

China Economy

Deepening trade slump in blow to growth

China's exports of goods fell short of expectations as global demand for goods was weak, export price further declined and the US continued to diversify its supply chain beyond China. The imports of goods also plunged as import price expanded its declines while import volume indicated moderate improvement of domestic demand. Trade weakness occurred in almost all manufacturing powerhouses as global factory activity continued to shrink. Global consumers shifted from goods consumption to service consumption with deflation and de-stocking cycle in the manufacturing sector. It seemed the recent relief of commodity inflation and pick-up of consumer confidence mainly benefited the non-tradable sector. China's exports and imports of goods may remain weak in 3Q23 as demand for goods is sluggish and deflation is severe. However, foreign trade activity may gradually improve in 4Q23 thanks to base effect as well as a gradual alleviation of deflation and de-stocking in the manufacturing sector. We expect China's exports and imports of goods to respectively drop 2.3% and 3.2% in 2023 after rising 6.3% and 1% in 2022. Trade weakness implies downside pressure on China's economic growth as the Chinese policymakers may gradually increase the magnitude of policy easing in next several months.

■ **Exports of goods weakened across major trading partners as global manufacturing sector was close to a recession.** China's exports further declined 14.5% YoY (all on YoY basis unless specified) in July after a 12.4% drop in June. Exports to US declined 23.1% YoY in July after dropping 23.7% in June and 17.9% in 1H23. Exports to EU, Japan, South Korea & ASEAN all further deteriorated by dropping 20.6%, 18.4%, 18% and 21.4% in July, compared to the decline of 12.9%, 15.6%, 19.8%, and 16.9% in June. Russia remained the only destination to report positive growth, edging down from 91% increase in June to 51.8% in July. Global manufacturing sector was close to a recession as the PMI and trade activity continued to shrink for several months. After the pandemic, global households continued to shift from goods consumption to service consumption. Meanwhile, consumption of most services was less sensitive to high interest rates than consumption of durable goods. In addition, global trade of goods faced pressure from the Sino-US conflict and "de-risk" strategy of related countries.

■ **Exports by product deteriorated across major products while auto, ship and cellphone were the light spots.** Exports of textile product, garment, furniture and steel products fell 17.9%, 18.7%, 15.2% and 40.9% in July after dropping 14.3%, 14.5%, 15.1% and 42.8% in June. Meanwhile, exports of general equipment and automatic data processing equipment further declined 12% and 28.9% after dropping 2.4% and 24.7%. Exports of auto parts and home appliances dropped 4.5% and 3.6% in July after rising 5.1% and 3.9% in June. Exports of ship and cellphone elevated to 82.4% and 2.2% growth in July from the decline of 24% and 23.3% in June, while motor vehicle exports remained strong with growth of 83.3%, down from 109.9% in June.

■ **Imports of goods deteriorated as import price plunged.** China's imports of goods declined 12.4% in July after dropping 6.8% in June. The deterioration of imports was mainly due to more significant decline of import price as the import volume of most commodities improved. In July, import volume of grain, soybean, crude oil and natural gas rose 10.3%, 23.5%, 17% and 18.5%, up

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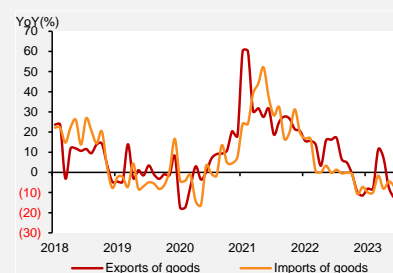
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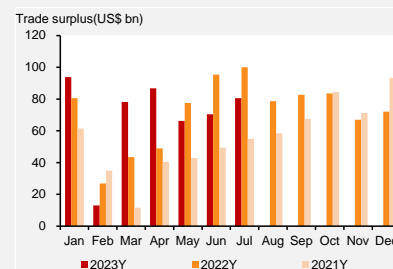
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Source: Wind, CMBIGM

