

China's August exports defied slowing orders data to hit a 17-month high

Exports defied expectations and accelerated to 8.7% YoY despite several months of slowing export orders

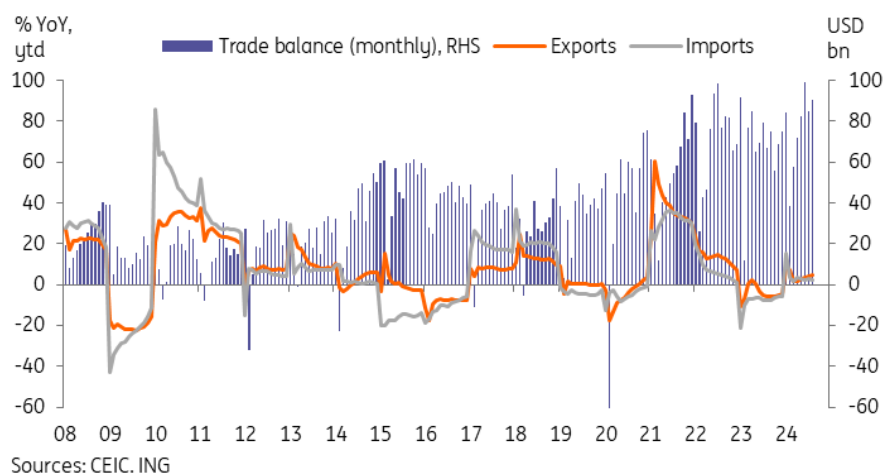


Source: Shutterstock

8.7% YoY China's August export growth (USD terms)

Higher than expected

Trade balance beat forecasts as export growth accelerated while import growth slowed



Export growth unexpectedly accelerated to 17-month high

China's August export growth accelerated to 8.7% YoY, up from 7.0% YoY in July, which came in above market expectations for a slowdown to 6.6% YoY and narrowly beat June's growth to reach a 17-month high. While trade data is difficult to forecast, the upside miss is still notable as the direction was different than expected. We have had several months of PMI surveys showing slowing new export orders as well as shrinking orders on hand. This would typically flag gradually weaker exports as well. Official data has managed to buck this trend for at least August, as exports picked up at a 2.7% MoM pace.

An encouraging and somewhat surprising development was the pickup of auto exports in August, bringing YoY ytd growth to 20% from 18.1% in July. Given the momentum of the last few months and tariff action, it is possible that this could be a blip driven by some frontloading of exports.

Steel exports came under increased scrutiny last month as well. But although year-to-date steel exports remained negative in value terms at -6.8% YoY, this was a smaller contraction than last month's -8.4% YoY ytd. It is worth highlighting that despite this negative value growth, there was rapid export volume growth of 20.6% ytd, which is likely to further raise overcapacity and dumping concerns. Despite some supply cuts, the significant decline in domestic steel demand amid the ongoing property market downturn has led steel producers to increase exports.

Semiconductor export growth edged down to 22.0% YoY ytd from 22.5% YoY ytd but remained one of the best-performing categories as the sector continues to experience rapid growth thanks to the technology self-sufficiency drive.

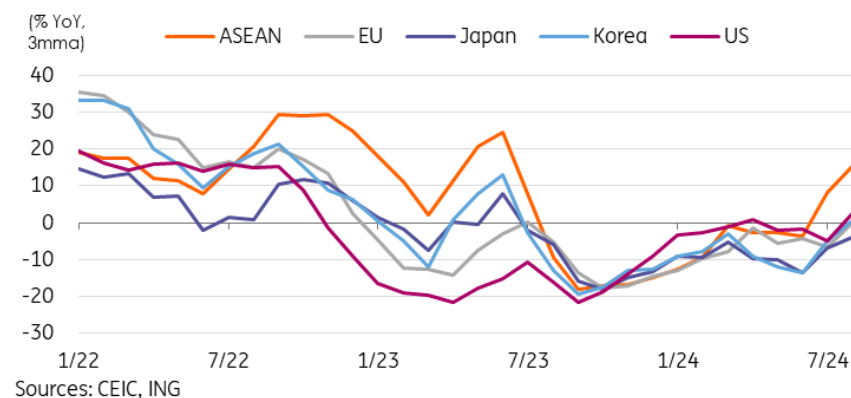
By region, August's data showed an uptick of exports to the EU which hit a 25-month high of 13.4 YoY in August, bringing year-to-date growth into positive territory at last (0.7% YoY ytd from a -1.1% YoY ytd decline through the first seven months of the year).

Exports to the US slowed slightly in August at 4.9% YoY but the year-to-date growth also continued to recover, up to 2.8% YoY ytd from 2.4% YoY ytd. Export growth to the ASEAN region, which has been the main area of growth so far this year, actually slowed to 9.0% YoY in August,

bringing year-to-date YoY growth to 10.6%, a little weaker than the 10.8% in the first seven months of the year.

Additionally, there were some revisions to prior data which also contributed to the better-than-expected YoY growth level. Year-to-date, export growth is now at 4.6% YoY, which is better than most had been expecting this year.

Recovery in exports to EU and US supported overall exports though ASEAN remains the main area of growth



Imports slowed due to weak domestic demand

A less surprising development was on the side of imports. Import growth came in a little lower than forecast, slowing to a tepid 0.5% YoY growth level, down from 7.2% YoY in July. Year-to-date import growth slowed to 2.5% YoY, down from 2.8% YoY.

As we have covered in previous months' reports, import growth remains very uneven. The categories seeing strong year-to-date YoY growth are primarily tied to national strategic priorities, with automatic data processing equipment (58.8%), semiconductors (11.5%), and hi-tech (12.2%) imports leading the way. Copper import growth slowed to 11.2% YoY ytd from 13.0% YoY ytd in the first seven months but is still outpacing most other categories this year.

Other categories have been fairly weak throughout the year. As mentioned earlier, weak domestic steel demand translated to a -9.7% YoY ytd growth rate for steel imports. Weak consumer confidence has also translated to cosmetics imports which have seen a double-digit contraction of -10.8% YoY ytd as domestic consumers shifted toward lower-cost domestic alternatives. Agricultural imports have also declined -8.1% YoY ytd.

Trade surplus beat forecasts but it remains uncertain if the momentum can persist

The faster-than-expected export growth and larger-than-expected slowdown of imports led to a larger trade surplus of USD 91.0bn in August. This positive news comes after disappointing data releases in the last month.

However, it is still uncertain if this momentum can last. Aside from incoming tariffs and the sluggish export orders data of the last few months, if global growth momentum begins to slow too,

this could also drag export momentum.

Author

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.