

China Economy

Trade remains weak as base effect narrows its slump

China's exports and imports of goods narrowed their declines faster than expected in August thanks to the base effect. Overseas demand for goods was tepid as global consumers shifted from goods consumption to service consumption. Despite some improvement, global manufacturing PMI remained in the contraction territory as foreign trade in major exporters continued to decline. Domestic demand was also weak as the deflation further deepened the import decline. Looking forward, China's exports and imports may continue to improve from the YoY perspective due to the base effect and shrinkage of deflation. The exports and imports are expected to drop 2.3% and 3.2%, respectively, in 2023. Trade weakness implies downside pressure on China's economic growth as the policymakers have to actively loosen policies to achieve the 5% growth target.

- Exports of goods remained vulnerable across major trading partners amid weak overseas demand.** China's exports of goods dropped 8.8% YoY (all on YoY basis unless specified) in August after decreasing 14.5% in July. Exports to US, ASEAN and South Korea moderated to 8.8%, 13.3% and 14.5% drop in August after decreasing 23.1%, 21.4% and 17.9% in July. Exports to EU and Japan remained sluggish by dropping 19.6% and 20.6%, compared to the decline of 20.6% and 18.4% in July. As one of the few trading partners with positive growth, exports to Russia saw a sharp slowdown from 51.8% growth to 16.3% growth in August. Global manufacturing sector was close to a recession as the PMI and trade activity continued to shrink for several months. Global households continued to shift from goods consumption to service consumption as the former was more sensitive to high interest rates than the latter. In addition, global trade of goods faced pressure from the Sino-US conflict and "de-risk" strategy of related countries.
- Most products continued to decline while ship, vehicle and home appliance saw strong growth.** Exports of textile product, automatic data processing equipment, garment, integrated circuits, plastic products and steel products narrowed their decline to 6.4%, 18.2%, 12.5%, 4.6%, 7.4% and 30.6% after dropping 17.9%, 28.9%, 18.7%, 14.7%, 14.8% and 40.9% in July. Meanwhile, exports of auto parts and home appliances rebounded to 2.6% and 11.4% growth after falling 4.5% and 3.6% in July. At the same time, exports of ship and motor vehicles rose 40.8% and 35.2% in August, down from the growth of 82.4% and 83.3% in July. Moreover, exports of cellphone declined 20.5% from 2.2% growth in July.
- Imports of goods improved with strong growth in import volume of most commodities.** China's imports of goods declined 7.3% in August after dropping 12.4% in July. Import patterns continue with a higher volume and a much lower price across the board since early 2023. In August, import volume of grain, soybean, crude oil and natural gas rose 14.3%, 30.6%, 30.9% and 22.7%, up from the increases of 10.3%, 23.5%, 17% and 18.5% in July. The import volume of iron ore and copper ore saw strong growth at 10.6% and 18.8% from 2.5% and 3.7% in July while coal import volume moderated to 50.5% from 66.9%. Import volume of steel products, copper products, machine tools, auto, airplane, and beauty cosmetics further weakened, indicating a still dampened domestic consumer demand.

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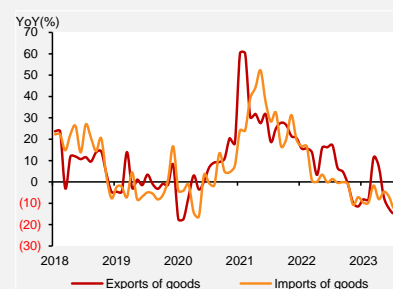
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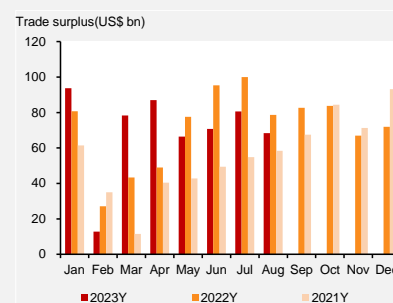
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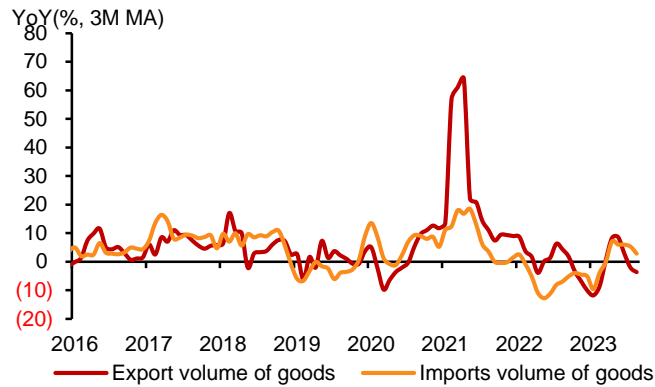
Source: Wind, CMBIGM



