

China Economy

China exports plunged amid overseas recession risk

China's exports of goods further plunged amid overseas economic slowdown, destocking and disinflation. The imports of goods also deteriorated as China's domestic demand temporarily weakened after reopening. Looking forward, we expect China's exports of goods to drop 3.5% in 2023 after rising 7% in 2022 due to overseas recession and disinflation cycle. The imports of goods are expected to rise 0.5% in 2023, down from the growth of 1.1% in 2022. The resumption of domestic demand should provide some support to import volume growth. However, the disinflation cycle in commodity and industrial products will slow the growth in China's imports of goods. The weakness of foreign trade activity points to additional downside pressure on China's growth as the contribution of net exports to total GDP growth should significantly decline this year. China faces pressure to stabilize its property market and resume household consumption this year.

- Exports of goods further plunged amid overseas economic slowdown, destocking and disinflation.** China's exports of goods dropped 9.9% YoY in December after dropping 8.9% YoY in November. We estimate export price index and volume index may have respectively increased 10% YoY and dropped 18% YoY in December. By destination, China's exports to EU and US respectively dropped 19.5% and 17.5% YoY in December after decreasing 25.4% and 10.6% YoY in November. Meanwhile, exports to Japan dropped 3.3% YoY, up from the YoY decline of 5.6% in the previous month. However, exports to ASEAN picked up 7.5% YoY in December after rising 3.1% YoY in November. By product, China's exports of auto data processing equipment, integrated circuits, toys, furniture & lamps sharply slowed as home economy and housing market significantly cooled down in overseas. However, the exports of autos, home appliance and medical equipment maintained strong growth thanks to China's consolidation of competitiveness in those sectors.
- Imports remained weak as commodity inflation declined and import volume continued to shrink.** China's imports dropped 7.5% YoY in December after decreasing 10.6% YoY in November. Commodity inflation sharply declined amid base effect and global recession risk. We estimate the growth of import price index may have declined from 6.4% in November to below 5% in December. As domestic demand started to resume after the peak of the Omicron wave, import volume tended to rebound. By product, import volume of soybean dropped 5.6% in 12M2022, up from the decline of 8.1% in 11M2022. It may further improve as catering service demand gradually rebounded after reopening. Import volume of iron ore and steel products respectively declined 1.5% and 25.9% YoY in 12M2022, as property development investment remained weak. Import volume of crude oil & natural gas respectively dropped 0.9% and 9.9% YoY in 12M2022. Meanwhile, import volume of integrated circuits, autos and machine tools respectively dropped 15.3%, 6.5% and 14.4% YoY, as durable consumption and business capex was sluggish.
- We expect exports to drop 3.5% and imports to rise 0.5% in 2023.** China's exports of goods are likely to see significant YoY declines in 1H2023 due to overseas recession, destocking cycle and disinflation trend. The exports may gradually improve in 2H2023. For 2023, we expect exports to drop 3.5%,

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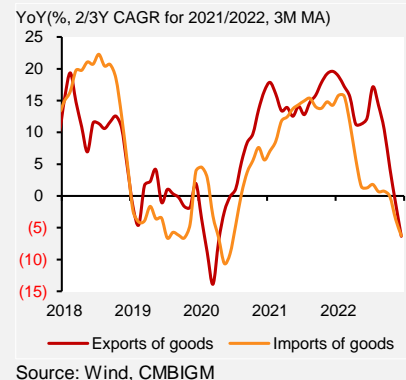
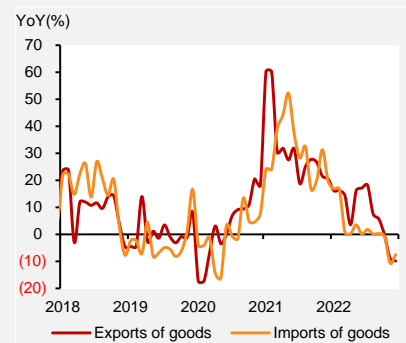
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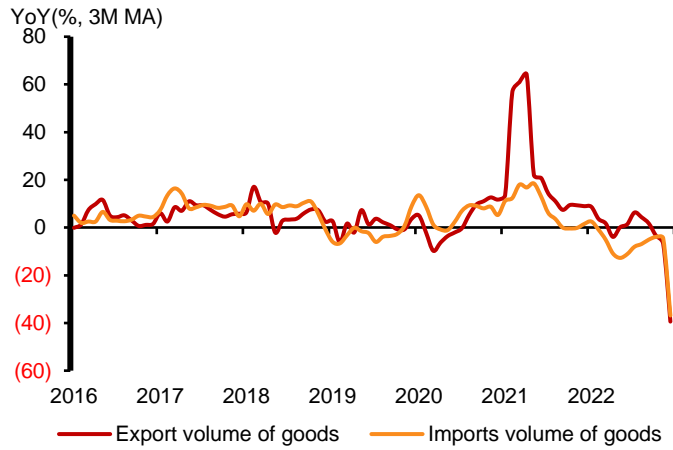
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compared to the growth of 7% in 2022. China's imports volume should rebound as domestic demand would gradually improve after reopening. However, the disinflation in commodity and industrial products may slow the growth of imports. We expect the imports of goods to rise 0.5% in 2023 after climbing 1.1% in 2022.

