CHINA RAPID RESPONSE

China Trade (Aug.)

Export volumes are likely to soften before long

- **China's export values continued to contract in August but this mostly reflects lower prices. Export volumes continued to hold up well and are still above their pre-pandemic trend. We doubt this resilience will last, however, given the challenging outlook for global goods demand. Import volumes picked up, and this trend is likely to persist in the coming months as a recovery in construction activity and international travel boost commodity demand**.

- Following a 14.5% y/y decline in July, exports fell 8.8% y/y in dollar terms last month, slightly better than most had anticipated (the Reuters consensus was -9.2% and our forecast was -12.0%). (See Chart 1.) **The decline relative to a year ago is largely because exporters have reduced their prices in response to increased supply and stagnant foreign demand.** (See Chart 2.)

- After accounting for these price effects and for seasonality, **we estimate that export volumes edged up last month and are little changed from a year ago.** (See Chart 3.) A key prop over the past year has been soaring car exports, though these have come off the boil a bit in recent months. (See Chart 4.)

- In dollar terms, the contraction in imports narrowed from -14.5% y/y to -7.3% last month, also above expectations (Reuters and CE -9.0%). After accounting for seasonality and changes in import prices, we estimate that import volumes rose 4.3% in m/m terms. **This was driven by record-high energy imports, reflecting the ongoing rebound in passenger travel to and from China.** Imports of industrial metals also strengthened, most likely reflecting the recent pick-up in construction activity. (See Chart 5.) As a result, the trade surplus edged down last month after adjusting for seasonality.

- Looking ahead, we expect exports to decline over the coming months before bottoming out toward the end of the year. **Most measures of export orders point to a more substantial pullback in foreign demand than has so far been reflected in the customs data.** (See Chart 6.) And although consumer spending in developed economies has been resilient recently, the near-term outlook for global goods consumption remains challenging, given that the prop from the pandemic is still unwinding and that the impact of monetary tightening has yet to be fully felt.

- **In contrast, imports are likely to rise further in the coming months.** Greater progress on existing housing projects and a step up in infrastructure spending will boost construction activity. This, combined with the ongoing revival in international travel to and from China, should push up commodity demand.

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

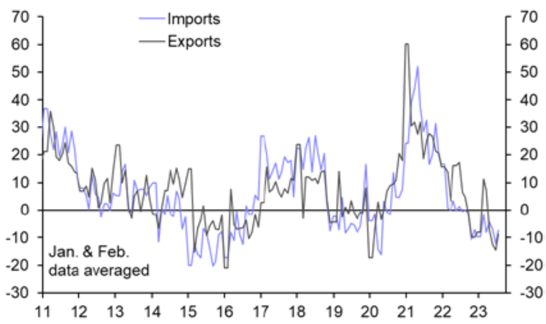

Chart 2: Export Price Index ($, 2010 = 100)

Sources: CEIC, Refinitiv, Capital Economics

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Chart 3: Goods Trade ($bn, seas. adj., 2010 prices)

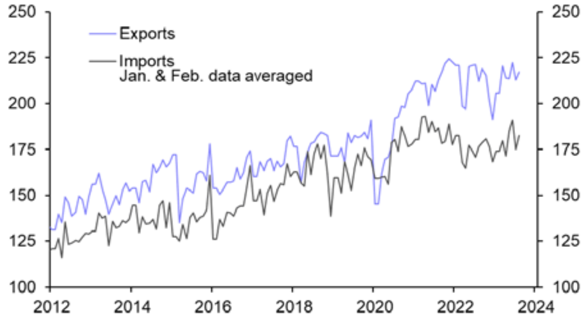

Chart 4: Exports ($, Dec. 2019 = 100, seas. adj.)

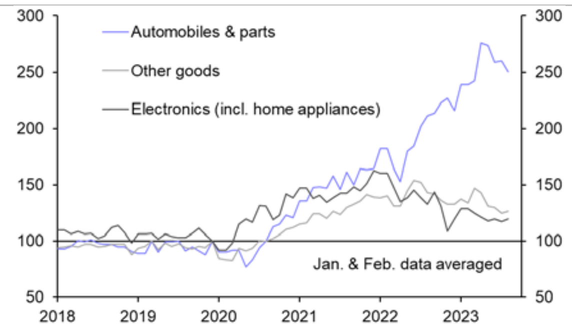

Chart 5: Import Volumes (2019 = 100, seas. adj.)

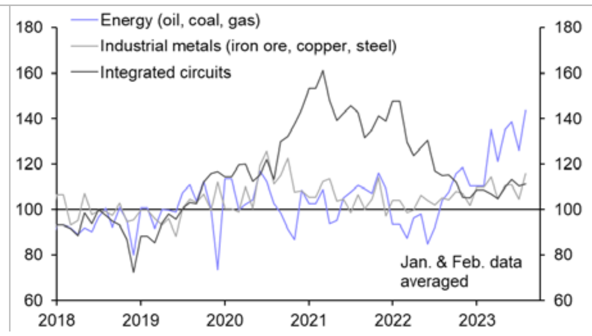

Chart 6: Exports & Industrial Export Sales ($, 2019=100, CE seas. adj.)

Sources: CEIC, Capital Economics

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