Source: Wind, CMBIGM

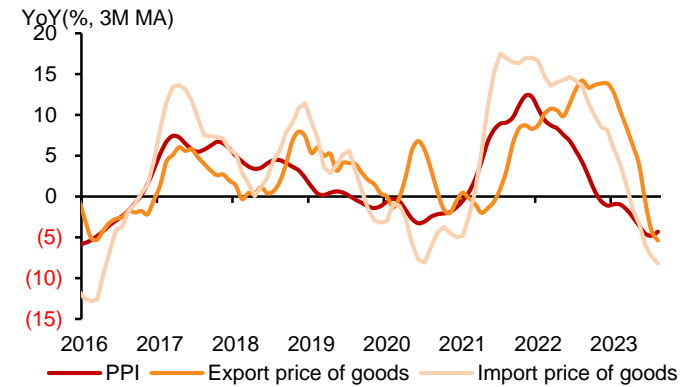
- **Exports and imports of goods are expected to drop 2.3% and 3.2% in 2023.** China's exports and imports may continue to improve from the YoY perspective as they may see positive YoY growth in 4Q23. We expect China's exports of goods to drop 2.3% in 2023 after rising 6.3% in 2022. The imports of goods are expected to decline 3.2% in 2023 after growing 1% in 2022.
- **Stronger loosening policies are expected to carry out as China's economy may gradually improve ahead.** Policymakers have adopted a broad spectrum of supportive policies including loosening property policies, expanding credit supply, cutting deposit rates and existing mortgage rates, relieving local government debt risk and activating capital market. Looking ahead, China may: 1) further loosen property policies, with an acceleration of urban village renovation and affordable housing construction and loosening of home purchase restrictions in tier-one and tier-two cities; 2) maintain liquidity easing with further expansion of credit supply and reduction of the RRR, deposit interest and LPR; 3) actively resolve the local government contingent debt risk by supporting local governments to use special bond financing and state-owned assets to replace or repay some contingent debt and encouraging banks to rollover matured local government contingent debt; 4) accelerate the issuance of government bonds, employ part of the debt quota for next year in advance in 4Q, and increase broad fiscal deficit rate next year to facilitate fiscal expansion; 5) boost the retail sales of automobiles, electronic products, and home furnishing, and stimulate service consumption such as sports, leisure, and cultural tourism; 6) focus on industries such as digital economy, artificial intelligence, and advanced manufacturing and increase the intensity of industrial policy support; 7) establish and improve the normalized communication mechanism with entrepreneurs and enhance the confidence of private businesses.

