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CMB International Global Markets | Macro Research | Economic Perspectives

China Economy

On track for price reflation

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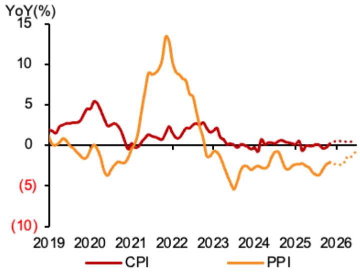
China YoY CPI rebounded back to positive territory thanks to the recovering food price and core inflation. Core CPI rose to another high, driven by the gradual recovery in service sector while durable goods remained subdued. PPI marked the first positive MoM growth in a year and narrowed its YoY contraction, as mining sectors including coal and ferrous metals saw notable surges. Downstream consumer goods remained subdued, as manufacturing of durable goods saw another decline. We have seen a mild price reflation in service and upstream manufacturing sectors, but the subdued durable goods and property sales raised questions about the consistency of the price reflation. We believe demand-driven reflation is likely to prove more sustainable than supply-induced price increases, which may encourage policymakers to enhance fiscal support for households and the real estate sector in 4Q25, to reinforce the ongoing price recovery and sustain economic growth. CPI may remain unchanged at 0.2% in 2025 and PPI may drop from -2.2% in 2024 to -2.5% in 2025, while their growth in 4Q may recover to 0.4% and -2.2% from -0.2% and -2.9% in 3Q.

- **CPI notably rebounded thanks to recovering core CPI and food price.** China's CPI YoY recovered to 0.2% in Oct from -0.3% in Sep, above market expectation at -0.1%. The drag from food narrowed to -2.9% YoY in Oct from -4.4%. In sequential terms, CPI rebounded to 0.2% from 0.1% in Sep. Food price increased by 0.3% MoM in Oct, as vegetable price rebounded by 4.3%, while pork price further dropped 2.5% in Oct. Vehicle fuel price dropped 0.8% MoM due to declining crude oil price. We expect the CPI to recover to 0.5% YoY in Nov due to lower base last year. High frequency data indicated the pork and vegetable prices were rebounding in early Nov while gas price remained subdued.

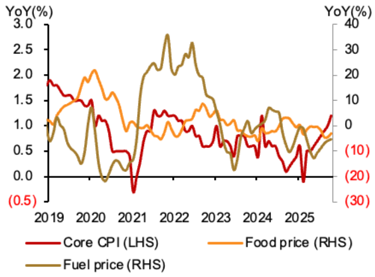
- **Core CPI continued to pick up as consumer demand for services gradually recovered.** Core inflation edged up to 1.2% YoY in Oct from 1% in Sep. Its MoM growth rose to 0.2% from 0%. Service price rose to 0.2% MoM in Oct, as tourism price expanded by 2.5% thanks to the national holiday. Prices of hotel accommodation, airline tickets and tourism notably surged. Medical and home services also saw 0.5% and 0.1% MoM growth while education, express and telecom services saw no change. Durable goods remained subdued, as home appliances and vehicles both saw -0.1% drop in Oct, while telecom equipment remained unchanged. Discretionary goods moderated as prices of clothing and footwear dropped to 0.1% and -0.1% from 0.7% and 0.8% in Sep.

- **PPI marked the first positive MoM growth in a year.** YoY contraction of PPI narrowed to -2.1% in Oct from -2.3% in Sep, beating the market expectations at -2.3%. The MoM growth saw the first positive reading in Oct at 0.2% since Nov 2024. PPI of upstream sectors saw 0.1% growth as mining industries rebounded by 1% MoM in Oct. Extraction of coal and ferrous metals grew by 1.6% and 5.3%, while the mining of crude oil & gas and non-ferrous metals dropped. PPI of raw material sectors stayed unchanged in Oct while processing sectors rebounded by 0.1%. NBS officials pointed out that YoY price contraction has notably narrowed in major anti-involution targeted sectors including photovoltaic equipment, batteries and vehicles. Downstream sectors remained subdued as PPI of consumer goods dropped 0.1% MoM. Durable goods and clothing dropped 0.3% and 0.1% in Oct respectively, while daily essentials notably rebounded by 0.7%.

