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In China, Inflation Eases as Growth Slows

By EDWARD WONG

BEIJING — The Chinese government announced on Friday a significant drop in inflation, which gives leaders more leeway in managing the economy and continuing with a policy of loosening lending or cutting interest rates to help sustain economic growth.

The government said year-on-year price inflation dropped to 3.2 percent in February from 4.5 percent in January; it was the smallest rise since June 2010. The index has climbed an average of 3.9 percent in the first two months of 2012. Officials recently announced that the government’s aim is to keep average monthly inflation below 4 percent this year. Inflation for food, which causes more consternation among Chinese than virtually all other economic factors, fell to 6.2 percent in February from 10.5 percent in January.

A batch of other data released Friday likewise suggested economic growth was cooling moderately. Retail sales in the January-February period rose 14.7 per cent from a year earlier, according to a statement on the website of the statistics bureau. Fixed asset investment rose 21.5 per cent during the two month period, while industrial output increased 11.4 per cent. China reports data for the first two months of the year on a combined basis to account for the effects of Lunar New Year, which came in January this year.

Officials said the producer price index, a gauge of inflation at the wholesale level, showed no growth from a year earlier. The zero-growth measurement was the lowest since December 2009; it came down slightly from the .7 percent rise in January and significantly from a 7.5 percent rise of July 2011, which was a 31-month high.

“With monetary policy locked – for now – on a path of restrained loosening, inflation can be safely relegated from the top-spot of government concerns,” Alistair Thornton, an analyst based in Beijing for IHS Global Insight, wrote in an analyst’s note on Friday. “That said, price gains are not totally off the radar, given structural pressure from demographic shifts and high international commodity prices. Indeed, there is a tricky balance to be played going forward."

Officials and economists in Beijing appear to be bracing themselves for global factors that would contribute to a slowdown in growth in China this year. Some senior officials have also spoken about the need to rebalance the economy by veering it away from a heavy reliance on exports and investment and more towards domestic consumption, a policy that would also lead to a slowdown if actually embraced. On Monday, Prime Minister Wen Jiabao predicted at the opening of an annual meeting of the National People's Congress that China's growth for 2012 would be 7.5 percent, a steep drop from the 9.2 percent of last year. But Mr. Wen said his estimated growth was still in line with the targeted average growth rate of 7 percent through 2015 that was set in a five-year plan unveiled in 2011.

"The concern I've been picking up is largely about whether growth will hold up this year, because there's the anticipation of a big external shock," said Eswar S. Prasad, an economist at Cornell University and former head of the International Monetary Fund's China division. "The U.S. economy is picking up, but not a great deal. Europe is in trouble. And these two countries together account for about 45 percent of China's exports. So it's not looking good in terms of the export markets."

In the final quarter of 2011, growth dipped to 8.9 percent, the lowest in two-and-a-half years. A slowdown in exports prompted officials to loosen monetary policy in December. Chinese leaders have been trying to solve the conundrum of how to tamp down inflation, including cooling property prices; keep up growth; and rebalance away from exports and investment. Critics of the Chinese economic model say China's growth is driven too much by capital-intensive investment projects, and that household consumption makes up too small a percentage of gross domestic product.

In addition, they say, there are increasingly serious structural problems with the dominance of state-owned enterprises, which curbs market forces. Those enterprises are at the forefront of what many Chinese scholars critically call the "vested interests" that hold enormous sway over the Chinese leadership and that have resulted in a rollback of economic reforms.

The World Bank released a study in late February, "China 2030," done with the help of a Chinese government research center, that calls on China to rein in the state sector and move forward with stalled reforms.

Michael Wines contributed reporting from Beijing.

This article has been revised to reflect the following correction:

Correction: March 9, 2012

An earlier version of this article misspelled the first name of the former head of the International Monetary Fund's China division. He is Eswar S. Prasad, not Esward.