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China Economic Update Report

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China’s GDP slowed to 2.9% (YoY) in Q4 following the removal of its zero-Covid policy

China's economy experienced ups and downs in 2022 due to the unstable Covid policy. The economy grew by 2.9% (YoY) in the fourth quarter. Looking back at the full year, China’s GDP grew by 3% in 2022, lower than the general expectation of 5.5% for the year.

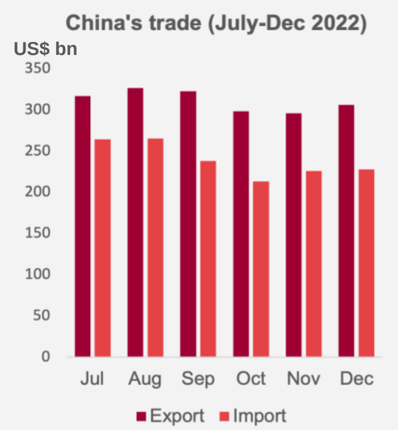
According to data from the Chinese National Bureau of Statistics, the last quarter's GDP in China fell markedly compared to 3.9% (YoY) in Q3, suggesting that the economy was clearly hit hard by the hasty exit from the zero-covid policy in December and the widespread national outbreak. Thus, while Q4 growth rate beats expectations from the Reuters’ poll of 1.8% published a week before the official numbers, the economy will need time to recover.

Compared to the 4.0% GDP growth rate in Q4 2021, this quarter’s figure is less impressive, and does not meet the "steady progress" expected at the Central Politburo meeting in late 2021. Retail sales were down 1.8% in December and 0.2% for the entire year compared to 2021. More specifically, sales in the restaurant sector declined by 6.3% in 2022. Nevertheless, the medical industry grew during the year, sales surging nearly 40% in December compared to the year before following the abrupt abandonment of the zero-Covid policy. Overall, although China's economic situation seems complex and ambiguous for the coming year, the forecast for GDP growth in 2023 is estimated to exceed 6% under optimistic conditions.

China’s trade momentum slowly stagnating

Export turnover in the quarter decreased by 6.8% (YoY), 6.8% lower than the previous quarter, while import turnover was down by 13.1% compared to Q1, decreasing by 6.7% (YoY).

The total trade surplus amounted to US$232.91 billion, a year-on-year increase of US$17.79 billion.



Source: National Bureau of Statistics of China.

China’s economy has been unstable throughout 2022, with a sharp drop in the fourth quarter. Weaker global demand, disruptions in the production supply chain and China's anti-pandemic policies contributed to the decline and the difficulties are expected to carry on during 2023.

China faces a titanic shift since abandoning zero-Covid

On December 7, 2022, the State Council's Joint Prevention and Control Mechanism (JPCM) proposed ten policies for easing Covid-19 and optimize the prevention and control of the pandemic (the “New Ten" policies). The launch of the "New Ten" represents a substantial removal of the previous zero-covid strategy by the Chinese government.

The implementation of policies like “New Ten” and China's economic recovery could exacerbate the upward momentum of the current global inflation. Christine Lagarde, president of the European Central Bank, noted that as the recovery advances, the amount of commodities needed by China, the world's second largest economy, will increase significantly. In addition, China’s demand could drive commodity prices back to last spring's levels, also contributing to increasing inflationary pressures.

The “New Ten” directly contributed to a swelling tide of infections that swept the country. Factory activity in China contracted further in December as the rapidly spreading pandemic halted worker’s activities, disrupted deliveries, and dampened demand. After the initial supply chain disruptions at the start of the pandemic, largely caused by China itself, major Western and Asian economies increased reshoring or near-shoring activities to secure supply chains.

Dell, the world's third-largest computer maker, notified suppliers to sharply reduce the number of other "Made in China" parts in their products until 2024, when they will stop altogether. Nikkei Asia believes the move is also part of an effort to diversify the U.S. computer maker's supply chain amid concerns about tensions between the United States and China. Yet, for companies that have no immediate or concrete plans to reshore, the virus outbreak is an inevitable dilemma.

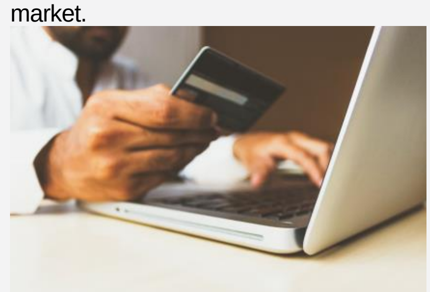
With "New Ten", industries related to people's livelihood has seen significant recovery, and the logistics industry continued to strengthen its ability to resist shocks, with the main indicators showing a steady rebound. A number of logistics companies have further optimized the allocation of air resources and built a high-quality global logistics network. Cui Zhongyu, Chairman of Asia Pacific Logistics Alliance, believes that along with the resumption of China's international passenger flights, allocation of international aviation capacity will enter a new balance of supply and demand in the coming period.

In the long run, the Chinese market continues to have great potential. Investments in manufacturing, especially in the technology sector, have been maintaining a high growth rate. Overseas companies in China will face a period of uncertaintity and further complexity, but reopening the country's doors means more opportunities and possibilities. With the economy and trade gradually picking up, businesses and individuals are demonstrating increasing propensity to consume. At the same time, domestic brands in China have become increasingly known over the past three years, making it more competitive to enter the Chinese market. As such, vigorous development of localized products is also an area where foreign companies can look to improve. In conclusion, both consumption figures and investment opportunities are expected to improve in the coming quarters.

Consumption pattern in China changed in 2022

In the post-epidemic era, people's consumption patterns are also shifting, with new service industries revealing their development advantages. In 2022, online retail sales of physical goods grew 6.2% over the previous year, accounting for 27.2% of total retail sales of consumer goods, an increase of 2.7% in proportion to the previous year.

According to the report published by China Chain Store Association in November, the market size of instant retail ("order online, deliver immediately") has grown at a rate of 81% in the last 5 years, and it is expected to reach about 176.9 billion dollars by 2025, leading and driving the growth of the Online-to-Offline market.



To tap into the Business-to-Consumer market in China, brands can curate a seamless in-store and online shopping omnichannel experience empowered by technology, and also use AI technology to gain a holistic view of their interactions with shoppers, helping customers make better pricing strategies based on inventory, thus enabling a smarter and more efficient retail experience and further driving business transformation for retailers.

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