Macro Vision

May 14, 2025

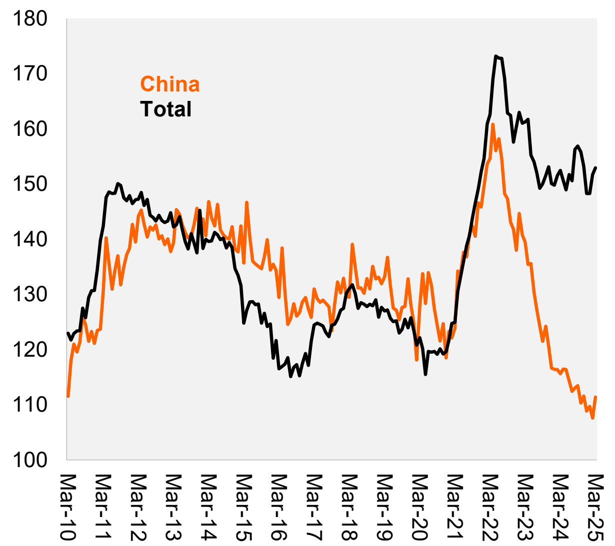
Made in China: How China's shifting exports affect goods inflation

- Although limited by current bilateral negotiations, the trade war is expected to reduce trade flows between China and the U.S., creating an opportunity for Brazil to absorb part of the excess Chinese supply that was previously sent to the U.S. market.
- The rise of Brazilian imports from China, combined with a downward trend in the prices of these products after the pandemic, is likely to help reduce inflation. We estimate that a 10-percentage point increase in China's share of Brazilian imports, even without further price drops, could reduce the IPCA by up to 20 bps, assuming all other factors remain the same.
- This supply shift is feasible – although it may take some time – considering the strong overlap between Brazil and the U.S. imports lists.

Although U.S. tariffs on Chinese imports have been reduced compared to levels before bilateral negotiations, they could still significantly decrease demand for Chinese products in the U.S. market. In addition to the current tariffs, uncertainty about the tariff structure ahead also discourages bilateral trade. This report assesses the potential impacts of this scenario on Brazil, focusing on the disinflationary effects of China's exports being shifted to the Brazilian market, especially for industrial goods.

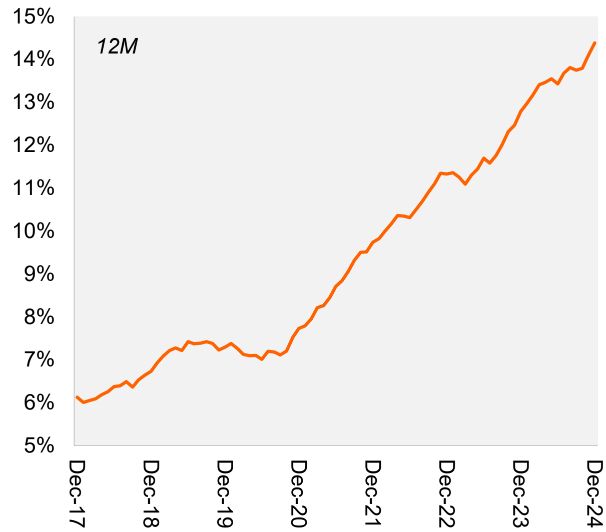
Since the end of the pandemic, the import price index for Chinese products has declined significantly, showing a larger decrease than the overall import price index. At the same time, China's share of the total volume of Brazil's imports has more than doubled since 2017 – rising from 6% of the total to almost 15% – second only to the United States (17%).

Chinese import price index falls sharply



Source: Secex, Itaú

China's import volume has more than doubled since 2017

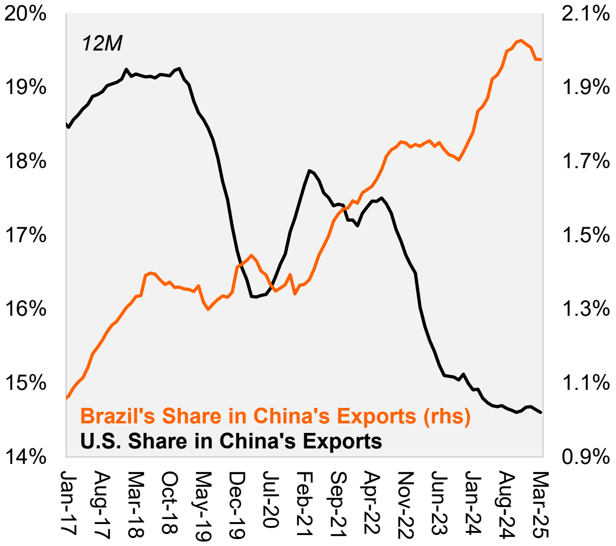


Source: Secex, Itaú

What proportion of Brazil's imports is China expected to account for in the coming years?

