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Summary

China's economy seems to have reached a relatively consistent post-COVID state, with economic indicators continuing to creep up.

A June outbreak of COVID-19 cases in Beijing, clustered around a wholesale food market, has seen the city re-impose a number of restrictions in a district by district manner. While this has had some impact on the business environment in Beijing, the bigger impact from a New Zealand perspective has been a drop in consumer confidence in imported food, especially seafood. This led to a temporary halt on sales of salmon products and a decline in Chinese imports of seafood overall, including from New Zealand. While Chinese experts have sought to reassure consumers that imported food is safe to eat, consumer confidence may take time to rebound.

All other provinces have been stepped down to low COVID-19 emergency response levels and across the country, the government is focused on supporting economic activity and ensuring employment and livelihoods.

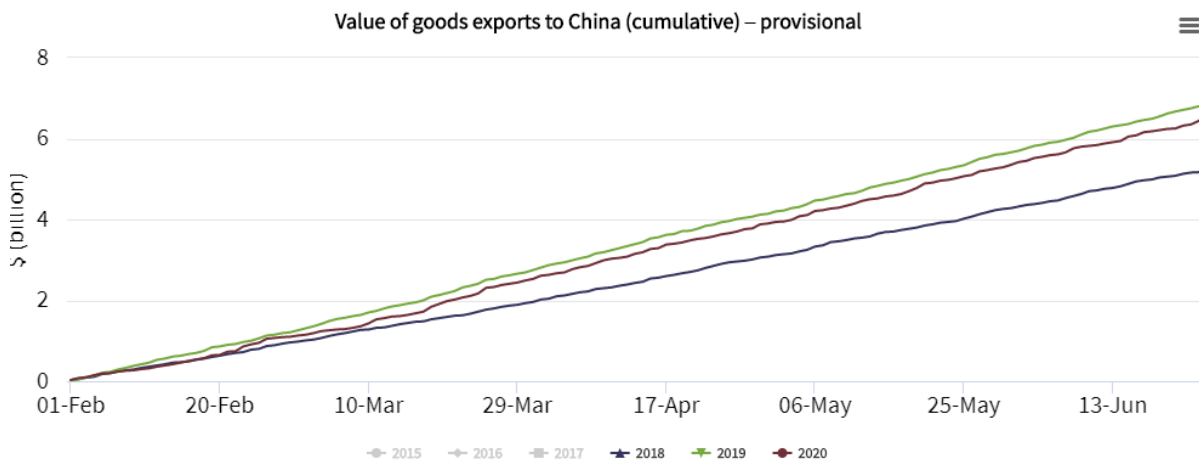
Economic Situation in China

- According to official statistics, China's Gross Domestic Product (**GDP**) fell 6.8% in the first quarter of 2020, China's first recorded contraction in GDP since 1978. Retail sales were down 19% in Q1, investment in fixed assets was down 16.1%, industrial activity was down 8.4%, and services (responsible for 54 percent of GDP in 2019) were down 5.2%. Agriculture (responsible for 7 percent of GDP) was up 3.5%, the only sector to record positive growth.
- More recently, the latest data released by China's Bureau of Statistics shows an **improving economic situation during May** compared with the three previous months. Among the key indicators:
 - The added value of large industries increased 4.4% year-on-year (y-o-y) in May. This was a turnaround, after this fell 2.8% y-o-y for the period from January-May.
 - The national service industry production index increased by 1.0% y-o-y, the first increase since the pandemic outbreak (after declining 7.7% y-o-y from January to May). The ICT, real estate and financial industries all recorded strong growth in May, while accommodation and catering industries continued to show a decline.
 - The manufacturing purchasing managers' index (PMI) was 50.9 for June, with a reading above 50.0 indicating growth in factory output. The non-manufacturing PMI (services and construction sectors) was 54.4.
 - The decline in fixed asset investment has slowed and is now showing positive growth in high-tech and social services. For the first five months of 2020, manufacturing investment had fallen -14.8% y-o-y.
 - Likewise, the slump in retail sales has slowed, although still down 13.5% y-o-y from January to May. Over the same period, online retail sales were up 4.5% y-o-y, and online sale of physical goods was up 11.5%.

