

China's Export Prices: Losing A Key Anchor On Global Inflation

The assumption that China will continue to be a deflationary force for the rest of the world is now cracking, and most investors are not positioned for the potential consequences.

Over the past several years, falling Chinese export prices helped dampen consumer price inflation around the world and gave policymakers and fixed-income investors a false sense of confidence that a return to low inflation was possible without a recession. This caused most major central banks to maintain easy monetary conditions even though inflation has been running well above pre-pandemic averages for the past few years.

The consensus view among policymakers and fixed-income investors is that inflation will naturally fall back to the subdued levels of the pre-pandemic years. However, this assumption has rested on shaky ground for some time. The secular forces that helped dampen inflation prior to this decade are no longer present, and most cyclical forces (including technology, growth and supply chain fragmentation) now point to greater upward pressure on consumer prices¹.

The upside risks to inflation across most economies are now rising. There is growing evidence that China's export price deflation is easing (**chart 1**), and price levels may soon begin to rise; China's export price deflation has diminished significantly this year which has caused U.S. import prices from China to firm. The impact on global consumer price inflation could be further amplified by the



There is plenty of evidence that China's export price deflation is easing

¹ MRB "[Inflation Is \(Still\) An Underappreciated Problem](#)", November 4, 2025 and MRB "[A Bubbly World Persists \(For Now\)](#)", February 25, 2026

recent spike in energy prices, insofar as the latter also had a dampening impact on global consumer prices in the three years prior to the Iran war.

China's export price deflation is still deeply embedded in most economic forecasts and pricing in global fixed-income markets, which leaves policymakers and investors exposed to a significant and underappreciated risk.

The Forces Driving China's Exported Deflation Are Subsiding

China's sizeable and broad-based export price deflation suppressed U.S. and global goods prices over the past several years (**chart 2**), which *partially* offset persistently elevated global service sector inflation. As a result, most major central banks were able to maintain accommodative monetary conditions despite above-average underlying inflation rates.

With falling Chinese export prices deeply embedded in forecasts, policymakers and investors risk being caught off-guard if China's export price deflation ends, which is probable since the forces behind ever-lower prices are reversing.

Although the narrative has focused on China-specific factors, including the attempt to eliminate cut-throat discounting, far less attention has been paid to global forces, such as the unwinding of pandemic-era trade imbalances that had slowed global trade growth and caused global goods prices to decline (**chart 3**).

