Reports of the death of Chinese exports have been greatly exaggerated

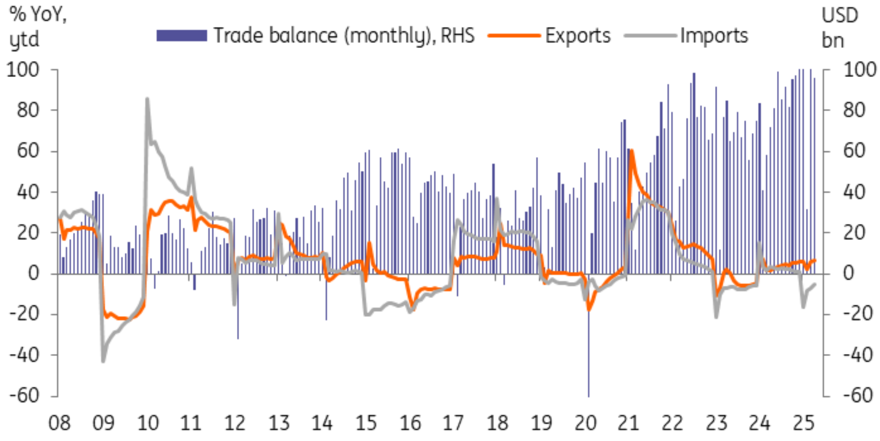
Chinese exports bucked expectations of a sharper slowdown in April, rising 8.1% year on year. This, despite a -21% YoY drop in exports to the US, showing efforts to pivot to other markets are paying off

8.1% YoY

China's April export growth

Higher than expected

Stronger-than-forecast trade data across the board in April



Sources: CEIC. ING

Export well above expectations despite tariff hit

China's exports comfortably beat market expectations in April, rising 8.1% year on year. Though down from 12.4% YoY in March, the reading was well above consensus forecasts for 2.0%. This can't be explained away through base effects. Month-on-month growth was also positive at 0.6%. This growth rate actually led to the year-to-date export growth actually rising further to 6.4% YoY, up from 5.8% in the first quarter.

Monthly China trade numbers are often difficult to forecast at the best of times. Even by these standards, April has proved to be an exceptional case amid massive US tariff hikes, which inserted huge uncertainty into forecasts. Overall, the level of conviction in this month's export forecasts was quite low. And the range of forecasts across the market was quite wide.

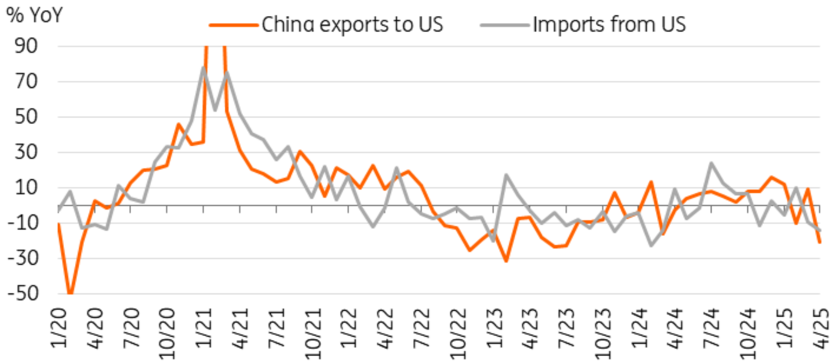
The main focus of this month's report is understandably on China's exports to the US, which slowed sharply to -21.0% YoY in April, down from 9.1% YoY in March. While this is a big drop, it nonetheless was a notably smaller shock than what many expected, given the 145% US tariff on China. And numerous reports of cancelled shipments to the US. With the de minimis loophole on packages sent from China into the US closed starting in May, there could be an additional drag ahead.

As we've discussed in previous reports, after a certain point, tariffs are already high enough to redirect imports of goods with an available substitution product. However, a significant amount of China's exports don't necessarily have an easily available substitution product. As such, importers will be forced to either pay the tariff and pass along the costs to consumers or simply halt that part of their business. Early evidence suggests that the former may be taking place. If this is the case, exorbitantly high tariffs end up hurting the importing country more.

Exports to other regions helped pick up the slack to some extent as well. Exports to ASEAN (20.8%) and Japan (7.8%) both grew faster than in March.

By product, we saw an acceleration in YoY year-to-date growth for ships (12.1% vs 2.1% in 1Q), as well as smaller upticks in semiconductors (13.5%), hi-tech exports (6.4%), and autos (2.8%). However, we saw a slowdown in household appliances (5.4%), mobile phones (-5.0%), and toys (-5.4%).

Trade with the US slowed sharply but by less than feared



Sources: CEIC, ING

Import growth still in contraction, but beat forecasts nonetheless

Imports remained in contraction in April, with a -0.2% YoY read. However, this was an improvement upon the -4.3% YoY level in March. It's also a fair bit stronger compared to expectations for a steeper contraction.

The import breakdown was somewhat less encouraging, however. Hi-tech imports (10.5%) and semiconductor imports (6.5%) both accelerated in YoY ytd terms. However, other import categories remained soft. Agricultural (-15.2%), crude oil (-7.2%), and imports remained well in contraction. Of note, soybean imports (-27.4%) were sharply in contraction after high tariffs on imports from the US.

Chinese imports of US products also fell into contraction, down to -13.8% YoY from -9.5% YoY in March. China's exemptions on certain critical products from the blanket 125% tariffs on US imports will help limit the impact of the trade war on Chinese importers.

The real upside surprise in both imports and exports resulted in the trade balance coming quite close to market forecasts, with a $96.2bn trade surplus in April representing a slight beat to consensus forecasts.

April trade data may strengthen China's hand heading into initial negotiations

However you slice it, the data looks better than what most market participants expected. Reports of the death of China's exports look to be greatly exaggerated. The first month of data after the dramatic tariff escalations certainly shows a much smaller shock compared to Covid-era disruptions.

While it's still just one data point for now, the data suggests that rather than the de facto embargo that US Treasury Secretary Scott Bessent indicated current tariffs represented, US importers might be paying the tariffs and continuing to buy Chinese products. If this is the case, it should strengthen China's negotiating position heading into trade talks this weekend.

As the somewhat limited US-UK trade deal showed, reaching a substantive and comprehensive agreement will likely be quite difficult. However, with current exorbitant tariff levels doing neither side any favours, there's at least hope for an early agreement to lower rates to a more reasonable level. De-escalation to the original Liberation Day levels or lower would be a positive sign, though such rates would still remain quite high. Our recent podcast discusses this topic in more detail.

On the domestic growth outlook, trade has beaten expectations for several months from the start of the year. Much of this has been attributed to export frontloading. If, ultimately, the drag on growth from trade friction is smaller than anticipated, risks to our current 4.5% YoY forecast and certainly the market's 4.2% YoY consensus forecasts will be skewed to the upside. As we noted in our comment on the Two Sessions this year, China rarely fails to meet its growth targets, and it set a target of "around 5%" again despite being well aware of a high likelihood of tariffs with the US. With this week's PBOC easing and targets for stronger fiscal policy support this year, policymakers appear to be set on maintaining growth stability amid the tariff headwinds.

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