- **Demand-driven reflation will be essential for sustaining a more consistent price recovery.** We have seen a mild price reflation since the



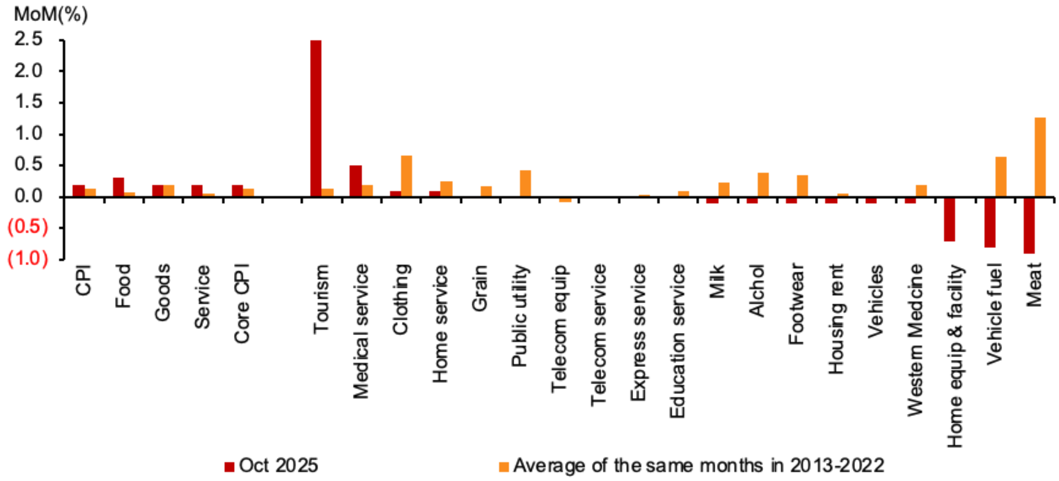
Forecast numbers from Oct 2025
Source: Wind, CMBIGM estimates



Source: Wind, CMBIGM

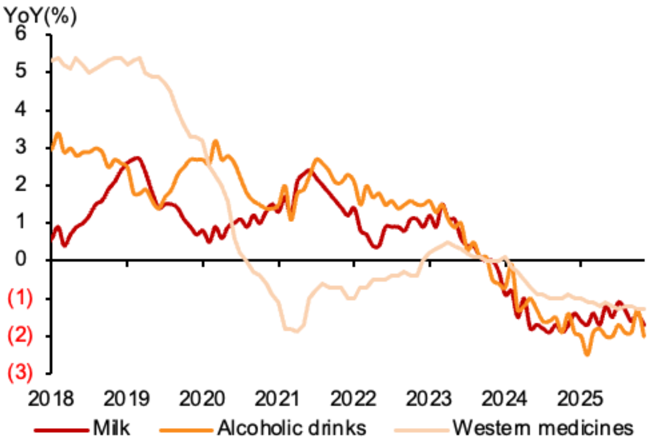
anti-involution campaign as supply containment prompted an instant rebound in upstream prices. Service prices also rose as spending shifted toward smaller-scale and self-indulgent spending. Meanwhile, durable goods and property sales remained subdued, which would cast doubt on the sustainability of the price reflation. We believe demand-driven reflation is likely to prove more sustainable than supply-induced price increases, which may encourage policymakers to enhance fiscal support for households and the real estate sector in 4Q25 to reinforce the ongoing price recovery and broader economic growth. We expect 10bps LPR cut and 50bps RRR cut by the central bank in Nov or Dec.

