



Chinese slowdown: time to face the fatcs

Excuses for China's poor external trade figures in March were in no short supply. Exports were down sharply for the second straight month, falling 6.6% compared with March 2013. February's 18% cliff dive was chalked up to distortions from the timing of the New Year holiday; similarly, March data was said to be the result of abnormally strong results the year before. For the 11% slide in imports, falling commodity prices are to be blamed. So there is no need to worry, China is going through a rough patch but government stimulus is already righting the ship...

Poor trade figures in March

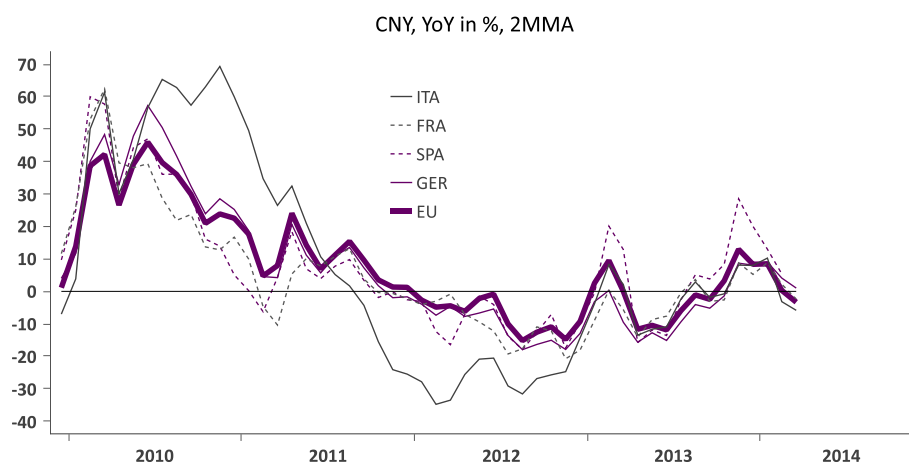


Sources: RichesFlores Research, Macrobond

The truth is, obviously, much less reassuring, and is worth a closer look. The first chart is unequivocal: yes, last year's figures were indeed boosted by one-off regional distortions, but total exports were perfectly in line with the trend from the previous two years. The comparison basis argument does not really hold water. March numbers were all the more disappointing because they should

have been lifted by a catch-up effect following February's negative calendar effect. A thorough analysis of current trends is hardly more comforting. Exports are losing momentum across the board. A sales pick up from EU markets has been wholly lacking, which is surprising given the recovery in the euro area had seemed to be providing a lift in H2 2013...mediocre trade data with Asia is perhaps a troubling sign.

China Foreign Trade: Exports towards EU



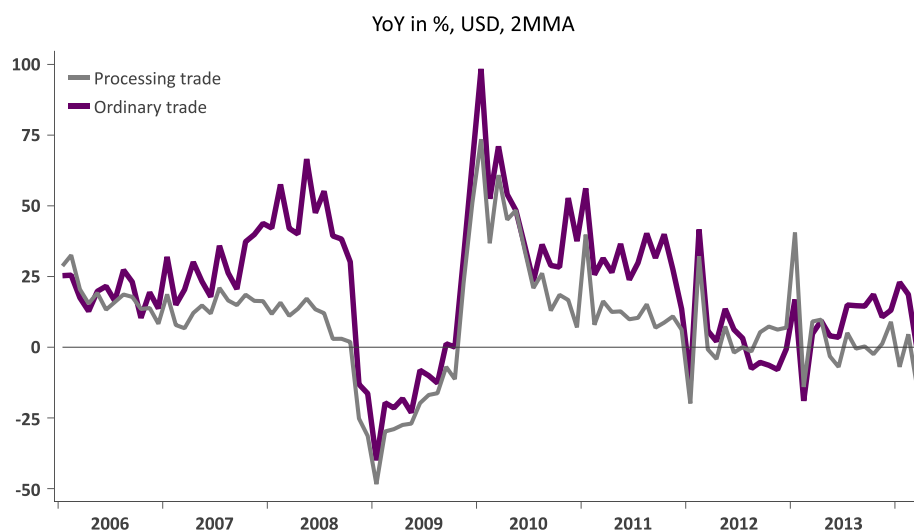
Sources: RichesFlores Research, Macrobond

High risk of contagion

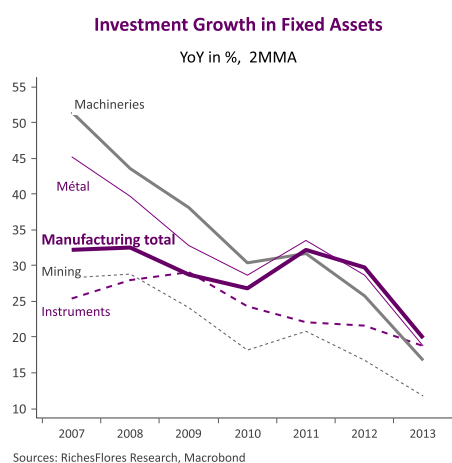
These trends are worrisome for several reasons. First, they have serious implications on the Chinese economy at a time when domestic growth drivers are suffering the consequences of monetary tightening, which have resulted from the authorities' crackdown on shadow banking. Second, they could spread beyond Chinese borders. Due to the vast amount of basic materials used in domestic manufacturing and the multitude of countries exporting to China, the growth of Chinese imports is closely correlated to the growth of its exports. Consequently, whenever Chinese exports struggle its trade partners are hit with falling demand.

The deteriorating Chinese economy is not just real; it is also an undeniable threat to the rest of the world. The government measures that were announced in recent days are obviously a welcome sign but there is no guarantee they will have a material impact. Efforts made in 2012 had only a fleeting and muted effect on Chinese growth and imports. The current plan is not a sure bet to halt the economy's current slide or China's declining demand for the products and services offered by the rest of the world, which are being hit by soft manufacturing activity.

China Foreign Trade: Imports by Type



Recent developments in the Chinese economy are, therefore, wrought with consequences and are a key part of our *contrarian scenario* on the world economy.



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