

Chinese economy**Chinese economy falls into deflation as recovery stumbles**

Beijing faces calls for stimulus after consumer prices turn negative for first time since early 2021



Slipping consumer prices in China are set to fuel more calls for government stimulus to help revive domestic consumption © Raul Ariano/Bloomberg

Thomas Hale in Shanghai and **Andy Lin** in Hong Kong AUGUST 9 2023

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China's economy has fallen into deflation after consumer prices declined for the first time since early 2021, in one of the starkest indicators of the challenges facing policymakers as they struggle to revive consumption.

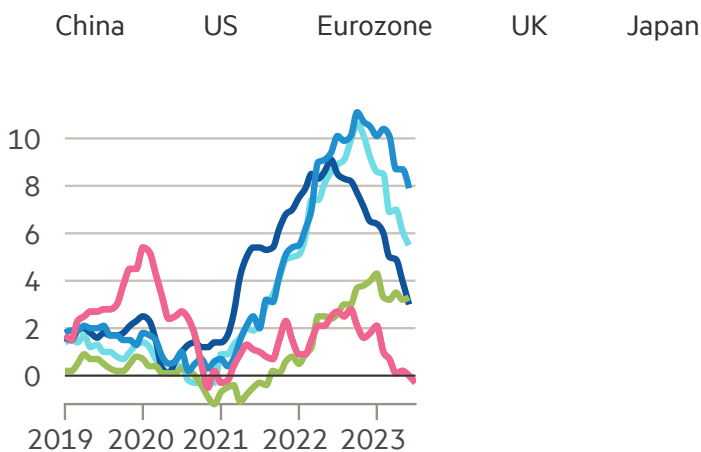
The consumer price index fell 0.3 per cent year on year in July, according to official statistics released on Wednesday, after registering no change a month earlier. The producer price index, a gauge of the prices of goods as they leave factory gates, was down 4.4 per cent in July.

Consumer prices, which last slipped into negative territory in February 2021, have been on the brink of deflation for months as an expected rebound in consumer spending failed to materialise after authorities lifted pandemic restrictions at the beginning of the year.

The move into deflation is set to [fuel calls for more government stimulus](#) at a time when policymakers are also grappling with a property sector slowdown and weakness in trade, all of which have dragged on economic momentum.

Chinese consumer prices slip into deflation, signalling weak demand

Headline consumer price, year-on-year change (%)



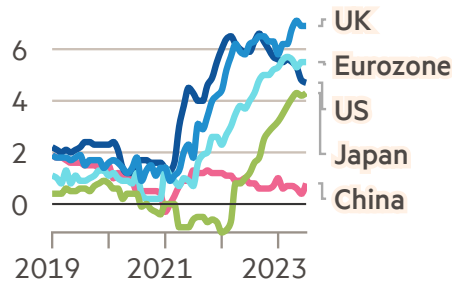
“The [Chinese economy](#) is now at serious risk of sliding into a deflationary episode that could spark a self-reinforcing downward spiral in growth and private sector confidence,” said Eswar Prasad, a China finance expert at Cornell University. “The government needs to act quickly and decisively to put a floor on growth and limit deflation before matters get out of hand.”

China has bucked the [global inflation](#) trend of other large economies, many of which unleashed sweeping stimulus efforts during the pandemic. Beijing, by contrast, sought to control the virus through a three-year zero-Covid policy.

Chinese policymakers have attempted to project confidence in the economy since the reopening, cutting some interest rates and offering tax incentives to businesses, but they have stopped short of major stimulus. The ruling Communist party politburo conceded late last month that the recovery was making “tortuous progress” and said it would “actively expand domestic demand”.

China's 'core' inflation ticks up but remains far lower than that of peers

Consumer price index excluding food and energy, year-on-year change (%)



The National Bureau of Statistics on Wednesday said average consumer price inflation over the year to date was just 0.5 per cent, far trailing the government's target average inflation rate of 3 per cent this year, highlighting the growing divergence between expectations and the reality on the ground.

Beijing's gross domestic product growth target of 5 per cent for 2023, the lowest in decades, was originally seen as cautious, but months of consistently weak data have fuelled wider pessimism over the growth outlook.

The economy expanded just 0.8 per cent between the first and second quarters of the year, while data published on Tuesday showed [July exports declined](#) 14.5 per cent year on year, the steepest fall since the start of the pandemic. Imports declined 12.4 per cent year on year in dollar terms, the biggest fall since January.

Dan Wang, a Shanghai-based economist at Hang Seng Bank, said the inflation and trade numbers were “a reflection of lower purchasing power and weak consumer confidence”.

Further data releases next week will provide a broad overview of economic activity in July, including industrial production and retail sales.

Consumer prices in China have been strongly affected in recent years by pork prices, which the NBS said declined 26 per cent in July year on year. Core inflation, which strips out more volatile food and energy prices, rose 0.8 per cent.

Producer prices, which are heavily driven by the cost of commodities and raw materials, have been mired in negative territory for the past 10 months, while manufacturing activity has [contracted for four consecutive months](#), reflecting flagging demand for Chinese exports.

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