

China: imports slow unexpectedly as the country fights pollution

Headline trade numbers can give a distorted view of the underlying trade story. China's exports in December grew 10.9%YoY, better than our forecast. But imports took an unexpected nose-dive to only 4.5%YoY from the prior month. After looking at the details, we find few reasons to be alarmed by this decline in import growth.



Waste paper

4.5%

December Import growth

Looks awful, but in fact slows for good reasons

Worse than expected

Unexpectedly worse import due to pollution controls

Exports grew at 10.9%YoY from the revised prior month's 11.5%. This slightly slower growth is within expectations because of the end of the gift seasons for Western holidays. But the growth was still encouraging given that global economic growth is on the rise.

Imports grew exceptionally slowly at 4.5%YoY from the prior months' 17.6% and also lower than our forecasts and consensus. This looks scary. But it is in fact not that bad as shown by the details of import items.

We find that there are three items that accounted for the slow import growth.

One is slower imports of computer parts, which we expected because of the end of the production season for consumer electronic gadgets. That is the reason behind our forecast of slower import growth from last month.

Another is lower food prices following the mild 2017 winter weather.

ANd finally, which is unexpected in a good way, is the drop in imports of pollution generated items, e.g. coal and solid wastes. That is, in fact, positive for the quality of the economy. And it shows that the Chinese government is very determined to fight pollution.

With this in mind, we are revising downward our import growth forecasts in 2018 from 12% to 10%. We are keeping our export growth forecasts at 8%.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com