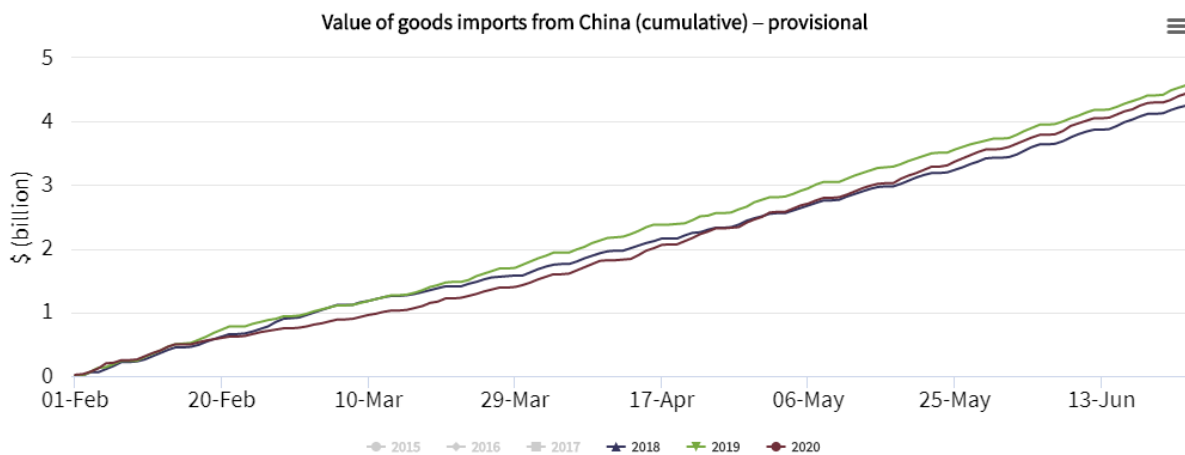
- During the early phases of China's COVID-19 response, domestic restrictions on business activity and personal movement led: to significantly reduced economic activity in February and March; and to **changes in consumer behaviour**. While business activity has returned to close to pre-pandemic levels, consumer demand remains subdued. Consumers are shifting further to online purchases, but in-store retail still equates to over two-thirds of all consumer purchases.
 - During the most restrictive periods of China's pandemic response measures, the **food service sector** was heavily affected by the curtailing of large events and limitations on restaurant operations including numbers of diners permitted. Such measures have been eased and consumer demand is returning, but is yet to reach pre-pandemic levels, continuing to drag on demand for imported food from the food service sector.
 - **China's goods exports** in May rose by 1.4% year-on-year in RMB terms (but a decline of 3.3% in USD terms), stronger than had been anticipated by markets. This was driven in part by increased exports of medical devices and anti-epidemic materials. Imports fell by -12.7% in RMB terms, driven down by weakening commodity prices. The result was a record monthly trade surplus of RMB 442.75 billion (approx. NZD 97.5 billion). In the first five months of the year, China's exports were down 4.7% and imports down 5.2%, in value terms compared with the same period last year.
 - China's first-quarter **services trade** fell 10.8% from a year earlier. Services exports in Q1 declined 4.1% while imports dropped 14.5%.
 - China's Consumer Price Index (**CPI**) dropped to 2.4% in May, down from the 3.3% percent rise registered in April. The Producer Price Index contracted by 3.7% in April, down from 4.3% in March. Inflation has been driven down since January by lower oil prices and weaker consumer demand, although food prices remain elevated. The urban unemployment rate is currently at 5.9%.
 - Total (central and local) **government revenue** fell 16.7% year on year for the January-April period, with value-added tax revenue dropping 24.4% and corporate tax revenue down 13.7%. Government expenditure was down 14.5%.
 - **Domestic logistics** within China continue to function reasonably normally. However, some supply chains, particularly those related to medical and personal protective equipment, continue to face high demand pressures, and there are some bottlenecks occurring. Air-freight costs are also elevated due to the global reduction in flights. International sea-freight appears to be operating stably.
 - Regular **cargo flights** are utilising commercial routes between Auckland and Shanghai, and Auckland and Guangzhou. Further information on airfreight options is available on the [NZTE 'MyFreight' website](#). Once-weekly passenger services from Auckland are being flown to and from Shanghai by both Air New Zealand and China Eastern Airlines and to and from Guangzhou by China Southern Airlines.
 - China has a process in place for those needing to undertake "urgent or necessary economic activity" in China to seek an exemption to their border restrictions and apply for a visa. A number of New Zealand businesspeople have successfully applied for visas under that exemption. A 14 day quarantine is required on arrival.
 - Regular China market updates and other resources are available on the [NZTE website](#).
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New Zealand's Trade with China: Overview