Figure 1: MoM Changes of China CPI in Oct



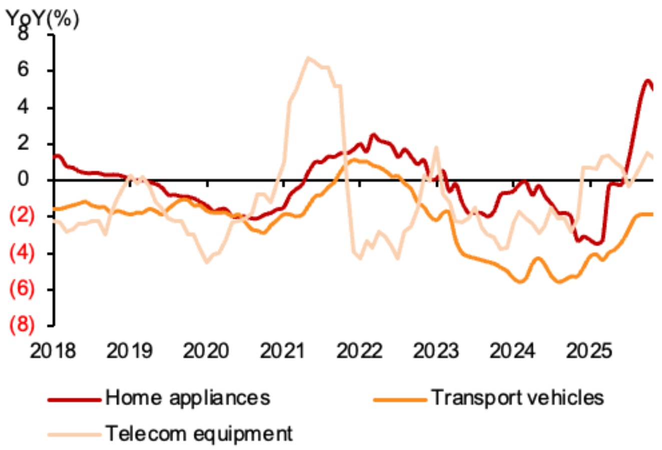
Source: Wind, CMBIGM

Figure 2: China CPI growth in staples



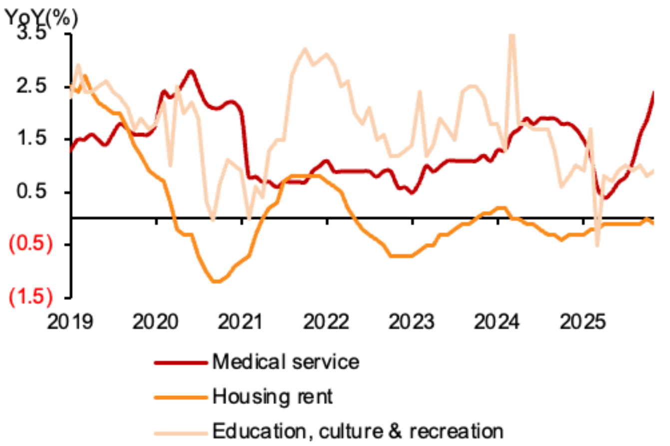
Source: Wind, CMBIGM

Figure 3: China CPI growth in durables



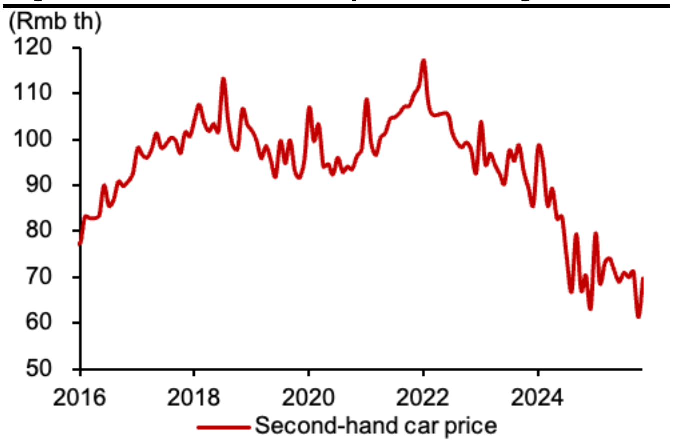
Source: Wind, CMBIGM

Figure 4: China CPI growth in services



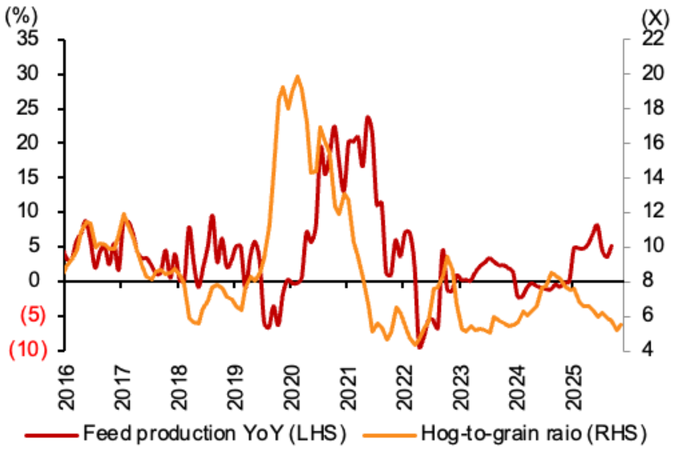