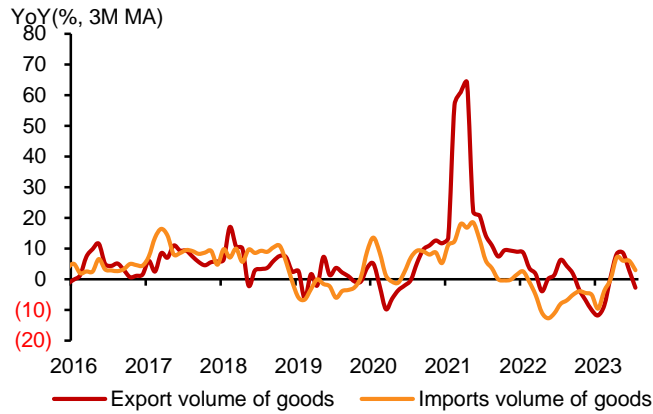


Source: Wind, CMBIGM

from the increases of 4.5%, 13.6%, 11.7% and 5.8% in 1H23. Meanwhile, the import volume of iron ore and copper ore maintained positive growth at 2.5% and 3.9%, yet down from the increase of 7.7% and 7.9%. Coal import volume growth remained strong at 66.9% in July, down from 93% in the first half year. Import volume of steel products, copper products, plastics in primary form, integrated circuits and autos narrowed their declines, indicating a possible improvement in domestic demand. Import volume of airplane and medicine rose 23.1% and 23.7% after growing 140% and 36.2% in 1H23 as air traffic flow and healthcare demand continued to recover. However, import volume of beauty cosmetics further dropped 24% in July after decreasing 10.7% in 1H23.

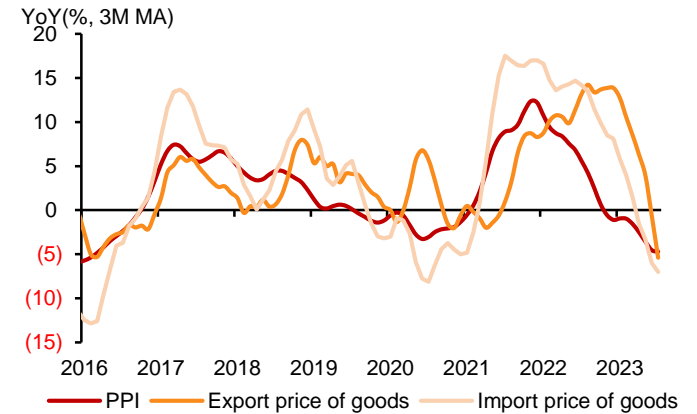
- **Exports and imports of goods are expected to drop 2.3% and 3.2% in 2023.** China's exports and imports may remain weak in next two months before probable improvement in 4Q23. We expect China's exports of goods to drop 2.3% in 2023 after rising 6.3% in 2022. The imports of goods are expected to decline 3.2% in 2023 after growing 1% in 2022.
- **China may further loosen economic policies to boost growth momentum.** The July politburo meeting indicates a more pro-growth policy stance in the second half year. The policymakers changed the optimistic view on the economic outlook and signaled more active policy easing ahead. The liquidity condition further eased as the PBOC guided banks to increase credit supply to real sector and to roll over the debts of property developers and local government financing vehicles. More cities loosened property policies with less restrictions on home purchase and lower down-payment ratios & mortgage rates for first-home and second-home buyers. Looking forward, the central bank may further cut RRR, deposit rates and LPRs to boost economic growth momentum. Meanwhile, the policymakers may continue to loosen property policies to stabilize the housing market. The YoY growth of total social financing balance is expected to rebound from 3Q23.