Figure 1: Growth of Export and Import Volume



Source: Wind, CMBIGM

Figure 2: Growth of Export and Import Prices



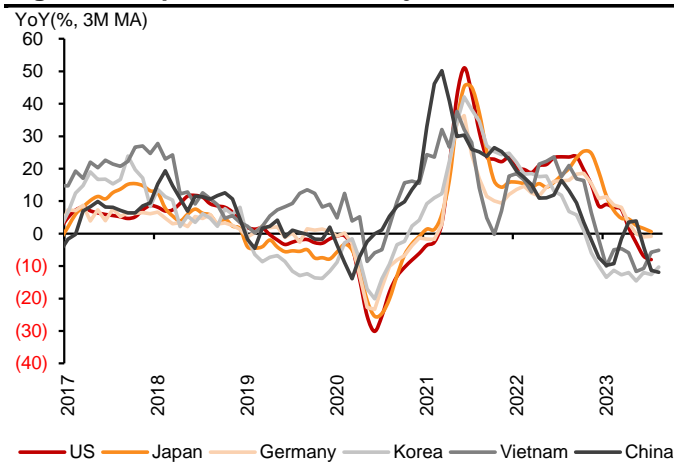
Source: Wind, CMBIGM

Figure 3: China Exports by Destination

	YoY Growth (%)									Share (%)					
	2018	2019	2020	2021	2022	1Q23	1H23	July	Aug	2018	2019	2020	2021	2022	8M23
World	9.9	0.5	3.6	29.6	6.3	(1.5)	(3.2)	(14.5)	(8.8)	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)	(23.1)	(9.5)	19.2	16.8	17.4	17.2	16.3	14.7
EU	9.8	4.9	6.7	32.6	8.6	(7.1)	(6.6)	(20.6)	(19.6)	16.4	17.2	15.1	15.4	15.7	15.3
Japan	7.2	(2.6)	(0.4)	16.3	4.4	(2.4)	(4.7)	(18.4)	(20.1)	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	(21.4)	(13.3)	12.8	14.4	14.8	14.4	15.9	15.5
India	12.7	(2.4)	(10.8)	46.2	21.7	3.9	(0.9)	(9.5)	0.7	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	(4.9)	(5.4)	4.2	4.5	4.4	4.4	4.6	5.2
Latin America	13.7	2.1	(0.8)	52.0	10.6	0.5	(1.1)	(14.9)	(7.8)	6.0	6.1	5.8	6.8	7.1	7.4
Russia	12.0	3.7	1.7	33.8	12.8	47.1	78.1	51.8	16.3	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	(19.9)	(12.3)	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)	(6.8)	(12.9)	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)	(27.3)	(14.7)	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)	(17.9)	(14.5)	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	(2.4)	-	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)	(8.5)	(2.5)	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)	(23.3)	(4.8)	2.0	2.2	2.3	2.3	2.3	2.0

