NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

China Market Update

Market Report

MAY
2022

Prepared by the New Zealand Embassy in Beijing

Summary

- After losing some momentum towards the end of 2021, official data suggested China's economy started 2022 relatively strongly in January and February. However, in March and April COVID outbreaks and resultant lockdowns affecting the country's economic centres, combined with an increasingly complex external environment, have significantly impacted the economy.
- China has stated that it remains committed to a 'zero societal COVID' policy; so COVID-related economic disruption is likely to continue at least as long as this strategy is maintained. Sporadic outbreaks and the resultant countermeasures, from minor restrictions to full scale lockdowns, are ongoing.
- The most significant lockdown in 2022 has occurred in Shanghai. While the COVID case numbers in the city have gradually improved in recent weeks, it is uncertain when the city's restrictions will be fully lifted. There have been some indications of a staged move towards reopening since mid-May and city officials have indicated mid- to late-June for the city to return to more normal settings.
- Shanghai's lockdown in particular has caused disruption to supply chains across China. Although the city's ports and airports have remained open and are receiving cargo, operations have been significantly slowed, with knock-on impacts for neighbouring ports. Congestion and backlogs are expected to remain a challenge even after the city loosens its control measures.
- Domestic logistics continue to be significantly affected with trucking availability constrained and freight costs high.
- China is also facing a number of non-COVID challenges to its economy including: a volatile external environment, weakening demand for Chinese exports, as well as growing unemployment, sluggish household income growth, and ongoing issues in the property sector.
- As a result of these challenges, most foreign analysts have revised down their growth forecasts to figures for 2022 well below China's stated target of "around 5.5%" growth. The government is focused on supporting the economy this year through a mixture of fiscal and monetary policy.
- China comfortably remained Aotearoa New Zealand's top trading partner for the year ending December 2021, with two-way goods and services trade totalling NZ$37.7 billion, constituting 23% of New Zealand's total trade and 32% of New Zealand's goods exports.

Report

Recent COVID outbreaks and lockdowns

Since late February the economically important centres of Shenzhen, Shanghai, and Beijing have all experienced significant COVID-related restrictions, as have many other regions across the country. Measures have varied across the country, but the strictest forms, such as the ongoing restrictions in Shanghai, have seen residents locked down in their homes for weeks, as well as halts to all non-essential activity. Residents, including expatriates, who test positive for COVID are transferred to quarantine facilities or designated hospitals to recover.

These restrictions have caused material disruption to domestic and global **supply chains**. Although Shanghai's ports and airports have remained open and are receiving cargo, operations have been significantly slowed. **Sea freight** continues to operate between New Zealand and China, but Shanghai's seaports have been functioning below normal levels. There has also been increased congestion at other Chinese ports as shipments have been diverted away from Shanghai. **Air freight** is also constrained due to workforce controls and clearance processes, although regular Air New Zealand cargo flights between Auckland and Shanghai have continued for most of the lockdown. Limited cargo flights between Auckland and

Guangzhou also continue to operate.

Domestic logistics have been heavily impacted by the recent lockdowns. The major logistical challenges include increased freight costs, unreliable trucking services (including COVID controls constraining the flow of goods between Shanghai and other provinces), and the closure of warehouses operated by New Zealand companies and their Chinese distributors.

Manufacturing in China has been impacted by lockdowns, with many non-essential factories and production facilities closed or forced to operate "closed loop" management systems for their staff. Throughout April some manufacturers in Shanghai have reported difficulties obtaining raw materials affecting their ability to continue operations. Manufacturing has started to recover from the acute challenges experienced in mid-April, with estimates suggesting 70% of manufacturing capacity in Shanghai is still operating.

The **COVID situation in Shanghai** appears to be gradually improving (in terms of the steady decline in reported daily cases and slowing death rate) and some of the more acute supply chain issues have been addressed. Many parts of the city remain under some form of lockdown, though there have been indications of some steps towards re-opening from mid-May. Local officials have said they hope the city will be back to more normal settings by mid- to late-June. At the national level, there remains an ever present **likelihood of further outbreaks occurring at different times in different parts of the country, with resultant localised lockdowns**. The Chinese government has continued to affirm its ongoing commitment to a zero-COVID policy. COVID-related economic disruption is likely to continue to occur as a consequence of suppression measures.

