China Trade Decelerates In Sign Of Global Weakness

Joe McDonald, AP Business Writer

BEIJING (AP) — China's trade and domestic demand have weakened even faster than expected, adding to pressure on Beijing for a more aggressive stimulus to boost the world's second-largest economy out of its worst slump since the 2008 crisis.

Export growth in July plunged to just 1 percent from the previous month's 11.3 percent, well below forecasts of about 5 percent, data showed Friday. The slump adds to the pain for struggling exporters, raising the threat of more job losses and unrest as the Communist Party tries to enforce calm ahead of a handover of power to younger leaders.

Factory production, auto sales and retail sales in July, reported Thursday, also were more anemic than expected despite two interest rate cuts since the start of June and government efforts to pump money into the economy through spending on public works.

"With the export sector losing speed faster than expected, the government's current investment stimulus plan looks woefully inadequate," IHS Global Insight analyst Alistair Thornton said in a report. "The government is likely to respond by ramping up its stimulus efforts, with both monetary and fiscal guns firing."

The plunge in export demand has hammered manufacturers that employ millions of workers to supply the world with low-cost shoes, toys, furniture and consumer electronics. Thousands of smaller companies have been forced into bankruptcy.

"It is getting more and more difficult for export industries, especially in the past two months — a sharp decline, fewer orders," said the boss of a furniture manufacturing company in Fujian province on China's southeastern coast. He would give only his surname, Lin.

Lin said he has avoided layoffs among his workforce of 700, but said, "I do not have enough work for my workers to do."

Asian stock markets tumbled Friday after signs the region's biggest and most robust economy might be in worse shape than expected.

Economic growth fell to a three-year low of 7.6 percent in the quarter ending in June — well above U.S. and Japanese rates in the low single digits but painful for Chinese companies that depend on high growth to drive demand for new factories and apartments.

Analysts are forecasting a rebound later this year but say it could come later and be weaker than previously thought. Premier Wen Jiabao warned last month the economy faces "relatively large" pressure to slow further, raising hopes for a new wave of stimulus.

The slowdown is bad news for economies that are looking to China's demand for oil, iron ore and other imported commodities and rising consumer spending to drive global growth as the United States struggles with a sluggish recovery and Europe is mired in a debt crisis.

"This complicates the prospects for an imminent recovery," said Thornton, the IHS analyst.

The government is moving more cautiously than it did after the 2008 crisis, when its multibillion-dollar stimulus helped China rebound quickly but fueled inflation and a wasteful building boom. Authorities have pumped money into carefully chosen areas such as low-cost housing but are enforcing curbs on construction and home sales that were imposed to cool surging housing costs.

The International Monetary Fund and private sector analysts have trimmed this year's growth forecasts but say it should be about 8 percent.

Also in July, import growth fell to 4.7 percent from the previous month's 6.3 percent, also below forecasts.

Growth in industrial production weakened to 9.2 percent over a year earlier from June's 9.5 percent, its lowest rate since May 2009.

Retail sales growth slowed to 13.1 percent from the previous month's 13.7 percent. That is a setback for government efforts to reduce China's reliance on exports and investment by boosting domestic consumption. Wen, the premier, said last month that supporting investment would be the dominant element of the stimulus, an acknowledgement that consumer spending was failing to grow fast enough.

Growth in passenger car sales decelerated from June's 15.8 percent to 11 percent, according to the China Association of Automobile Manufacturers, an industry group.

China's trade growth has fallen steadily this year as global demand for its exports cooled and efforts to boost domestic consumption have failed to gain traction as fast as the government hoped.

In July, its global trade surplus narrowed by 20.3 percent from July 2011 to $25.1 billion but was this year's second biggest after June's $31.7 billion. Exports were $176.9 billion while imports were $151.8 billion.

"The weakness is broad-based," said Citigroup economists Minggao Shen and Shuang Ding in a report.

The trade surplus with the 27-nation European Union, China's biggest trading partner, narrowed by 37.9 percent to $10.8 billion. Exports to Europe contracted by 3.6 percent, and sales to some European markets fell further. Exports to debt-burdened Italy plunged 26 percent.

The trade surplus with the United States narrowed by 4.8 percent to $19.9 billion.

Growth in exports to other key Chinese trading partners including Japan, South Korea and Southeast Asia also slowed.

Beijing has set a goal of increasing total trade by 10 percent this year, a target that looks increasingly hard to meet. Trade grew 9.2 percent for the first half of the year but, with July added in, the rate for the first seven months fell to 7.1 percent.

"Export growth will likely be weak in the coming months as well," said Nomura economist Zhiwei Zhang.