

Chinese Export Outlook Darkens

The global industrial growth downturn will deepen in the coming months due to increasingly adverse cyclical conditions.

Trade Travails Chinese export growth was set to fall well before trade tensions mounted. That is the clear message from ECRI's Chinese Leading Exports Index, which also gauges the cyclical susceptibility of China's exports to negative shocks, like tariffs, that could intensify the slump.

In fact, year-over-year (yoy) growth in real Chinese exports turned down in early 2017, and has since dropped to a 2¼-year low (Chart 1, bottom line). This downswing was anticipated by the late-2016 downturn in yoy Chinese Leading Exports Index (CNLExI) growth (*ICO Focus, April 2018*), which has now plummeted to a 28-month low (top line). In essence, the cyclical drivers of Chinese exports had begun to worsen well ahead of the recent buildup to a U.S.-China trade war. Also, following the earlier downturn in Chinese Leading Industrial Production Index growth, Chinese industrial production growth had turned down (*ICO Country Pages, July 2018*).

The swoon in Chinese export growth is consistent with the plunge in world trade volume growth since the beginning of 2018 – following the earlier downturn in 20-Country Long Leading Index (2oLLI) growth – that we highlighted last month (*ICO Essentials, June 2018*). With 2oLLI growth declining since then, the global economic growth outlook has worsened. Notably, growth in the G7 Long Leading Index has now fallen to a seven-year low, underscoring the progressive deterioration in advanced-economy growth prospects (not shown).

Meanwhile, President Xi Jinping's deleveraging policy for containing credit risks had led to a plunge in non-bank social financing by early this year. But with the added pressure from U.S. trade sanctions, the People's Bank of China (PBoC) shelved

Countries that feed the Chinese supply chain – including many emerging markets – may suffer the most damage as the world's two largest economies come into conflict.

Chart 1: Chinese Leading Exports Index and Real Exports, Growth Rates (%)

