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Summary

With China returning to a new, post-COVID state (active case numbers are at their lowest level since China's February peak; Beijing city has not recorded any new cases in over a month), the economic situation is improving. All provinces have stepped down from the highest COVID-19 alert level and the Chinese government's focus is on supporting a return to full economic activity, and ensuring employment and livelihoods.

Economic situation in China

- Earlier domestic restrictions on business activity and personal movement led to both significantly reduced economic activity through February-March, and changes in consumer behaviour – while online purchases are up, consumer spending in retail stores, which accounted for over 70% of the pre-COVID retail market, remains subdued.
- China's Gross Domestic Product (GDP) fell 6.8% in the first quarter of 2020, the 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 were down 5.2%. Agriculture was up 3.5%, the only sector to record positive growth.
- China's urban consumption expenditure fell by 9.5% year on year in the first quarter of 2020. The contraction was seen as mostly due to restrictions on movement under the COVID-19 containment policies, as well as income loss.
- The food service sector has been heavily affected by the curtailing of large events and limitations on restaurant operations including numbers of diners permitted, some of these measures are beginning to ease, and demand in supermarkets has increased.
- For the first quarter, China's overall goods trade saw a decline of 6.4% and recorded a RMB 98.3 billion (approx. NZ\$23 billion) surplus. Exports dropped 11.4% while imports fell 0.7%. However, the performance of individual provinces varied greatly. Overall, the country recorded a surprise 3.5% growth in exports in April.
- 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 was at 3.3% in April, down from 4.3% in March. Inflation has been driven down by the recent oil-price plunge and weaker consumer demand, although food prices remain elevated.
- 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%.

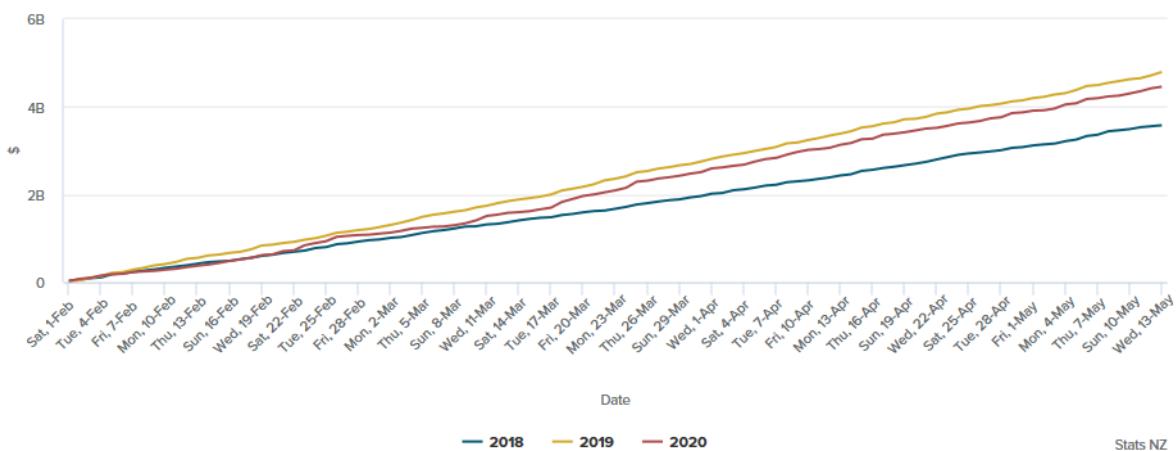
- At this stage domestic logistics within China are functioning reasonably normally. However, some supply chains, particularly those related to medical and personal protective equipment, face very high demand pressures, and there are some bottlenecks occurring – such as those around loading airfreight onto international flights out of Guangzhou and Shanghai. Air-freight costs are also elevated. International sea-freight appears to be operating stably.
- Regular cargo-only flights are utilising commercial routes between Auckland and Shanghai and Auckland and Guangzhou. Both Hainan Airlines and Sichuan Airlines are offering cargo-only flights between Chengdu and Auckland on a commercial basis, though to date these have not been flown due to lack of demand. Further information on airfreight options is available on the [NZTE 'MyFreight' website](#).
- Direct passenger flights between New Zealand (Auckland) and China are currently down to two per week (one ex Shanghai, one ex Guangzhou).
- 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. Some New Zealand businesspeople have successfully applied for a visa under that exemption.
- Regular China market updates and other resources are available on the [NZTE website](#).

Overview of New Zealand’s trade with China

- 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.
- In 2020, New Zealand’s first quarter goods exports to China were up 1.4% overall, compared to the same period in 2019, led by dairy exports. However, once January exports (a 31% increase on January 2019) are removed, exports then decreased in February (-9%) and March (-5.8%). Exports appear to have rebounded in April, although final data has yet to be released by Statistics New Zealand.
- Provisional data¹ from Statistics New Zealand shows that through to 13 May 2020, the value of New Zealand’s exports to China were \$336 million less than the previous year.

