

**The Diffusion and Dynamics of Producer Prices,  
Deflationary Pressure Across Asian Countries,  
and the Role of China**

**Hongyi Chen**

Hong Kong Institute for Monetary Research

and

**Michael Funke**

Hamburg University Department of Economics  
and CESifo Munich GERMANY

and

**Andrew Tsang**

Hong Kong Institute for Monetary Research

August 2016

**Summary**

Persistent producer price deflation in China and other Asian economies has become a genuine concern for policymakers. In August 2016, China's producer prices were down 12.4 percent from their peak in 2011, following a 54-month stretch of consecutive negative producer price readings (March 2012 to August 2016). Given problems with overcapacity and heavy corporate debt burdens, the incessant decline in producer prices has eroded corporate profitability, dampened fixed investment and depressed growth overall. This paper analyzes the determinants of producer price declines across eleven Asian economies, finding that the recent synchronous and protracted producer price deflation has been driven by weak production and export

growth, low commodity prices, spillover effects from China, and exchange rate pass-through. With China at the heart of the region's producer price deflation challenge, we consider the structural adjustments needed in China to cope with the decline and head off deflationary threats.