China's policy of **COVID testing and disinfecting cold-chain shipments on arrival** remains in place. Even prior to lockdown disruption, this additional requirement contributed to slower ship unloading, border clearance processes, and post-border distribution in many parts of China. New Zealand suppliers in some product groups have also been asked by their Chinese buyers to carry out COVID-19 testing prior to export. Certain product groups, such as frozen and chilled meats and seafood may be more affected by this than others. These measures are expected to remain in place in at least the short- to medium-term.

Broader macroeconomic situation

According to official data, China's economy grew 4.8% year-on-year in the first quarter of 2022 (Q1), the equivalent of 1.3% growth in quarter-on-quarter terms. The quarterly growth figures reflect the economy's relatively strong performance in January/February, but mask a significant downturn in March and April as a result of tightening COVID restrictions in some of China's major economic and manufacturing centres. Lockdowns and economic uncertainty persist and Q2 figures will likely be well down on early year expectations.

Industrial output – a traditional pillar of China's growth - grew 6.5% overall in Q1, but has been significantly impacted by COVID lockdowns, declining almost 3% in April. Official and unofficial industry surveys of factory activity have indicated contracting activity in March and April. The slowdown was especially acute in the **property sector,** with sales declining 39% by volume from a year prior, which also dragged down real-estate construction starts by 44%.

Strong **exports** were a major contributor to China's growth in 2021. However, export growth has slowed in early 2022 in the face of the Ukraine crisis, the easing of COVID restrictions in other countries leading to reduced demand for some Chinese products, domestic COVID challenges, and increased production from competitors. Nevertheless, China's exports in the first quarter of 2022 still increased almost 16%, but this growth rate has been steadily declining in recent months, with exports only growing 4% in US dollar terms in April, the slowest pace since mid-2020. The value of China's **imports** was almost static in March and April.

One of China's key measures of **domestic consumption**, retail sales of consumer goods, grew by around 3% in Q1, but fell 11% in April from a year earlier. Both urban and rural retail sales were down in March and April, reflecting a slowdown across the country, due in part to challenges with domestic logistics resulting from the lockdown in Shanghai and its spill-over effects across the country. COVID outbreaks and restrictions in other parts of the country are also likely to continue to significantly dampen consumer spending for the remainder of the year.

Depressed consumer demand has partly contributed to keeping consumer price **inflation** in China more moderate than the relatively high levels experienced in advanced economies. China's Consumer Price Index (CPI) was 2.1% higher in April than a year prior, with pork prices declining but energy, fresh vegetable, and services costs all increasing. The consumer inflation figure has been creeping up in recent months and this trend could continue, despite ongoing depressed consumer demand and sluggish household income growth.

One contributor to low income growth is a rise in surveyed national urban **unemployment**, which reached 6.1% in April, the highest level since May 2020. The burden is particularly growing in major cities, with the unemployment rate in the country's 31 largest cities rising to 6.7%, its highest level since 2018.

Looking ahead, China faces a number of **economic challenges**. In addition to the significant challenge posed by the management of COVID, other headwinds include: a volatile external environment, weakening demand for Chinese exports, soft consumer demand at home, given growing unemployment and sluggish household income growth, as well as ongoing challenges in the property sector. As a result, most foreign analysts have revised down their growth forecasts for 2022 to figures around a percentage point below the government's stated target of "around 5.5%". Policymakers have recently signalled increased infrastructure spending and easing monetary policy to support growth.

Entering China

Three airlines are operating **passenger flights** between New Zealand and two cities in China:

- Air New Zealand and China Eastern are each operating one Auckland to Shanghai passenger flight per week; however these flights have been regularly affected by the current lockdown in Shanghai (many flights have been cancelled in May).
- China Southern is currently operating two Auckland to Guangzhou flights per week.

China continues to tightly control the movement of people across the border as a COVID prevention measure. China suspended entry for most existing visa holders, including those holding an APEC Business Travel Card, in March 2020. New processes have been put in place for some categories of travellers, but entry to China remains challenging for most foreigners. The **latest information on specific entry requirements for travellers to China**, including pre-departure requirements and visa application processes, can be found on the website of the Chinese Embassy in New Zealand. Please note the latest New Zealand Government travel advice on the Safe Travel website.