Chart 2 **China Was A Source Of Deflation For The Global Economy**

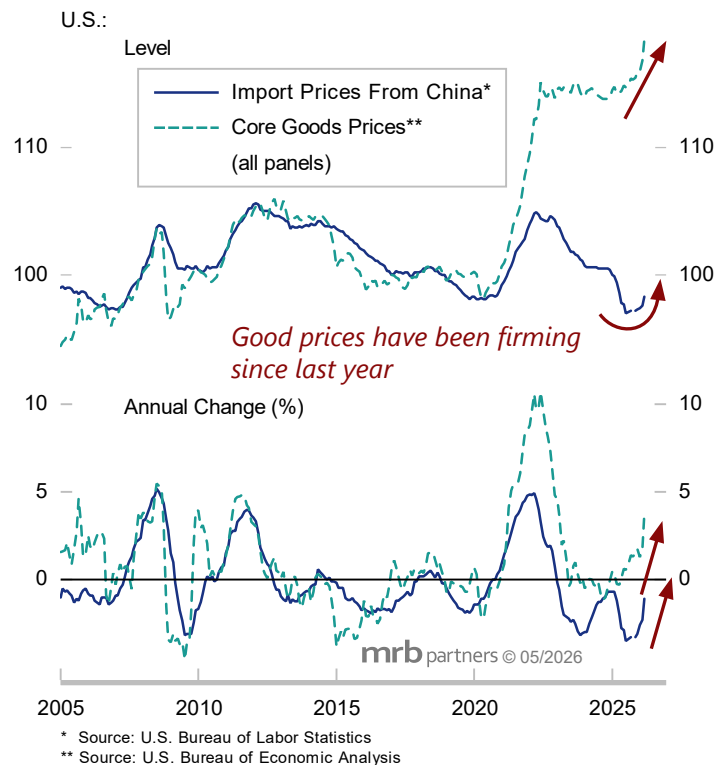
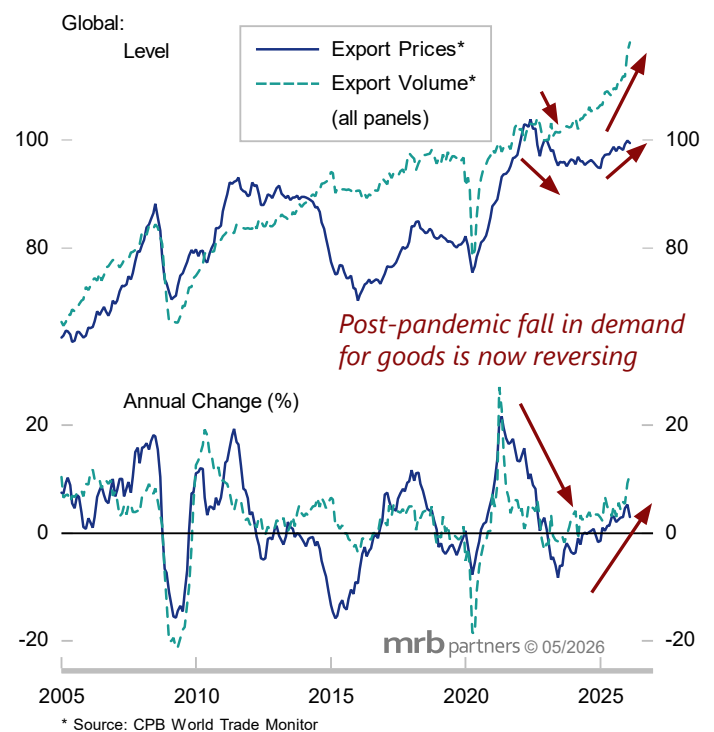


Chart 3 **Unwinding Of Pandemic Excess Demand Lowered Global Goods Prices**



Global manufacturing activity is recovering anew in response to strong global economic growth, with the global manufacturing PMI holding above 50 since Q3 last year and the pace of improvement recently accelerating (**chart 4**). Critically, the input and output price components of global manufacturing PMIs have also been steadily rising since the end of last year (**chart 4**, panel 2).

Export prices are also firming in many of the world's largest manufactured goods exporters (outside of China), including the euro area, EM Asia ex-China and Mexico (**chart 5**). Consequently, global export and import prices have been firming in recent months. This suggests that manufacturers are increasingly able to pass on the higher costs to buyers. Even in China, the input and output price PMI components have risen considerably in recent months (**chart 6**), alongside a pickup in PPI and CPI inflation².

Against a backdrop of resilient global growth and customers more able to absorb higher prices, Chinese exporters' pricing power looks set to improve even if at a slower pace than their peers.

China's industrial policy, which incentivized innovation and intense competition in strategic sectors while driving rapid capacity growth and price wars, has also been a major contributor to export price deflation. The government's "anti-involution" campaign last year aimed to stem the decline in prices and corporate profitability.

While on their own, such measures cannot restore Chinese companies' pricing power across the board, there is growing evidence,

