Chinese Industrial Growth and Inflation Prospects Dim

Core inflation is creeping up in advanced economies, but has turned down in emerging markets.

**Industrial Inflation in Retreat** Because ECRI’s approach is less sensitive to data quality issues than standard model-driven methods, it can provide highly nuanced cyclical insights into the Chinese economy. Today, our Chinese Leading Industrial Production Index (CNLIPI) is pointing to a deepening industrial slowdown, accompanied by intensifying disinflationary pressures in the Chinese industrial sector.

In fact, following the downturn in year-over-year (yoy) CNLIPI growth (Chart 1, top line), yoy Chinese Producer Price Index (PPI) growth has turned down, dropping to a 15-month low in February (bottom line) – a downturn we had apprehended last fall on the basis of already-sliding CNLIPI growth *(ICO Focus, November 2017)*. With CNLIPI growth staying in a cyclical downswing, PPI inflation is poised to fall further in the coming months.

This industrial disinflation is consistent with the ongoing slowdown in Chinese industrial production growth, which “continues to be in a cyclical downtrend.”

Meanwhile, according to our Chinese Long Leading Index, overall Chinese economic growth prospects “remain reasonably upbeat” *(ICO Country Pages, March 2018)*.

Cycles in industrial growth tend to be internationally synchronized, giving rise to a global industrial growth cycle. The current downturn in global industrial growth has recently begun to dawn on the consensus, given “unexpected” weakening in purchasing managers index (PMI) data for manufacturing. In particular, driven by the slowdown in China, the International Cycling Outlook (ICO) expects the world’s largest economies to slow over the next six to 12 months.

**Absent a surge in private saving or a plunge in investment, U.S. fiscal policy threatens to lock in a ballooning structural trade deficit,** defeating a primary policy objective of the Trump administration.