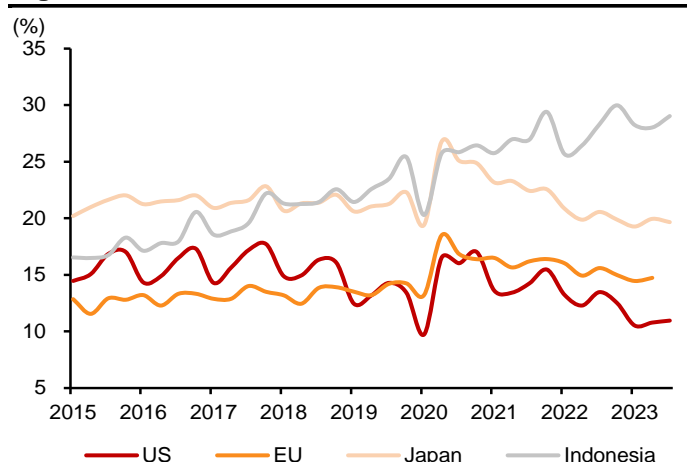
Source: Wind, CMBIGM

Figure 4: Exports Growth in Major Economies



Source: Wind, CMBIGM

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



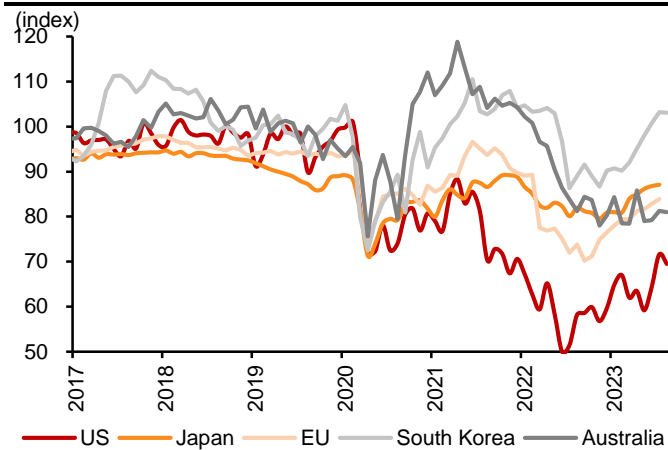
Source: Wind, CMBIGM

Figure 6: China Exports by Product

	YoY(%)									Share (%)					
	2018	2019	2020	2021	2022	1Q23	1H23	July	Aug	2018	2019	2020	2021	2022	8M23
Textile Yarn & Related Products	8.1	0.9	29.2	(5.6)	2.0	(12.1)	(10.9)	(17.9)	(6.4)	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	(11.9)	(8.9)	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)	(18.7)	(12.5)	6.3	6.1	5.3	5.1	4.9	4.8
Toy	4.5	24.2	7.5	37.7	5.6	3.7	(11.2)	(26.7)	(15.5)	1.0	1.2	1.3	1.4	1.4	1.2
Furniture & Parts Thereof	7.6	0.8	11.8	26.4	(5.3)	(6.8)	(10.0)	(15.2)	(6.8)	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)	(11.4)	(7.6)	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)	(14.8)	(7.4)	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)	(40.9)	(30.6)	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)	(37.5)	(24.8)	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)	(14.7)	(4.6)	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	82.4	40.8	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	83.3	35.2	0.6	0.6	0.6	1.0	1.7	2.9
Auto Parts & Accessories	10.8	(3.6)	(6.2)	33.7	7.4	11.3	12.9	(4.5)	2.6	2.2	2.1	2.2	2.3	2.3	2.6
General Equipment			7.5	26.4	6.1	2.3	4.6	(12.0)	(1.7)			1.6	1.6	1.6	1.7
Automatic Data Processing Equipment			11.6	21.0	(7.5)	(29.9)	(24.3)	(28.9)	(18.2)			8.1	7.6	6.6	5.5
Fertilizer	16.2	2.7	(8.3)	73.2	(1.6)	18.1	3.0	(26.6)	(38.5)	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)	(26.9)	(23.0)	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)	(41.5)	(32.2)	0.02	0.02	0.01	0.02	0.03	0.03
Cellphone		0.9	16.6	(2.5)	(9.8)	(14.8)	2.2	(20.5)				4.8	4.4	4.0	3.3
Home appliance			23.5	22.3	(13.3)	(4.4)	(2.0)	(3.6)	11.4			2.6	2.9	2.4	2.6
Medical equipment	13.3	13.3	40.5	11.9	(5.8)	(4.3)	(3.6)	(11.7)	(7.1)	0.5	0.5	0.7	0.6	0.5	0.5

