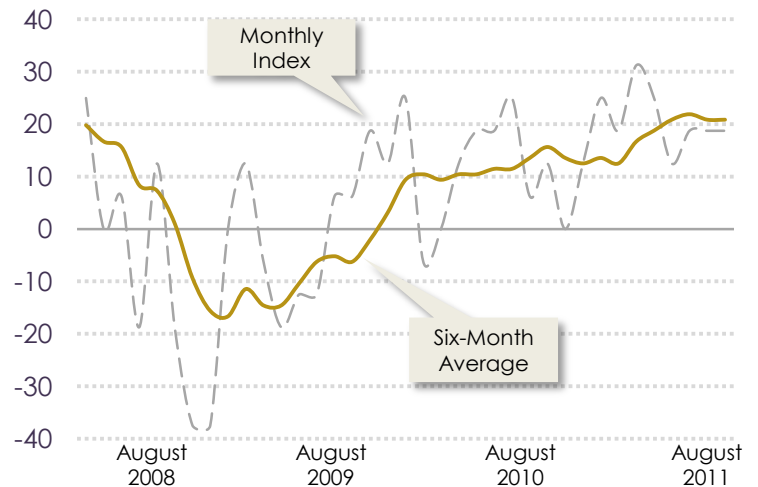


## China Inflation Momentum Index

The China Inflation Momentum Monitor held steady at +18.8 from July to August. The six-month moving average also held steady at +20.8. Demand, Business Activity, Money & Credit, and Global Factors all made positive contributions to the Index. Energy & Commodities made a negative contribution, and Consumer Activity was neutral. Despite tighter monetary policy, real estate prices continue to rise, the PPI for food is up 8.6% year-year, and CPI inflation is at a 3-year high annual rate of 6.4%. Overall, the Index suggests that inflationary momentum may be plateauing, but it is too early to tell if prices will begin to decelerate.



## Drivers



**Demand** factors accelerated from 4.8 to 5.9. Electricity output and plate glass output accelerated sharply. Motor vehicle output and the PMI for manufacturing improved, but are in a decelerating phase.



**Business Activity** decelerated from 6.0 to 5.2. The MSCI China Index held steady, while growth in office building prices slowed down.



**Money & Credit** accelerated from 4.9 to 6.2. The 30-day interbank rate increased sharply, M1 is decelerating rapidly, and the reserve requirement ratio for rural & small banks held relatively steady.



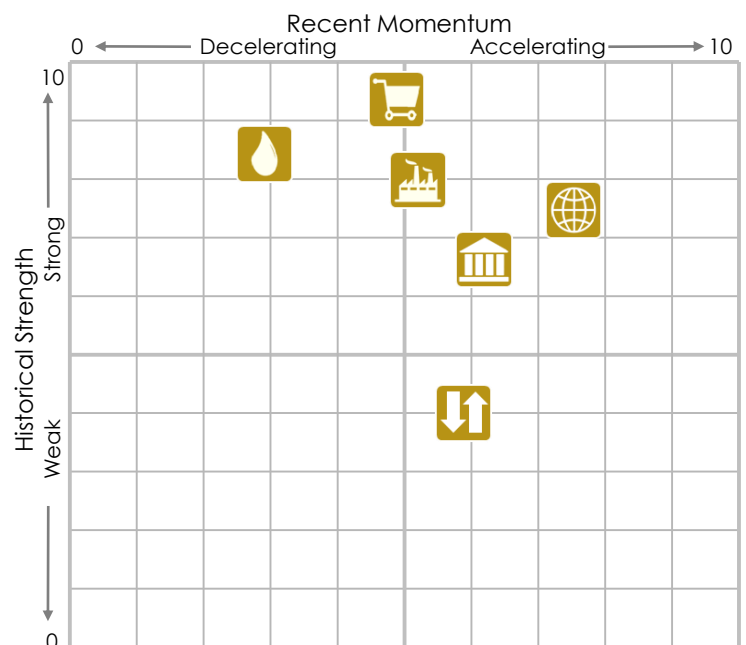
**Consumer Activity** decelerated from 5.7 to 4.9. Durable consumer goods prices decelerated, and food prices held relatively steady.



**Energy & Commodities** decelerated from 3.5 to 2.9. Prices for metals and mining and transportation equipment improved somewhat, but the PPI for gas fell sharply.



