CAPITAL ECONOMICS
凯投宏观

CHINA DATA RESPONSE

Trade (Dec.)

Trade slowdown flags both domestic and external weakness

- **Export growth dropped more than anticipated in December as global growth softened and the drag from US tariffs intensified. Import growth also fell sharply in the face of cooling domestic demand. We expect both to remain weak in the coming quarters.**
- Export growth slowed from 5.4% y/y to a two-year low of -4.4% in US dollar terms last month. (See Chart 1.) Most had anticipated only a slight decline given that favourable base effects should have supported the headline rate (the Bloomberg median was 2.0%, our forecast was 3.0%). In seasonally-adjusted level terms, the latest drop in exports stands out even more clearly. (See Chart 2.)
- **Growth in exports to the US dropped from 9.8% y/y to -3.8%. This suggests that the drag from tariffs intensified in December**, with the trade truce struck at the start of the month reducing the urgency among US firms to front-load their imports ahead of Trump's previously threatened tariff hikes. **But tariffs can't take all of the blame** – exports to the rest of the world also slowed, with surveys pointing to weaker global demand at the end of 2018. (See Chart 3.)
- Import growth declined sharply last month from 3.0% y/y to a two-year low of -7.6% (Bloomberg 4.5%, CE 5.0%). This partly reflects an easing of commodity price inflation, though **import volumes of major industrial commodities softened**. (See Chart 4.) **This suggests that policy easing is still struggling to gain traction**, with a continued slowdown in credit growth weighing on domestic demand.
- **With global growth set to cool further this year, exports will remain weak even if China can clinch a trade deal that rows back Trump's tariffs. Meanwhile, with policy easing unlikely to put a floor beneath domestic economic activity until the second half of this year, import growth is likely to remain subdued.**

Chart 1: Goods Trade ($, % y/y)

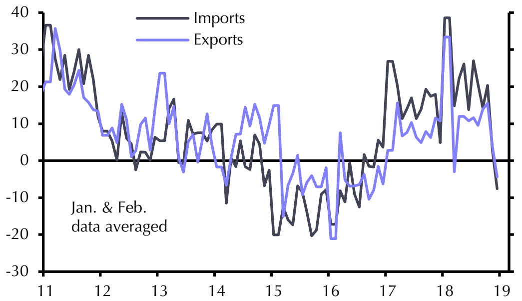


Chart 2: Goods Trade ($bn, seas. adj.)

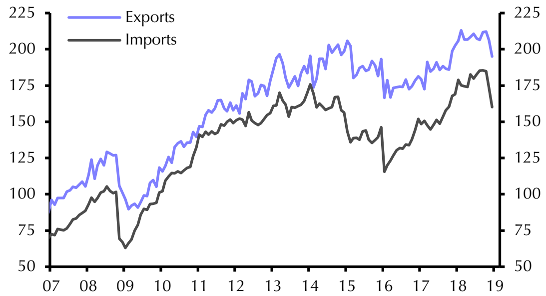


Chart 3: Exports by Destination ($, % y/y)

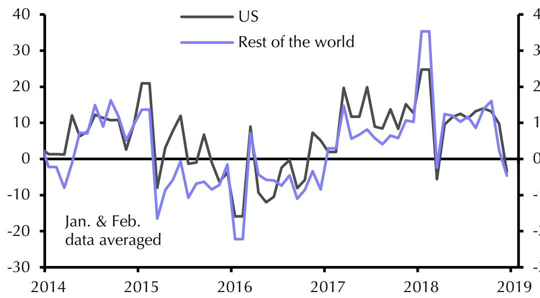
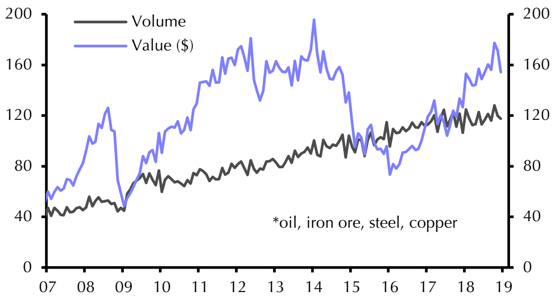


Chart 4: Imports of Major Industrial Commodities* (2015=100)



Sources: CEIC, Capital Economics

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