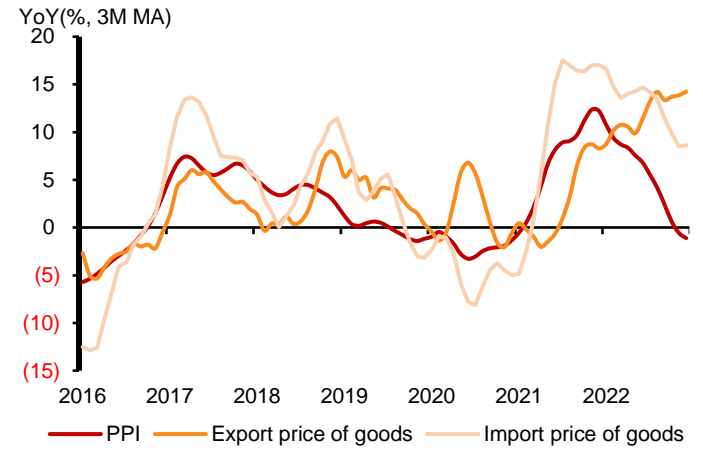
- **The weakness in foreign trade increases the need to stabilize property market and resume consumption for China.** The weakening of foreign trade activity brings downside pressure on China's growth. We expect the contribution of next exports to China's GDP growth to decline from 0.9ppt in 2022 to 0.3ppt in 2023. It increases the necessity for China to stabilize its real estate market and resume household consumption as the new leaders try to achieve a growth above 5% this year. To boost the growth, China has reopened its economy, loosened property policy and marked a pro-business shift recently. We expect the policymakers may further ease credit supply to property sector and launch more pro-business policies ahead.

