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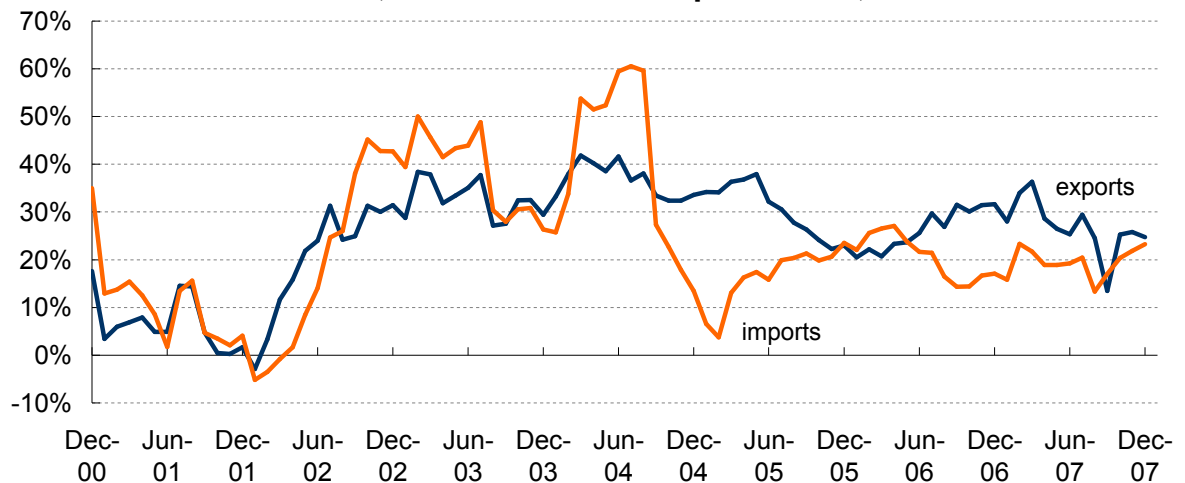
US net exports worse – China's better, ie less

WE SUGGEST: Treasuries look better, the dollar worse

SUMMARY: The worsening of US trade in November, real and nominal, with or without oil, suggests minimal GDP growth, and may reflect earlier inventory building that could also induce future weakness. China's export growth at last seems to be coming down, while imports accelerate, but 2007's current surplus was up by a half.

US trade numbers for November, released today, showed net exports significantly worse, with or without oil, in real terms as well as in nominal dollars. The strong growth of exports seen last summer has disappeared in real terms, though 6% export price inflation still secures some nominal gain. Imports meanwhile jumped in volume and price. We have seen a good deal of inventory building in the unexpectedly strong GDP data for Q2 and Q3 and this typically shows up disproportionately in imports. But as demand slackened off in Q4 of last year, this net export effect may lower even further the growth rate of GDP.

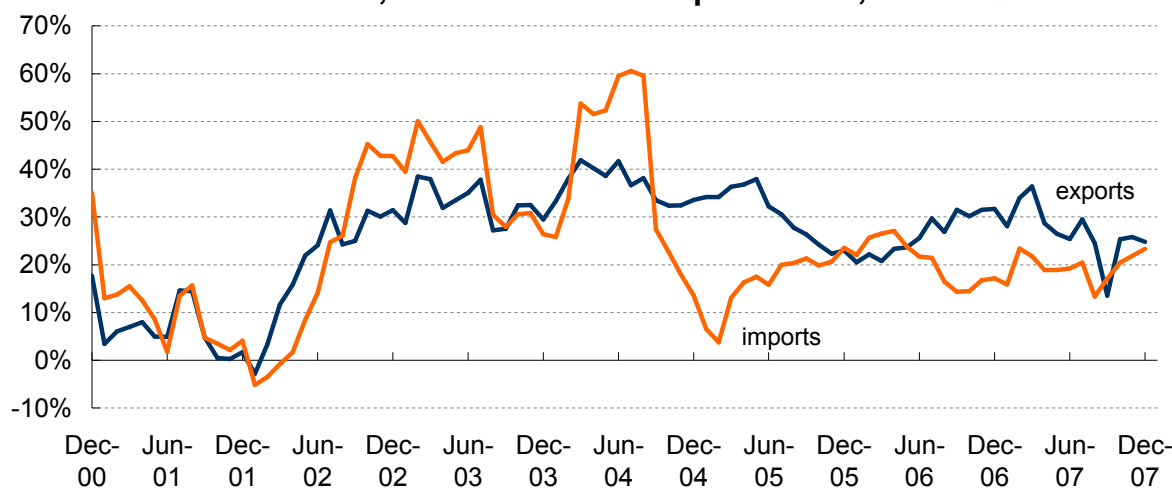
China's trade, latest 6 months vs previous 6, annual %



China too saw buoyant imports at the end of last year. Its December trade data today saw import growth almost catching the export growth rate, which has slowed to around 25%. It is tempting to put this down to the acceleration of domestic demand, but China too has to pay more for oil. (The data above are in US dollars.) The deceleration of exports is more marked in yuan terms, and probably more still in volume, as overheating is causing inflation to reach out from food to the general economy. At some stage in 2008, the net export contribution to Chinese growth could become nil. With the latest measure of real domestic demand growth (2007 Q3) still up 11% or more in real terms that will not by

itself stop the worsening of overheating. But slower exports growth could knock on into slower spending by export industry workers and so forth. Beijing is applying restrictive policy and anti-inflationary measures on a number of fronts simultaneously, as well as specific steps to douse net exports. On past form, little will seem to happen for quite a while, and then the economy could slow sharply.

China's trade, latest 6 months vs previous 6, annual %



China's trade balance levelled off in 2007, but remained hugely up on 2006. Using the full-year numbers we now have, 2007's current account surplus would appear to have been \$374 billion, up by half from \$250 billion in 2006. (See table below.)

\$ billion	2003	2004	2005	2006	2007	2008	2009	2010
exports (fob)	422	576	749	948	1201	1441	1729	2075
imports (cif)	400	552	647	782	937	1124	1349	1619
invisibles *	24	45	59	84	110	127	145	167
current a-c	46	69	161	250	374	443	525	623
% annual growth of:								
exports	34%	37%	30%	27%	27%	20%	20%	20%
imports	40%	38%	17%	21%	20%	20%	20%	20%

* assumes invisibles grow at 15% annually from 2007

The table also shows how the surplus could continue to mount unless exports slow a lot more vis-à-vis imports.

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