Economic Watch

China | Surprising resilience of August exports amid the global pandemic

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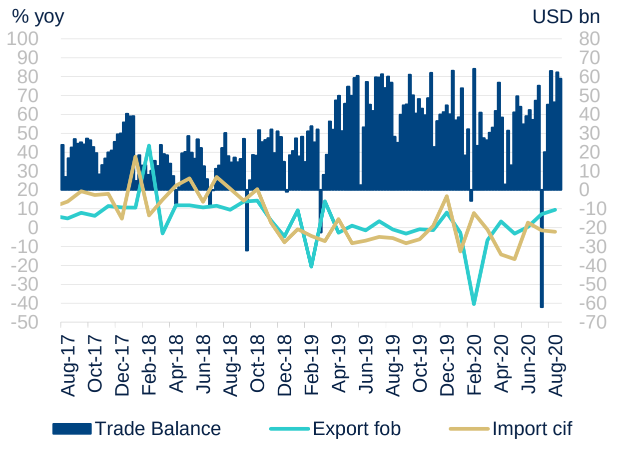
China's August trade data released by the Chinese Customs Administration came out today, reflecting a surprisingly strong resilience of Chinese exports amid global economic recession. The significant better-than-expected export growth was driven by a gradual recovery of global demand and most importantly the continuously increasing coronavirus-related product shipments. On the other hand, import growth remained in the contraction territory, mainly due to the price effect. However, we still need to pay attention to the risk factors which might weigh on export growth in the rest of the year.

August export growth maintained its momentum and significantly surprised the market to the upside, surging to 9.5% y/y (consensus: 7.5% y/y) from 7.2% y/y in the previous month, posting the third month of solid growth and the eight months' high. China's surprising resilience in exports amid the global pandemic is due to some special factors, including surging exports of coronavirus-related medical equipment and work-from-home products as well as declining exports from some emerging market competitors which are still severely hit by the pandemic. That means, China has become the largest supplier of coronavirus-related products to the rest of the world after the virus got first controlled. In particular, medical care products increased by 46.1% ytd y/y in Jan-August and the textile exports (including medical masks) also jumped to 33.4% ytd y/y. Moreover, robust demand for electronic products also played a role, as global demand of home office equipments significantly increased. (Figure 1 and 2)

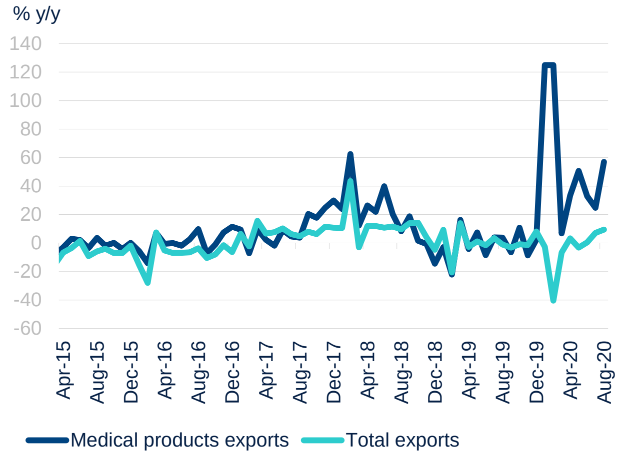
On the other hand, import growth contracted to -2.1% y/y from last month's reading of -1.4% y/y, lower than the market consensus of 0.5% y/y. The decline in imports was mostly due to the price effect, with the volume of shipments rising in line with the investment-driven recovery while the aggregate value of shipments decreasing. Crude oil, refined oil and natural gas etc. all displayed this pattern. That means, the domestic demand has continued to recover but the decelerating global commodity prices dragged the total value of imports. Altogether, the trade balance narrowed to USD 58.93 billion (consensus: USD 47 billion) from June's reading of USD 62.33 billion.