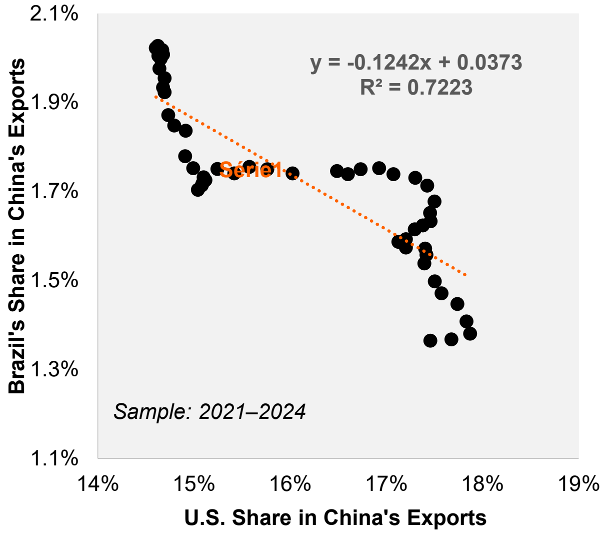
In recent years, Brazil has become an increasingly important destination for Chinese goods, while the relevance of the U.S. as a destination for these items has declined. Given this situation, we believe Brazil could continue to absorb a portion of the surplus Chinese exports, especially in a scenario of reduced U.S. imports. We estimate that for each 1pp decrease in the U.S. share of China's exports, Brazil's share increases by 0.12 pp.

Since 2017, the United States' share of China's exports has declined from 19% to 15%. Brazil's share rose to 2% from 1%.



Source: Haver, Itaú

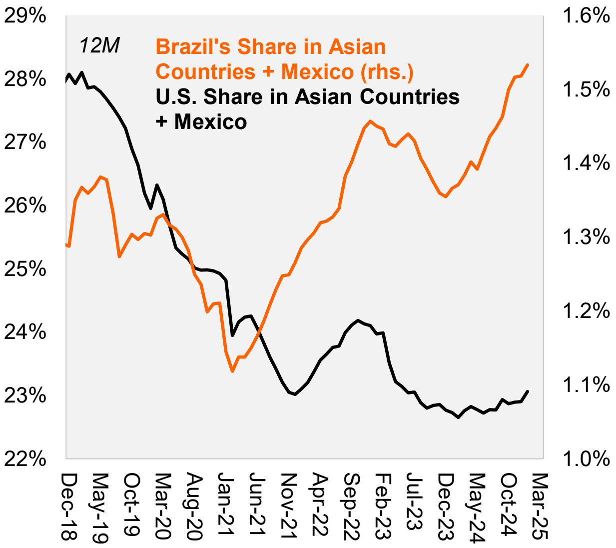
There is a strong negative correlation between the shares of the U.S. and Brazil in China's exports.



Source: Haver, Itaú

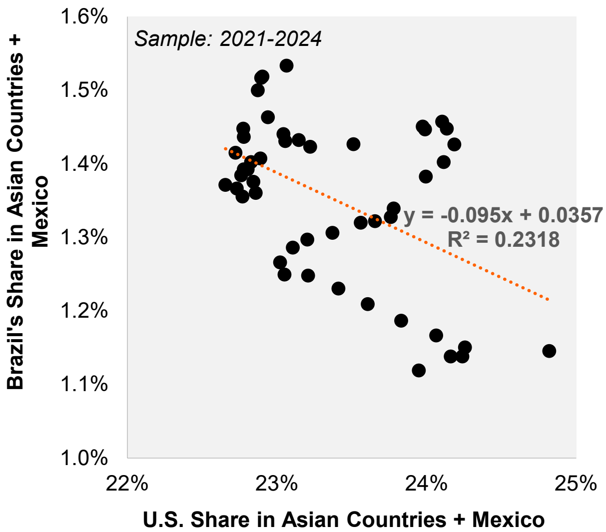
Considering the triangulation of goods exports to the United States, we repeat the analysis above by examining the shares of Brazil and the U.S. not only in China's total exports but also in exports from other Asian countries, such as Vietnam, Philippines, Cambodia, Indonesia, ass well as Mexico. Especially after 2021, the correlation (-0.10) is consistent with that found in the initial analysis.

