OPINION: WHEN CHINA'S ECONOMY STUTTERS, THE WORLD ECONOMY WILL SHUDDER - INSIDE SOURCES

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Troubles are coming to the Chinese economy not as single spies but in battalions. The good news is that this should help reduce our inflation rate. The bad news is that trouble in the Chinese economy heightens the risk of a meaningful U.S. and world economic recession.

The Chinese economy was in trouble even before the most recent coronavirus outbreak and spreading social unrest. The country has stuttered to its lowest economic growth in the last 30 years. It has done so due to President Xi Jinping's zero-COVID policy that has involved countrywide lockdowns and the bursting of its outsized housing and credit bubble. The bursting of that bubble has set off a wave of Chinese property developer debt defaults, and it has significantly dented household wealth by causing persistent house price declines.

And some longer-run troubles make it unlikely the Chinese economy will bounce back to its former rapid growth path anytime soon. To consolidate political power, Xi has reigned in the large Chinese tech companies and reversed many of Deng Xiao Ping's market-based reforms. At the same time, President Biden has intensified U.S. trade restrictions on China, and China's earlier one-child policy is leading to a marked decline in its labor force.

With all these troubles, the last thing the Chinese economy needed was another COVID outbreak and a wave of social unrest on a scale that had not been experienced since the late 1980s. That unrest is bound to accelerate the efforts underway by U.S. companies to reduce their reliance on the Chinese supply chain. It is also bound to reduce investors' appetite for Chinese assets.

China is the world's second-largest economy, and until recently, it was the world's main engine of economic growth. It also is the world's largest consumer of internationally traded commodities. Its present troubles are bound to have a large effect on the rest of the world economy. As Napoleon might have said, when the Chinese economy stumbles, the rest of the world economy will shudder.

One way in which a slowing Chinese economy can help reduce our inflation rate is by contributing to a sharp decline in commodity prices in general and to oil prices in particular. As if to underline this point, as doubts about a Chinese economic recovery have increased, international oil prices have declined from a peak of $120 a barrel at the start of the year to around $80 a barrel today. They have done so despite Russia's war with Ukraine.

Another way the Chinese economy slowing can alleviate U.S. inflation pressure is by reducing the cost of Chinese exports. As if to underline this point, Chinese producer prices are now declining in response to weaker domestic demand while the Chinese yuan has sunk to a record low against the dollar as the investment appetite for Chinese assets has dried up.

The downside of a Chinese economic slowdown is that it could help tip the world economy into recession. It could do so by disrupting the world economic supply chain and reducing its demand for the exports of its Asian trade partners and Germany. It could also do so by compounding the emerging market economies' present debt servicing troubles by suppressing their export prices.

We hope the Fed is paying attention to Chinese economic developments. Maybe then we might hope it backs off from its present aggressive round of interest rate hikes and spares us from an unnecessarily hard economic landing to regain inflation control.