DISAPPOINTING CHINA JULY IMPORTS SUGGEST COOLING DOMESTIC DEMAND

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Reuters

China's exports and imports fell more than expected in July in a rocky start to the third quarter, pointing to further weakness in global demand in the aftermath of Britain's decision to leave the European Union.

Imports fell 12.5 percent from a year earlier, the biggest decline since February and suggesting China's domestic demand may be faltering despite a flurry of measures to stimulate economic growth.

"I think (the drop in imports) is mainly from the demand side," said Ma Xiaoping, an economist at HSBC in Beijing.

Government efforts to cut overcapacity could produce an even bigger hit to demand in the next few quarters, Ma added.

Exports fell 4.4 percent on-year, the General Administration of Customs said on Monday, while adding that it expects pressure on shipments likely will start to ease in October.

That resulted in a trade surplus of $52.31 billion in July, the biggest since January, versus June's $48.11 billion.

China's imports have now declined for 21 straight months, while exports have fallen for 12 of 13 months, helping to drag economic growth to its slowest in a quarter of a century.

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"Signs of stronger manufacturing activity among many of China's key trading partners has so far failed to lift export growth," Capital Economics' China economist Julian Evans-Pritchard said in a note. "The country's export growth is likely to remain subdued for some time."

Economists polled by Reuters had expected trade to remain weak but show some signs of moderating as factories gear up for orders heading into the peak year-end shopping season.

July exports had been expected to fall 3.0 percent, compared with a 4.8 percent decline in June, while imports were seen falling 7.0 percent, following June's drop of 8.4 percent.

China's exports underwhelmed despite still-strong shipments of steel and oil products, with the latter hitting a record. China has come under fire from trading partners accusing it of dumping its excess industrial capacity in global markets.

Exports to the United States — China's top market — fell 2.0 percent in July, while shipments to the European Union – its second biggest market - fell 3.2 percent.

While the decline in shipments to the EU actually moderated slightly from June, economists at ANZ expect Brexit will weigh further on China's exports to Europe in coming months.

Meanwhile, China's imports from the U.S. fell 23.2 percent in July from a year ago, versus a 12.7 percent decline in June.

A more than 6 percent slide in the yuan against the dollar over the past year appears to have done little to help China's exporters in the face of stubbornly soft global demand and weak commodity prices.

For the January to July period, China's exports fell 7.4 percent, while imports fell 10.5 percent, roughly on pace with last year's 8 percent decline.

China's economy grew 6.7 percent in the second quarter from a year ago, beating expectations, as a government infrastructure spree and housing boom boosted construction activity and demand for materials from cement and glass to steel.

Iron ore imports rose 8.1 percent by volume in the first seven months of the year, but factory activity surveys last week showed domestic and export orders cooled in July, while heavy flooding in some areas disrupted business.

While there have been mixed signals on whether China is ready to cut interest rates or banks' reserve requirements again this year, most analysts agree the focus should be on structural reforms.

"In the short term I think a lot of changes would depend on the government's structural reform of state-owned companies," said HSBC's Ma.

(Reporting by Yawen Chen and Elias Glenn; Editing by Kim Coghill)

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