Since 2017, the U.S. share in exports from Asian countries and Mexico has declined from 28% to 23%. Brazil's share rose to 1.5% from 1%.



Source: Haver, Itaú

There is a strong negative correlation between the shares of the U.S. and Brazil in exports from Asia and Mexico (especially after 2021).

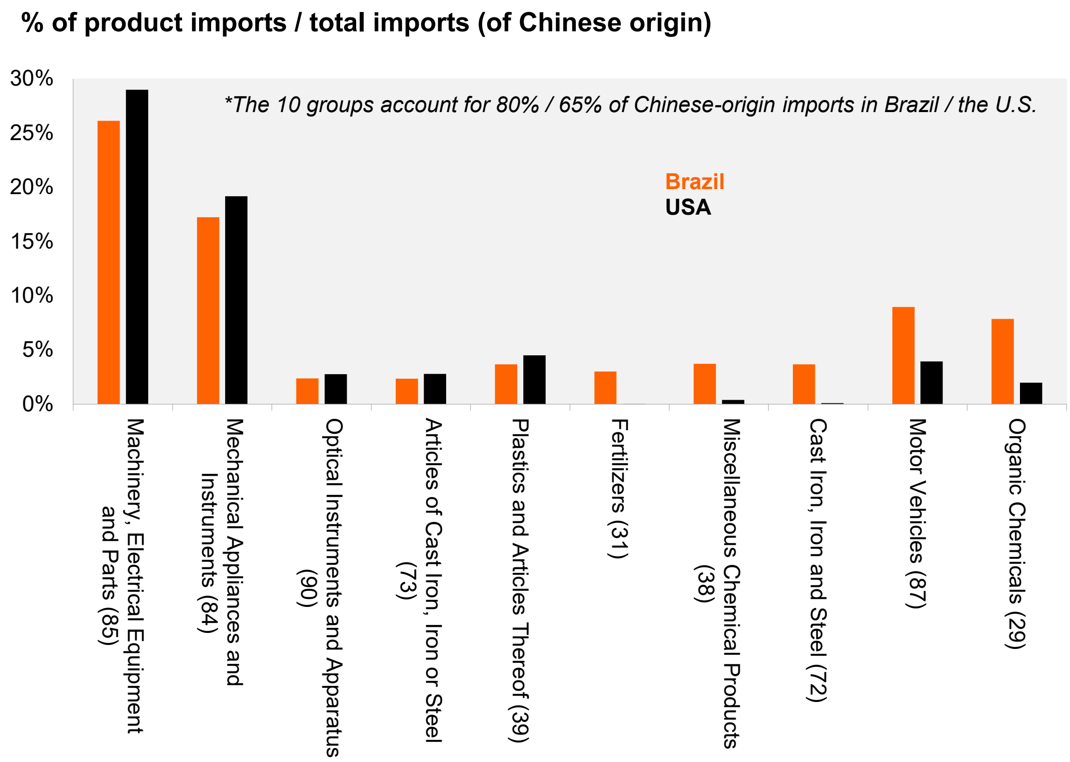


Source: Haver, Itaú

If the trade war causes U.S. imports from China to fall by about 70% (roughly $300 billion), it would result in a decrease of approximately 10 p.p. in the U.S. share of China's exports. Considering the historical negative correlation between the shares of the U.S. and Brazil in China's exports (of -0.12), this reduction could imply an increase of about 1p.p. in Brazil's share of China's exports. This would correspond to an increase of approximately 10p.p. in the value of Brazilian imports from China, assuming there is no commercial triangulation.

This shift is feasible considering the strong overlap between Brazil and the U.S. list of imports. Brazil's top ten products imported from China – which account for around 80% of the total – represent approximately 65% of the U.S. imports from the same country.

