

Chinese Inflation

Food inflation in China is soaring at 17.6 per cent per annum. With millions of low income people in China, many households are feeling the effects of higher inflation. Some are avoiding supermarkets for fear of having to agonize about whether they can afford to buy something. Others attend markets at closing time and buy produce which would otherwise be placed in the refuge.

The human pain of rising inflation is triggering new fears of social unrest and raising concerns about an overheating economy and the danger of an inflationary impact on the global economy.

The general level of prices in China is around 6.5 per cent, an 11 year high. Food prices were the biggest contributor, with vegetable prices rising by almost 30 per cent, cooking oils jumping 34 per cent, and the price of pork - a mainstay of the Chinese diet - escalating 55 per cent.

China's central bank had aimed to keep inflation to 3 per cent this year, but last week it was forced to acknowledge that inflation would be closer to 4.5 per cent this year.

Producer prices are also rising with steel and cement up 3.2 per cent, Property is rising in price, money supply is growing and wages are rising fast.

The government hopes to weather the inflationary storm by waiting for farmers to increase production, which would reduce food prices. Non-food prices rose by only 1.1 per cent last month.

But inflation is stoking tensions that could still erupt. Last Saturday, three people were killed in a stampede for cut-price cooking oil at a supermarket in Chongqing. Several other food stampedes have caused mass injuries in recent months. Commentators have called it a clear sign of panic buying and rising tensions.

China's central bank has pledged to tame consumers' inflation expectations as the Consumer Price Index (CPI) rebounded to match the highest level in 11 years.

"We will make full use of the price tools in macro control to keep consumers' inflation expectations at a stable level," Zhou Xiaochuan, governor of the People's Bank of China (PBOC) said in a report published in the Financial News on Wednesday.

Price tools usually refer to interest rate adjustments, something which the Chinese have already increased five times this year.

Questions

1. What are the costs of inflation?
2. Is controlling inflationary expectations sufficient to keep inflation under control?
3. Why is food inflation of greater concern for low income economies?