

## China's imports unexpectedly enter deeper contraction

China's exports and imports continued to contract in the first two months of 2023. Imports have fallen despite the fact that China has lifted its Covid-19 restrictions. This reflects the fact that the market did not anticipate a slower pace of infrastructure recovery



# -10.2%

Imports year-on-year, year-to-date

Jan-Feb

Lower than expected

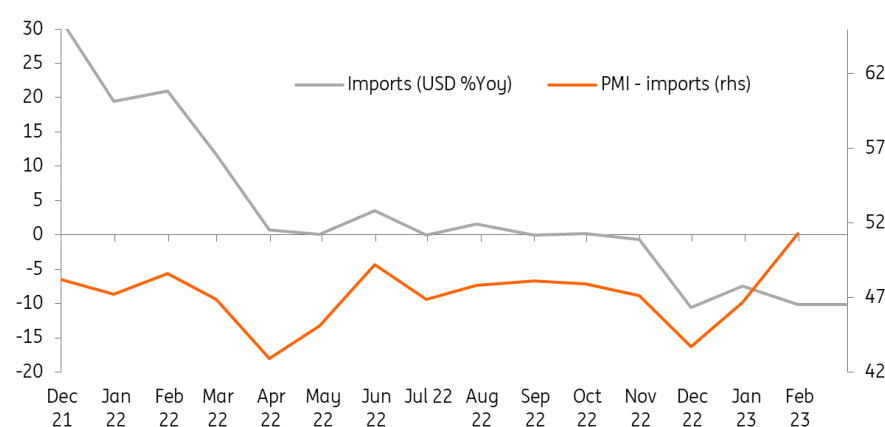
### Falling imports come from lower-than-expected domestic demand

Exports fell 6.8% year-on-year, year-to-date in February after falling 9.9%YoY in December 2022. Imports fell even faster by 10.2%YoY YTD over the same period, while they shrank 7.5%YoY in December last year. The shock did not come from shrinking exports, as the market had already expected that, due to high inflation in the US and Europe, it should affect consumer demand and thus China's exports.

The shock comes from imports falling into a deeper contraction. Theoretically, imports should improve as restrictive measures from Covid have been removed. But the data tell us that many import items continued to fall in January and February, reflecting that demand for infrastructure goods will only gradually pick up as China reopens. This is consistent with what we have seen so far in the [Two Sessions](#). There was no emphasis on infrastructure in the government work report, and the new issuance of special local government bonds to support infrastructure projects was lower than the market expected.

We are not particularly optimistic about infrastructure investment, especially those energy-intensive projects. We think soft infrastructure, such as technology research and development (R&D) and patents, should grow faster this year, as the Two Sessions allocated 2% of fiscal spending to technology. Real estate will not help imports of commodities.

## Import data vs PMI import subindex



Source: CEIC, ING

## Processing trade put pressure on imports too

Due to weakness in export markets, we see processing trade items such as integrated circuit imports down 24.9% from December and 3.9%YoY YTD in February. Our view is that the [US](#) and [Europe](#) are likely to slow in late 2023 and we don't expect exports to rebound, and the same view means that imports may take some time to recover.

The official PMI import sub-index came in at 51.3 in February, which may reflect manufacturers' perceptions after returning from the Chinese New Year holiday. Sentiments on exports did not improve and importers over-expect growth of the domestic market. In the coming months, we expect PMI data could continue to lead towards a more positive tone, and we should be aware of the divergence between the PMI survey and trade data.

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