China trade looks very mixed

China's exports and imports continued to increase at a double-digit rate, though slower than the pace seen in December. Moreover, we see very mixed trade flows by items, and some were heavily distorted by export and import prices. When looking at the micro level, we see that inflation has masked the low trade volume

China trade is distorted by global commodity prices

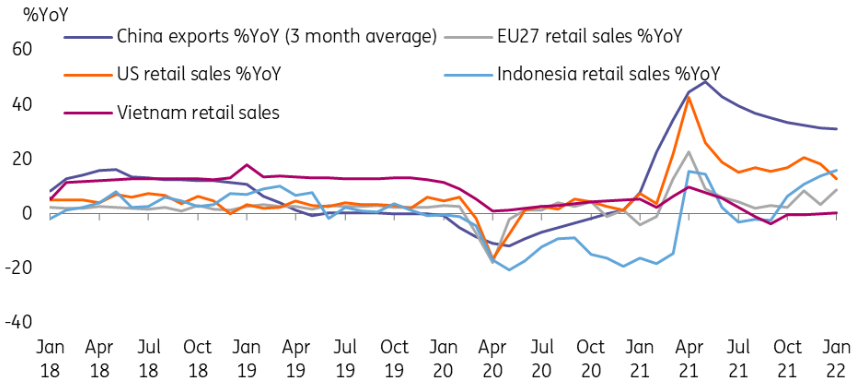
Exports grew 16.3% year-on-year, year-to-date in February, and imports rose 15.5%. But when we look at the details of the trade data, we find a more complicated picture.

There is a group of export goods that experienced lower volumes YoY YTD and some even contracted though saw higher values. These include rare earth, fertilisers, steel and smartphones. A similar picture was found for imports, for example, coal, crude oil, LNG, timber, pulp and integrated circuits.

This highlights that commodity prices have gone up quickly, and the semiconductor shortage issue has not yet been resolved.

Inflation is embedded in exports and imports and we have to be careful when relying on export and import values to gauge trade flows.

China's export value growth and retail sales of selected economies



Source: CEIC, ING

Trade volume paints a slow growth picture

If we look at export and import volumes only, without looking at the price and value, we see a different trade picture for China. It did not grow as much. Though the data is incomplete, we can still tell that trade volumes should have decreased on a YoY YTD basis.

There are a few exceptions; one of them is automobile exports, which saw high demand with volumes increasing 69.7% YoY YTD. Export prices increased even more, by 103.6% YoY YTD.

High inflation to hurt trade volumes

We expect China's export and import values to continue to increase by more than 10% YoY in the 1H22. But this could be mainly a result of high inflation. And the higher prices might not be seen in exporters' bottom lines. Freight rates are high at the moment. So the high prices could reflect freight rates, and profits of exporters could be small if the order volumes are small.

Import inflation has yet to show up in China's CPI but has been reflected in the PPI for more than six months. We believe this pattern will continue as China can exercise price controls if the PPI passes completely to the CPI.

The trade picture doesn't look as promising as in the past few months but the Two Sessions' government work report has highlighted that the government will give more support to SMEs.

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