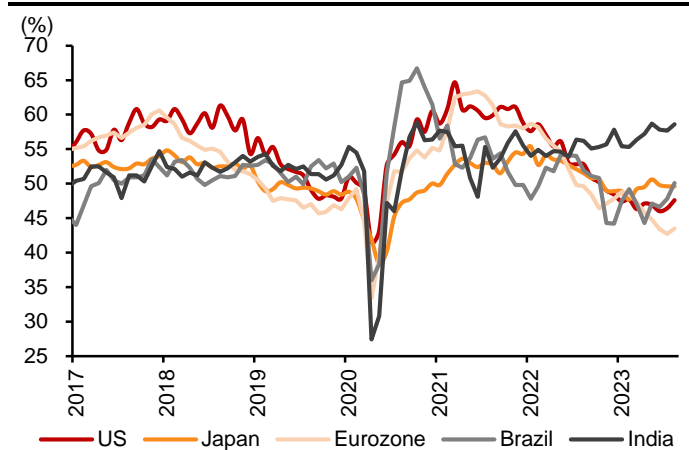
Source: Wind, CMBIGM

Figure 7: Consumer Confidence in Major Economies



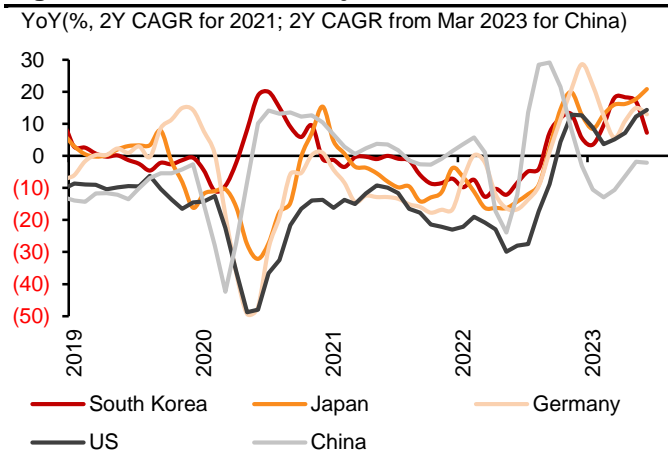
Source: Wind, CMBIGM

Figure 8: Manufacturing PMI in Major Economies



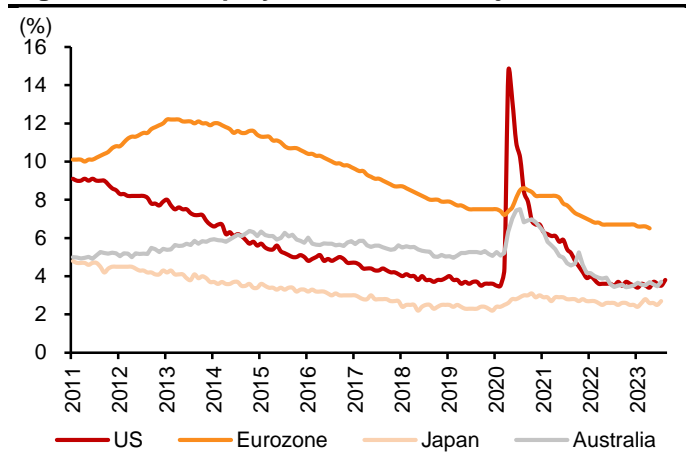
Source: Wind, CMBIGM

Figure 9: Auto Sales in Major Economies



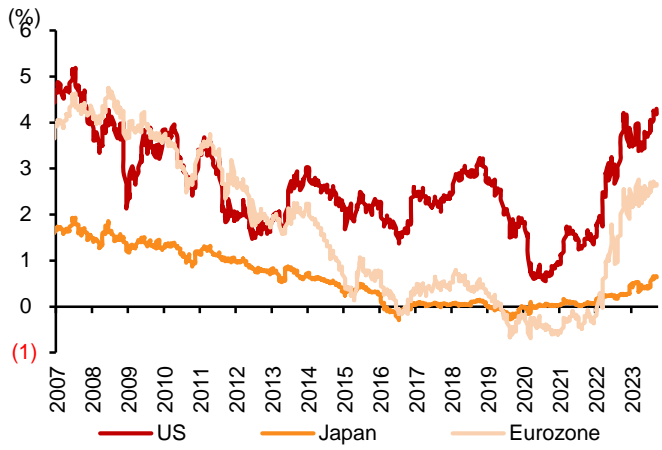
Source: Wind, CMBIGM

Figure 10: Unemployment Rates in Major Economies



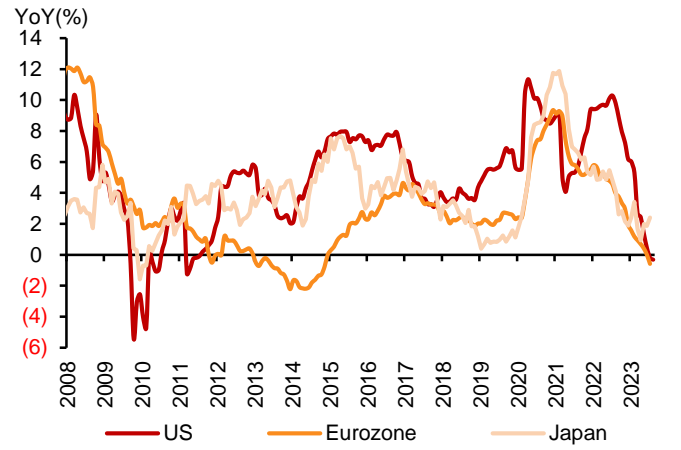
Source: Wind, CMBIGM

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



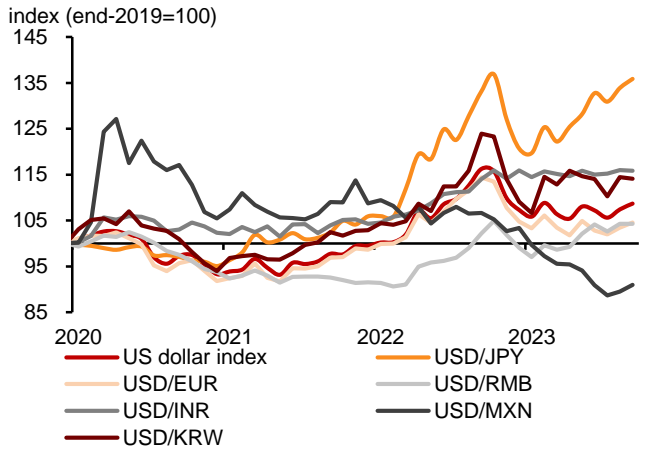
Source: Wind, CMBIGM

Figure 12: Banks' Credit Growth in Major Economies



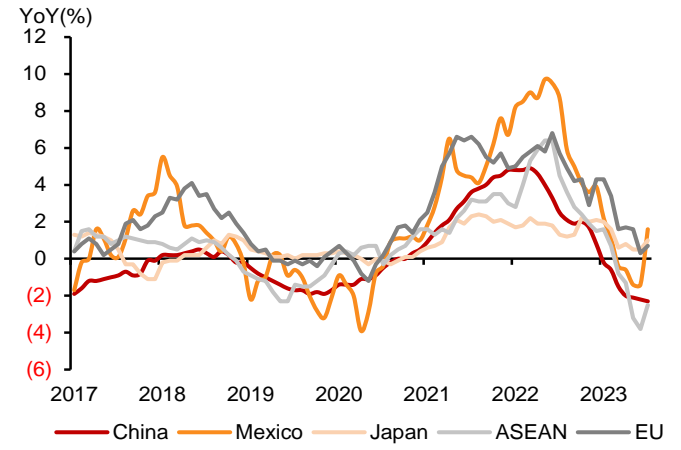
Source: Wind, CMBIGM

Figure 13: Exchange Rates



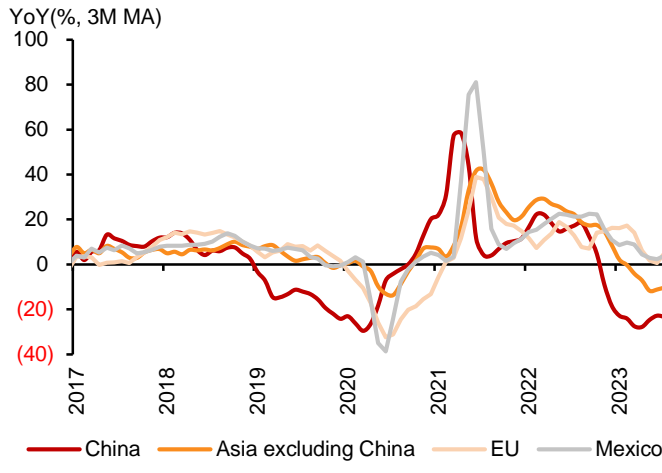
Source: Wind, CMBIGM

Figure 14: US Import Price Growth by Source



