

The New York Times

April 9, 2013

Images of Dead Pigs Reduce China's Appetite for Pork, Keep Prices Down

By **KEITH BRADSHER**

HONG KONG — Consumer prices rose less than expected last month in China as the unappetizing and widely televised spectacle of thousands of dead pigs floating upstream from Shanghai helped push pork prices down sharply, the government reported on Tuesday.

The National Bureau of Statistics announced that consumer prices were 2.1 percent higher in March than a year ago. Prices had been 3.2 percent higher in February.

Pork is a staple of the Chinese diet and its price has long been such a significant component of the country's [consumer price index](#) that it can influence overall inflation. Pork prices tumbled 5.5 percent last month from a year earlier, the National Bureau of Statistics said.

Factories and other producers also faced falling prices last month. Producer prices in China were down 1.9 percent in March, compared with a year-over-year decline of 1.6 percent in February.

“Meat prices slumped due to concerns about mysterious pig deaths and bird-flu contagion risk,” Asia economists at Standard Chartered said in a research report.

Chinese policy makers have been struggling with two intertwined problems related to inflation.

They allowed banks to engage in a large expansion of lending and off-balance sheet credit last autumn to reverse an economic slowdown. That expansion of credit fanned fears of inflation that has already brought a sharp appreciation in real estate prices in recent months, prompting the government to renew warnings about problems of housing affordability.

But while asset prices may be rising, the price of goods has stayed weak, as many industries still face overcapacity. Companies have been unable to raise prices, often making it hard for them to make regular payments of interest and principal on their debts.

Manufacturers in China say that while the cost of materials like steel has stabilized or even fallen, wages continue to increase. “Raw material prices have so far been stable, but we have had to increase worker wages by 20 percent,” said Kevin Mao, the export business manager

at the Zhejiang Zhongli Group, a manufacturer of bicycle and motorcycle locks in Wenzhou in east-central China.

Randall Liu, a sales executive at Xiamen Tawa Enterprise, a maker of wine sacks and sleeping bags in Xiamen in southeastern China, said that weak demand for exports made it hard to raise prices to cover wage increases.

“We are only able to transfer a portion of our cost increases to our end customers, so we do take a hit on our margin,” he said.

Usha C. V. Haley, the director of the Robbins Center for Global Business and Strategy at West Virginia University, said in a speech in Hong Kong on Monday that industrial overcapacity was likely to persist in China, given numerous corporate subsidies provided by the national and provincial governments. “They do want to maintain social stability and create jobs,” and so are unlikely to reduce subsidies, she said.

Chinese and World Health Organization officials said Monday that they had not documented any evidence that pigs had been dying from a recent outbreak of H7N9 avian influenza, although an investigation into the deaths continued.

The price of pork tends to follow long cycles in China that lag behind animal feed prices.

When feed prices are high, farmers raise fewer pigs, which tends to push pork prices up and feed prices down. The cycle then reverses itself as farmers rush to raise more hogs before feed prices bounce up again.

Pork prices were little changed in February, sustained by demand during the Chinese New Year, but had fallen sharply before then. Many economists had expected pork prices to begin strengthening this spring, however, before the carcasses began showing up near Shanghai. The drop in pork prices meant that overall consumer prices for all food rose only 2.7 percent in March from a year earlier, the National Bureau of Statistics said. **Food prices** had been up 6 percent in February. The National Bureau of Statistics has scheduled for next Monday the release of a long list of other economic statistics, including economic output during the first quarter of this year.

Fitch Ratings separately expressed concern Tuesday evening about the long-term consequences for China's financial stability of the country's huge buildup in debt, particularly borrowing by local governments. Fitch reduced its default rating on China's long-term local currency debt to A+, from AA-.

Fitch, however, maintained its rating on China's long-term foreign currency debt at A+, citing the country's \$3.39 trillion in foreign currency reserves, compared with just \$34 billion in foreign currency-denominated sovereign debt.

Hilda Wang contributed reporting.