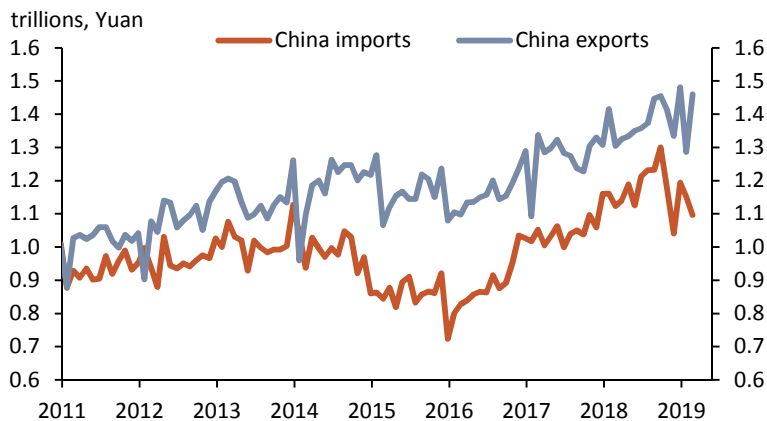




April 12, 2019

## China: Bouncy data point to stabilizing growth

### China imports and exports



Source: China Customs, Haver Analytics and Berenberg Capital Markets.

- China's latest export and credit data bounced up, sending favorable signals.** But such data are very volatile month-to-month, especially around the Lunar New Year. Nevertheless, they are a relief following China's nasty slump in export-related manufacturing and domestic demand in the second half of 2018, and point to improving growth. China's exports rose a sharp 21.3% yr/yr in March, more than offsetting February's decline, lifting Q1 exports to a 6.7% yr/yr rise. Imports dipped 1.8% yr/yr in March, and in Q1 are up a slight 0.3% yr/yr. In the financial sector, aggregate social financing flows to the real economy jumped significantly, and growth in M2 rose to 8.6% yr/yr, reflecting policy initiatives to ease monetary policy and accelerate credit lending.
- China's growth trends are critically important to global performance.** China's slump in growth and trade tensions with the U.S. have reduced global growth and depressed exports and industrial production of its major trading partners, including Japan, South Korea and Asia, Germany, and Brazil. China's domestic demand has weakened, led by nine consecutive months of declining auto sales (down 5.2% yr/yr through March).
- China is aggressively stimulating its economy.** The People's Bank of China has continued to ease monetary policy and regulatory authorities have eased credit and accelerated lending. Fiscal stimulus through a VAT cut and sizable government purchases (investment in infrastructure and residential) is supporting domestic demand.
- Domestic demand will improve, but will export-related manufacturing?** This stimulus will support stronger consumption and domestic demand—although it will involve further undesired increases in debt—but export growth is likely to be hampered by the slower global growth, the relatively strong yuan, and the cumulative increases in China's unit labor costs relative to overseas producers. A fall in the currency would support stronger exports (and dampen consumer purchasing power), but that issue will be determined by China's leaders.
- China's official economic data overstate growth, particularly in investment.** Nevertheless, China's actual economic performance is generally healthy and its pace of technological innovations is strong.

**The protracted U.S.-China talks are complex and reach far beyond trade.** An agreement will be struck by mid-year and will include provisions covering intellectual property protection, investment constraints on foreign companies doing business in China, cybersecurity, steps to begin opening up China's financial system, and longer-run numeric goals on Chinese imports of selected U.S. goods. These steps are long-run positive. In the short run, disruptions in supply chains should ease and uncertainties should dissipate, but improvements in trade will likely be slow.

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