CHINA RAPID RESPONSE

Merchandise Trade (Nov.)

Export volumes reach new high

- **China's export values rose year-on-year for the first time since May while the level of export volumes hit a fresh high, supported by exporters reducing prices. We doubt this robustness will persist, however, as exporters won't be able to continue cutting prices for much longer. Import volumes declined after hitting a record high in October, but they are likely to remain strong in the near-term as fiscal support boosts commodity demand.**
- After a 6.4% y/y decline in October, exports rose 0.5% y/y in dollar terms last month, beating expectations (the Bloomberg consensus was 0.0% and our forecast was -0.5%). (See Chart 1.) **After accounting for price effects and for seasonality, we estimate that export volumes rose 1% last month, reaching a record high.** (See Chart 2.) The recent strength has been supported by remarkable growth in China's passenger car exports (see Chart 3), driven by its dominance in the production of electric vehicles.
- Import growth fell from 3.0% y/y in US dollar terms to -0.6%, well below expectations (Bloomberg +3.9% and CE +7.5%). After accounting for seasonality and changes in import prices, **we estimate that import volumes declined 4.8% in m/m terms, returning back below their 2021 highs.** (See Chart 2 again.) The retreat last month looks to have been broad-based, with declines in imports of energy, metals and semiconductors. (See Chart 4.)
- **Looking forward, the resilience of exports is unlikely to last.** The recent strength has been at least partly fuelled by exporters slashing prices to gain market share. (See Chart 5.) But this is not sustainable and is negatively affecting firms' profit margins, which have dropped near to levels not seen since at least 2010, excluding the initial pandemic lockdowns. Without the support of price cuts, exports are unlikely to defy the slowdown in economic growth among China's major trading partners, which we expect to continue in the first half of next year. (See Chart 6.)
- **Imports are likely to hold up better in the near term.** Fuel imports, a key contributor to the recent strength, are already high compared to economic fundamentals and may not increase much further. But a step-up in infrastructure spending should support metals demand.

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

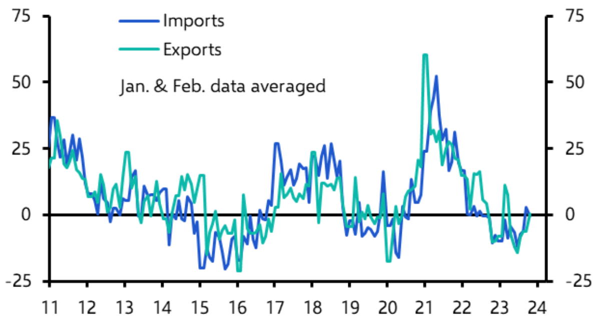
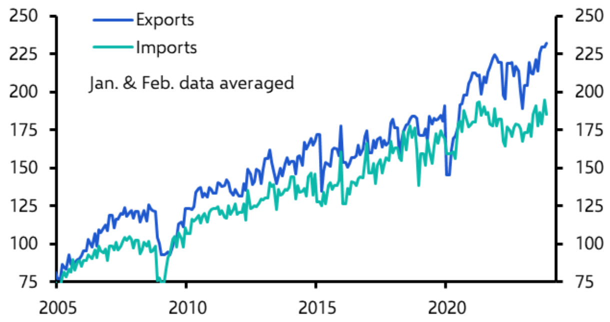


Chart 2: Goods Trade ($bn, seas. adj., 2010 prices)



Sources: CEIC, Capital Economics

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

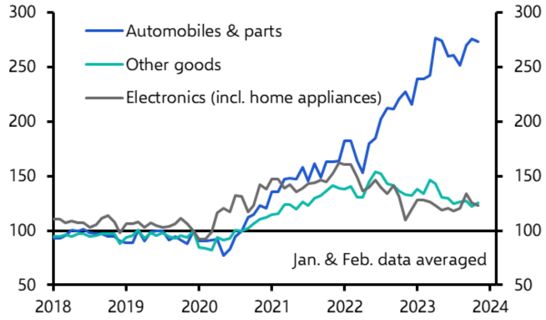


Chart 4: Import Volumes (2019 = 100, seas. adj.)

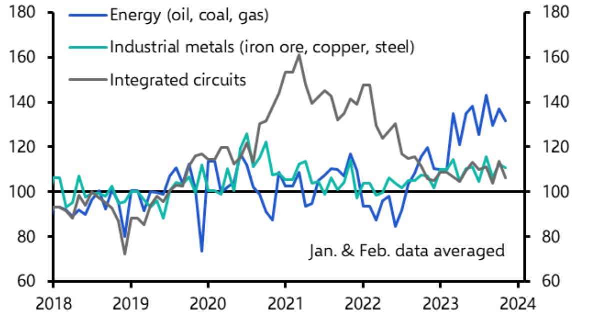
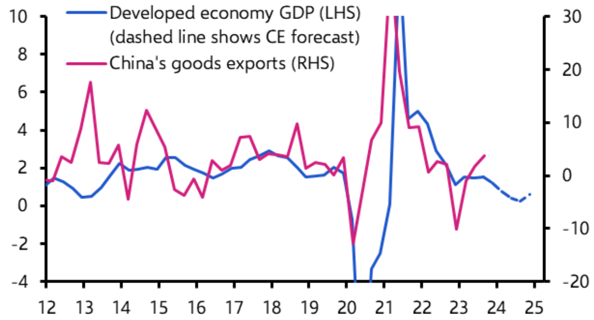


Chart 5: Export Price Index ($, 2010 = 100)

Chart 6: China Exports & DM GDP (volumes, % y/y)



Sources: CEIC, Refinitiv, Capital Economics