Figure 1: Growth of Export and Import Volume



Source: Wind, CMBIGM

Figure 2: Growth of Export and Import Prices



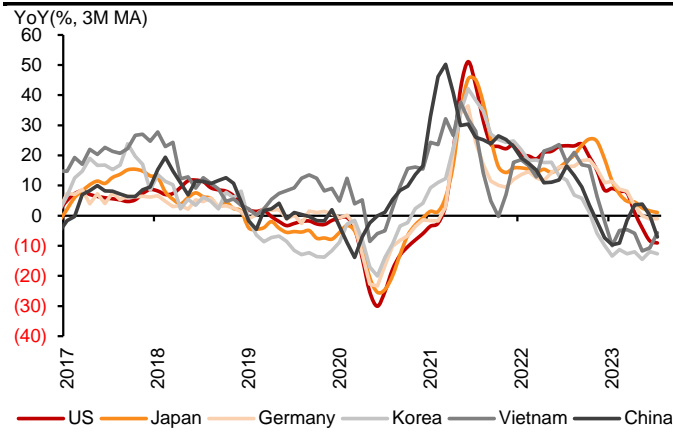
Source: Wind, CMBIGM

Figure 3: China Exports by Destination

	YoY Growth (%)									Share (%)					
	2018	2019	2020	2021	2022	1Q23	1H23	Jun	Jul	2018	2019	2020	2021	2022	7M23
World	9.9	0.5	3.6	29.6	6.3	(1.5)	(3.2)	(12.4)	(14.5)	100.0	100.0	100.0	100.0	100.0	100.0
US	11.3	(12.5)	7.9	27.5	1.2	(17.0)	(17.9)	(23.7)	(23.1)	19.2	16.8	17.4	17.2	16.3	14.5
EU	9.8	4.9	6.7	32.6	8.6	(7.1)	(6.6)	(12.9)	(20.6)	16.4	17.2	15.1	15.4	15.7	15.4
Japan	7.2	(2.6)	(0.4)	16.3	4.4	(2.4)	(4.7)	(15.6)	(18.4)	5.9	5.7	5.5	4.9	4.8	4.7
ASEAN	14.2	12.7	6.7	26.1	17.7	18.6	1.5	(16.9)	(21.4)	12.8	14.4	14.8	14.4	15.9	15.7
India	12.7	(2.4)	(10.8)	46.2	21.7	3.9	(0.9)	(13.6)	(9.5)	3.1	3.0	2.6	2.9	3.3	3.4
Africa	10.8	7.9	0.9	29.9	11.2	19.3	15.4	(6.9)	(4.9)	4.2	4.5	4.4	4.4	4.6	5.3
Latin America	13.7	2.1	(0.8)	52.0	10.6	0.5	(1.1)	(10.8)	(14.9)	6.0	6.1	5.8	6.8	7.1	7.2
Russia	12.0	3.7	1.7	33.8	12.8	47.1	78.1	90.9	51.8	1.9	2.0	2.0	2.0	2.1	3.2
Australia	14.2	1.8	10.9	24.2	19.0	10.4	0.7	(9.5)	(19.9)	1.9	1.9	2.1	2.0	2.2	2.2
UK	(0.3)	10.4	16.3	19.9	(6.1)	(7.4)	(3.7)	(10.2)	(6.8)	2.3	2.5	2.8	2.6	2.3	2.3
Canada	12.1	5.0	14.0	22.4	4.5	(17.1)	(19.3)	(27.1)	(27.3)	1.4	1.5	1.6	1.5	1.5	1.3
South Korea	5.9	2.1	1.4	32.4	9.5	6.0	(4.6)	(19.8)	(17.9)	4.4	4.4	4.3	4.4	4.6	4.5
Saudi Arabia	(5.1)	36.9	17.7	7.9	25.7	39.9	25.3	-	-	0.7	1.0	1.1	0.9	1.1	1.1
HK China	8.2	(7.6)	(2.3)	28.6	(15.0)	(8.9)	(9.8)	(20.6)	(8.5)	12.1	11.2	10.5	10.4	8.3	7.6
Chinese Taipei	10.6	13.2	9.1	30.4	4.2	(22.1)	(24.7)	(30.7)	(23.3)	2.0	2.2	2.3	2.3	2.3	1.9

