China Trade Falls In New Sign Its Economy Is Fading

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BEIJING (AP) — China's trade declined abruptly in June in a sign growth in the world's second-largest economy might be cooling even more sharply than expected.

Exports fell by 3.1 percent compared with a year earlier and imports contracted by 0.7 percent, customs data showed Wednesday. Both were below forecasts of growth in the low single digits.

China's economic growth has slowed this year and is expected to fall further due to weak global demand and an effort by the Chinese central bank to cool a credit boom.

"The export sector is faring very badly. It does suggest overall growth momentum is going to be weaker than we initially expected," said Societe General economist Wei Yao.

New communist leaders who took power last year say they want to pursue slower, more self-sustaining growth based on domestic consumption, reducing reliance on trade and investment. But some analysts say the latest slowdown might be so deep they could be forced to temporarily reverse course and boost lending or government spending to stimulate growth.

A decline in Chinese economic activity could have global repercussions, denting revenues for suppliers of commodities and industrial components such as Australia, Brazil and Southeast Asia. Lower Chinese demand already has depressed global prices for iron ore, copper and other raw materials, cooling an economic boom for exporters.

The ruling party's growth target this year is 7.5 percent, down by almost half from 2007's staggering growth rate of 14.2 percent. Some analysts have suggested growth might dip below 7 percent in coming months — dangerously low by Chinese standards.

Some private sector forecasters cut their growth outlook for the year, though to still robust levels above 7 percent, after a credit crunch hit China's financial markets last month. That came as the central bank tried to rein in a lending boom regulators worry could spiral out of control.

"The most likely outcome, in our view, is the Chinese economy going through a period of sluggish growth and adjustment," said UBS economist Tao Wang in a report this week.

Communist leaders have promised to promote private businesses that generate most of China's new jobs and wealth but have yet to make major changes.

Retail sales have fallen short of official forecasts and a HSBC Corp. survey of manufacturers showed activity contracted in June for a second month.

Still, Chinese leaders are unlikely to back away from efforts to overhaul the country's growth model, said Societe Generale's Yao.

"The plan is still to induce some short-term pain in exchange for long-term sustainability," said Yao. "That is still the most sensible choice, but sure, they need to make some marginal adjustments to make sure the economy doesn't slow too fast."

Analysts expected China to report slower growth in trade due to a crackdown on misreporting of data by exporters as a way to evade currency controls and bring extra money into the country. But even with that taken into account, Wednesday's figures were below forecasts for exports to rise by up to 3.5 percent and imports to grow by up to 1.5 percent.

June's export growth was down from May's year-on-year gain of 13.5 percent and import growth was down from 8.2 percent.

China's politically sensitive global trade surplus contracted by 12.4 percent compared with a year earlier to $27.1 billion. Exports were $174.3 billion while imports were $147.2 billion.

Growth in exports to the United States, China's biggest foreign market, fell to 1.8 percent from May's 3.5 percent. Exports to the 27-nation European Union contracted 3.9 percent.

The trade surplus with the U.S. contracted by 15.5 percent from a year earlier to $17.5 billion, but still one of this year's highest levels. The surplus with Europe shrank 20.3 percent to $10.2 billion.

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