All New Zealand travellers to China must complete a minimum 14-day quarantine on arrival followed by a period of health self-monitoring (usually 7 days). The exact length of quarantine depends on the port of arrival and requirements of final destination city, and may change due to the COVID-19 situation at the time of arrival.

Domestic quarantine measures also exist. Travellers from high risk areas in China (including a point of entry such as Shanghai) face quarantine when moving between cities. In practice this means that travellers may experience a period of quarantine and health monitoring for longer than 21 days if their final destination is not the direct port of entry.

New Zealand China trade: Recent trends in key export sectors

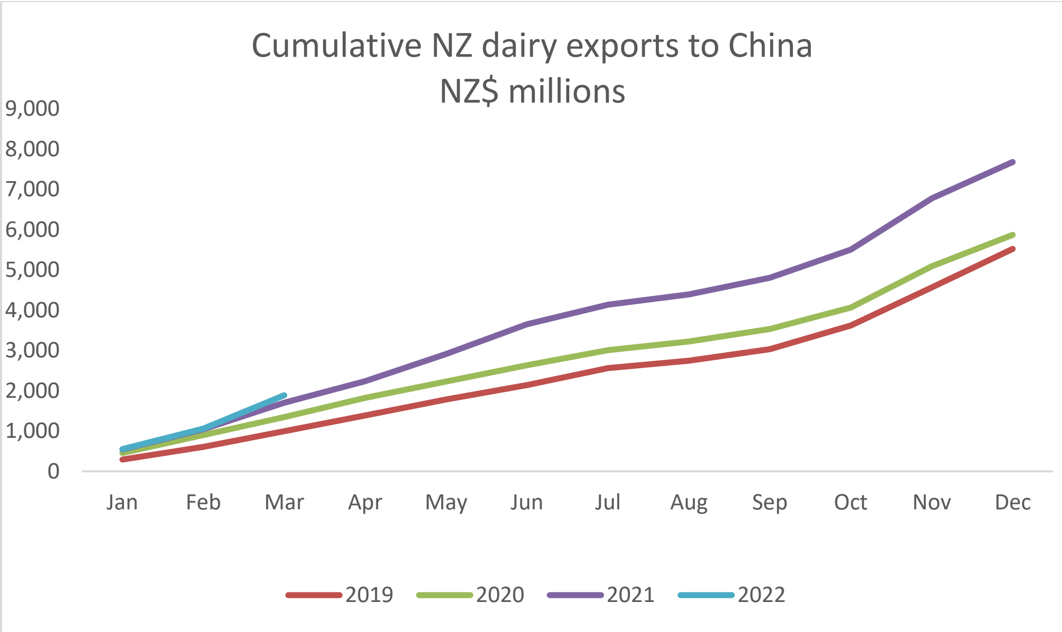
NB: the most recent goods trade data available for New Zealand is to March 2022; for services trade and total trade it is to December 2021.

China remains New Zealand's top trading partner, with two-way goods and services trade totalling NZ$37.7 billion in the year ending December 2021, up 20% from year ended December 2020 figures. Over this period China remained New Zealand's largest market for exports (NZ$21.4 billion) and imports (NZ$16.3 billion).

In the first quarter of 2022 China remained New Zealand's largest market for goods exports (NZ$4.8 billion), up 5% from Q1 last year.