Figure 1. **CHINA'S AUGUST EXPORT GROWTH REACHED RECORD HIGH**



Source: CEIC and BBVA Research

Figure 2. **THE STRONG EXPORTS ARE MOSTLY SUPPORTED BY MEDICAL CARE PRODUCTS**

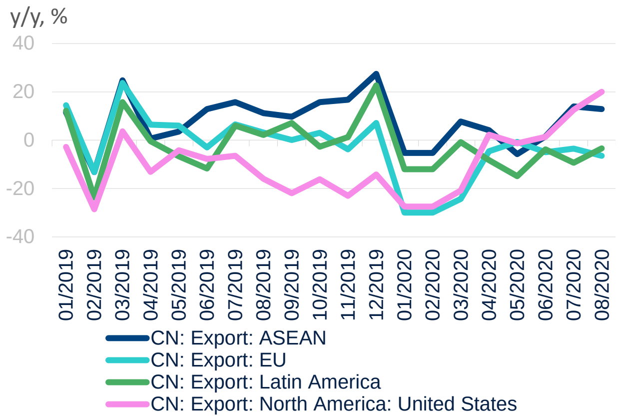


Source: BBVA Research and CEIC

Regarding the export destinations, the largest year on year growth was to the US (20.0% y/y) and the ASEAN (12.9% y/y). More importantly, China-US trade surplus in August reached a record high since November 2018. The significant increasing of exports to the U.S. in August was partly a result of the front-loading due to concerns about escalating tensions.

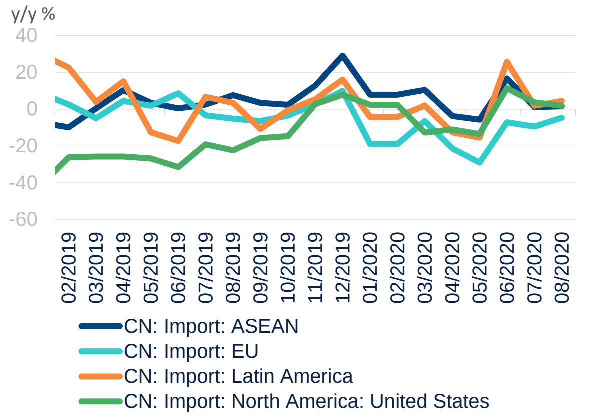
For China's import country destination, the largest import country or region in August was from the Latam (4.4% y/y), following that is from ASEAN (1.6% y/y), mainly for the raw industrial products, reflecting the continuing recovery of domestic demand of China. The least import growth is from the EU (-9.5% y/y), suggesting the second-round of coronavirus in the EU with limited work resumption deteriorated the supply chain in the EU. We also need to notice that amid the escalating China-US conflicts, bilateral trade is the only silver lining of US-China relations recently, with both nations reaffirming their commitment to the phase-one trade deal. Officials have agreed to create conditions to push the deal forward in the bilateral meeting last week, indicating there might be a significantly increasing imports from the US in the following months. (Figure 3 and 4)

Figure 3. **CHINA'S AUGUST EXPORTS TO THE US INCREASED SIGNIFICANTLY BY FRONT-LOADING**



Source: CEIC and BBVA Research

Figure 4. **IMPORTS FROM THE LATAM IS THE STRONGEST AMONG THE REGIONS**



Source: BBVA Research and CEIC

Despite of the strong export growth in August, some risk factors on China's exports in the rest of the year are still noteworthy. Although the exports of medical equipment and devices have helped to boost the country's exports, it remains to be seen whether such external demands are sustainable. As countries have been relocating the pandemic-related supply chain back home, the global demand of medical care products might gradually decline in the future. Moreover, as factories in the rest of the world come back on stream, and demand for Chinese-made goods normalizes, China's export growth will re-align with global demand growth, which looks set to be sluggish over the coming years. On the other hand, the unbalanced domestic demand recovery together with dipping global commodity price will continue to weigh on China's imports. Looking ahead, despite of the surging August export growth data, the road ahead may be still bumpy amid global recession. Based on the data outturns in January to August, we expect China's export growth will decrease by -1.5% y/y in this year (vs. -2.3% drop in Jan-Aug), while imports dip by -4% y/y (vs. -5% y/y drop for Jan-Aug), among which the export growth prediction is significantly upward adjusted from the forecasting at the beginning of the covid-19 contagion.

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