Chart 4 **Firming Demand For Goods Is Now Helping Producers' Pricing Power**

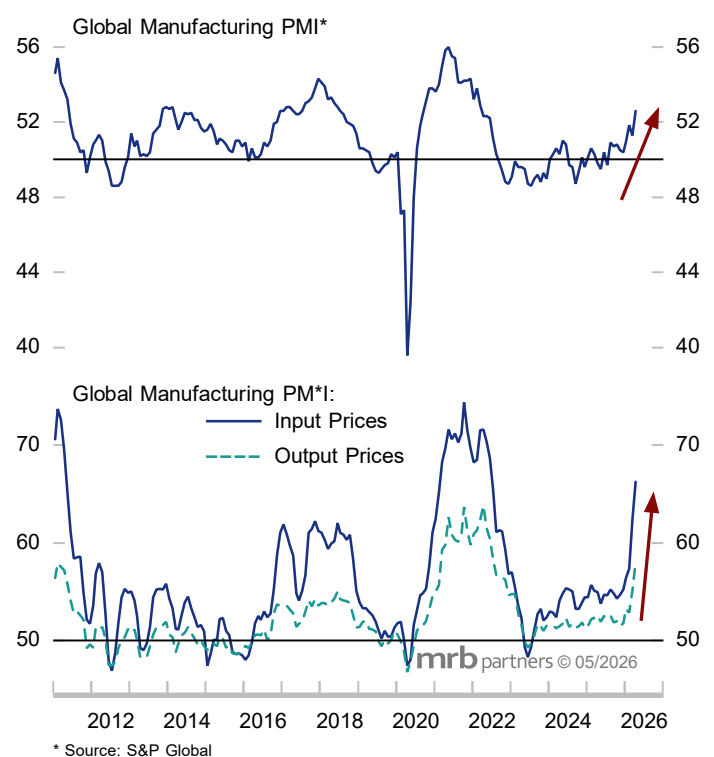
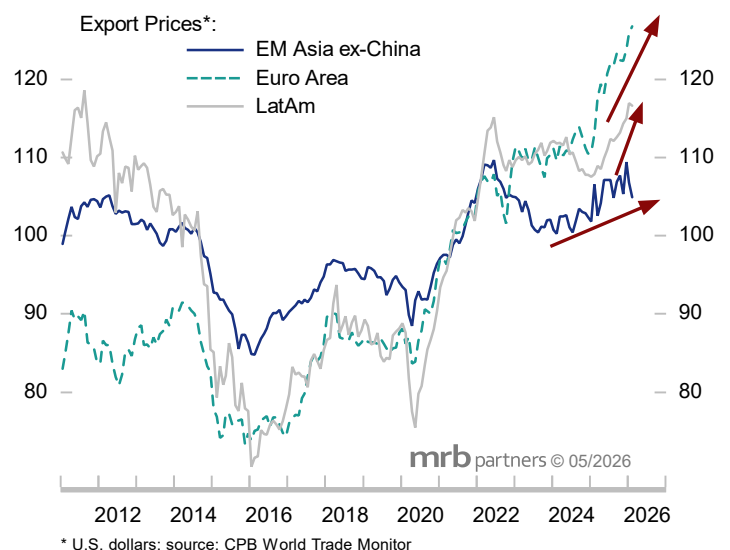


Chart 5 **Global Export Prices Are Firming**



2 MRB "China: Inflation Is Back", April 30, 2026

reflected in export data, of price discipline in key industries including electronics/semiconductors, electric vehicles and batteries. The largest categories, electrical equipment and machinery, which together account for approximately 45% of exports, have seen prices rise consistently since late last year (**chart 7**), and vehicle export deflation has eased materially in recent months. The implication is that **global demand is strong enough to restore pricing power** in China's largest export sectors. What had been a deflationary global force is now becoming a source of higher prices.

The outlook for China's sunset industries (which are dominated by domestic demand for construction materials and equipment and have a limited impact on export prices) is less clear-cut. However, even if overcapacity and deflation persist, the more likely path is a gradual easing of those headwinds, rather than intensification, as industries adjust. Moreover, the broader recovery in global manufacturing should help absorb excess capacity over time. Put differently, the risks for China's old economy point toward less deflation, not more.

To the extent that the **export prices of China's largest export categories** continue rising and deflation eases in other sectors, then China's **overall** export prices could soon stop declining and even begin to rise. In short, China could soon cease to be an anchor on global inflation.