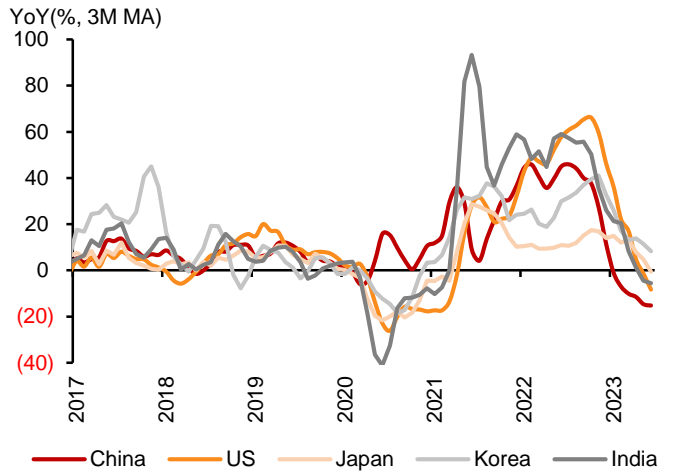
Source: Wind, CMBIGM

Figure 15: Growth of US Imports by Source



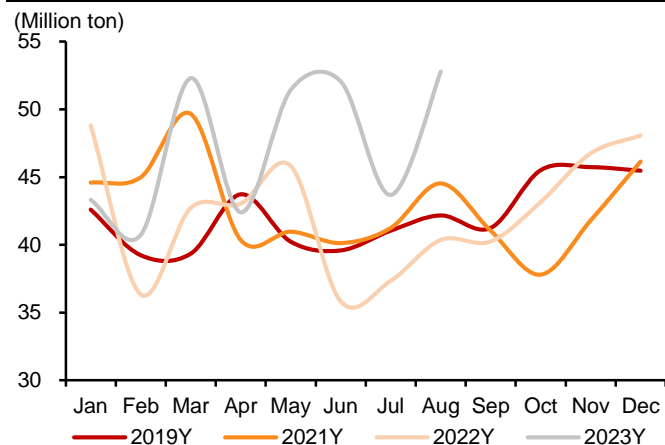
Source: Wind, CMBIGM

Figure 16: Growth of EU Imports by Source



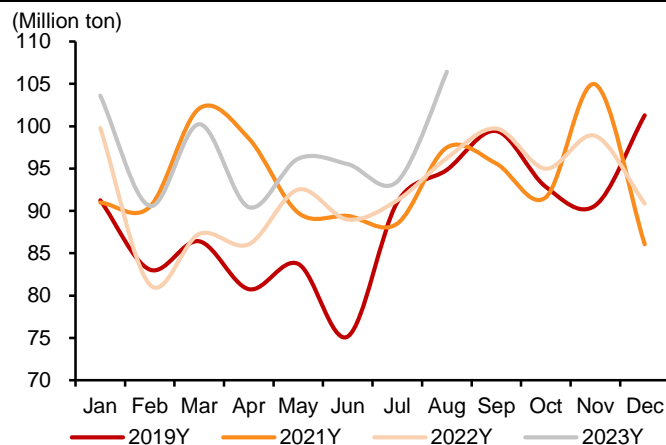
Source: Wind, CMBIGM

Figure 17: Import Volume of Crude Oil



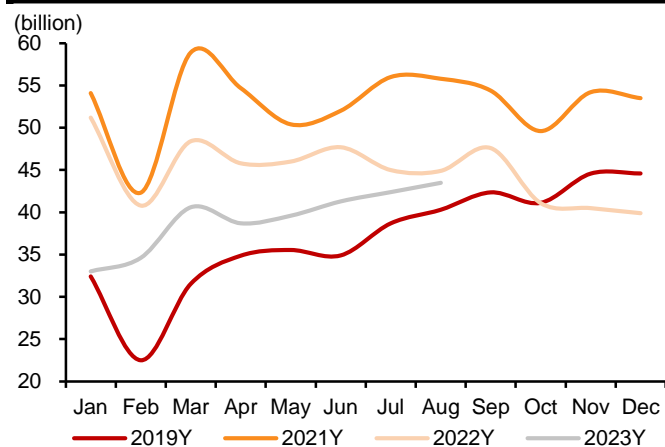
Source: Wind, CMBIGM

Figure 18: Import Volume of Iron Ore



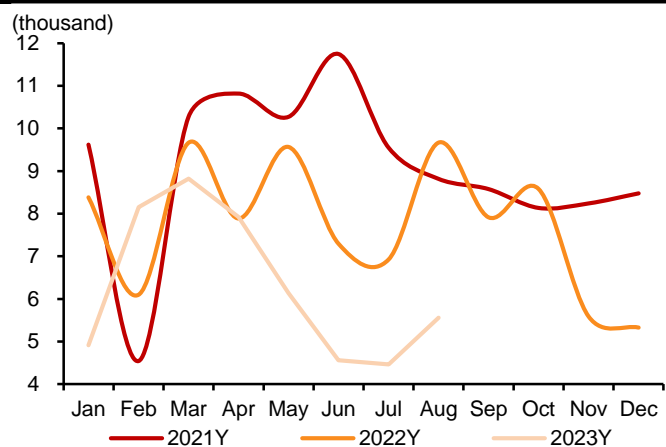
Source: Wind, CMBIGM

Figure 19: Import Volume of Integrated Circuit



Source: Wind, CMBIGM

Figure 20: Import Volume of Machine Tool



Source: Wind, CMBIGM

Figure 21: China Import Volume & Price by Product

	Import volume YoY (%)								Import price YoY(%)							
	2019	2020	2021	2022	1Q23	1H23	July	Aug	2019	2020	2021	2022	1Q23	1H23	Jul	Aug
Grain	(3.6)	28.0	18.1	(10.7)	4.7	4.5	10.3	14.3	(5.1)	(5.4)	26.3	23.7	11.6	2.4	(16.6)	(17.1)
