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Wen Says China Succeeding in Inflation Battle with Price Gains Set to Slow

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Premier Wen Jiabao said that China's efforts to stem inflation have worked and that the pace of consumer-price increases will slow, an assessment that contrasts with some economists advocating further steps.

"There is concern as to whether China can rein in inflation and sustain its rapid development -- my answer is an emphatic yes," Wen wrote in an opinion piece in the Financial Times newspaper. "China has made capping price rises the priority of macroeconomic regulation and introduced a host of targeted policies. These have worked. The overall price level is within a controllable range and is expected to drop steadily."

China has paused for 11 weeks in raising interest rates, the longest gap since increases began in October, even as analysts predict inflation will surpass 6 percent for the first time since 2008 in coming months. Money-market rates fell and stocks rose after Wen's remarks, driving the country's benchmark stock index to its biggest weekly gain in almost eight months.

"Premier Wen's comments appear primarily targeted at calming inflation expectations, which continue to run high as successive tightening measures have been met with steady increases" in consumer prices, said Alistair Thornton, a Beijing-based economist with IHS Global Insight. "We still expect one more interest-rate hike."

Stocks Advance

The seven-day repo rate fell 63 basis points to 8.41 percent as of the 4:30 p.m. close in Shanghai, according to a weighted average rate compiled by the National Interbank Funding Center. The Shanghai Composite Index, which has tumbled about 10 percent from the year's April peak, rose 2.2 percent to 2,746.21 at the 3 p.m. local-time close, the biggest gain since Feb. 14.

Wen pointed to evidence of a moderation in lending and money supply, an "oversupply of main industrial products" and "abundant" grain. A private survey of factory purchasing managers yesterday indicated that output and input prices climbed at a slower rate in June.

China's M2 money supply gauge rose 15 percent in May from a year before, the least since November 2008. Banks extended 3.55 trillion yuan ($549 billion) in new loans in the first five months of the year, down 12 percent from the same period last year and 40 percent smaller than in 2009, when policy makers encouraged a record credit boom to cushion the nation from the impact of the global financial crisis. With one-year bank deposit rates more than 2 percentage points below the pace of consumer-price gains, inflation continues to erode household savings.

Back to Normal

"Growth in money and credit supply has returned to normal," said Wen, who is scheduled to travel to Europe next week as European officials struggle to contain a sovereign debt crisis.

The National Development and Reform Commission said this week that inflation may accelerate this month and "remain elevated for some months." The China Securities Journal said in an unsigned front-page editorial this week that consumer prices may jump by more than 6 percent this month after climbing 5.5 percent in May, adding pressure for the People's Bank of China to increase rates again.

The central bank has raised rates four times starting in October and boosted banks' reserve requirements nine times since November to a record 21.5 percent for the biggest lenders.

Not all analysts see further monetary tightening, given signs of slowing economic growth prompted in part by a rising U.S. unemployment rate, Europe's sovereign-debt concerns and evidence of weakening consumer demand in China.

Shift in Stance

"We think the balance of risks for the State Council has shifted to growth from inflation," Tim Condon, the Singapore- based head of Asia research at ING Groep NV, wrote in a research note. "We view Wednesday's comment by an NDRC official that inflation could accelerate in June as preparing public opinion for higher inflation," he said, reiterating his call for no further rate rises this year.

In a sign manufacturing expansion is easing, passenger-car sales fell for the first time in more than two years in May as the government phased out incentives. Automakers including Honda Motor Co. also cut production due to a shortage of components following Japan's earthquake.

China's efforts to cool real-estate prices are damping demand for housing, prompting Standard & Poor's to cut the outlook on Chinese developers to negative from stable last week. The value of land sales in Beijing this year has dropped 75 percent, the Securities Times reported this week, citing data from Centaline Property Agency Ltd.

Still, demand for steel and cement may be sustained by Wen's campaign to start building 10 million low-cost homes this year. Local government financing vehicles will be allowed to sell bonds to fund the construction of such projects, according to a notice on the website of the NDRC's Anhui province branch on June 16.

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