- Since 2017, China has been New Zealand's top trading partner. China is our largest market for exports and our second-largest source of imports.
- In the year ended December 2019, 23% of New Zealand's total goods and services exports and 16 percent of imports by value were with China. Two-way trade in goods and services with China totalled \$33.4 billion in 2019, with exports worth \$20.1 billion and imports \$13.3 billion.
- For the first five months of 2020, New Zealand's goods exports to China were down 0.6% compared to the same period in 2019 (NZ\$6.61 billion vs 6.65 billion). However, performance across export categories has not been even. Of the three biggest export product groups, dairy has grown by almost a quarter compared with the same period in 2019, while forestry products were down by a third, and meat has held steady.
- Provisional data¹ from Statistics New Zealand shows that for the period 1 February to 24 June 2020 (i.e. once pre-pandemic January data is removed) the value of New Zealand's exports to China were \$360 million less year on year (down 5.3%).



- The provisional data also shows that imports over the same period, 1 February – 24 June 2020, are \$130 million less than for the same period in 2019 (down 2.8%).



¹ The data for May and June 2020 is raw and has not been through Statistics New Zealand's full edit and imputation process.

Key Export Sectors

Dairy

Despite the effects of COVID-19 on overall consumer demand, dairy exports to China by value have grown considerably over the first five months of 2020 in comparison with the same period in 2019. Sales into the food service sector have been weak (as they have for other product groups), but boosted by commodity and consumer sales. Westpac has forecast dairy demand to remain steady in China over 2020. New Zealand's major dairy companies remain upbeat about prospects in the China market, even though growth has trailed down somewhat more recently.

NZ Dairy Exports to China: New Zealand Dollars		Percentage change (year on year)
Jan 2019	Jan 2020	
291,656,188	453,535,066	55.50
Feb 2019	Feb 2020	
312,861,747	441,008,543	40.96
Mar 2019	Mar 2020	
387,740,623	441,202,199	13.79
Apr 2019	Apr 2020	
385,860,822	475,356,501	23.19
May 2019	May 2020	
401,303,420	397,653,403	-0.91
Jan-May 2019	Jan-May 2020	
1,779,422,800	2,208,755,712	24.13

Meat and meat products

While New Zealand's meat exports to China started the year strongly, they were impacted by depressed consumer demand and disruption to supply chains during February and into March. Exports of meat recovered during April and May and, overall, are a little ahead of where they were at the same time last year. Channels of distribution have been affected by COVID-19 with more direct-to-consumer sales happening, which has changed product offerings.

NZ Meat Exports to China: New Zealand Dollars		Percentage change (year on year)
Jan 2019	Jan 2020	
243,916,572	332,992,751	36.52
Feb 2019	Feb 2020	
302,465,736	158,368,686	-47.64
Mar 2019	Mar 2020	
358,900,887	322,527,413	-10.13
Apr 2019	Apr 2020	
291,508,516	345,569,230	18.55
May 2019	May 2020	
309,321,111	384,271,691	24.23
Jan-May 2019	Jan-May 2020	
1,506,112,822	1,544,368,895	2.54

Forestry and forestry products

After growing in January, New Zealand forestry product exports to China have since fallen sharply in all major product categories, including logs. Exports fell during February-April due first to supply chain issues followed by an inability to fell/process trees during New Zealand's COVID-19 lockdown period. The sharp decline turned around somewhat in May, but monthly exports were still below May 2019 levels. Despite this, New Zealand remained the number one supplier of logs to China in the first five months of the year.

