China’s export contraction means more infrastructure spending to support recovery

China's exports and imports continued to contract in December. This signals weak external demand which could hamper the economic recovery. The government could spend more on infrastructure to fill the gap and ensure the economy recovers after reopening

Contraction in both exports and imports

Exports contracted 9.9% year-on-year while imports fell 7.5% YoY in December. Both have now contracted for three months in a row. This is in contrast to the bright external market before the fourth quarter of last year. Overall, exports and imports grew 7% and 1.1% in 2022, respectively.

Integrated circuits, which are the parts necessary for every electronic good and a very important export item for China, saw exports drop in December. We believe this will continue through the first half of this year as the US and Europe enter a mild recession.

This also implies that China's exports should face headwinds in the first half. This is not good timing for the economy as it has only just started to reopen from lockdowns.

China needs fiscal support

When it comes to the outlook for 2023, many observers expect that the reopening will help China to grow. We expect the same, but not immediately after reopening. We believe that consumer sentiment will be weak in the first quarter. Consumers are more likely to be spending money on healthcare services than general shopping. So there is a need for fiscal support, especially in the first three months of the year.

Infrastructure investment went quiet in 2022. Local governments, which have negotiated with financially healthy real estate developers to complete the construction of unfinished homes, may spend more time on infrastructure. This includes both hardware and software infrastructure, e.g. technology and telecommunications.

Until we see any significant increase in infrastructure investment, we maintain our GDP forecasts at 2.1% for 2022 and 4.3% for 2023.

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