# China's trade surplus contracts in September

Export growth slowed to a five-month low of 2.4% year-on-year while import growth remained little changed at 0.3% YoY

Yangshan Port in Shanghai

USD 81.7bn

China's September trade surplus

Lower than expected

## Exports slowed more than expected in September

After stronger-than-expected growth in August, China's exports slowed noticeably in September. Customs data showed US $303bn of exports in September, representing 2.4% year-on-year growth, down from 8.7% YoY in August and a fair bit lower than our and market forecasts which expected around 6% growth. The 2.4% YoY growth rate represents a five-month low. Through the first three quarters, exports grew by 4.3% YoY, which generally fared better than many market participants expected at the start of the year.

By product, auto exports increased a little further on the month to 20.7% YoY year-to-date, up from 20.0% YoY YTD. Despite a lot of focus on tariffs from North America and Europe, Chinese automakers continue to see strong exports to other markets due to offering a product with favourable price and quality competitiveness, and should continue to gain traction in various markets across Asia, the Middle East, and South America.

Semiconductor export growth continued to slow for another month, down from 22.0% YoY YTD to 19.8% YoY, as lower prices led to lower value growth despite volume growth seeing an uptick to 11.0% YoY YTD from 10.5% YoY. Ship exports continued to see the strongest growth of any category, now up 81.6% YoY. These three categories represent China's fastest-growing exports in the year to date.

Steel exports continued their upward trend from recent months, with the volume increasing by 21.2% YoY to date. Meanwhile, the value of steel exports experienced a smaller decline of 5.0%. Weak steel demand from the slowdown of fixed asset investment amid the property market slump has led Chinese producers to ramp up exports this year. The question in markets is will the rollout of fiscal policy stimulus be enough to turn the trend around? With details still sparse, this is difficult to gauge, but it's likely that as fiscal stimulus is split between property market stabilisation, resolving local government debt issues, and supporting consumption, the amount of stimulus directed toward areas that would cause a subsequent uptick of steel demand will be lower compared to the infrastructure-heavy investment of previous years.

By export destination, given the headline number, it was unsurprising to see a slowdown in export growth across the board. Exports to ASEAN countries continued to lead the way in September with 5.5% YoY growth, bringing the year-to-date growth to 10.2%. Exports to the US (2.2%) and EU (1.2%) remained in positive territory largely due to a supportive base effect, but exports to Japan (-7.1%) and Korea (-9.2%) fell into contraction in September.

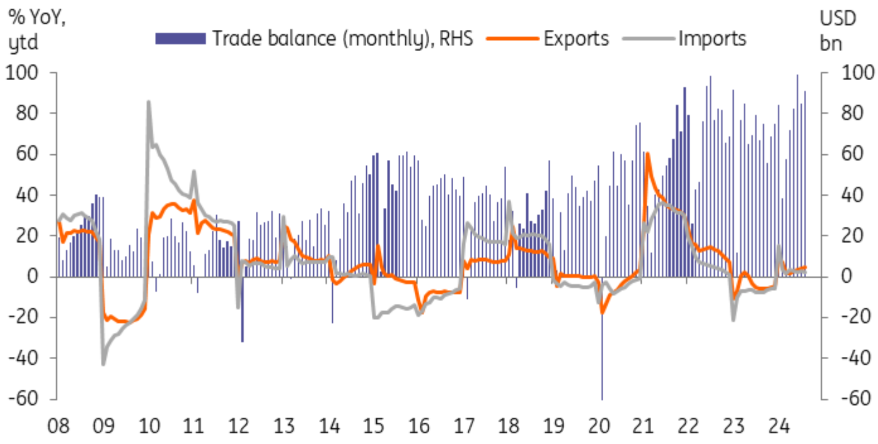
## Imports failed to rebound despite supportive base effects

China's September imports totalled $220bn, resulting in a weaker-than-expected 0.3% YoY growth rate, down from August's 0.5% YoY and falling short of market forecasts. Through the first three quarters of the year, China's imports grew by 2.2% YoY to date.

Sluggish domestic demand continues to drag import demand, with many categories such as agriculture (-6.9%), steel (-9.8%), and cosmetics (-10.6%) seeing contractions in growth through the first three quarters. The increased competitiveness of China's domestic automakers also continued to be reflected in auto imports, which were down -9.4% YoY YTD.

Unsurprisingly, the areas seeing strong growth were those prioritised by national policies; automatic data processing equipment (60.9%), semiconductors (11.4%), and hi-tech (11.9%) imports continued to outpace most import categories.

## Trade surplus fell to five-month low




Sources: CEIC. ING

## Weakening external demand confirms the need for stimulus

Overall, September's trade surplus fell from $91.0bn to $81.7bn, which came in lower than forecasts. This lower surplus is expected to contribute less to third-quarter GDP growth, which will be reported later this week.

Stronger-than-expected export demand throughout the year was one of the main supporting factors for China's manufacturing sector, which in turn was China's main growth engine in the first half of the year. However, September's trade data adds another data point along with the last several months of PMI new export orders data to show that external demand may be softening, with new tariffs potentially adding further pressure to exports.

As a result, industrial production growth has already been moderating over the last few months, and could also face further pressure in the coming months. With this engine of growth stalling, other areas of the economy such as investment and consumption will need to step up to complete this year's growth objectives. While the process continues to take longer than what many market participants hoped for, we continue to expect a solid fiscal stimulus push to facilitate growth stabilisation and boost the domestic demand side of growth.

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