Source: Wind, CMBIGM

Figure 5: Second-hand car price in Shanghai



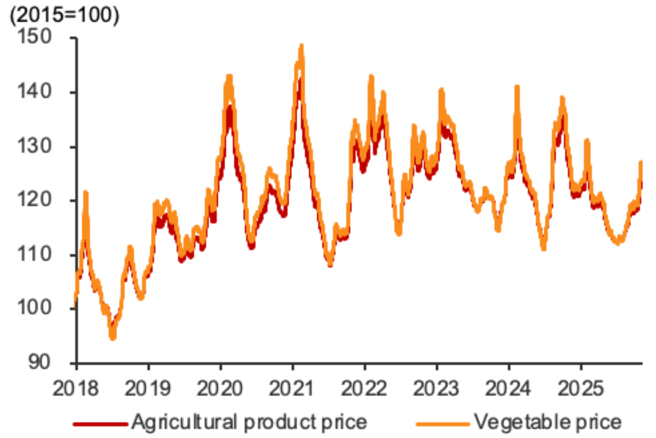
Source: Wind, CMBIGM

Figure 6: Feed production & hog-to-grain ratio



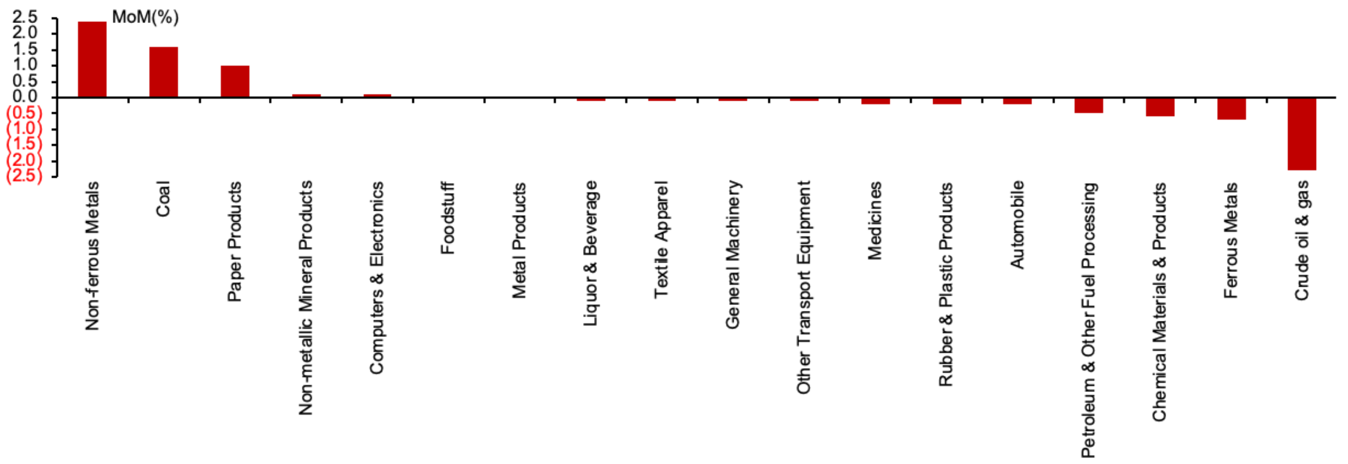
Source: Wind, CMBIGM

Figure 7: Agricultural and vegetable prices



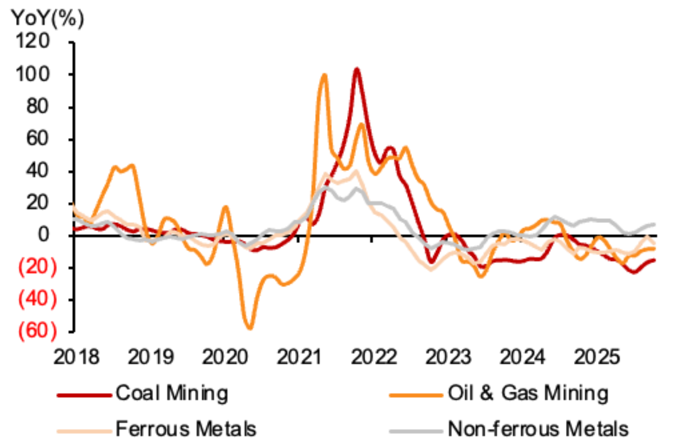
Source: Wind, CMBIGM

Figure 8: MoM changes of China PPI in Oct