Soybean	0.0	13.3	(3.8)	(5.6)	13.5	13.6	23.5	30.6	(7.2)	(1.3)	40.7	21.2	8.9	(1.9)	(23.5)	(23.0)
Iron ore	0.5	9.5	(3.9)	(1.5)	9.8	7.7	2.5	10.6	32.9	7.2	55.4	(28.6)	(11.9)	(11.8)	(17.0)	(3.9)
Copper ore	11.6	(1.0)	7.6	8.0	5.1	7.9	3.7	18.8	(4.8)	2.1	44.6	(8.5)	(13.5)	(6.6)	(8.3)	1.5
Coal	6.3	1.5	6.6	(9.2)	96.1	93.0	66.9	50.5	(11.1)	(14.8)	65.9	29.7	(16.8)	(22.7)	(38.8)	(34.0)
Crude oil	9.5	7.3	(5.4)	(0.9)	6.7	11.7	17.0	30.9	(8.3)	(32.2)	52.4	42.7	(10.2)	(20.2)	(32.3)	(23.2)
Natural gas	6.9	5.3	19.9	(9.9)	(3.6)	5.8	18.5	22.7	1.5	(23.8)	39.8	39.5	0.5	(4.5)	(13.4)	(29.0)
Steel products	(6.5)	64.4	(29.5)	(25.9)	(40.5)	(35.2)	(13.9)	(28.1)	(8.1)	(27.5)	57.9	23.1	15.1	10.2	(6.8)	(1.2)
Copper products	(6.0)	34.1	(17.2)	6.2	(12.6)	(12.0)	(2.7)	(5.0)	(7.8)	(0.9)	45.5	(2.5)	(12.7)	(12.2)	(5.4)	(2.2)
Plastics in primary form	12.4	10.1	(16.4)	(10.0)	(6.6)	(5.8)	(1.3)	4.6	(15.9)	(10.6)	39.4	2.0	(17.0)	(18.7)	(22.8)	(20.4)