Figure 1: Growth of Export and Import Volume



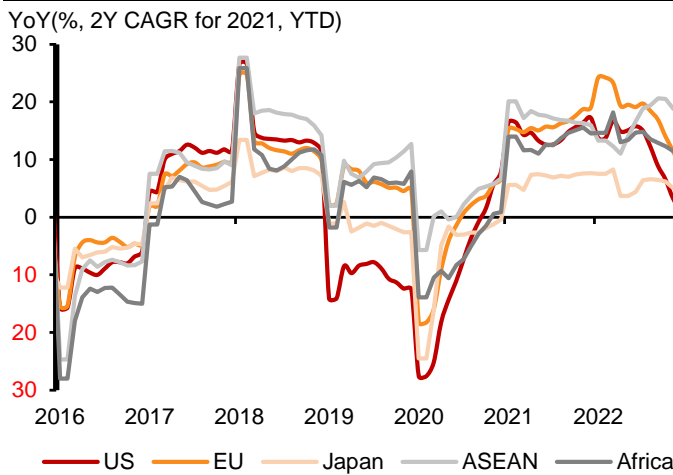
Source: Wind, CMBIGM

Figure 2: Growth of Export and Import Prices



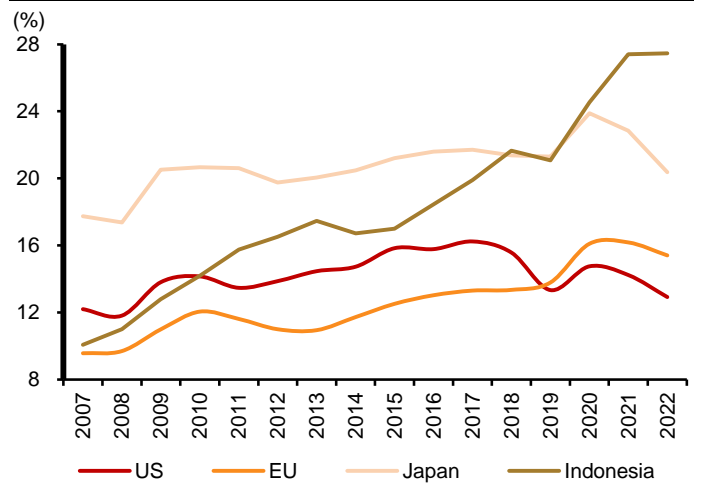
Source: Wind, CMBIGM

Figure 3: Growth of Exports to Main Partners



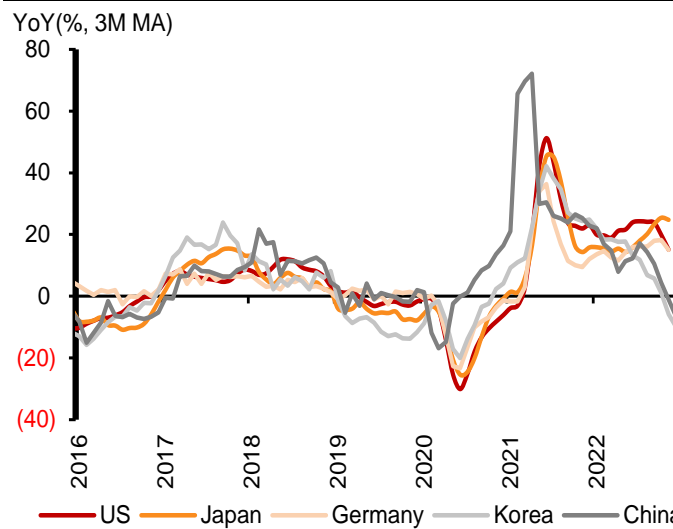
Source: Wind, CMBIGM

Figure 4: China's Share in Partner's Foreign Trade



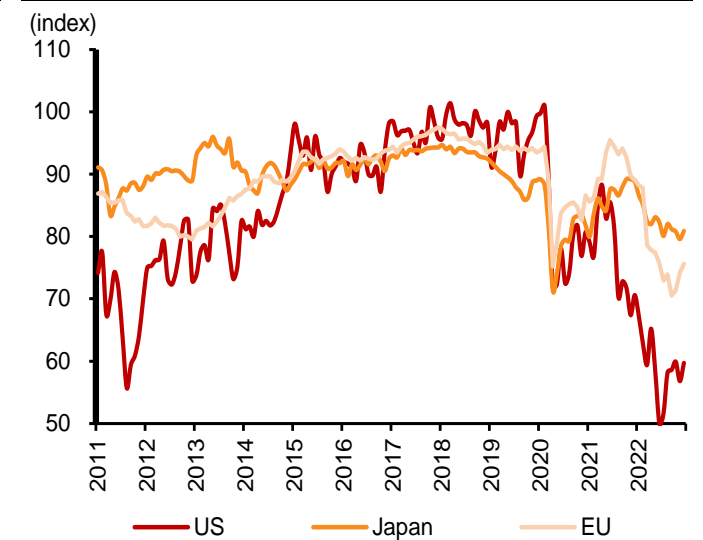