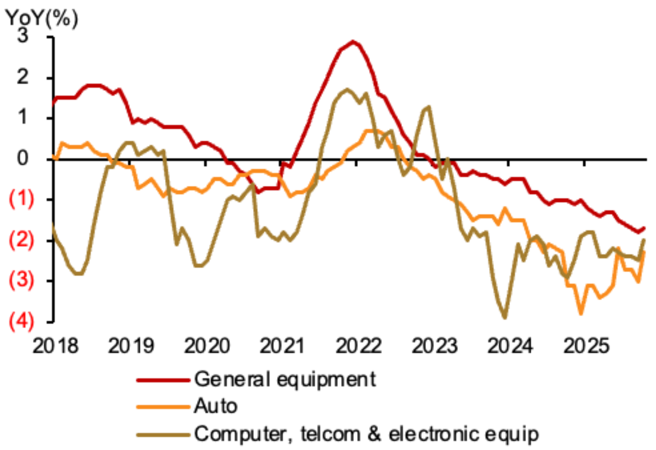
Source: Wind, CMBIGM

Figure 9: China PPI in energy & metals



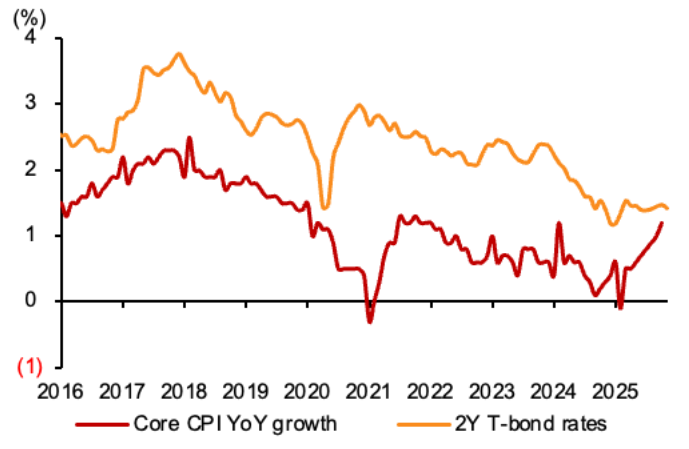
Source: Wind, CMBIGM

Figure 10: China PPI in equipment



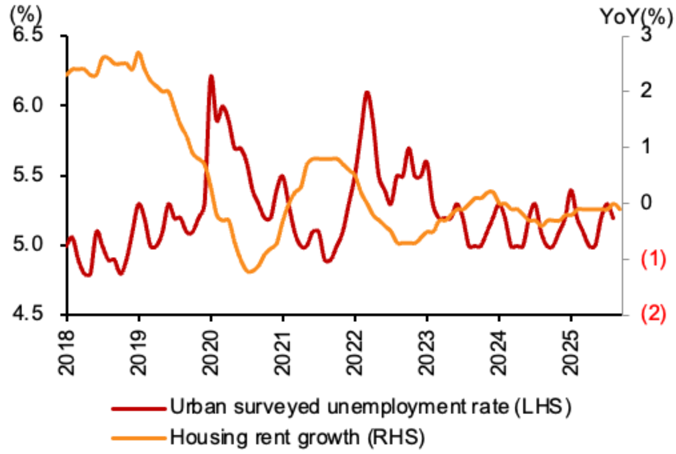
Source: Wind, CMBIGM

Figure 11: China core CPI growth & 2Y T-bond rates



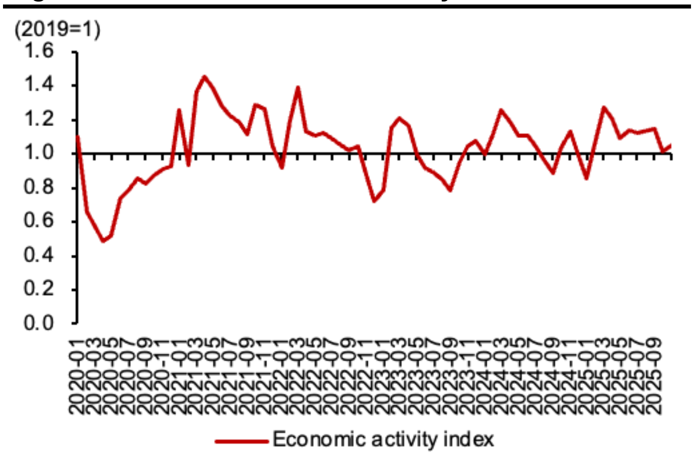
Source: Wind, CMBIGM

