No signs of deflation seen amid recovery

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A view of Beijing's CBD area on Aug 19, 2022. [Photo/VCG]

Economic indicators show renewed vigor due to positive demand, policy support

China's economy is positioned for continued recovery given the ongoing policy support and an uptick in economic indicators, keeping any potential risk of deflation at bay, officials and international experts said on Wednesday.

"Since the beginning of the year, prices have been at a low level, which we need to pay attention to," said Cong Liang, deputy head of the National Development and Reform Commission.

"However, taking into account the price level, demand recovery, economic growth and money supply factors, it can be concluded that there is no so-called deflation in the Chinese economy, and deflation will not occur later on," Cong said at a news conference on Wednesday.

China's consumer price index, a major gauge of inflation, showed a positive growth of 0.1 percent year-on-year in August amid recovering domestic demand characterized by accelerated retail sales, a pickup in lending activity and signs of a property market uptick in some regions, official data showed.

Price levels are likely to continue to improve and reach close to the annual average as market demand recovers while the unfavorable base effect fades, Cong said.

He added that policymakers will amplify macroeconomic adjustments while focusing on expanding domestic demand, boosting confidence and preventing risks. "The economy will pick up with a positive long-term outlook as positive factors add up while the policy effect accumulates."

Hoe Ee Khor, chief economist of the ASEAN+3 Macroeconomic Research Office, said he does not see China anywhere near deflation. "China's economy is nowhere near a state where the economy is seeing very sluggish demand and low credit or money supply growth – conditions usually associated with deflation."

Thanks to well-calibrated and targeted policies and a gradual recovery in external demand, China's economy should continue to regain its vitality through 2023 and pick up moderately in 2024, which does not indicate deflationary outcomes, Khor said.

"We think that low inflation is going to be temporary while deflation is unlikely," said Yothin Jinjarak, senior economist at the Asian Development Bank's resident mission in China. In the latest edition of the Asian Development Outlook, issued on Wednesday, the ADB forecast that China's CPI growth will reach 0.7 percent this year and 2 percent in 2024, compared with a 0.7 percent growth in the first half of this year and a 0.3 percent drop in July.

Rani Jarkas, chairman of Cedrus Group, said that China's low inflation actually provides scope for injecting more stimulus. "China's GDP growth was very strong in the first half of 2023, and this trend will continue in the fourth quarter amid rebounding consumer confidence."

Zou Lan, head of the monetary policy department of the People's Bank of China, said the central bank will strengthen counter-cyclical adjustments as there remains ample policy space to deal with any greater-than-expected challenges.

Zou said the central bank will keep liquidity conditions ample, lower financing costs of the real economy and encourage financial institutions to reprice outstanding mortgages and support the resolution of local government debt risks.

"Various tools in reserve will be used to improve the supply-demand relationship in the foreign exchange market to resolutely fend off the risk of exchange rate overshooting," Zou said, adding that the Chinese renminbi has strengthened against non-dollar currencies since mid-July despite weakening against the greenback.

Jarkas said that the private Swiss financial group believes the renminbi has bottomed out and will strengthen in the next eight months due to the waning strength of the US dollar and growing confidence in the Chinese economy.