Source: Wind, CMBIGM

Figure 5: Growth of Main Countries' Exports



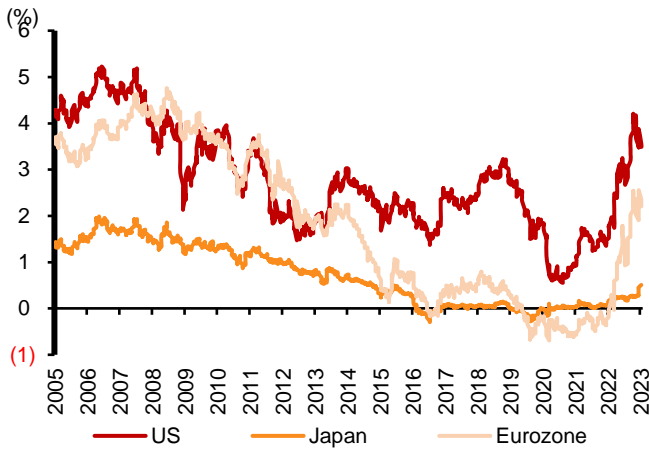
Source: Wind, CMBIGM

Figure 6: Consumer Confidence Index



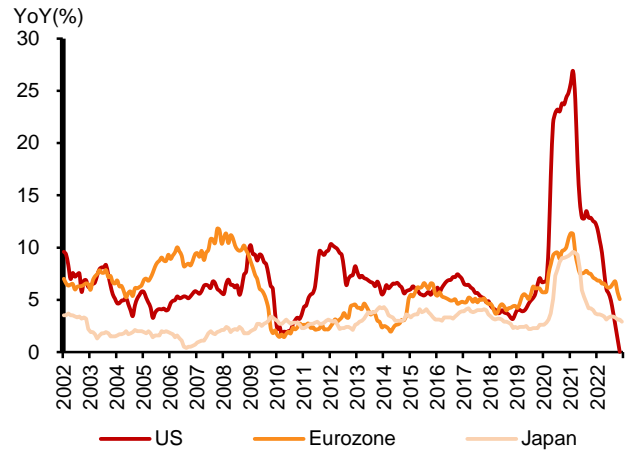
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Figure 7: 10Y Treasury Bond Rates



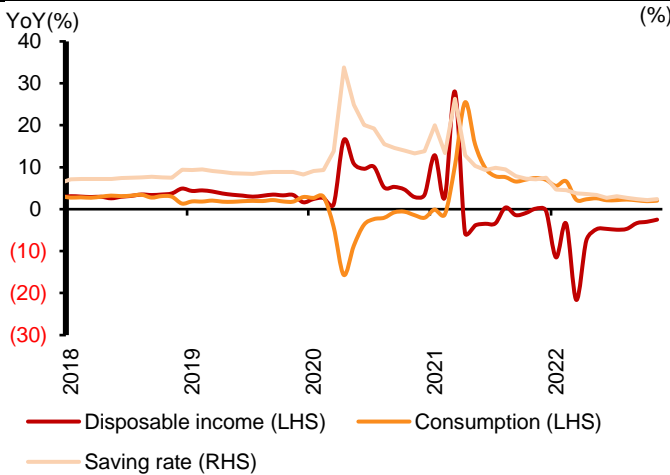
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Figure 8: Growth of M2 Supply



