China’s May trade balance improves amid rebound in exports and slowdown in imports

China's exports rebounded to 7.6% year-on-year in May, in line with our expectations. Imports disappointed at just 1.8% YoY, leading to a larger-than-expected trade surplus in a boost to second-quarter growth

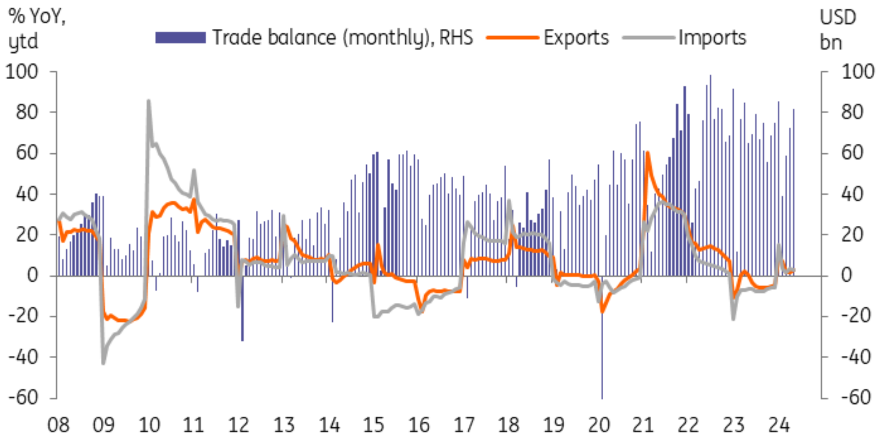
Source: Shutterstock

USD 82.6bn

China's May trade surplus

Higher than expected

Trade balance rose to four-month high in April on weaker than expected imports



Sources: CEIC. ING

China's May trade balance improved amid export recovery and weaker imports

Today's trade data came out in the direction we were expecting, with exports rebounding and imports slowing. While export growth was in line with our forecasts, imports came in weaker than expected, which resulted in a better-than-expected trade surplus for the month.

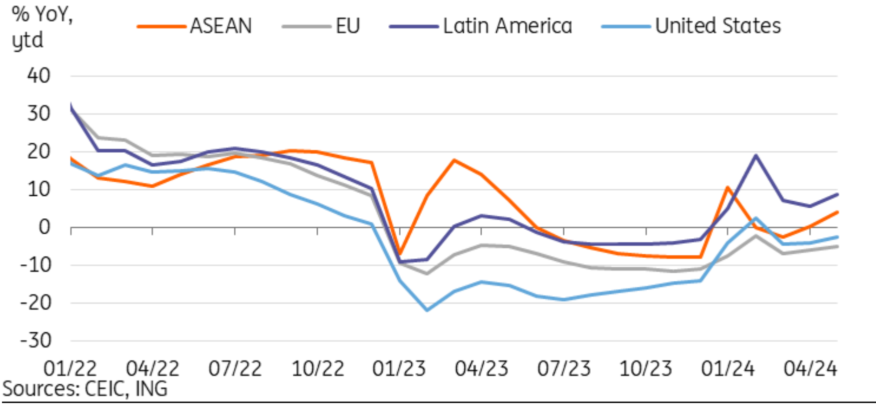
China's May export growth rose to 7.6% YoY, up from 1.5% YoY in April, taking the year-to-date export growth to 2.7% YoY. This was a little weaker but in line with our forecasts, and was stronger than market consensus forecasts. Import growth, on the other hand, fell to 1.8% YoY, bringing the year-to-date import growth rate to 2.9% YoY. This was notably slower than both our forecasts and those of the market. As a result, May's trade surplus rose to USD 82.6bn, beating both our forecasts and the market's to hit a four-month high.

By export product, the trends from the year to date continued. Auto exports continued to be a source of strength, up 20.1% YoY YTD. With the US tariffs on electric vehicles coming into effect in August and reports of EU provisional tariffs also to take effect in July, we could see a pre-emptive boost to exports in next month's data, but auto export growth could slow later in the year.

Interestingly, China's push to develop semiconductor manufacturing capacity is also bearing fruit in the export data. Integrated-circuit export growth was 21.2% YoY YTD. Household appliance (14.0% YoY YTD) and furniture (16.6% YoY YTD) exports have also seen solid growth this year. On the other hand, steel (-11.5% YoY YTD) and mobile phone (-5.9% YoY YTD) exports have continued to drag on overall export growth.

By export destination, ASEAN continues to grow as China's most important export destination. In May, exports to the ASEAN region grew by 17.4% YoY, bringing the YTD growth to 4.1% YoY. Strong EV exports to Latin America have also boosted export growth to 8.6% YoY this year. Ahead of tariff implementation, exports to the EU (-5.0% YoY YTD) and US (-2.4% YoY YTD) are already showing a contraction for the year to date.

China's exports are increasingly shifting away from US and EU to ASEAN and Latin America



Sources: CEIC, ING

Disappointing import growth as import demand remained concentrated in only a few sectors

As we highlighted in last month's trade report, AI-related import growth remained strong. Automatic data processing equipment imports rose 54.3% YoY YTD, hi-tech imports rose 11.9% YoY YTD, and integrated circuits rose by 13.1% YoY YTD. Copper (11.6% YoY YTD) and auto parts (6.1% YoY YTD) imports have also been quite resilient amid demand from the NEV sector.

However, these imports were insufficient to prop up overall import growth, and many other import categories have been quite disappointing. While some raw material imports such as iron ore (11.9% YoY YTD) improved, others have seen imports contract in the year to date, including agricultural imports (-9.5% YoY YTD), coal (-10.5% YoY YTD), natural gas (-0.7% YoY YTD) and rubber (-8.8% YoY YTD). Unsurprisingly given the rise of the domestic auto industry, auto imports have been in sharp decline, down to -15.5% YoY YTD.

Overall, May's data is supportive for this year's second-quarter GDP growth as the trade balance came in a little stronger than expected.

However, looking ahead, the trade environment is likely to continue to see headwinds as tariffs are implemented. Aside from the previously announced US tariffs on various Chinese strategic exports, an earlier report this week indicated that EU provisional tariffs on Chinese autos would also be announced next week. If these tariffs are very aggressive, with the market often looking at 50%+ tariffs as a threshold to watch, there is potential for retaliation and escalation of trade friction. We remain cautious about the trade outlook for the second half of the year and expect its contribution to growth to decline.

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