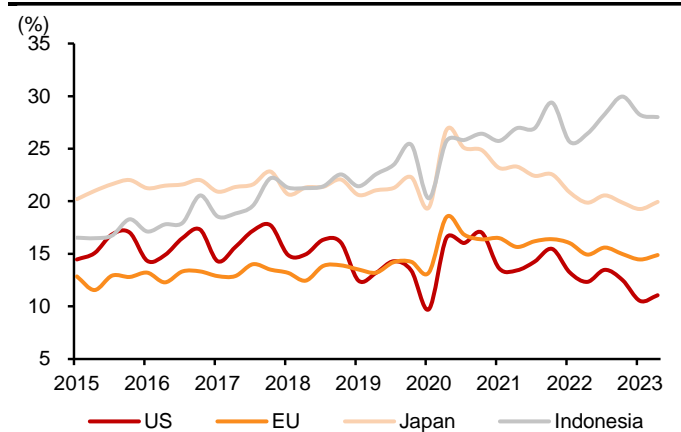
Source: Wind, CMBIGM

Figure 4: Exports Growth in Major Economies



Source: Wind, CMBIGM

Figure 5: China's Market Shares in Partners' Trade



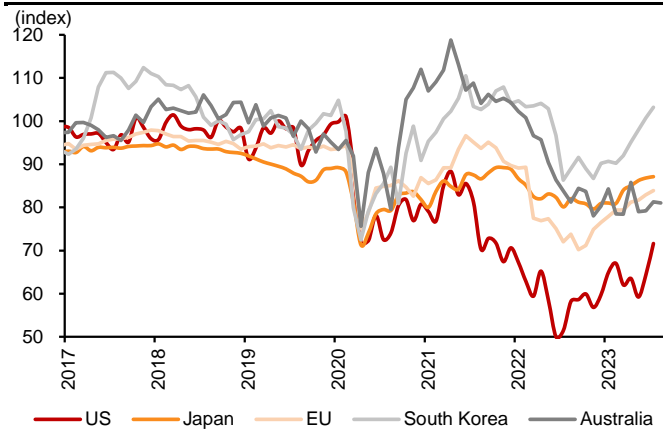
Source: Wind, CMBIGM

Figure 6: China Exports by Product

	YoY(%)										Share (%)					
	2018	2019	2020	2021	2022	1Q23	1H23	Jun	Jul	2018	2019	2020	2021	2022	7M23	
Textile Yam & Related Products	8.1	0.9	29.2	(5.6)	2.0	(12.1)	(10.9)	(14.3)	(17.9)	4.8	4.8	5.9	4.3	4.1	4.1	
Travel Goods & Bags	1.8	0.5	(24.2)	35.1	28.2	29.1	14.1	(5.1)	(11.9)	1.1	1.1	0.8	0.8	1.0	1.1	
Garment & Accessories	0.3	(4.0)	(6.4)	24.0	3.2	(1.3)	(5.9)	(14.5)	(18.7)	6.3	6.1	5.3	5.1	4.9	4.7	
Toy	4.5	24.2	7.5	37.7	5.6	3.7	(11.2)	(27.3)	(26.7)	1.0	1.2	1.3	1.4	1.4	1.1	
Furniture & Parts Thereof	7.6	0.8	11.8	26.4	(5.3)	(6.8)	(10.0)	(15.1)	(15.2)	2.2	2.2	2.3	2.2	2.0	1.9	
Lamps, Lighting Fixtures & Similar Products	5.6	9.6	14.3	31.2	(6.1)	(1.7)	(4.0)	(10.3)	(11.4)	1.2	1.3	1.5	1.5	1.3	1.3	
Plastic Products	12.2	11.2	19.6	29.1	9.3	2.9	(3.6)	(12.0)	(14.8)	1.7	1.9	3.3	2.9	3.0	3.0	
Steel Products	11.2	(11.3)	(15.4)	80.2	18.7	36.7	(1.1)	(42.7)	(40.9)	2.4	2.2	1.8	2.4	2.7	2.7	
Unwrought Aluminum	25.8	(7.4)	(14.1)	48.7	33.7	(23.8)	(31.6)	(35.4)	(37.5)	0.7	0.6	0.5	0.6	0.7	0.6	
Integrated Circuits	26.6	20.0	14.8	32.0	0.3	(17.6)	(17.7)	(19.4)	(14.7)	3.4	4.1	4.5	4.6	4.3	3.8	
Ship	4.6	(6.3)	(15.3)	26.2	(0.4)	4.9	7.7	(24.0)	82.4	0.9	0.8	0.7	0.6	0.6	0.7	
Motor Vehicles	12.3	4.1	(3.6)	119.2	74.7	81.6	108.1	109.9	83.3	0.6	0.6	0.6	1.0	1.7	2.8	
Auto Parts & Accessories	10.8	(3.6)	(6.2)	33.7	7.4	11.3	12.9	5.1	(4.5)	2.2	2.1	2.2	2.3	2.3	2.6	
General Equipment				7.5	26.4	6.1	2.3	4.6	(2.4)	(12.0)		1.6	1.6	1.6	1.7	
Automatic Data Processing Equipment				11.6	21.0	(7.5)	(29.9)	(24.3)	(24.7)	(28.9)		8.1	7.6	6.6	5.5	
Fertilizer	16.2	2.7	(8.3)	73.2	(1.6)	18.1	3.0	(7.3)	(26.6)	0.3	0.3	0.3	0.3	0.3	0.3	
Ceramic products	11.7	16.5	0.0	22.3	6.4	2.9	(8.8)	(28.2)	(26.9)	0.9	1.0	1.0	0.9	0.9	0.8	
Rare earth	23.7	(14.4)	(21.9)	90.0	62.8	(2.9)	(17.1)	(31.9)	(41.5)	0.02	0.02	0.01	0.02	0.03	0.03	
Cellphone				0.9	16.6	(2.5)	(9.8)	(14.8)	(23.3)	2.2		4.8	4.4	4.0	3.4	
Home appliance				23.5	22.3	(13.3)	(4.4)	(2.0)	3.9	(3.6)		2.6	2.9	2.4	2.6	
Medical equipment	13.3	13.3	40.5	11.9	(5.8)	(4.3)	(3.6)	(8.5)	(11.7)	0.5	0.5	0.7	0.6	0.5	0.5	

