

Quick Take: China's Reopening—Actually Inflationary?

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China's reopening: Growing caution over inflationary pressure

Informed observers of China's post-COVID reopening have cautioned that it might exacerbate global inflation. Much of the concern is rooted in the potential impact of resurgent Chinese demand on energy and other commodities.

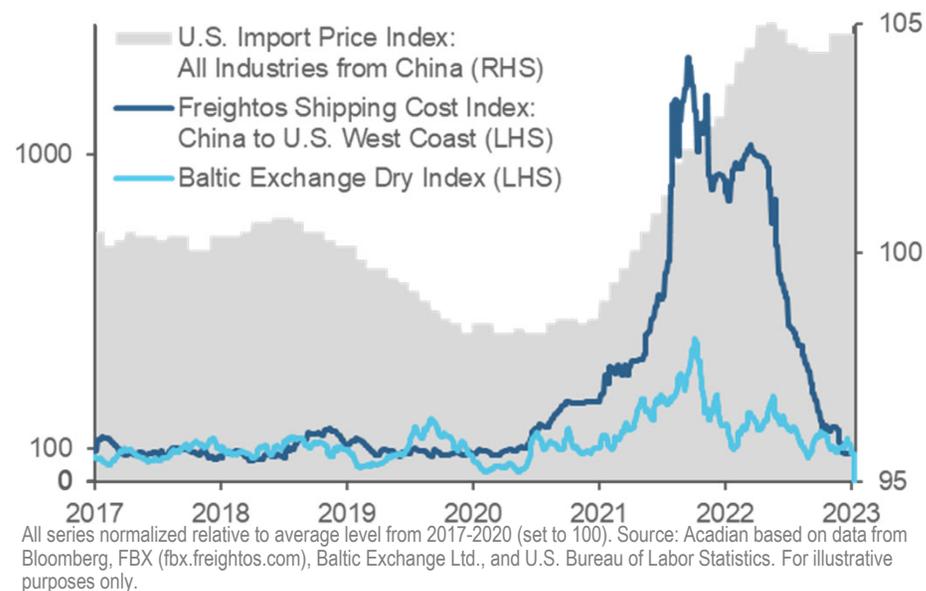
But inflation isn't a foregone conclusion

The worry has merit. Nonetheless, certain factors might limit reopening's inflationary impact:

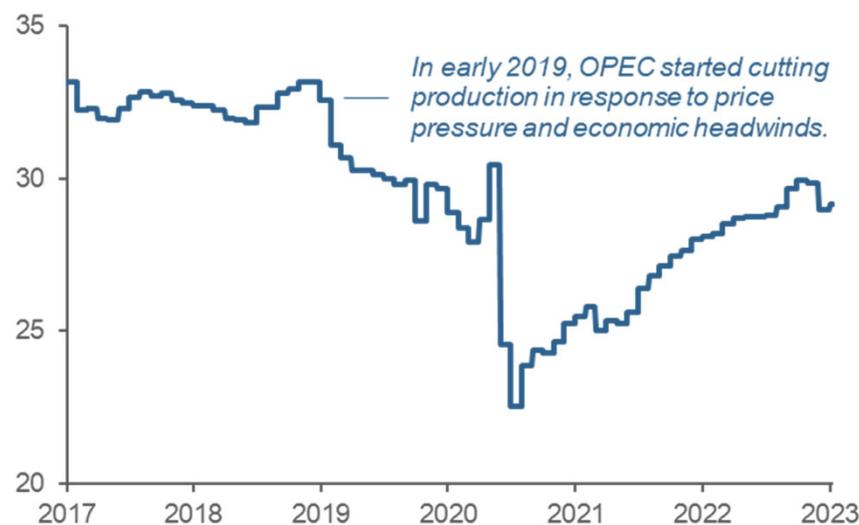
- **Shipping costs:** While in 2021 they were a material driver of inflation via finished goods costs, particularly over long routes like Asia to North America, shipping costs have collapsed to pre-COVID levels (top chart). Unlike their rapid pass-through to goods prices on the way up, we expect more stickiness on the way down. As a result, import prices may yet fall.
- **Energy costs:** While China is a major oil importer, OPEC may look to offset a rebound of its demand by reversing prior production cuts (bottom chart). OPEC has sought to cultivate a perception that it seeks to maintain balance in the physical market. Indeed, the decline in Chinese oil imports since 2020 closely matches the two-million bpd cut that OPEC announced in October.
- **Competition:** Although China is an importer of many productive inputs, it's a net exporter of goods to the global economy. As its production recovers, helping to restock global supplies, competitive forces could put downward pressure on finished goods prices.

In summary, while China's reopening will likely have significant implications for commodities markets, many potential influences on their prices and on the costs of finished goods are in flux. On balance, we see a growing likelihood that China's reopening will not result in quite the inflationary pressure that some observers have come to expect.

U.S. Import Prices and Shipping Costs from China



OPEC Production (millions of barrels per day)



Source: Bloomberg. For illustrative purposes only.



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