

China: Decline in exports narrowed in September

- Exports fell by 15.2% y-o-y in September, much less than the 23.1% decline in August.
- Imports declined by 3.5% y-o-y in September, far less than the 16.9% decline in August.
- We expect export growth to return to positive territory in December.

China's exports fell by 15.2% y-o-y in September after falling by 23.1% in August (Figure 1), in line with our expectation but much better than the consensus forecast (Nomura: -14.5%; Consensus: -21.0%). Imports fell by 3.5% y-o-y, following a 16.9% fall in August, resulting in a narrower trade surplus of US\$12.9bn compared to US\$15.7bn in August.

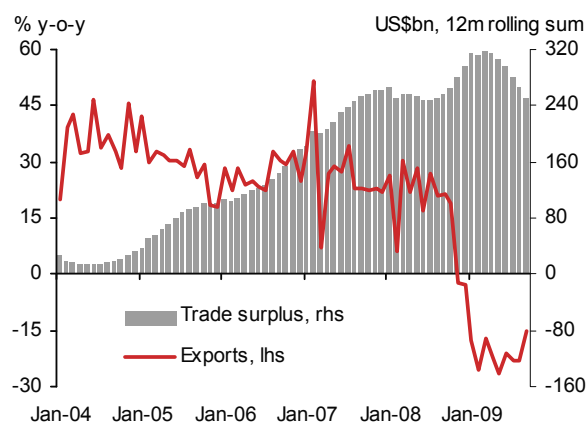
The significant improvement in year-on-year growth rates of both exports and imports is, in our opinion, the result of two factors. First, there has been strong sequential growth in both exports and imports since April. In fact, in seasonally adjusted month-on-month terms, export growth was up 6.3% in September from 3.4% in August, while that of imports surged to 8.3% from just 1.0% (Figure 2). Second, there was a lower base in September 2008 as both exports and imports fell sharply in 2H08.

The sequential improvement in exports most likely reflects something of a recovery in global demand after massive global destocking early this year. If this trend continues – which we believe it will – China's export growth should return to positive territory in December. We expect exports to grow by 8.8% in 2010.

The sharp improvement in imports likely reflected strong domestic demand, both for capital goods as a result of the stimulus-driven investment boom and on consumer goods as a result of an unexpected consumption boom lately. It may also be driven by increased export orders as China's exports have high import contents – about 45% of exports are processing and assembly trade, which requires the importation of components and raw materials before exporting final products. As such, we take the significantly smaller decline in imports in September as a positive omen for the export outlook.

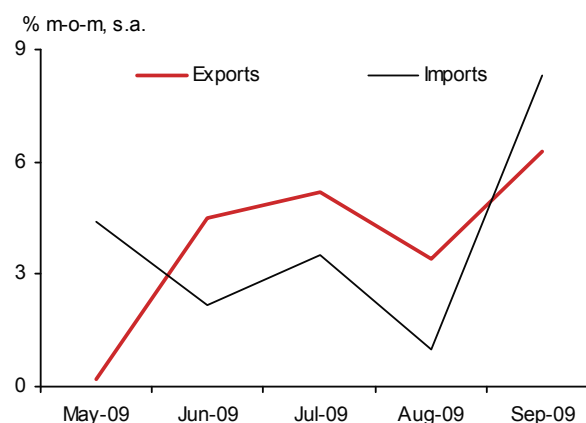
Due to strong economic growth in 2010 – we forecast real GDP growth to reach 10.5% – and strong domestic demand that should follow, we expect to see import growth outstrip export growth next year. We forecast import growth at 16.7% y-o-y in 2010. As a result, we estimate that China's trade surplus should narrow significantly to US\$124bn in 2010 from about US\$189bn this year. We believe a trade surplus is to be maintained for some time to come, in contrast to some views that see the development of trade deficits.

Figure 1. China's exports and trade surplus



Source: General Administration of Customs of China, CEIC and Nomura Global Economics.

Figure 2. Seasonally adjusted sequential growth of China's exports and imports



Source: General Administration of Customs of China, CEIC and Nomura Global Economics.

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Nomura International (Hong Kong) Limited

Tel: +852 2536 1111

30/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong

Fax: +852 2536 1820

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