The U.S. list of imports is very similar to that of Brazil



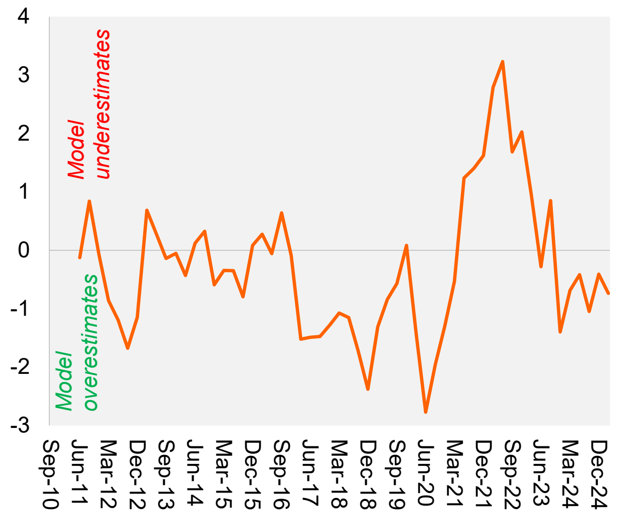
Source: Secex, Itaú

How does an increase in imports of Chinese products affect goods inflation?

Models have overestimated industrial inflation over the past two years. While similar deviations occurred between 2017 and 2019, recent data reveal a positive correlation between model errors and import prices, a pattern that was not observed before. In other words, each 1 p.p. decrease in import prices explains a 0.4 p.p. drop in industrial inflation.

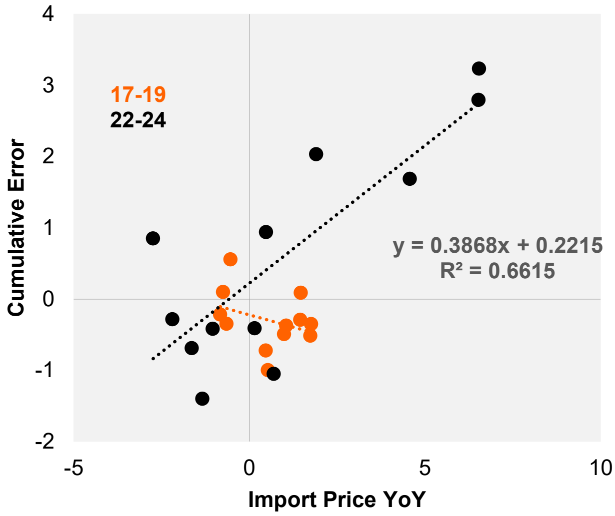
Models have been overestimating industrial inflation recently (as in 2017-2019)...

Cumulative Error (actual - model)



Source: Itaú

... But now model errors appear to have a positive correlation with import prices (unlike what happened between 2017 and 2019)



* *-1pp in import prices = -0.4pp in industrial goods*

Source: Itaú

To enhance the robustness of our analysis, we employed an alternative model where industrial inflation (Ind) is influenced by the inertia of the group itself, commodities in BRL (CRB_BRL), industrial wages (w), and the import price index (PM):

$$Ind_t = \beta_1 Ind_{t-1} + \beta_2 CRB\_BRL + \beta_3 w + (1-\beta_3)PM + \mathcal{E} \qquad (1)$$

The import price index (PM) can be approximated by a weighted combination of the import price indices for China and other trading partners:

$$PM \approx \beta_{china} PM_{china} + (1-\beta_{china}) * PM_{ex-china} \quad (2)$$

$$\beta_{china} = \frac{Quantum_{china}}{Quantum_{total}} \qquad (3),$$

with β_{china} being the China's share of the total volume imported by Brazil.

The estimated import price index elasticity (1 - β_3) was 0.30, a value close to that of the initial analysis.

Based on equation (2), our simulation shows that, even if Chinese import prices remain unchanged, a 10p.p. increase in China's share of Brazilian imports could lower the IPCA by about 20 bps, assuming all other factors remain the same. If this is accompanied by an additional drop in prices, the disinflationary impact could reach 50 bps. Please note that this effect tends to occur over time and does not consider possible increases in import taxes.

Effects of an increasing Chinese share in Brazil's total imports

Impact on industrials / bps on CPI*		China's import price index (PM_{China})		
		90	100	110
China's share of Brazil's imports (β_{China})	14%	(-0.6 / -14)	(-0.3 / -7)	(0.0 / 0)
	19%	(-1.3 / -30)	(-0.9 / -20)	(-0.5 / -11)
	24%	(-2.0 / -46)	(-1.5 / -34)	(-1.0 / -22)

**ceteris paribus*

Source: Itaú

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