Rubber	(6.2)	13.6	(9.4)	8.7	10.7	18.0	8.6	9.8	(4.5)	(7.2)	26.4	(1.7)	(21.4)	(21.9)	(19.7)	(21.2)
Integrated circuits	6.6	22.1	16.9	(15.3)	(22.9)	(18.5)	(5.8)	(3.1)	(8.2)	(6.1)	5.7	13.5	(4.9)	(4.8)	(11.5)	(7.4)
Machine tool	0.0	18.8	(0.7)	(14.4)	(9.8)	(15.4)	(35.5)	(42.5)	0.0	(30.8)	25.8	1.5	(6.0)	7.7	9.8	64.4
Auto	(6.6)	(11.4)	0.6	(6.5)	(27.4)	(22.4)	0.0	(6.3)	3.6	8.1	14.7	5.7	6.9	(1.8)	(12.0)	1.1
Airplane	(48.6)	(35.4)	29.4	(27.3)	57.7	140.0	23.1	(12.5)	12.5	(30.0)	12.3	13.5	0.6	4.9	2.9	(22.4)
Medicine	0.0	(0.6)	3.1	28.8	33.4	36.2	23.7	40.2	0.0	4.1	16.5	(25.7)	(5.5)	(17.2)	(16.0)	(27.1)
Beauty cosmetics	0.0	3.7	5.2	(11.8)	(8.0)	(10.7)	(24.0)	(26.4)	0.0	24.8	17.0	1.8	2.1	(4.4)	(1.1)	(0.5)

Source: Wind, CMBIGM

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OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
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