, though the month's data doesn't reflect much from the People's Bank of China's monetary easing package last month. We'll need to watch the next few months of data to see if the easing helps push the CPI back into positive territory. It's hard to envision a significant uptick, though, as domestic consumer sentiment remains soft and tariffs could cause further deflationary pressure.

Persistent deflationary pressure combined with signs of economic slowdown could combine to allow for the PBOC to ease monetary policy further later in the year. However, the next cut could take some time as the PBOC may choose to observe economic trends for a few months. If data continues to hold up relatively well, the odds favour a rate cut coming later. As a result, we've pushed back our second rate cut timing to the fourth quarter, where a 10-20bp cut could be expected depending on how the data progresses.

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