

# CHINA DATA RESPONSE

## China Trade (May)

### Exports stumbled but imports jumped

- **China's exports contracted year-on-year in May for the first time in three months, with export volumes falling below their levels at the start of the year. And with the worst yet to come for many developed economies, we think exports will decline further before bottoming out later this year. In contrast, import volumes rose to their highest in 18 months, supporting our view that the reopening recovery remains on track.**
- Export growth fell from +8.5% y/y in dollar terms in April to -7.5% y/y last month, well below expectations (the Bloomberg consensus was -2.1% and our forecast was -2.7%), despite a low base last year due to Shanghai's lockdown. (See Chart 1.)
- After accounting for seasonality and changes in export prices, **we estimate that there was a 6.1% m/m decline in export volumes last month, reversing the surge in March and leaving export volumes below their levels at the start of the year.** (See Chart 2.)
- The decline in exports was broad-based, though car shipments to Europe remain a bright spot. (See Chart 3 and 4.) Overall, the data point to subdued global demand for Chinese goods and support our view that the robust export figures of the previous couple of months reflected distortions to the customs data rather than a turnaround in foreign demand.
- In dollar terms, the contraction in imports narrowed from -7.9% y/y to -4.5%, above expectations (Bloomberg -8.0%, CE -12.0%). (See Chart 1 again.) After accounting for a lower base for comparison and changes in import prices, **we estimate that import volumes increased by 8.5% in seasonally-adjusted m/m terms, reaching an 18-month high.** (See Chart 2 again.)
- While firms initially responded to the reopening rebound in demand by running down inventories, they now appear to be ramping up imports too. Admittedly, the parts of the service sector that have benefitted most from reopening are not import-intensive. But a key exception is transportation and so it is noteworthy that energy imports rose to a record high in May. (See Chart 5.) Grain imports also surged, supported by strong pork production and the easing of shipping delays caused by increased customs inspections.
- After adjusting for seasonality, the trade surplus narrowed from \$97bn in April to \$63bn in May, its lowest since December. (See Chart 6.)
- Looking forward, **we think exports will fall further before bottoming out later this year.** Although interest rates outside of China are near a peak, the lagged impact from the sharp rate hikes is set to weaken activity in developed economies later this year, triggering mild recessions in most cases. As for imports, we think they will recover further over the coming quarters as the boost from reopening continues to feed through.



Chart 1: Goods Trade (\$, % y/y)

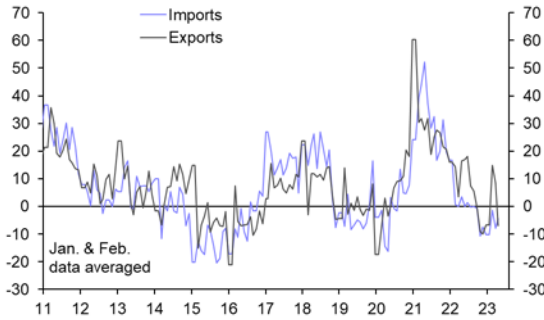


Chart 2: Goods Trade (\$bn, seas. adj., 2010 prices)

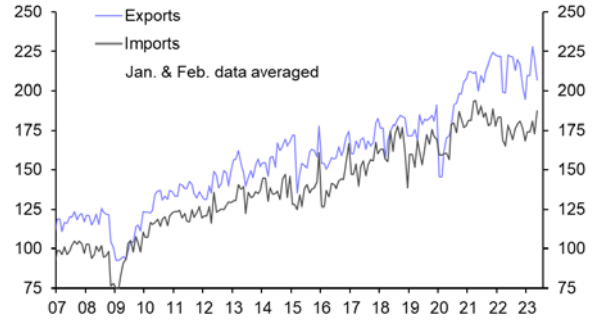


Chart 3: Exports (\$, Dec. 2019 = 100, seas. adj.)

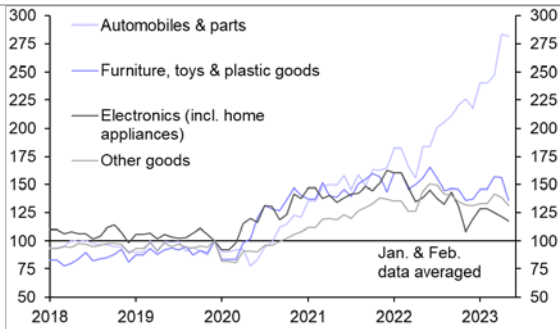


Chart 4: Exports by Destination (\$, Dec. 2019 = 100, seas. adj.)

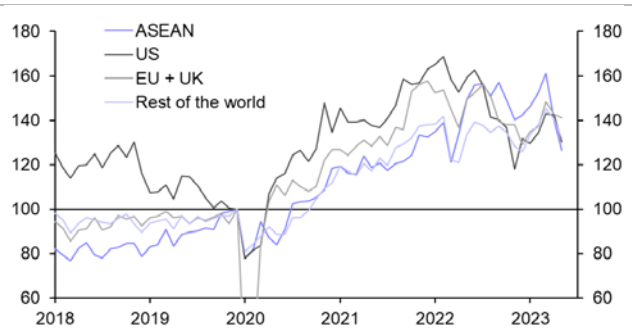


Chart 5: Import Volumes (2019 = 100, seas. adj.)

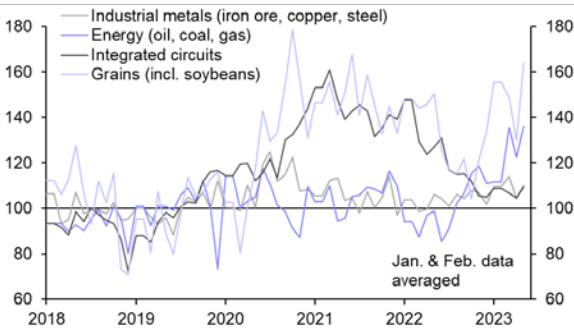
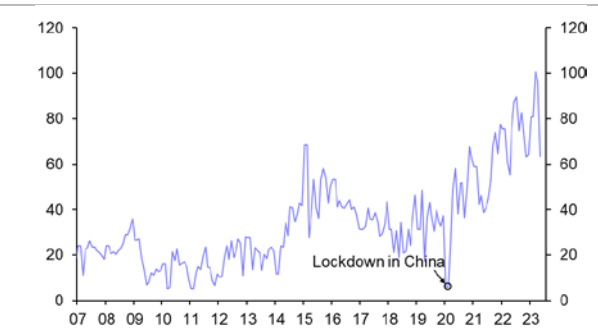


Chart 6: Goods Trade Surplus (\$bn, seas. adj.)



Sources: CEIC, Capital Economics



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