China’s exports and imports unexpectedly fell in March as Premier Li Keqiang said the nation will roll out more policies to support growth while avoiding stronger stimulus.

Overseas shipments declined 6.6 percent from a year earlier, the customs administration said in Beijing today, attributing the drop partly to distortions from inflated data in early 2013. Imports fell 11.3 percent, in part on falling commodity prices, leaving a trade surplus of $7.71 billion.

Asian stocks and the Australian dollar pared gains after the report added to concern that expansion in the world’s second-largest economy will deteriorate further. The government is taking steps including railway spending and tax relief to support growth while avoiding monetary measures such as cutting banks’ reserve requirements or the scale of stimulus used to counter the financial crisis in 2008.

“Economic momentum may have stalled temporarily in March,” Zhang Zhiwei, chief China economist at Nomura Holdings Inc. in Hong Kong, said in a note today. The government may wait to see how the economy responds to the latest fiscal measures before taking additional action to aid growth, said Zhang, who previously worked at the International Monetary Fund.

Taking into account the distortions from inflated data in 2013, exports may have increased by 5 percent to 8 percent in March from a year earlier, improving from a pace of about 3 percent in the first two months of 2014, Zhang wrote. Royal Bank of Scotland Group Plc estimated “underlying export growth” at 5.2 percent in March.

**Stock Market**

The MSCI Asia Pacific Index (SHCOMP) of stocks was up 0.2 percent at 2:09 p.m. in Tokyo after rising as much as 0.9 percent earlier today. The Australian dollar gained 0.2 percent, down from an earlier increase of 0.5 percent. China’s benchmark Shanghai Composite Index of stocks was up 0.2 percent at 1:09 p.m. local time.

Import figures were affected partly by commodity price declines. Average iron ore import prices were 8 percent lower in the first quarter compared with a year earlier, while the volume of inbound shipments rose 19.4 percent, according to a customs statement today. Average coal import prices fell 14.2 percent last quarter and crude oil prices were down 4.7 percent.

`Lukewarm' Manufacturing
The data on imports partly reflect a “lukewarm” manufacturing industry, according to Australia & New Zealand Banking Group Ltd. Liu Xuezhi, an economist with Bank of Communications Co. in Shanghai, said the figures also reflect the state of domestic demand, as well as a slowdown after companies increased stocks of imported materials in the previous two months.

Premier Li said in a speech today that China “won’t adopt short-term and strong stimulus policies in response to temporary fluctuations in the economy. Instead we will focus more on healthy growth in the medium to long term and will make efforts to achieve sustainable and healthy development.” The premier spoke at the Boao Forum for Asia in the southern province of Hainan.

According to previously reported figures, China’s exports fell 18.1 percent in February from a year earlier, the biggest drop since the global financial crisis.

Today’s numbers compared with analysts’ median estimates for a 4.8 percent increase in exports, a 3.9 percent gain in imports and a $1.8 billion trade surplus. Six of 47 analysts had projected a decline in exports for March, as did six of 47 on imports.

‘Tepid’ Recovery

“The recovery in global demand remains tepid, even as the recovery in global activity is now well-entrenched,” Louis Kuijs, chief Greater China economist at RBS in Hong Kong, said in a note today.

Kuijs said he would caution against interpreting the trade data as showing that growth is “slowing down precariously” because March 2013 export gains were inflated by 11.8 percentage points due to over-invoicing aimed at disguising capital inflows. The customs administration reported March 2013 export growth of 10 percent.

The discrepancy between Hong Kong data for imports from China and Chinese figures for exports to the city in early 2013 highlighted the practice of over-invoicing that inflated China’s export data. Regulators started a crackdown in May, leading to a slump in reported overseas shipments.

Government's Explanation

March exports to Hong Kong fell 43.6 percent from a year earlier, according to data compiled by Bloomberg from the customs administration. That compared with a 92.9 percent gain in the same month last year.

The drop in trade with Hong Kong is the biggest reason for the weak export and import data, Zheng Yuesheng, a customs administration spokesman, said in a statement today. “From May onward, Chinese exports to Hong Kong will rebound significantly to push up overall exports and trade growth,” Zheng said.

China’s export situation will be “relatively optimistic” in the second quarter, with gains showing “modest” acceleration from the previous three months, the customs administration said today.
“Investors don’t have to be worried” about the trade numbers, said Hu Yifan, chief economist at Haitong International Securities Group Ltd. in Hong Kong, who had forecast declines in March imports and exports. She said that weather-related weakness in U.S. consumption and the artificially high trade numbers in March last year affected the figures.

Hu sees investment rather than trade driving the Chinese economy this year.

Li last week outlined measures including railway spending and tax relief to support growth as economists estimate that gross domestic product rose 7.3 percent in the first quarter from a year earlier, which would be the slowest pace since 2009. Zhou yesterday reiterated that markets should play a “decisive” role in the economy.

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