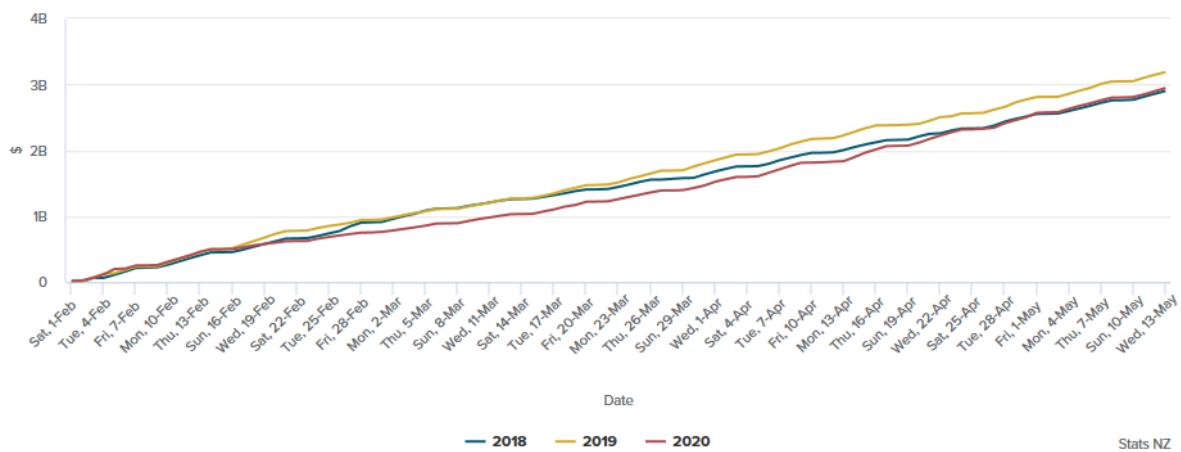
¹ The data for April 2020 and May 2020 is raw and has not been through Statistics New Zealand’s full edit and imputation process.

Cumulative export values to China (\$), 1 February–13 May, 2018–20



The provisional data also shows that imports have been down since February (and were also down 0.8% in January) and to 13 May 2020 are \$243 million less than for the same period in 2019.

Cumulative import values from China (\$), 1 February–13 May, 2018–20



Key export sectors

Dairy

Despite the effects of COVID-19 on consumer demand, dairy exports to China by value were up considerably over the first quarter of 2020 in comparison with the same quarter in 2019. Sales into the food service sector have been weak (as they have for other product groups too), but supplanted 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 China.

New Zealand Dollars		Percentage change (year on year)
Jan 2019	Jan 2020	
285,319,920	430,451,625	50.87
Feb 2019	Feb 2020	
301,098,450	418,508,180	38.99
Mar 2019	Mar 2020	
376,139,628	428,011,106	13.79

Meat

While meat exports started the year strongly, they were impacted by depressed consumer demand and disruption to supply chains during February and into March. Reports from the industry suggest that sales recovered during April, although some companies have noted consumer demand is still a little sluggish.

New Zealand Dollars		Percentage change (year on year)
Jan 2019	Jan 2020	
232,601,740	318,535,578	36.94
Feb 2019	Feb 2020	
289,107,371	146,646,410	-49.28
Mar 2019	Mar 2020	
341,477,298	301,766,174	-11.63

Forestry

New Zealand log exports to China fell during February-April due first to supply chain issues followed by an inability to fell trees during New Zealand's level 4 COVID-19 response measures. During Q1 2020, the sales volume in China fell for logs (19%), sawn timber (25%), wood-based panels (33%) and

floors (15%) compared to the same period in 2019. Prices for timber continue to fall due to increasing timber processing production capacity in China, sluggish demand for construction, and weak external demand for finished products.

New Zealand Dollars		Percentage change (year on year)
Jan 2019	Jan 2020	
181,093,486	191,884,146	5.96
Feb 2019	Feb 2020	
271,176,999	177,538,691	-34.53
Mar 2019	Mar 2020	
342,766,967	167,083,508	-51.25

Seafood

While there is some evidence of a recovery in prices for fresh seafood products, this is from a low base, and with a significant decline in exports during February in particular. The rock lobster industry was particularly hard hit, losing valuable sales 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, as most premium seafood (and wines) target this segment of the market. Seafood exported for further processing in China is likely to be impacted by subdued global demand.

New Zealand Dollars		Percentage change (year on year)
Jan 2019	Jan 2020	
40,866,149	47,561,211	16.33
Feb 2019	Feb 2020	
60,019,499	19,667,591	-67.23
Mar 2019	Mar 2020	
49,241,002	41,108,336	-16.52

Horticulture

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, exports of fruit have since rebounded. Exports of both kiwifruit and pip fruit appear to be tracking well compared with 2019 figures. There is some reporting of increasing downward price pressure, increased competition and possibly a build-up of inventories during a period when domestic consumption is still down overall.

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

Wine

Reduced restaurant dining and the curb on large scale events has impacted the “luxury” food sector, including wine. Importers of wine are likely to take time to work through inventory that they could not shift through the Chinese New Year period and the month immediately after – this is reflected in the reduction in New Zealand exports across February and March compared with a year earlier. The retail wine market (both brick and mortar, and online) saw record sales in March/April, despite China not having a ‘drink at home’ culture. Overall wine consumption showed signs of a 40-70% recovery in April.

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

Services

Data for New Zealand's services exports for the January-March quarter is not available yet. It is well known that China is an important market for New Zealand for tourism and export education. Both sectors have been severely impacted by the pandemic, affecting services trade with all partners including China.

Disclaimer

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