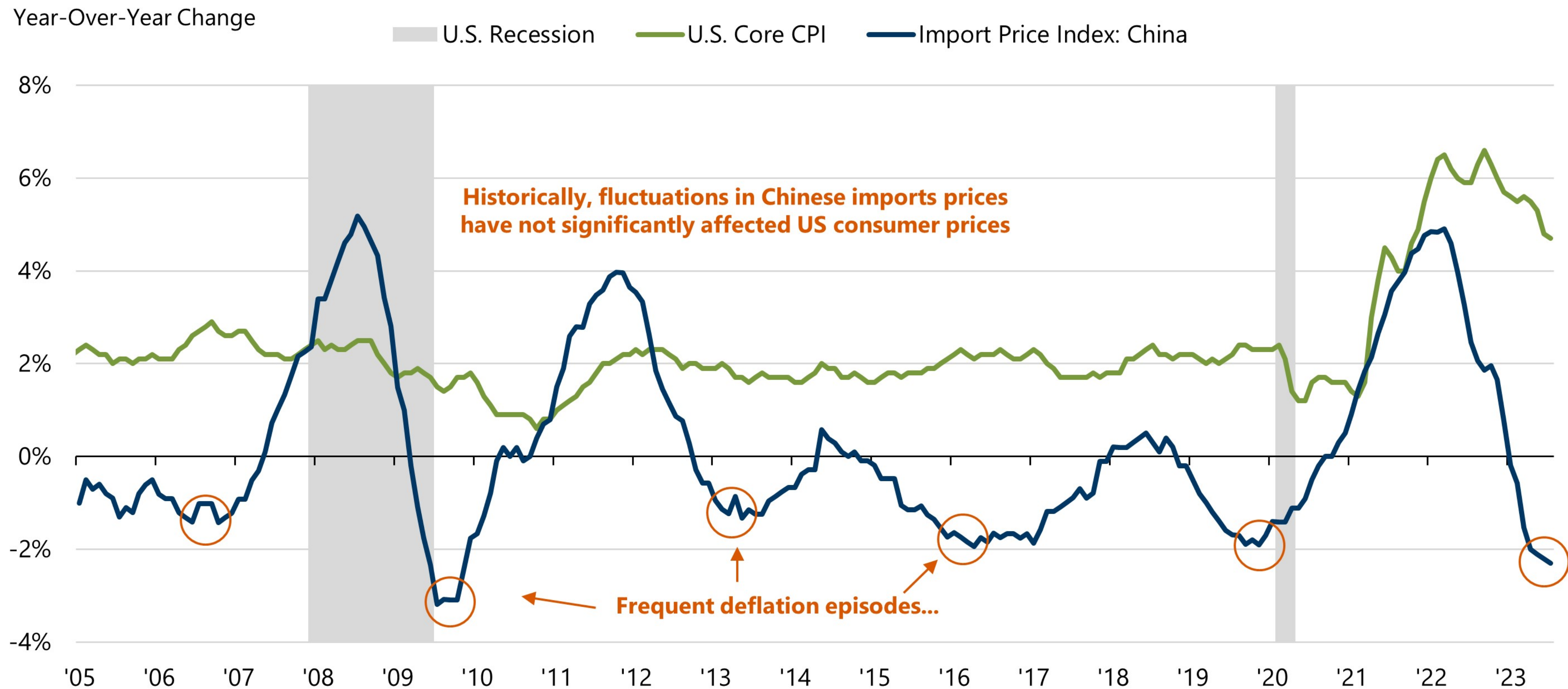


Importing Deflation?

U.S. Core* Consumer Price Index Versus Price Index Of Imports From China

For The Week Ending 08/18/2023



Source: Bureau of Labor Statistics

* Core CPI excludes food & energy prices

This week, media reports drew attention to the seemingly periodic news that China invested too heavily in real estate and now faces a protracted reallocation of resources, which will affect global demand. For context, residential investment in China reached 8% of GDP in 2013 and has hovered there since, while U.S. residential investment as a share of GDP hit 6.7% in 2006 before cratering to 2.4% by 2010. More pertinent for global investors, what does a struggling Chinese economy mean for the world? One potential impact is that the rest of the world might import deflation from China. Unfortunately, the recent track record shows that repeated deflation in goods imported from China had little impact on underlying inflation in the United States. Why might that be? First, goods imports are a small slice of overall U.S. consumer spending (16.6%), and Chinese imports are an even smaller portion of spending (2.2%). Second, domestic drivers like service sector inflation—where labor market tightness has led to rising input costs—often dwarf external price pressures.