

China Trade Surplus May Fall on U.S., European Demand

September 8, 2008

China's trade surplus probably fell on faltering demand from the U.S. and Europe, making the central bank more likely to keep slowing the yuan's gains.

The gap narrowed 6.4 percent to \$23.55 billion in August from a year earlier, according to the median estimate of 22 economists surveyed by Bloomberg News.

European Central Bank President Jean-Claude Trichet said Sept. 4 that the region's in an "episode of weak activity," while the worst housing recession since the Great Depression is restraining U.S. demand. The yuan has climbed only 0.2 percent against the dollar this quarter after a 6.5 percent advance in the first half, helping toy, shoe and clothes makers by keeping down the prices of their products in overseas markets.

"Exports to Europe will slow for the rest of the year as more ripples from the U.S. subprime crisis hit European economies," said Li Wei, an economist at Standard Chartered Bank Plc in Shanghai. "China can't afford aggressive gains in the yuan given the export outlook."

Exports may have climbed 20.6 percent, less than July's 26.9 percent. Imports rose 28.7 percent, down from 33.7 percent, according to the survey. The data may come as early as tomorrow.

Policy makers are putting an extra emphasis on sustaining the economy's expansion and protecting jobs, rather than reining in consumer prices, as global growth slows. Inflation probably eased for a fourth month in August to 5.4 percent from 6.3 percent in July, according to 23 economists surveyed by Bloomberg. That number is due Sept. 11.

Yuan's Gains

China's currency rose to 6.8387 against the dollar as of 11:56 a.m. in Shanghai after closing last week at 6.8422.

Zhang Xiaojing, a researcher at the government-backed Chinese Academy of Social Sciences, said this month that officials had decided to stop using yuan appreciation to cool inflation because it added to companies' costs and "quelled momentum for long-term economic growth."

Still, Chinese exporters pricing goods in euros have been hit by the 11 percent gain by the yuan against that currency this quarter.

"Exporters can't afford the yuan to keep strengthening against the euro -- margins are already thin," said Fan Jianping, the chief economist at the State Information Center, a government research agency.

Toymakers Close

Rising labor and raw-material costs are adding to the pressure on exporters from currency gains and weakening demand. The number of toymakers in Guangdong province, one of China's export hubs, fell more than 70 percent in the seven months through July from a year earlier, as more than 3,600 shut down, according to the official Xinhua News Agency.

Kingdom Holdings Ltd., China's biggest exporter of linen yarns, said Sept. 5 that it was increasing its focus on the domestic market after making a loss in the first half of the year as the yuan strengthened and demand weakened in the U.S. and Europe.

China's economy expanded 10.1 percent in the second quarter, still the fastest pace of the world's 20 biggest economies, from 10.6 percent in the three months through March.

Commerce Minister Chen Deming said today that the nation can avoid a post-Olympic Games slowdown and Vice Premier Wang Qishan said the government was confident of achieving its goals of "stable and relatively fast" economic growth and bringing inflation under control.

Weaker Economic Growth

Still, growth has slowed for four straight quarters. Industrial production grew in July at the weakest pace since February 2007 and manufacturing contracted in August for a second month, according to an official survey, underscoring government concern that an economic slump is possible.

Cooling overseas sales may also discourage investment, a key driver of the world's fastest-growing major economy. Since July, the government has loosened loan quotas, encouraged lending to small businesses and increased export-tax rebates for garments and textiles to boost growth and protect jobs.

Last month, it abolished administrative fees for some small business owners, losing about 20 billion yuan (\$2.9 billion) a year in tax revenue, state media said. The government is considering spending an extra 400 billion yuan to boost growth, according to economists and domestic news reports.

"Slowing exports may cool economic growth further to about 9.9 percent for the whole of 2008, but it's a desirable slowdown rather than drastic," said Standard Chartered's Li. "So the government won't panic and hastily implement an economic stimulus package."

Source: Bloomberg.com