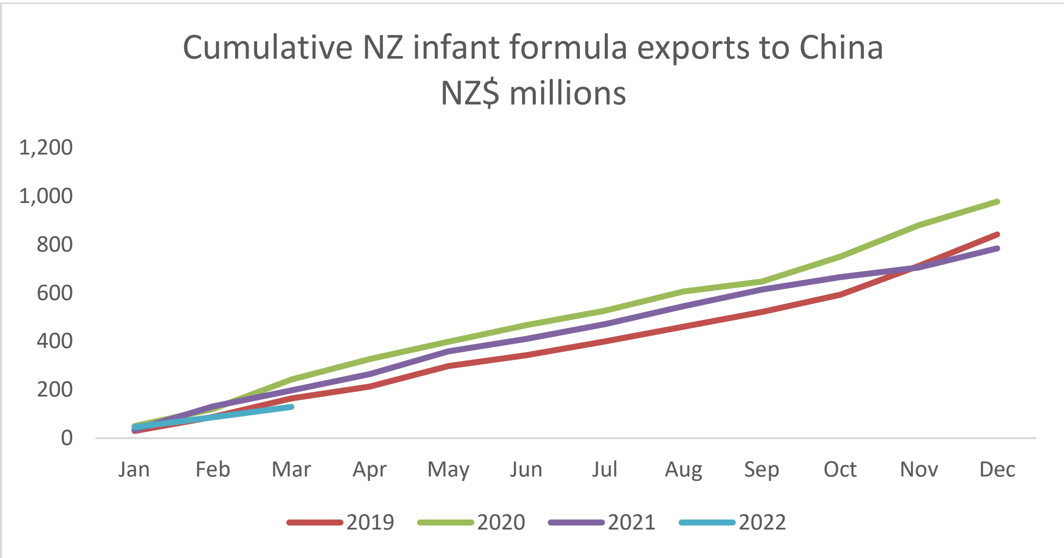
Dairy (not including infant formula)
The value of New Zealand's dairy exports to China in Q1 totalled NZ$1.9 billion, 11% above the equivalent period in 2021. While export volumes in most categories were down on previous years, the increased value of New Zealand's dairy exports to China was driven by higher prices for most dairy product categories, influenced by a global milk supply deficit.

According to China's official trade data, New Zealand remains the country's largest external source of dairy products, comprising over half of China's dairy imports last year. The value of China's imports of dairy products from all sources in Q1 2022 was 22% higher than the same period last year.



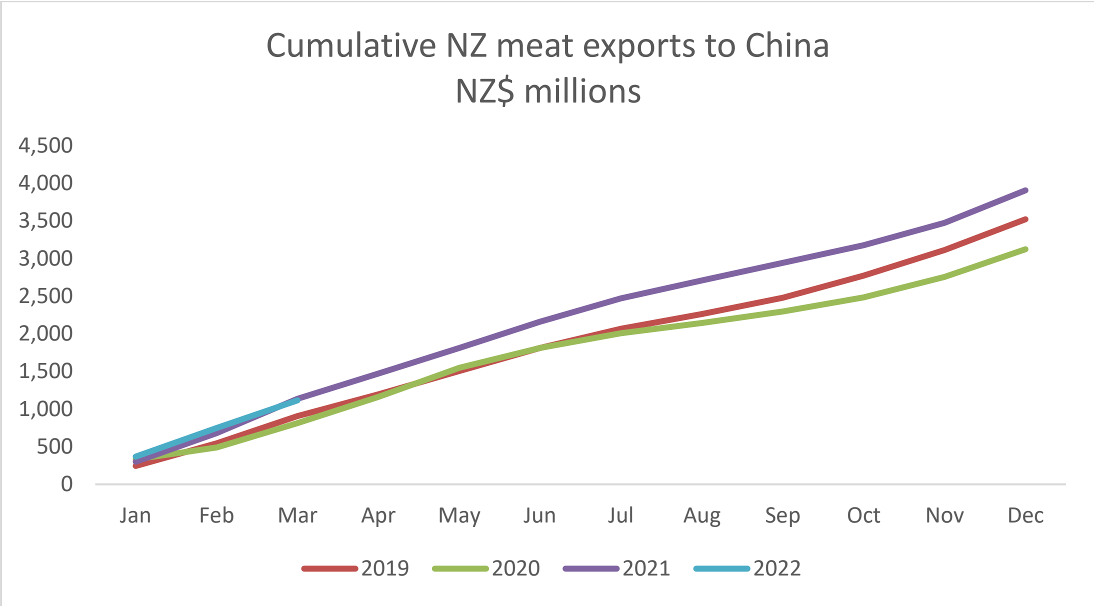
Infant Formula

The value of export earnings for infant formula in Q1 declined 35% relative to the equivalent period in 2021. This is due to marginally lower prices as well as a reduced volume of sales. Increased production by Chinese domestic infant formula brands is possibly having an impact on prices and demand. All infant formulas sold in China are required to obtain new product registrations before February 2023. This has led to sell-offs of existing stock, further driving down the unit price.