Final Word: *China's export price deflation is still deeply embedded in economic forecasts, and by extension, is discounted in global fixed-income markets. Yet there is growing evidence that this*

Chart 6 **Early Signs Of Higher Goods Prices In China**

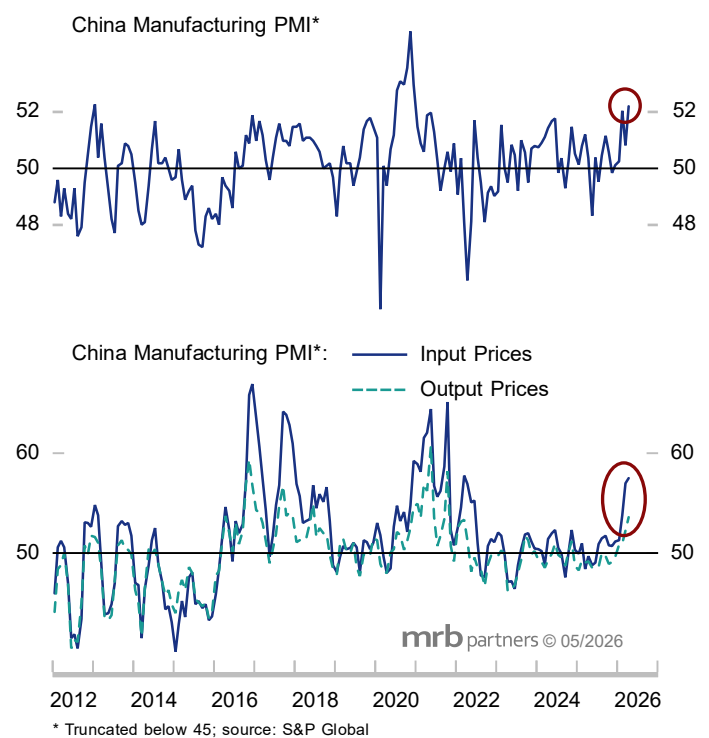
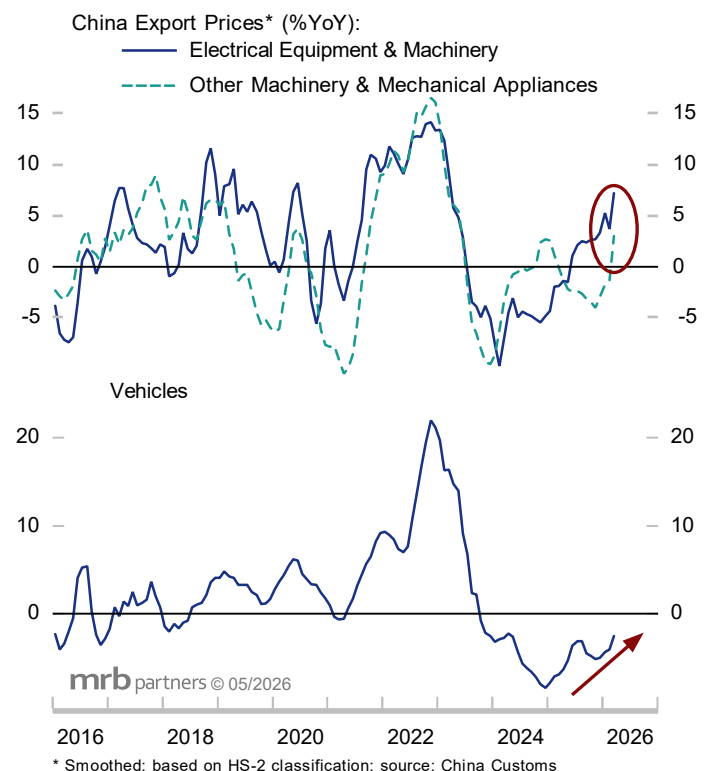


Chart 7 **Export Prices Are Already Firming For China's Largest Exports**



deflation is easing, and prices may soon begin to rise, leaving policymakers and investors exposed to a significant but underappreciated risk. Watch this space.

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