Figure 12: Unemployment rate and rent growth



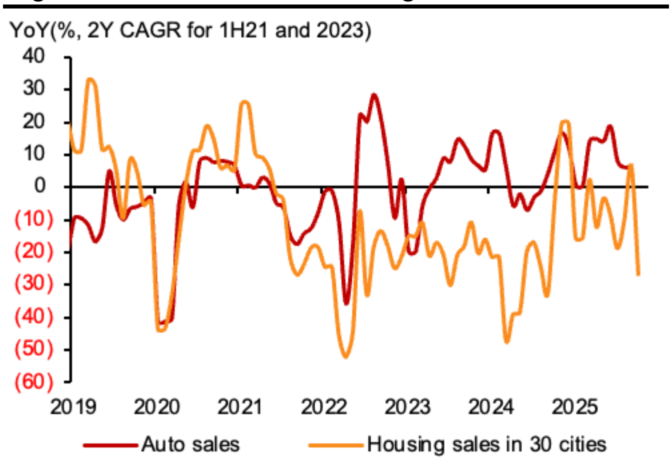
Source: Wind, CMBIGM estimates

Figure 13: China Economic Activity Index



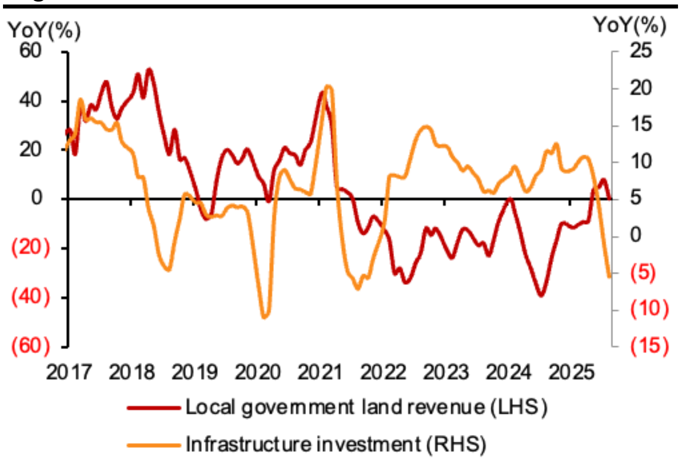
Source: Wind, CMBIGM

Figure 14: China auto & housing sales



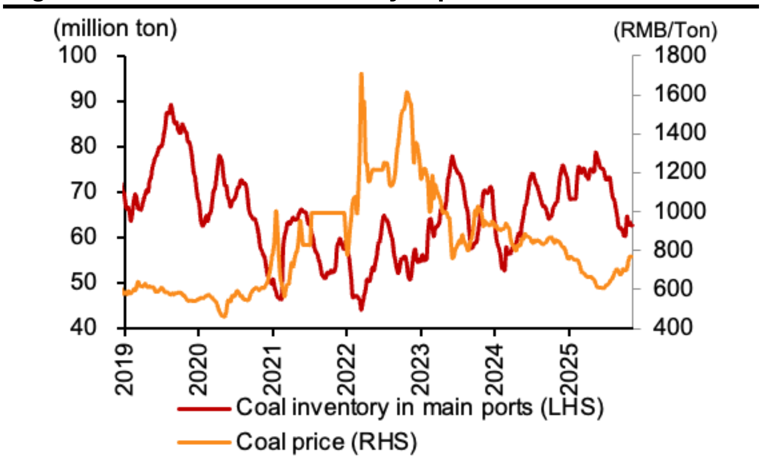
Source: Bloomberg, CMBIGM

Figure 15: Infrastructure investment in China



