China: Exports shrink more than expected

China's exports were expected to grow in August due to a low base effect. Instead, they fell 1% year-on-year

Source: Shutterstock

Exports and imports were weak

China's exports were weaker than expected in August, falling 1% after a short lived positive growth rate of 3.3% in July. This was despite a low base effect.

Most of the fall was attributable to a decline in exports to the US, which were down 8.9% YoY.

Perhaps more shocking was the drop in imports.

Headline imports into China fell 4.6% YoY, of which imports from the US slid 27.5% YoY. This data shows that while China has been hurt by the trade war, the US has suffered even more.

Who benefits from this trade war?

It seems that Vietnam has been benefiting the most from this trade war, so far.

Some manufacturing (usually final stage production) has moved there from China, with exports to Vietnam growing 16.5% YoY.

Vietnam will continue to participate in the final production stages of China's supply chain, and exports are likely to increase further, especially to the US. Chinese manufacturers also benefit as they can continue to produce and export via Vietnam.

Our expectation of China trade for the rest of 2019

We think exports will continue to be weak as we don't expect any material progress in the coming trade talks. Both sides seem to be standing firm, and are unlikely to give concessions anytime soon.

China has two key demands: 1) that the US respect the pace of change in China's intellectual property laws 2) that the US withdraw all tariffs. For the US, this seems to be very difficult to swallow.

As such, there is little chance that we'll see progress in trade talks, which means China's exports will continue to face headwinds.

The government will help to compensate for the loss of exports with even more fiscal stimulus. We expect a further CNY2 trillion worth of infrastructure investments to be put in place to support economic growth after CNY2 trillion spent on infrastructure in 1H19.

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