China’s contracting imports poses a challenge for future exports

Chinese exports grew by 8.5% year-on-year in April, but imports contracted by 7.9%YoY in the same month, and this contraction has deepened. The deterioration of the global economy could weigh further on China's economy as the year progresses

Haikou New Port in Hainan, China

-7.9%YoY Imports in April

Worse than expected

Exports expanded but imports contracted in April

The main focus of this data set should be the 7.9%YoY contraction in imports in April, compared to 1.4% in March. The weak import data overshadowed positive export growth of 8.5%YoY in April. Exports rose 14.8%YoY in March. The positive growth in exports was, however, mainly a result of the low base from last year's Covid-19 lockdown.

On a monthly basis, exports fell 6.4% and imports fell 9.7% in April. It seems increasingly clear that the global economic slowdown is weighing on China's exports. Falling imports (an input for future exports) suggest that a further deterioration of exports in the coming months is highly likely. Semiconductor exports (which falls into the category of auto data processors) fell 8% month-on-month in April.

-8%MoM Auto data processor exports

Fiscal stimulus could help

The global economy is deteriorating and will weaken China's manufacturing sector. It is looking more likely that, in response, the government will step in to support the manufacturing sector's labour market through fiscal stimulus. The real estate market is improving, and this could be of help in due course, but recovery is slow and just beginning. Fiscal stimulus from subsidising spending on domestically-manufactured goods (e.g. electric vehicles and consumer electronic appliances) and speeding up the delivery of infrastructure projects are the most likely courses of fiscal support.

We do not think that easing monetary policy would be as effective a response, unless domestic corporate investment begins to lose momentum. This is not currently reflected in the strong loan demand in the first quarter. As such, the People's Bank of China will likely leave policy unchanged for now.

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