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China Inflation Holds Steady in April

Data adds to pressure on Beijing to ease monetary policy further

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A staff member places vegetables at a supermarket in Cangzhou, China. Consumer inflation in China rose slightly in April on higher food costs while prices at the factory gate declined faster than expected. Photo: Zuma Press

BEIJING--Consumer inflation in China rose slightly in April on higher food costs while prices at the factory gate declined faster than expected, adding pressure on Beijing to ease monetary policy in the world's second-largest economy.

China's consumer-price index rose 1.5% in April from a year earlier, up modestly from a 1.4% rise in March, the National Bureau of Statistics reported Saturday. This was well below Beijing's goal of keeping inflation below 3% this year and slightly below the median 1.6% increase expected by 13 economists in a survey by The Wall Street Journal.

China's producer-price index fell 4.6% year-over-year in April, unchanged from the 4.6% decline in March, but at a faster rate than the economists expected.

“There is still sign of producer price deflation, which has been a growing concern over the last six months,” said Oliver Barron, head of China research with investment bank North Square Blue Oak. “This will justify more aggressive easing.”

ANZ said in a research note that sluggish demand in China suggest that factory prices are likely to decline for the foreseeable future. As deflationary pressure mounts, the current pullback in China’s equity markets provide a good window for a quarter-percentage point rate cut since “the funds will be more likely channeled to the real sector, rather than the stock market,” ANZ said.

The inflation data follows a string of weak indicators. Exports fell unexpectedly in April. And despite recent monetary policy easing, industrial profits are down and the real-estate market continues to swoon, reducing demand for construction materials and appliances. In the first quarter, China’s gross domestic product expanded by 7.0% year-over-year, its slowest pace in six years.

“Initial figures for April point to a quite weak economy with weak demand and weak exports,” said Mizuho economist Shen Jianguang. “An interest-rate cut is very likely.”

China has cut both interest rates and bank reserve requirements twice and provided almost 1 trillion yuan (\$161.1 billion) through other liquidity mechanisms over the past two quarters but economic momentum remains weak.

Lower prices at the factory gate in April was “mainly due to a reverse in oil-product prices—from an increase to a decrease in April--and larger drops in prices of mining,” said Yu Qiumei, an analyst with the National Bureau of Statistics.

The slight uptick in April consumer inflation was supported by an 8.3% increase pork prices and a 7.2% jump in vegetable prices, official data showed. Higher oil prices and less downward pressure on property prices also provided some support, economists said.

Jin Yan, a 52-year-old tutor out shopping for vegetables in Beijing, said she watches food prices carefully and buys when they fall. In recent days, fruit prices have eased, she said.

According to Premise.com, a website that tracks global food costs, prices for a basket of 12 staple food products in China rose marginally over the past week but saw a 0.8% decline over the past 30 days.

--Liyang Qi and Mark Magnier

<http://www.wsj.com/articles/china-inflation-holds-steady-in-april-1431141548>