**Global Factors** accelerated from 6.6 to 7.5. The exchange rate held relatively steady, and export prices rose.



## Key Data Point

**+232**

Basis point increase in the 30-day Interbank Rate from one year ago.

## Signal To Watch



Will authorities continue to tighten monetary policy in an attempt to cool down real estate markets?

# China Inflation Momentum Monitor Data Table

	Indicator	Units	Latest Tick	Recent Momentum		Historical Strength		Comments
				Indicator Rating	Sector Rating	Indicator Rating	Sector Rating	
				(0-10)	(0-10)	(0-10)	(0-10)	
Demand	Electricity Output	100 Million kWh	4,252	9.43	5.88	5.20	4.00	Energy demand indicator; Up 7.1% from last month
	Plate Glass Output	10,000 Weight Cases	7,348	9.87		9.31		Widely used in construction; Up 13.7% m/m and 33.6% y/y
	Motor Vehicle Output	10,000 Units	149	2.55		0.44		Increased 4.1% from last month
	PMI Manufacturing	Index	50.7	1.68		1.05		Above 50 indicates expansion; Declined 4 months in a row
Business Activity	MSCI China Index	Index (EOP, Dec 92=100)	65	3.28	5.20	7.51	7.98	Indicator of market sentiment; Down three consecutive months
	Price of Office Buildings Sold	Yuan per Square Meter	13,032	7.12		8.45		Prices for commercial real estate; Up 17.5% y/y
Money & Credit	30-Day Interbank Rate	% Per Annum (Wgtd Avg)	5.77	9.64	6.19	9.54	6.62	Indicator of monetary policy; Increased 232 basis points y/y
	M1	Billion Yuan	27,150	0.26		0.33		Money supply; First decline in 6 months
	Reserve Requirement Ratio	Percent (EOP)	18.00	8.66		10.00		Measure of credit tightness; Steady at all-time high
Consumer Activity	PPI: Durable Consumer Goods	Index (100+=rising)	100	4.68	4.88	9.30	9.36	Flat two months in a row, and down -0.3% y/y
	PPI: Food	Index (100+=rising)	109	5.08		9.41		Food has an estimated 30% weight in China CPI; Up 8.6% y/y
Energy & Commodities	PPI: Ferrous Metals & Mining	Index (100+=rising)	112	2.67	2.91	6.81	8.42	Up slightly after a three-month decline
	PPI: Transportation Equipment Manufacturing	Index (100+=rising)	100	4.37		8.55		Up slightly this month, but down 0.3% y/y
	PPI: Production & Supply of Gas	Index (100+=rising)	112	1.69		9.91		Down two months in a row
Global Factors	Broad Nominal Effective Exchange Rate	Index (2000=100)	106	5.59	7.53	4.94	7.47	Weaker currency increases inflationary pressure; Reached a 36-month low
	Export Price Index	Index (2005=100)	112	9.47		10.00		Up 2.2% from last month to reach a new all-time high

<sup>1</sup> "Recent Momentum" represents an indicator's recent acceleration or deceleration in the past month relative to its average movement in the previous 3 months. Ratings below 5.0 represent an indicator that is decelerating more rapidly than average, while ratings above 5.0 represent an indicator that is accelerating more rapidly than average.

<sup>2</sup> "Historical Strength" represents an indicator's strength or weakness in the previous 3 months relative to its average level in the past 10 years. Ratings below 5.0 represent an indicator that is weaker than average, while ratings above 5.0 represent an indicator that is stronger than average.

## About The U.S. Economic Momentum Monitor

The U.S. Economic Momentum Monitor is designed to anticipate shifts in the economy likely to affect U.S. GDP over the following three months. It is based on analysis of 15 high-frequency indicators (i.e., published at least once per month) with a proven history of signaling the direction of the U.S. economy in the near term. The 15 indicators are organized into five economic sectors: business activity, employment, consumer spending, investment, and housing. Overall shifts in the economy are signaled by the Economic Momentum Index, a diffusion index that reflects the percentage of indicators increasing relative to the percentage decreasing. Sources of momentum are identified through the Sector Performance Matrix, which is based on a combination of each sector's recent momentum and historical strength. For additional information about monthly subscriptions to the U.S. Economic Momentum Monitor or the index's leading properties, contact Mark W. McNulty at [mmcnulty@keybridgeresearch.com](mailto:mmcnulty@keybridgeresearch.com).