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China Economics

September's Exports Slowed Less than Expected, but Slowdown May Continue

CITI'S TAKE

Export growth dropped modestly in September, beating market expectations. Although the rebound of M&E and Hi-tech exports cushioned the overall export slowdown, its sustainability remained a question. We maintain our view that export growth will likely further slide amid the softening external demand. Despite the flattish overall import growth in September, commodity imports finally showed some signs of recovery. Looking ahead, the effect of renewed policy efforts could come through further, which would help support overall import growth. As a result, the trade surplus may narrow going ahead, putting more pressure on RMB.

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Export growth (in USD terms) further dropped to 5.7%YoY in September, still beating expectations (Prev: 7.1%, Citi/Mkt: 4%YoY). Meanwhile, import growth remained flattish and sluggish, at 0.3%YoY, roughly in line with consensus (Citi/Mkt: 1/0%YoY). As a result, the trade surplus bounced back, from US\$79.4bn last month to US\$ 84.7bn. On a quarterly basis, both export and import growth slowed, from 12.5%YoY and 1.6%YoY in Q2 to 10.1%YoY and 0.9%YoY in Q3, but the trade surplus still increased by 18.2%QoQ.

Export growth temporarily rebounded for M&E and Hi-tech products, but further slowed for labor-intensive goods. By products, exports of labor-intensive products turned negative to -2%YoY from 2%YoY previously. However, export growth for M&E (5.8%YoY in September vs 4.3%YoY in August) and hi-tech products (-1.1%YoY vs -3.9%YoY) improved marginally. Specifically, the negative growth of automatic data processing machine exports further intensified, by 5.8ppt to -12.6%YoY, while that for electronic integrated circuit (IC) eased sharply by 15 ppt to -2.2%YoY. However, the improvement on IC exports could be temporary, considering the softening global demand and US's new [export controls](#). In addition, auto exports further soared to 128.9%YoY (vs 65.2%YoY in August), thanks to favorable base effect and industrial upgrading of electronic vehicle. Meanwhile, the export growth of cellphones remained robust (23.2%YoY vs 21.5%YoY), continuing to benefit from the release of new phone models. Looking into the breakdown by countries, the negative export growth to US further intensified (-11.6%YoY vs -3.8%YoY). The exports to EU (5.6%YoY vs 11.1%YoY) and Japan (5.9%YoY vs 7.7%YoY) also slowed. However, export growth to other Asia area improved, including ASEAN (29.5%YoY vs 25.1%YoY), Taiwan (0.1%YoY vs -5.5%YoY), Korea (6.8%YoY vs 4.8%YoY) and Hong Kong (-7.6%YoY vs -22.5%YoY).

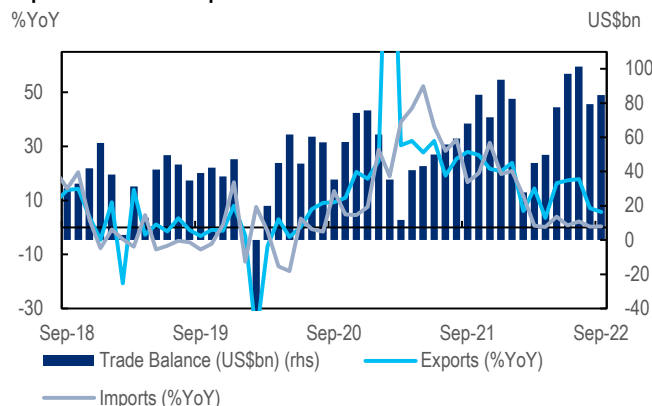
Commodity imports finally improved on infra push. Growth of commodity imports turned positive (2.8%YoY in September vs -2.6%YoY in August), after consecutive three months' slowdown. The falling commodity price has been offset by the improved import volume: In volume terms, the imports of crude oil (-2.0%YoY vs -9.4%YoY) and iron ore (4.3%YoY vs -1.3%YoY) improved, thanks to the infra push. But the import growth for copper (7.7%YoY vs 20.3%YoY) and coal (0.5%YoY vs 5%YoY) slid. Moreover, overall agricultural import growth bounced back, by almost 10ppt to 11.6%YoY, driven by the rebound of soybean imports (in volume terms, 12.2%YoY vs -24.5%YoY). Meanwhile, the decline of imports for M&E (-7.9%YoY vs -9.5%YoY) and hi-tech product (-8.3%YoY vs -11.2%YoY) continued, although eased slightly. However, the imports of auto slumped (-11.6%YoY vs 27.1%YoY). By countries, the import decline from US eased by 2.8ppt to -4.6%YoY, leaving a largely flat bilateral trade surplus at US\$36.1bn. Import growth from Hong Kong and Taiwan improved, while that from EU and Japan weakened.

We think exports will likely slow further while imports may improve ahead.