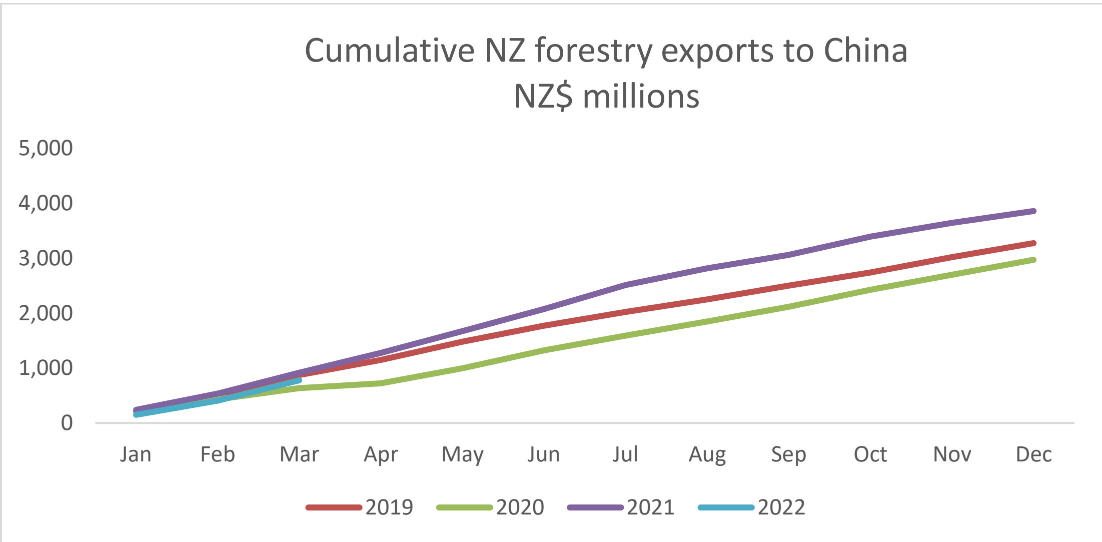
Meat and meat products

China continues to be the top market for New Zealand's meat exports currently accounting for almost 40% of the total. Meat exports to China in the first three months of 2022 were down 2% on the equivalent period last year, with $1.1 billion sold so far this year. Sheepmeat and beef were both down in recent months. The slow-down in meat exports to China did not only affect New Zealand, with official Chinese data showing a drop in the volume of all meat imports into China by more than a third, possibly reflecting the impact of relative global prices and supply chain disruption.

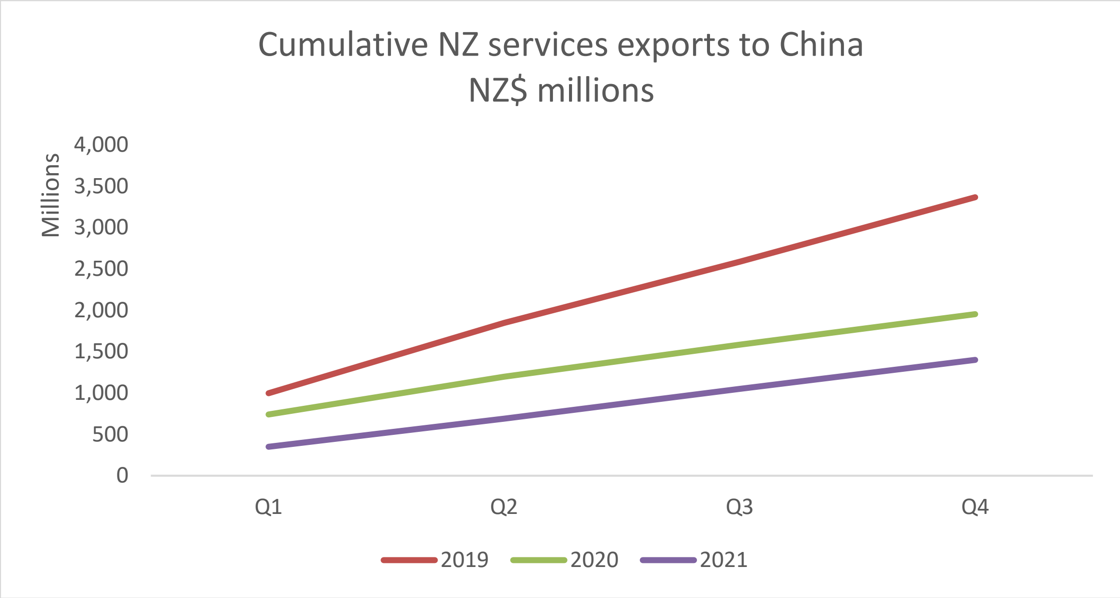


Forestry products
According to China's official trade data, New Zealand is China's sixth largest source of forestry products. In the first three months of 2022, New Zealand's forestry product exports to China decreased by around 15% relative to equivalent 2021 figures.