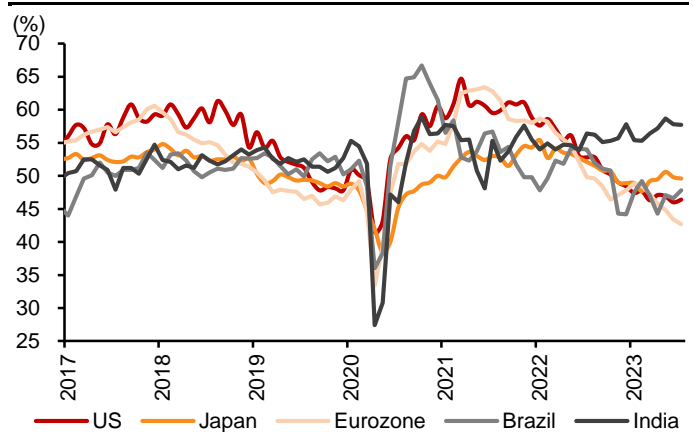
Source: Wind, CMBIGM

Figure 7: Consumer Confidence in Major Economies



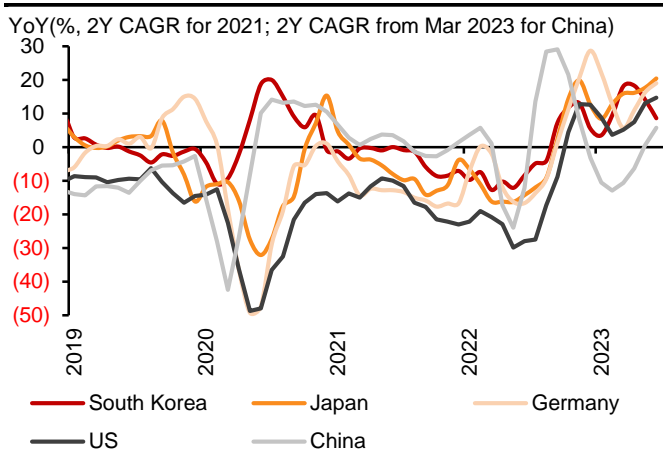
Source: Wind, CMBIGM

Figure 8: Manufacturing PMI in Major Economies



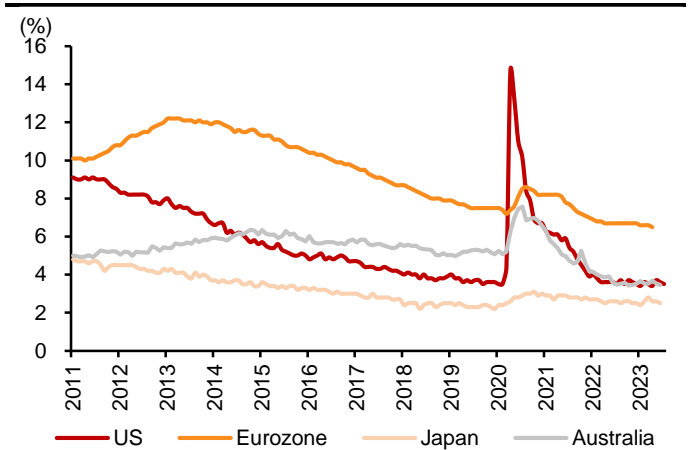
Source: Wind, CMBIGM

Figure 9: Auto Sales in Major Economies



Source: Wind, CMBIGM

Figure 10: Unemployment Rates in Major Economies



Source: Wind, CMBIGM