After temporary disruption from Shanghai lockdown and reopening, the slowing export growth in August- September started to reflect the external demand softening. Indeed, if not considering the price factor, real export growth has turned negative in August (Figure 6, September data is not available yet). Looking ahead, while the supply-side issues, from energy transition shocks to supply chain disruptions, have been largely fixed, global recession poses a major risk on the demand side. We expect export growth to further slow to 1.4%YoY in 22Q4 and turned negative in 23H1, on slowing external demand. Despite the flattish overall import growth in September, the commodity imports finally shown some signs of recovery. Looking ahead, the effect of renewed policy efforts could come through further, which would help support the overall import growth. As a result, the trade surplus may narrow going ahead, putting more pressure on RMB. In addition, the new US chip export controls could weigh on China's exports of chips and related

products (e.g., automatic data processing machine and mobile phone), but it will also impact China's advanced node chip imports. So, the overall impact on net exports could be controllable.

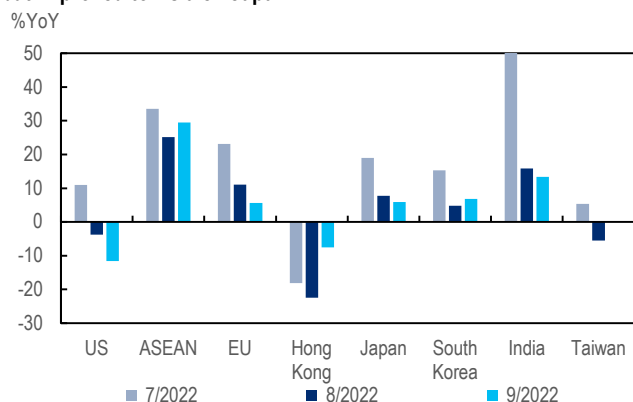
Figure 1. Export growth further slowed in September, but trade surplus widened in September



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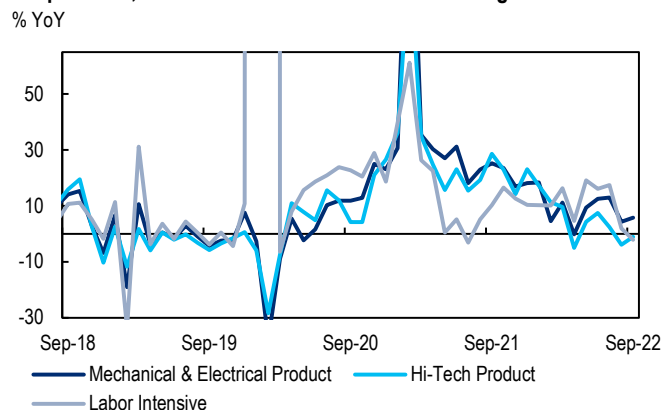
Figure 3. By countries, export growth slowed to US, EU, and Japan, but improved to Asia ex-Japan



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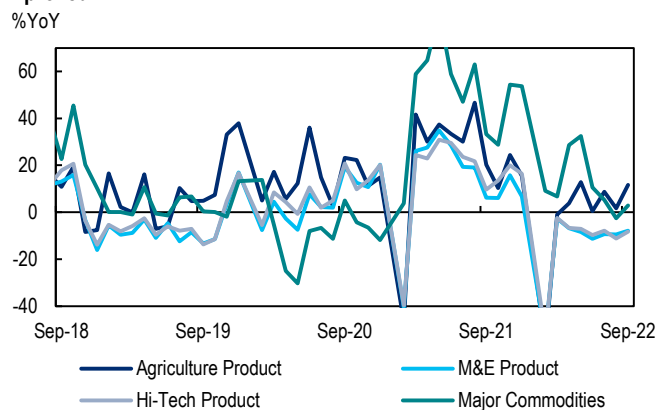
Figure 2. The export growth temporarily rebounded for M&E and Hi-tech products, but further slowed for labor-intensive goods



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Figure 4. Import growth for agricultural and commodity products improved



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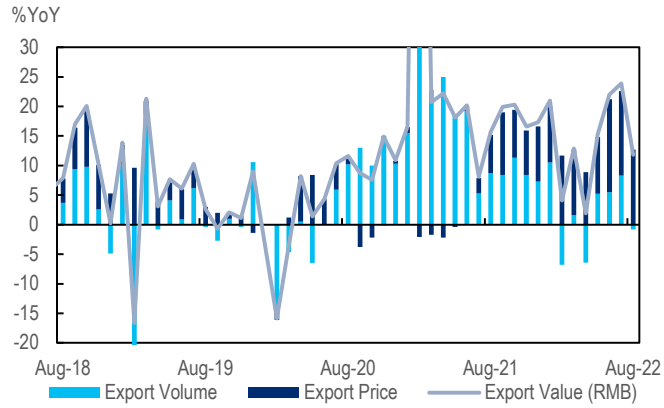
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Figure 5. Bilateral trade surplus with US remained largely flat



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Figure 6. Real export growth has turned negative in August



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