NZ Forestry Exports to China: New Zealand Dollars		Percentage change (year on year)
Jan 2019	Jan 2020	
203,254,344	218,460,723	7.48
Feb 2019	Feb 2020	
297,649,321	215,529,038	-27.59
Mar 2019	Mar 2020	
370,871,289	199,856,448	-46.11
Apr 2019	Apr 2020	
277,375,079	89,407,067	-67.77
May 2019	May 2020	
332,787,372	275,009,683	-17.36
Jan-May 2019	Jan-May 2020	
1,481,937,405	998,262,959	-32.64

Infant Formula

NZ Infant Formula Exports to China: New Zealand Dollars		Percentage change (year on year)
Jan 2019	Jan 2020	
29,744,821	49,650,009	66.92%
Feb 2019	Feb 2020	
57,132,370	70,777,706	23.88%
Mar 2019	Mar 2020	
77,617,738	121,108,995	56.03%
Apr 2019	Apr 2020	
49,116,966	84,770,570	72.59%
May 2019	May 2020	
83,860,364	69,000,423	-17.72%
Jan-May 2019	Jan-May 2020	
297,472,257	395,307,703	32.89

Fruit

After a poor start to the year, with cherry exports affected by domestic growing conditions, as well as low demand over the Chinese New Year period due to COVID-19 peaking, exports of fruit have rebounded during February to April. Reports from industry of increasing downward price pressure, increased competition from both imported and local fruit, and possibly a build-up of inventories during a period when China's domestic consumption was still weak, all appear to have been borne out by the May export data. Overall, New Zealand's fruit exports to China are 3.42% ahead of where they were at the same point in 2019.

NZ Fruit Exports to China: New Zealand Dollars		Percentage change (year on year)
Jan 2019	Jan 2020	
18,003,883	10,538,198	-41.47
Feb 2019	Feb 2020	
4,691,536	5,344,351	13.91
Mar 2019	Mar 2020	
41,561,241	79,905,147	92.26
Apr 2019	Apr 2020	
129,016,865	148,589,372	15.17
May 2019	May 2020	
115,205,084	74,642,325	-35.21
Jan-May 2019	Jan-May 2020	
308,478,609	319,019,393	3.42

Seafood

February was a very difficult month for New Zealand seafood exporters, particularly for the rock lobster industry, which valuable sales lost over the Chinese New Year period. Sales of premium fresh seafood are likely to continue to be sluggish due to a slow recovery in the restaurant and hospitality (hotels) sectors. Seafood exported for further processing in China is likely to be impacted by subdued global demand. Furthermore, the June COVID-19 cluster in Beijing, which was linked to a wholesale food market selling all manner of local and imported food products, has had a disproportionate impact on consumer demand for imported seafood.

NZ Seafood Exports to China: New Zealand Dollars		Percentage change (year on year)
Jan 2019	Jan 2020	
40,983,468	47,767,702	16.55
Feb 2019	Feb 2020	
60,219,381	19,887,235	-66.98
Mar 2019	Mar 2020	
49,430,618	41,333,785	-16.38
Apr 2019	Apr 2020	
70,696,123	40,470,907	-42.75
May 2019	May 2020	
90,192,799	65,372,744	-27.52
Jan-May 2019	Jan-May 2020	
311,522,389	214,832,373	-31.04

Wine

While restrictions on large scale events and limits on restaurant dining have been lifted in most places, they impacted the “luxury” food sector, including wine, for several months. Overall, New Zealand’s wine exports to China are down 20.67% for the first five months of the year compared with the same period in 2019. The retail wine market (both brick and mortar, and online) saw record sales in March/April, despite China not having a significant ‘drink at home’ culture. Overall wine consumption showed signs of a 40-70% recovery in April.

NZ Wine Exports to China: New Zealand Dollars		Percentage change (year on year)
Jan 2019	Jan 2020	
832,005	1,690,359	103.17
Feb 2019	Feb 2020	
1,939,230	872,660	-55.0
Mar 2019	Mar 2020	
4,525,774	2,108,566	-53.41
Apr 2019	Apr 2020	
2,160,788	2,849,438	31.87
May 2019	May 2020	
2,421,368	1,902,364	-21.43
Jan-May 2019	Jan-May 2020	
11,879,165	9,423,387	-20.67

Services

Regular data for New Zealand's services exports for 2020 is not yet available, but Statistics New Zealand has released an [experimental dataset](#). This shows a sharp decline in New Zealand services trade in the first three months of 2020 compared with the same period in 2019. This is as expected, given China is an important market for New Zealand's tourism and export education sectors, and both have been severely impacted by the pandemic, affecting services trade with all partners including China. More significant declines are to be expected in later quarters, given ongoing COVID-19 travel restrictions.

Services Exports to China: New Zealand Dollars		Percentage change (year on year)
Jan-Mar 2019	Jan-Mar 2020	
972,293,685	705,713,086	-27.42

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