

10th Jul. 2009

CHINA DATA RESPONSE

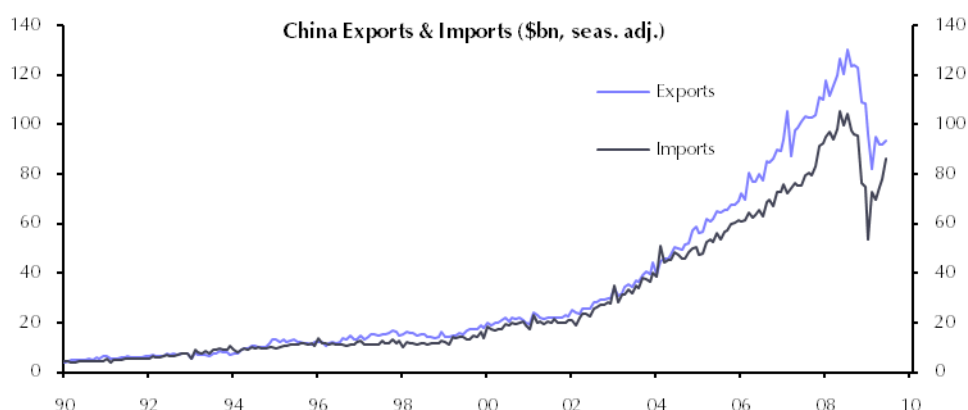


China Trade (Jun.)

Import recovery underway

- **There was strong evidence of a recovery in domestic spending in China's imports data for June. If sustained, the trade surplus will remain relatively low and foreign exchange reserves will grow more slowly. But this need not be bad for the dollar.**
- Exports fell by 21.4% y/y in June, but in seasonally-adjusted terms were around 1.5% above their level in May. This adds to the evidence from Korea's exports (which were similarly strong in June) that regional exports are recovering well. Exports overshoot the fall in global GDP on the way down due to destocking, strains in trade finance and the magnifying effect of cross-border production chains. Accordingly, **a period of export outperformance as the world economy stabilises would not be a surprise.**
- China's imports were more impressive still. They fell by 13.2% y/y, but rose by 10% on a month before in seasonally-adjusted terms. (See Chart.) The price China pays for commodities probably rose by around 5% during the month too, which takes off some of the gloss. Nonetheless, even after allowing for higher prices, **growth in the volume of imports was the strongest since the crisis began late last year.**
- No breakdown by sector has yet been issued, which might have given some clues as to how much of the import pick-up was driven by continued restocking of inventories. Chinese inventories of steel stabilised in June, but stocks of copper have continued to grow. Overall though, the strength of imports suggests there must have been a significant recovery in final demand. We are nudging up our Q2 GDP forecast as a result (see our *Asian Economics Weekly*, published later today, for more).
- China's trade surplus was unchanged in the first half of the year from a year earlier but will fall in the second half of the year (relative to H2 2008). One result will be slower growth in China's foreign exchange reserves, which implies smaller purchases of foreign assets. This will inevitably be seen by some as negative for the dollar, but needn't be. **A smaller Chinese surplus driven by stronger imports will provide a needed boost to economies elsewhere, including that of the US.**

Mark Williams
 International Economist
 Direct Line: +44 (0)20 7811 3903
 Switchboard: +44 (0)20 7823 5000
 Fax: +44 (0)20 7823 6666
 Mark.Williams
 @capitaleconomics.com



CHINA EXTERNAL TRADE

	2008					2009								
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Trade Balance (\$bn)	19.8	21.0	25.3	28.7	29.4	35.2	40.1	39.0	39.1	4.8	18.6	13.1	13.4	8.3
Exports (\$, % y/y)	28.2	17.2	26.9	21.0	21.5	19.2	-2.2	-2.8	-17.5	-25.7	-17.1	-22.6	-26.4	-21.4
Imports (\$, % y/y)	40.7	31.1	33.6	23.2	21.3	15.6	-17.9	-21.3	-43.1	-24.1	-25.1	-23.0	-25.2	-13.2

Sources – Thomson Datastream, Bloomberg, Capital Economics