Surprise rebound in exports and imports in June signals accelerated recovery of Chinese economy

Key takeaways

- China’s exports edged up 0.5% yoy in June, signalling that external demand is recovering, which bodes well for China’s economic recovery in the second half of the year. China’s imports went up by 2.7% yoy in June, indicating an improving domestic demand for imported goods.

- Outlook: We expect China’s exports to continue to recover in the coming months due to a number of positive developments, including the gradual reopening of developed economies, robust demand from developing economies, especially the ASEAN, a continued huge demand for personal protective equipment and medical devices from China, and production disruptions in alternative production countries.

- COVID-19 has demonstrated China’s superior ability to handle unexpected events and the resilience of its supply chains, which is positive for China sourcing in the longer term. This also bodes well for China’s future export performance.

China’s exports and imports unexpectedly rise in June

China’s customs data showed that China’s exports, in US dollar terms, edged up 0.5% yoy in June, compared with a 3.3% yoy decline in May. (See Exhibit 1) The unanticipated increase in exports in June signals that external demand is recovering, which bodes well for China’s economic recovery in the second half of the year.
The growth rate of China’s imports also turned positive in June: After plunging by 16.7% yoy in May, China’s imports went up by 2.7% yoy in June, indicating an improving domestic demand for imported goods lately. The stronger-than-expected trade performance in June also provides hope for a further improvement of the external sector in the coming months.

Exhibit 1: Growth rates of exports and imports, July 2018 to June 2020

**Outlook for 3Q exports**

After falling by 6.2% yoy in the first half of 2020, China’s exports are projected to stay flat year-on-year in 3Q20. We expect China’s exports to continue to recover in the coming months due to the following positive developments lately:

1. **Gradual reopening of developed economies**

As developed countries have gradually reopened their economies, the demand for Chinese imports is likely to improve. In particular, with Western European countries having mostly contained the COVID-19 outbreak, China’s exports to Europe are expected to recover in the coming months.
2. Robust demand from developing economies

Exports to the ASEAN, China’s top trading partner, increased by 1.6% yoy in June. Exports to major developing economies such as African countries and Russia also registered positive growth in the month. *(See Exhibit 2)* We expect that emerging markets will continue to be growth spots for China’s exports in the near future.

**Exhibit 2: Growth rates of China’s exports to selected economies, June 2020**

<table>
<thead>
<tr>
<th>Economy</th>
<th>China’s exports (in billion US$)</th>
<th>Yoy growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>30.32</td>
<td>1.61</td>
</tr>
<tr>
<td>Africa</td>
<td>9.55</td>
<td>2.74</td>
</tr>
<tr>
<td>Taiwan</td>
<td>4.89</td>
<td>12.06</td>
</tr>
<tr>
<td>Russia</td>
<td>3.99</td>
<td>0.04</td>
</tr>
</tbody>
</table>

3. Surging demand for personal protective equipment and medical devices

The COVID-19 global pandemic has led to a surge in demand for personal protective equipment such as masks, gloves and isolation suits, and medical devices such as ventilators. *(See Exhibit 3)* With the end of the pandemic no end in sight, overseas demand for these ‘anti-epidemic’ goods will continue to boost China’s exports in the foreseeable future.

**Exhibit 3: Growth rates of selected categories of China’s exports, June 2020**

<table>
<thead>
<tr>
<th>Product category</th>
<th>China’s exports (in billion US$)</th>
<th>Yoy growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile yarn, fabrics products</td>
<td>16.16</td>
<td>56.7</td>
</tr>
<tr>
<td>Medical devices</td>
<td>2.14</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4. Production disruptions in other countries

While China has successfully contained the COVID-19 outbreak, many alternative production countries like India and Mexico are still being impacted by the COVID-19 outbreak to varying degrees. Lockdowns and production disruptions in those countries have pushed companies to shift orders to Chinese manufacturers instead. We expect that this phenomenon will continue and help China’s export performance in the short term.
It is even possible that this phenomenon will become a long-term trend. According to a McKinsey survey taken in mid-April, 13% of sourcing executives expect to increase sourcing from China for the next five years, compared with 0% pre-COVID-19. The ability of Chinese manufacturers to recover from the COVID-19 crisis in such a short time has demonstrated China's superior ability to handle unexpected events and the resilience of its supply chains, which are essential elements that sourcing companies look for in their supply chains.
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