Prices for forestry products have mostly increased in the last two years, but the volume of exports from New Zealand to China is significantly down for most forestry product categories. The New Zealand log production was down (by 25% according to some industry assessments) due to staffing issues and storms on the East Coast – with New Zealand now heading into winter, supply is likely to continue to be constrained.

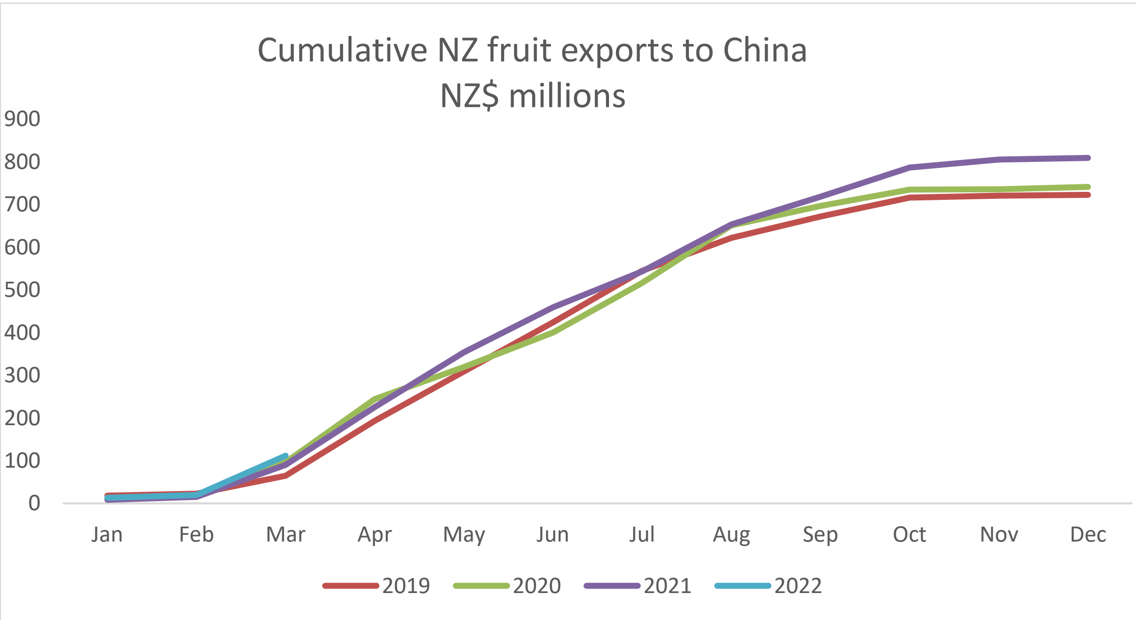


Services trade (NB: only Q1 2021 currently available)
Prior to the COVID pandemic, China was New Zealand's top source of international students and second largest source of international visitors overall. COVID related border restrictions remained in place in New Zealand and China for the first quarter of 2022 and continued to have a disproportionate impact on New Zealand's services export sector. While New Zealand's border restrictions are now being lifted, China's border is likely to remain tightly controlled for the foreseeable future. Overall the value of services exports to China was down more than 50% in 2021 from pre-COVID (2019) levels.