Figure 11: 10Y T-Bond Rates in Major Economies



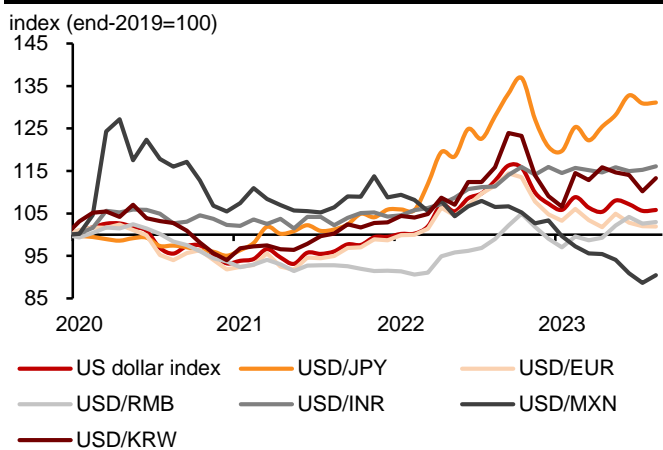
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Figure 12: Banks' Credit Growth in Major Economies



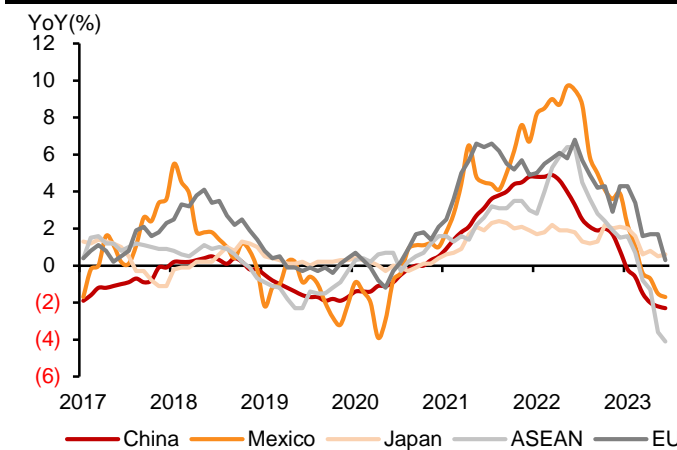
Source: Wind, CMBIGM

Figure 13: Exchange Rates



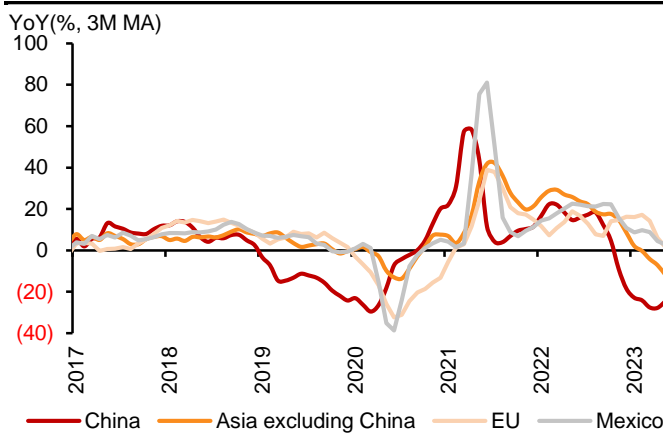
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Figure 14: US Import Price Growth by Source



