

The Price Effect of Trade: Evidence from the ‘China Shock’ and Canadian Consumer Prices

Abstract

Over the past years, Canadian consumers have experienced a rapid rise in Chinese imports in their consumption bundle, driven by China’s rising exporting capacity in manufacturing. Increasing Chinese imports to Canada may have reduced domestic consumer prices benefiting Canadians – so-called the ‘Wal-Mart effect’. In this report, we estimate the effect of increasing Chinese imports on prices for household consumption goods. To our knowledge, there has been no study on this issue using Canadian data. In order to quantify the importance of Chinese imports for individual consumer products and also map them to consumer price data, we construct concordance between CPI products and commodities in the Harmonized Commodity Description and Coding System. Exploiting these mapped data, we estimate that, over the 2001-2011 period, the cumulative inflation would have been 2.41 percentage point higher for all consumer goods in the CPI or 1.17 percentage point higher for the total CPI had there been no change in the Chinese share of total imports in Canada, assuming other factors are held constant. This implies a gain of \$76,996 CAD per job loss of 113.5 thousand in manufacturing due to China over this period.

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