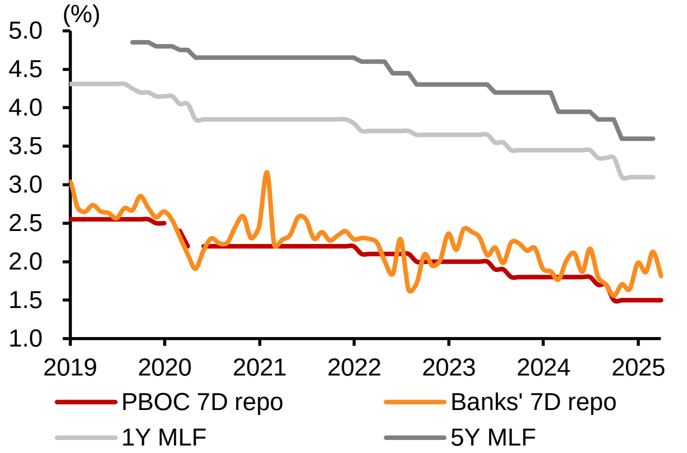
Source: Bloomberg, CMBIGM

Figure 16: China coal inventory & price



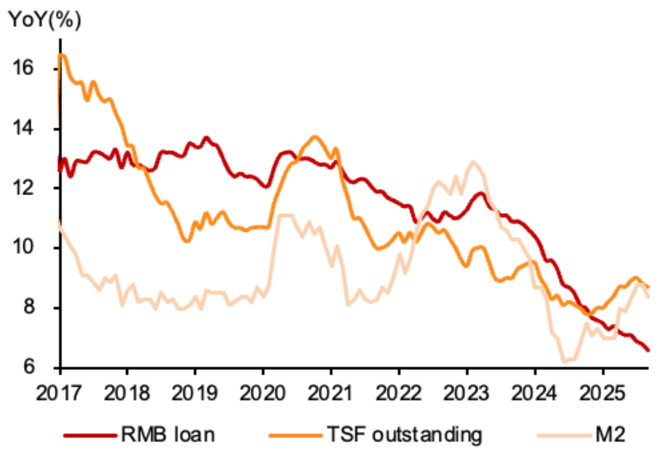
Source: Wind, CMBIGM

Figure 17: PBOC policy rates & liquidity condition



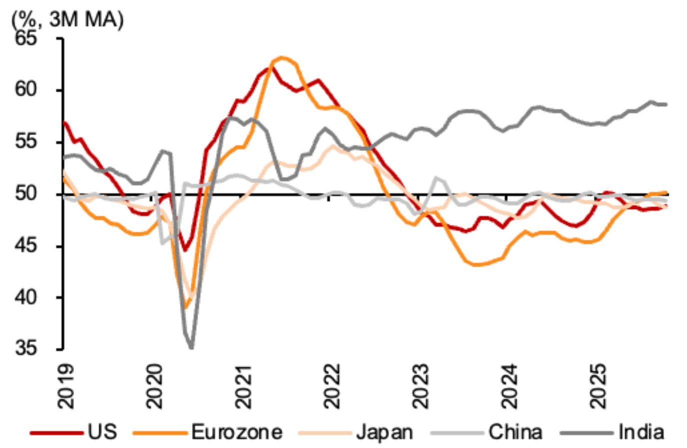
Source: Bloomberg, CMBIGM

Figure 18: China credit growth



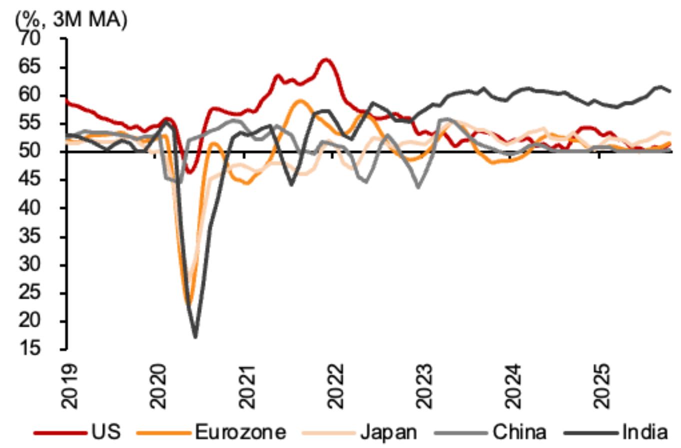
Source: Wind, CMBIGM