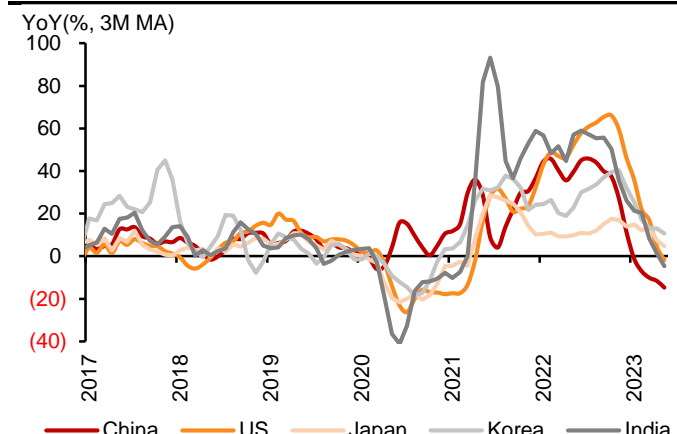
Source: Wind, CMBIGM

Figure 15: Growth of US Imports by Source



Source: Wind, CMBIGM

Figure 16: Growth of EU Imports by Source



Source: Wind, CMBIGM

Figure 17: China Import Volume & Price by Product

	Import volume YoY (%)								Import price YoY(%)							
	2019	2020	2021	2022	1Q23	1H23	Jun	Jul	2019	2020	2021	2022	1Q23	1H23	Jun	Jul
Grain	(3.6)	28.0	18.1	(10.7)	4.7	4.5	14.7	10.3	(5.1)	(5.4)	26.3	23.7	11.6	2.4	(10.5)	(16.6)
Soybean	0.0	13.3	(3.8)	(5.6)	13.5	13.6	24.5	23.5	(7.2)	(1.3)	40.7	21.2	8.9	(1.9)	(15.8)	(23.5)
Iron ore	0.5	9.5	(3.9)	(1.5)	9.8	7.7	7.4	2.5	32.9	7.2	55.4	(28.6)	(11.9)	(11.8)	(21.0)	(17.0)
Copper ore	11.6	(1.0)	7.6	8.0	5.1	7.9	3.4	3.9	(4.8)	2.1	44.6	(8.5)	(13.5)	(6.6)	(10.6)	(8.5)
Coal	6.3	1.5	6.6	(9.2)	96.1	93.0	110.1	66.9	(11.1)	(14.8)	65.9	29.7	(16.8)	(22.7)	(29.8)	(38.8)
Crude oil	9.5	7.3	(5.4)	(0.9)	6.7	11.7	45.3	17.0	(8.3)	(32.2)	52.4	42.7	(10.2)	(20.2)	(32.2)	(32.3)
Natural gas	6.9	5.3	19.9	(9.9)	(3.6)	5.8	19.2	18.5	1.5	(23.8)	39.8	39.5	0.5	(4.5)	(13.0)	(13.3)
Steel products	(6.5)	64.4	(29.5)	(25.9)	(40.5)	(35.2)	(22.8)	(14.2)	(8.1)	(27.5)	57.9	23.1	15.1	10.2	(3.9)	(6.6)
Copper products	(6.0)	34.1	(17.2)	6.2	(12.6)	(12.0)	(16.4)	(2.7)	(7.8)	(0.9)	45.5	(2.5)	(12.7)	(12.2)	(12.9)	(5.4)
Plastics in primary form	12.4	10.1	(16.4)	(10.0)	(6.6)	(5.8)	(0.4)	(1.1)	(15.9)	(10.6)	39.4	2.0	(17.0)	(18.7)	(21.9)	(23.0)
Rubber	(6.2)	13.6	(9.4)	8.7	10.7	18.0	16.7	9.1	(4.5)	(7.2)	26.4	(1.7)	(21.4)	(21.9)	(20.5)	(20.1)
Integrated circuits	6.6	22.1	16.9	(15.3)	(22.9)	(18.5)	(13.4)	(5.8)	(8.2)	(6.1)	5.7	13.5	(4.9)	(4.8)	(0.2)	(11.5)
Machine tool	0.0	18.8	(0.7)	(14.4)	(9.8)	(15.4)	(37.5)	(35.5)	0.0	(30.8)	25.8	1.5	(6.0)	7.7	39.4	9.8
Auto	(6.6)	(11.4)	0.6	(6.5)	(27.4)	(22.4)	0.0	(5.7)	3.6	8.1	14.7	5.7	6.9	(1.8)	5.3	(6.6)
Airplane	(48.6)	(35.4)	29.4	(27.3)	57.7	140.0	250.0	23.1	12.5	(30.0)	12.3	13.5	0.6	4.9	91.1	2.9
Medicine	0.0	(0.6)	3.1	28.8	33.4	36.2	32.1	23.7	0.0	4.1	16.5	(25.7)	(5.5)	(17.2)	(33.1)	(16.0)
Beauty cosmetics	0.0	3.7	5.2	(11.8)	(8.0)	(10.7)	(9.2)	(24.0)	0.0	24.8	17.0	1.8	2.1	(4.4)	(18.1)	(1.1)

Source: Wind, CMBIGM

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