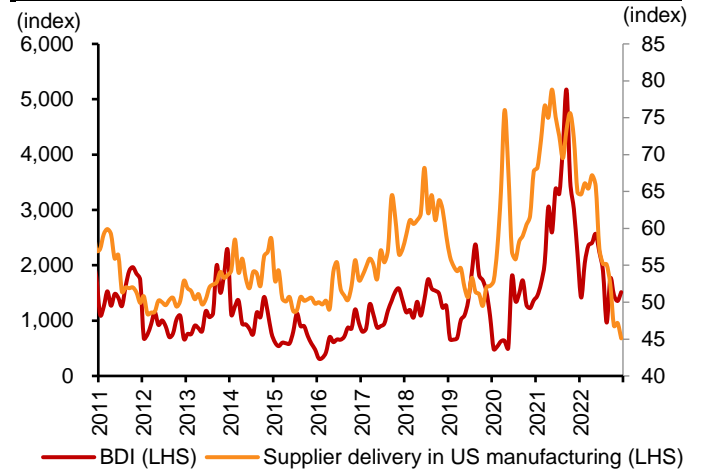
Source: Wind, CMBIGM

Figure 9: US Household Income Growth & Saving Rates



Source: Wind, CMBIGM

Figure 10: Global Supply Chain Pressure



Source: Wind, CMBIGM

Figure 11: Growth of China Export Value by Main Products

	YoY(%)					2/3 Y CAGR(%)			
	2018	2019	2020	2021	2022	2021	1Q22	1H22	2022
Textile Yarn, Fabrics & Related Products	8.1	0.9	29.2	(5.6)	2.0	10.4	11.3	9.6	7.6
Travel Goods, Hand bags & Similar Articles	1.8	0.5	(24.2)	35.1	28.2	1.2	7.5	8.0	9.5
Garment & Accessories	0.3	(4.0)	(6.4)	24.0	3.2	7.7	8.0	8.2	6.2
Shoes & Boots	0.0	0.0	(21.2)	35.3	20.4	3.3	8.2	8.8	8.7
Toy	4.5	24.2	7.5	37.7	5.6	21.7	19.1	21.5	16.1
Furniture & Parts Thereof	7.6	0.8	11.8	26.4	(5.3)	18.9	12.6	11.8	10.2
Lamps, Lighting Fixtures & Similar Products	5.6	9.6	14.3	31.2	(6.1)	22.5	15.7	14.2	12.1
Plastic Products	12.2	11.2	19.6	29.1	9.3	24.3	19.7	20.2	19.1
Steel Products	11.2	(11.3)	(15.4)	80.2	18.7	23.5	11.4	19.8	21.9
Unwrought Aluminum	25.8	(7.4)	(14.1)	48.7	33.7	13.0	19.3	22.2	19.5
Integrated Circuits	26.6	20.0	14.8	32.0	0.3	23.1	21.1	19.6	15.0
Shipping	4.6	(6.3)	(15.3)	26.2	(0.4)	3.4	(2.5)	2.6	2.1
Motor Vehicles	12.3	4.1	(3.6)	119.2	74.7	45.4	50.5	43.0	54.6
Auto Parts & Accessories	10.8	(3.6)	(6.2)	33.7	7.4	12.0	10.2	9.7	10.4
General Machinery			7.5	26.4	6.1	16.6	15.8	13.8	13.0
Automatic Data Processing Equipment			11.6	21.0	(7.5)	16.2	12.1	9.6	7.7

Source: Wind, CMBIGM

Figure 12: Growth of China Import Volume by Main Products

	YoY(%)					2/3 Y CAGR(%)			
	2018	2019	2020	2021	2022	2021	1Q22	1H22	2022
Grain	(11.5)	(3.6)	28.0	18.1	(10.7)	23.0	19.1	10.6	4.6
Soybean	0.0	0.0	13.3	(3.8)	(5.6)	4.4	6.6	0.9	2.3
Iron ore	(1.0)	0.5	9.5	(3.9)	(1.5)	2.6	1.2	(0.6)	2.6
Copper ore	13.7	11.6	(1.0)	7.6	8.0	3.2	4.6	4.9	2.3
Coal	3.9	6.3	1.5	6.6	(9.2)	4.0	(11.4)	(12.8)	(2.7)
Crude oil	10.1	9.5	7.3	(5.4)	(0.9)	0.8	1.9	(2.0)	2.1
Natural gas	31.9	6.9	5.3	19.9	(9.9)	12.4	4.9	3.7	(1.7)
Steel products	(1.0)	(6.5)	64.4	(29.5)	(25.9)	7.7	3.6	(7.7)	6.8
Copper products	12.9	(6.0)	34.1	(17.2)	6.2	5.4	7.7	1.2	12.5
Plastics in primary form	14.5	12.4	10.1	(16.4)	(10.0)	(4.1)	(2.8)	(7.3)	(0.3)
Rubber	(2.0)	(6.2)	13.6	(9.4)	8.7	1.5	5.8	2.7	7.3
Integrated circuits	10.8	6.6	22.1	16.9	(15.3)	19.5	17.0	4.9	1.1
Machine tool	0.0	0.0	18.8	(0.7)	(14.4)	8.6	6.7	9.7	0.6
Auto	(7.5)	(6.6)	(11.4)	0.6	(6.5)	(5.6)	(1.6)	7.3	(6.1)
Airplane	7.1	(48.6)	(35.4)	29.4	(27.3)	(8.6)	(30.3)	7.5	(22.3)
Medicine			(0.6)	3.1	28.8	1.2	10.4	9.4	8.6
Beauty cosmetics			3.7	5.2	(11.8)	4.4	2.3	(1.7)	(2.9)

Source: Wind, CMBIGM

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