Figure 19: Manufacturing PMI of major economies



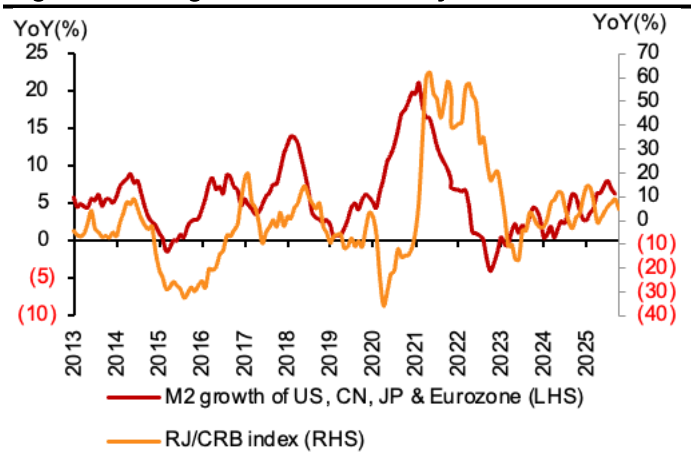
Source: Bloomberg, CMBIGM

Figure 20: Service PMI of major economies



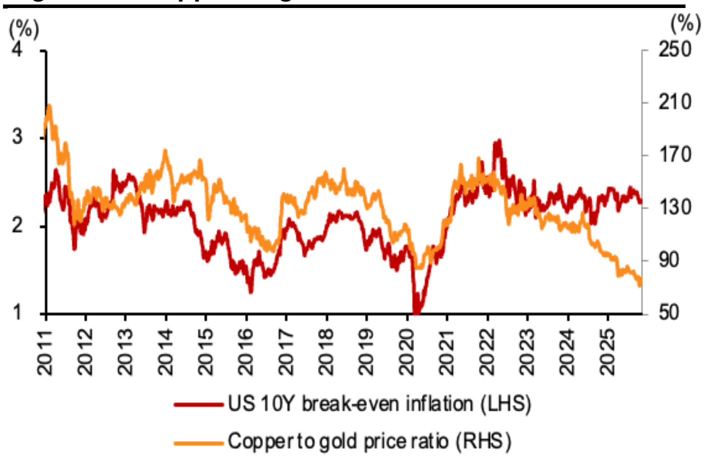
Source: Wind, CMBIGM

Figure 21: M2 growth & commodity inflation



Source: Bloomberg, CMBIGM

Figure 22: Copper-to-gold ratio



Source: Wind, CMBIGM

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