Abstract

The ongoing producer price deflation in China and other Asian economies is a genuine concern. In particular, China’s producer prices are down a cumulative 12.7 percent from their peak in 2011, extending the stretch of negative producer price readings for 52 months in a row. Given the problem of overcapacity and heavy debt burden, this persistent decline in the producer price index could hurt corporate revenue, which limits fixed investments and the country's overall growth. Against this background, the paper analyses the determinants of the producer price decline across 11 Asian economies, and finds that the recent synchronous and protracted producer price deflation is driven by weak production growth, sharp declines in commodity prices, spillover effects from China’s producer price deflation and policy uncertainty and, to a lesser extent, exchange rate pass-through. Since China is at the heart of the region’s producer price deflation challenge, we also discuss the necessary structural adjustments in China to cope with the decline and head off deflationary threats.

Keywords: Producer prices, international spillovers, deflation, Asia, structural adjustments, China

JEL-Classification: C23, C32, E31