

Fears over deflation in China as prices plummet

China's annual inflation rate has dropped to -0.3%, heightening fears the country's sluggish recovery from COVID could have a wider impact on the global economy.

The year-on-year drop in the consumer price index (CPI) in July comes after figures earlier this week revealed imports and exports in the country also fell much faster than expected last month.

CPI had been at zero the month before.

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There had been hopes that business would boom in China as it [reopened following severe lockdown restrictions](#), which in turn would potentially help the wider global economy.

But, amid signs of a stuttering recovery and low consumer confidence, there are fears the country could now be entering an era of much slower economic growth, causing prices and wages to stagnate.

Officials said on Wednesday that the producer price index (PPI) was also down 4.4% on a year earlier, the 10th consecutive decline in a row for factory gate prices.

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It comes in contrast to many Western nations, including the UK, which have been struggling with [high inflation](#). That has led central banks to hike [interest rates](#) in an attempt to slow the pace of soaring prices.

Gary Ng, a senior economist at Natixis, said the latest figures “shows China’s slower-than-expected economic rebound is not strong enough to offset the weaker global demand and lift commodity prices.”

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The data has prompted calls for authorities in Beijing to take

further action to stimulate the economy, although some believe it may just be a temporary blip.

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Chinese authorities have also downplayed concerns about deflation.

Liu Guoqiang, deputy governor of the central bank, predicted last month there was no risk of deflation in the second half of the year, but cautioned the economy still needed time to return to normal after the pandemic.

The annual fall in CPI last month has been blamed on a sharp decline in pork prices, which came as ample supplies reduced demand.

But on a month-on-month basis, it actually rose 0.2%, driven

by a surge in holiday travel.

China recorded an average CPI rate of 2% in 2022 and officials in Beijing have set a target of around 3% for this year.