

CHINA RAPID RESPONSE

Merchandise Trade (Sep.)

Export volumes hit fresh high but prices falling

- **China's export values continued to contract year-on-year in September. But to the extent that foreign demand has cooled recently, it is being reflected in export prices rather than export volumes, which look to have hit a record high last month. We doubt this strength will persist, however, given the challenging outlook for the global economy. Import volumes softened a bit, but we expect them to pick up again in the near-term as further infrastructure investment boosts commodity demand.**
- Following a 8.8% y/y decline in August, exports fell -6.2% y/y in dollar terms last month, above expectations (the Bloomberg consensus was -8.0% and our forecast was -12.0%). (See Chart 1.) **The decline compared to a year ago is largely because exporters have slashed prices as the post-pandemic boom in supply has encountered slowing foreign demand.** (See Chart 2.)
- After accounting for these price effects and for seasonality, **we estimate that export volumes rose 2.8% last month, reaching a record high.** (See Chart 3.) This rise was broad-based, but was especially pronounced for shipments of Chinese-made EVs. (See Chart 4.)
- In dollar terms, the contraction in imports narrowed from -7.3% y/y to -6.2% last month (Bloomberg -6.3% and CE -1.0%). After accounting for seasonality and changes in import prices, **we estimate that import volumes dropped back slightly in m/m terms.** Energy imports cooled off a bit last month following a surge earlier in the year. (See Chart 5.) As a result, the trade surplus widened last month.
- **Moving forward, we still anticipate a pullback in export volumes before long.** Measures of foreign orders point to a more substantial decline in foreign demand than what has been reflected in the customs data so far. (See Chart 6.) And the lagged impact of higher interest rates is likely to dampen consumer spending in major export markets over the next few quarters.
- **In contrast, imports are likely to pick up again in the coming months due to higher commodities demand, supported by a step up in infrastructure spending.** Policymakers are reportedly considering the issuance of at least 1 trillion yuan of additional sovereign debt by year-end, and the PBOC is likely to make use of its Pledged Supplemental Lending (PSL) program to offer funding for policy banks.

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

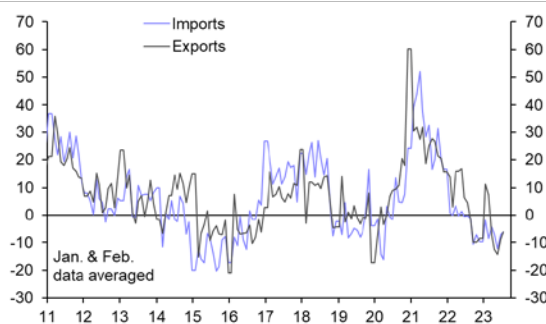


Chart 2: Export Price Index (\$, 2010 = 100)



Sources: CEIC, Refinitiv, Capital Economics

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

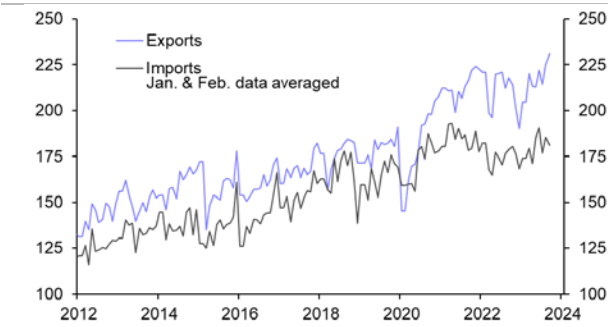


Chart 4: Exports (\$, Dec. 2019 = 100, seas. adj.)

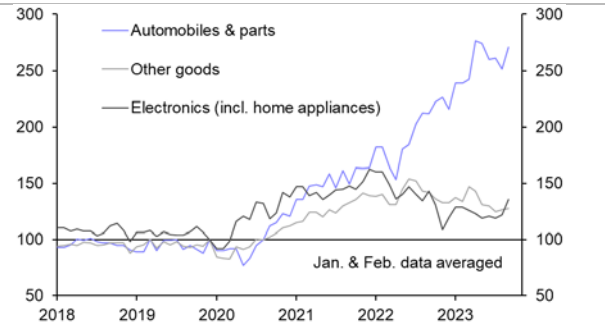


Chart 5: Import Volumes (2019 = 100, seas. adj.)

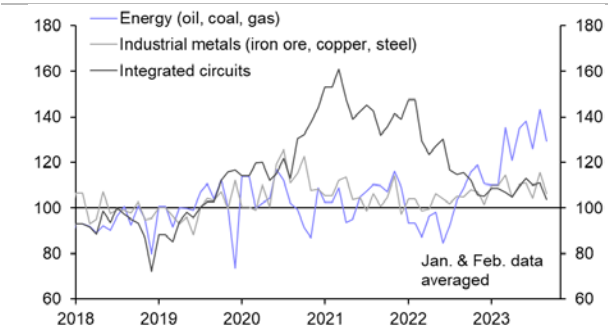


Chart 6: Exports & Industrial Export Sales (\$, 2019=100, CE seas. adj.)



Sources: CEIC, Capital Economics



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