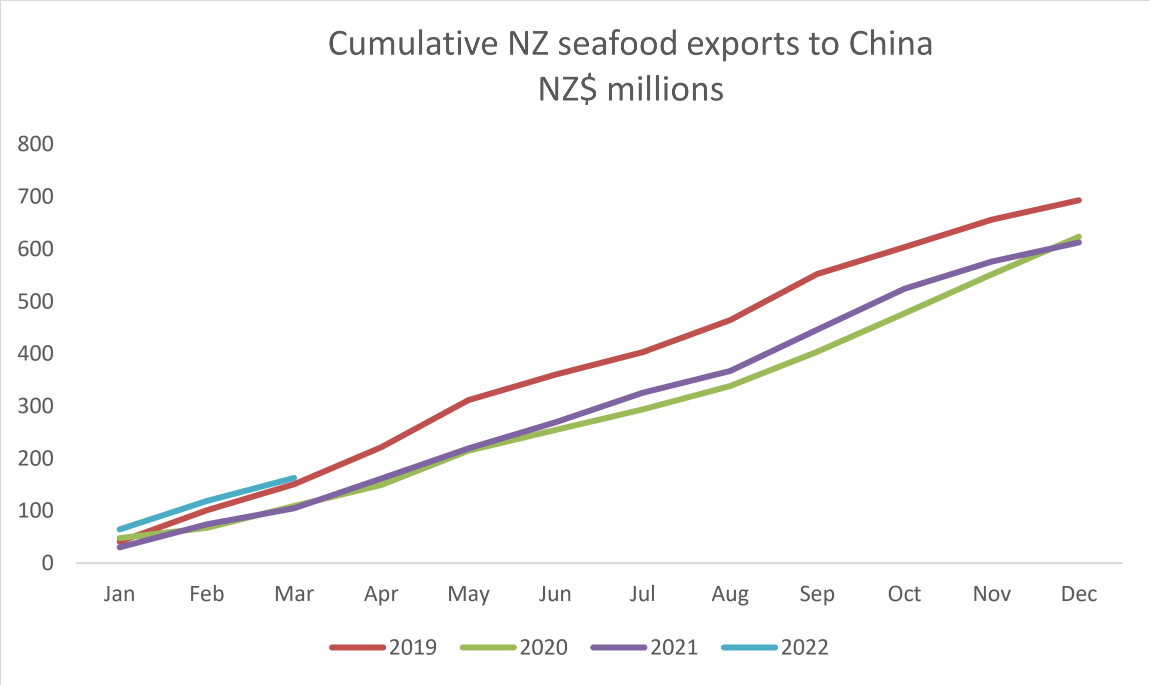
Fruit
China is the highest-value single-country export market for New Zealand fruit exports, with $111 million in exports in the first three months of 2022, an increase of 24% on the previous year. This growth was sustained due to good harvest volumes and strong demand.

So far in 2022 kiwifruit made up over half the value of all New Zealand's fruit exports to China and kiwifruit earnings were up by 11% compared to the same period in 2021.
Apples make up around one third of exports so far this year, and the value of our apple exports is up over 40%. Cherry exports make up around 10% of exports so far this year, and the value of these exports increased more than 55% compared to equivalent 2021 levels.



Seafood
China currently accounts for around 35% of New Zealand's seafood exports and the value of these exports to China was up more than 55% in the first three months of 2022 compared to equivalent 2021 levels. The industry was hit hard in early 2020, but export values to China have recovered, to be slightly up on pre-COVID (2019) levels. Protracted lockdowns and restrictions in major cities like Shanghai and Beijing do however have the potential to affect consumer demand for premium seafood products.

In the first quarter of 2022 around half the value of seafood exports came from rock lobsters, at total of $81 million, an increase of 41% in value (and 44% on volume) on the previous year. For other seafood products both volumes and prices were generally higher in Q1 2022 compared with 2021, leading to the higher value of exports so far this year.



Regular China market updates and other useful resources are available on the NZTE website. Exporters can also sign up for myNZTE for China market information on a number of topics. The Ministry for Primary Industries regularly provides requirements (Overseas Market Access Requirements or OMARs (login required) and Importing Countries Phytosanitary Requirements or ICPRs) and For Your Information (FYI) documents, including for China, with guidance on exporting issues relating to animal products (such as meat, seafood, honey, and dairy), food products, plant products, and wine.

More reports

View full list of market reports from MFAT at www.mfat.govt.nz/market-reports

If you would like to request a topic for reporting please email exports@mfat.net

To get alerts when new reports are published: go to mfat-reports.info/pdf

To contact the Export Helpdesk

Email exports@mfat.net
Call 0800 824 605
Visit Tradebarriers.govt.nz

Disclaimer

This information released in this report aligns with the provisions of the Official Information Act 1982. The opinions and analysis expressed in this report are the author's own and do not necessarily reflect the views or official policy position of the New Zealand Government. The Ministry of Foreign Affairs and Trade and the New Zealand Government take no responsibility for the accuracy of this report.