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ASIA NEWS

China Inflation Picks Up in February

China's consumer-price index rose 1.4% in February but economists warn it may be short-lived



Customers select goods at a supermarket in Lianyungang, Jiangsu province, on Feb. 9, 2015. PHOTO: REUTERS

By MARK MAGNIER

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BEIJING—Higher food prices over the Lunar New Year holiday pushed up consumer inflation in China in February, according to official figures released Tuesday, helping for now to ease concerns over deflationary risks in the world's second-largest economy.

Food prices led by fruit and vegetables rose at a robust pace during the holiday and a slight uptick in oil prices eased what had been downward pressure on transport costs, as tens of millions of Chinese traveled to their hometowns to feast and relax.

The rise is a reprieve after months of diminishing price increases, but economists said it might be short-lived, given the distorting effects of the holiday. “China’s deflation risks are going nowhere,” said CIMB economist Zhang Fan. “The headline figure of February doesn’t tell the real story as it is distorted by the timing of the Chinese New Year.”

China’s consumer-price index rose 1.4% in February from a year earlier, significantly faster than the 0.8% five-year low in January, according to the National Bureau of Statistics. February’s CPI increase exceeded economists’ expectations and remained well below the government’s goal of keeping inflation under 3% for the full year. Economists said they expect consumer inflation to remain subdued for the foreseeable future.

China’s producer-price index dropped 4.8% in February from a year earlier, deepening from a 4.3% year-over-year fall in January and marking three full years of price declines at the factory gate.

Falling producer prices don't bode well for businesses, which will face “squeezed profit margins,” said HSBC economist Ma Xiaoping. “Many people say the contraction in the PPI is mainly the result of international commodity prices, but I don’t think that explains all the slowdown. There’s still weak demand in China.”

China’s economy grew by 7.4% last year, its slowest pace in nearly a quarter century. Beijing has set a growth target of about 7% for 2015 although the International Monetary Fund is forecasting growth of 6.8%.

China’s central bank cited the weak inflationary trend since late 2014 as a reason for its quarter of a percentage point cut in benchmark interest rates effective March 1—China’s second rate cut in little over three months. The bank said the reduction was intended to correct a situation in which lower prices were in effect raising financing costs for businesses.

For factory owners, however, the half-percentage point fall in producer prices largely cancels out the rate cut’s effect, said Oliver Barron, head of China research with investment bank North Square Blue Oak. “So the interest rate cut may not have significant impact in easing borrowing costs,” he added.

In addition to higher food prices, Chinese consumers also were pinched last month by modest inflation in prices of household goods, health care and clothing.

“My daughter studies in a university in Wuhan and when she finally came back for the Lunar New Year Festival, of course I needed to buy her some pretty clothes,” said Zhou Hua, a 48-year-old high-school teacher, referring to a city in central China. “Clothes are getting more and more expensive. You know, a nice coat for a girl costs nearly 1,000 yuan,” or \$160.

According to Premise Data Corp., a database that tracks the cost of food, vegetable prices in China rose 6.2% over the past 30 days, seafood was up 3.7% and processed meat prices were down 4.0%, part of a 1.2% overall increase for food prices over the past month.

—Liyang Qi and William Kazer and contributed to this article.

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