

## We can't blame Covid lockdowns for China's surprise import contraction

The Latest China trade data is strange. Exports grew stronger than consensus while imports slumped to contraction. If it were down to Covid lockdowns, then both exports and imports should have shrunk at the same time, so we've had to dig into the detail. The good news is that the trade balance is bigger than expected and could help GDP growth this quarter



Imports to China have surprisingly slumped

### Divergence of export and import growth

It is strange to see exports grow 14.7%YoY and imports shrink 0.1%YoY in the same month (March). Export growth beat the consensus figure of 12.8%YoY. That's not particularly surprising since the global economy is recovering from Covid.

But the contraction in imports was much worse than the consensus of 8.4%, which is peculiar.

This can't be blamed on anti-Covid lockdowns at ports. They wouldn't discriminate against container ships importing goods to China. In fact, quite the opposite is true. Logic dictates that the containers would be offloaded first before export goods can then be shipped overseas. In any case,

the importation of goods was already underway before the Shanghai coronavirus outbreak which started a month ago.

So what's behind this strange data?

## Oil is the answer

We believe the answer is oil imports. China imported 8.1% less crude oil compared to the same month last year. One reason is that China usually does not increase strategic oil demand when oil prices are high. This should be an important reason to explain total import contraction.

Surely there are other reasons, which include limited supply from Ukraine. But that is not a portion of China's total imports.

## Trade balance helps GDP in 1Q22

The trade balance was \$47.4 billion, almost double the consensus forecast. And this should help support GDP growth for the first quarter of this year; we'll get those numbers on Monday.

Our forecast of 2.8%YoY GDP growth is at risk of a downwards revision.



## China's Covid crisis might be a problem for all of us

We're revising our growth forecasts for China because of harsh anti-Covid lockdowns in major cities such as Shanghai and Guangzhou. Although there's been a lessening of restrictions in the past day or so, we think the loss of production and consumption in Shanghai has wiped out 2% of China's GDP growth total. That's not the whole story, though; China's government will step in with stimulus. But ING's Iris Pang in Hong Kong says problems in China could be a problem for the global economy.

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## Author

### **Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)