

## China: exports and imports contracted in December

China's exports and imports contracted in December 2018. This is likely to continue into 2019 due to falling foreign demand, including demand for Chinese-made electronic products.



### Shrinking exports and imports in December - especially in the electronic sector

China's exports and imports shrank 4.4%YoY and 7.6%YoY in December 2018, respectively, which was considerably down from our already downbeat forecasts of +2.5%YoY and 0.0%YoY, respectively.

Exports fell for commodity energy goods like coal and crude oil. But there were also declines in some electronic related parts and goods and auto-related parts.

It was a similar story for imports, but with even greater reductions in electronic-related parts and goods.

## Trade of electronics will continue to shrink

We believe that the fall in electronic imports and exports is related to the lack of demand for upgrading smartphones, and also the start of foreign companies avoiding using China-made electronic components.

With regard to the possible shunning of China-made electronics by foreign firms, China could rely more on domestic demand as external demand fades. But exports and imports of electronic parts and goods will still likely continue to shrink in 2019.

# -14.9%YoY

Imports of advanced  
technology products in  
December

Headline imports -7.6%YoY

Worse than expected

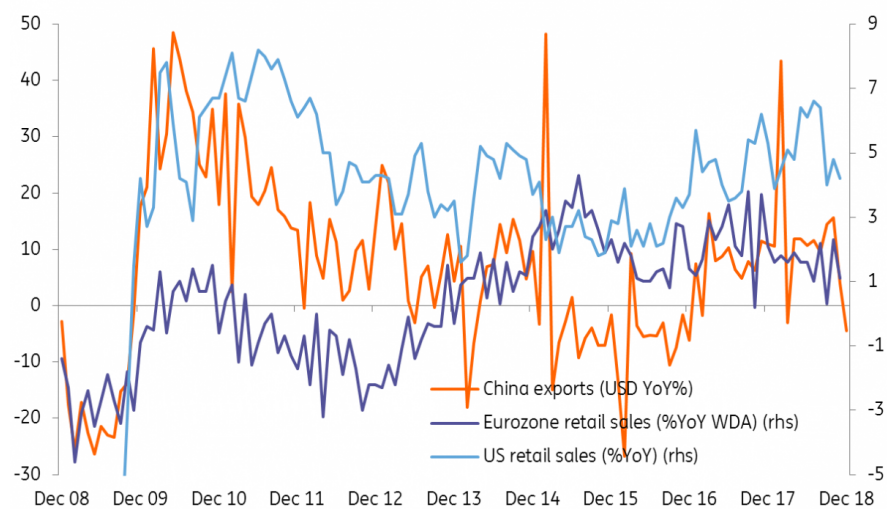
## 2018 trade balance signals solid consumption growth

For the full year, exports and imports rose by 9.9% and 15.8% in 2018 respectively, which resulted in an annual trade surplus of \$351.8 billion. This was down from \$509.7 billion in 2017, due to faster growth of imports relative to exports. The 31% decline in the trade balance also implies that China's consumption growth was reasonably solid in 2018.

Global growth in the first part of 2018 grew faster than expected, especially in the US, which boosted China's exports and imports (imports from inputs for subsequent export).

However, we doubt the same can be repeated in 2019. The US will likely experience a slowdown later in the year due to a combination of weakening fiscal stimulus and higher prices of inputs stemming from tariffs. The government shutdown does not help matters currently, but it is hard to see this persisting beyond the immediate future. Major European countries are also struggling to maintain growth and combined with a weaker US, provides a challenging external demand backdrop for China's exports in 2019.

## Weakening foreign demand affects China's exports



Source: ING, Bloomberg

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