



(PHOTO: TRAVEL MAN/ADOBE STOCK)

CHART OF THE WEEK

# Higher Shipping Costs May Lift Asia's Low Inflation

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*New analysis shows how increases in shipping rates have a persistent impact on consumer prices.*

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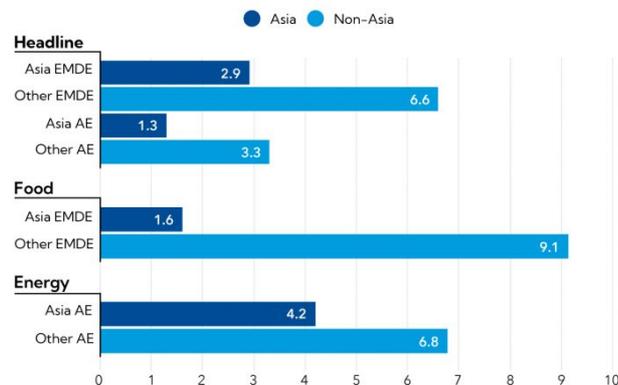
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fueled by stimulus and pandemic disruptions is helping accelerate inflation, spread around the world through global factors like higher food and energy prices, and soaring shipping costs.

The chart of the week shows how Asia's inflation has been more moderate versus other regions, affording central banks room to keep interest rates low and support economic recovery. However, Asia's tepid price gains may see greater momentum next year. The outlook remains uncertain, and central banks should be ready to tighten policy if inflation pressures and expectations mount.

#### Milder inflation

Slower increases for food and energy prices have kept consumer inflation lower in Asia compared with other regions. (% year-on-year change)



Source: Haver Analytics and IMF staff calculations.  
 Note: EMDE=Emerging market and developing economies. AE=Advanced economies.  
 Data as of October 2021. Groups are calculated using simple averages. Asia EMDE=China, India, Indonesia, Malaysia, the Philippines, Thailand. Asia AE=Australia, Hong Kong SAR, Japan, Korea, New Zealand, Macao, Singapore, Taiwan Province of China. Other EMDE=Brazil, Chile, Colombia, Hungary, Mexico, Peru, Russia, South Africa. Other AE=Belgium, Canada, France, Germany, Italy, Netherlands, Sweden, Switzerland, United Kingdom, United States

Several factors explain Asia's lower inflation. Among Asia's emerging economies, a delayed recovery has kept core inflation—which strips out volatile food and energy costs—running at half the rate of peers in other regions. And the cost of food—which makes up about one third of the consumer price index baskets—grew 1.6 percent over

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rebound from a recent swine flu epidemic in China, and contained increases in rice prices. By contrast, lower inflation in Asia's advanced economies reflects a different set of factors. The region has enjoyed more muted energy inflation than Europe and the United States.

Finally, some [Asian countries managed the pandemic](#) in a way that avoided major supply disruptions and the associated pressure on prices. Korea embraced comprehensive contact tracing and testing, for example, while Australia and China contained infections with border closures and localized lockdowns.

Broad inflationary pressures [will eventually moderate](#) globally, as supply-demand mismatches ease and stimulus recedes. But in 2022, as the recovery strengthens, the persistent impact of high shipping costs could put an end to the benign inflation Asia has enjoyed in 2021. One benchmark measure of global shipping costs, the Baltic Dry Index, tripled this year through October: our analysis shows such large increases in shipping costs boost inflation for 12 months, which could add about 1.5 percentage points to the pace of Asia's inflation in the second half of 2022.

The region's policymakers must be ready to act.

economic and policy issues of the day.

The views expressed are those of the author(s) and do not necessarily represent the views of the IMF and its Executive Board.

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