CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

- **February PMI Posts Record Lows of 35.7 in Manufacturing and 29.6 in Non-Manufacturing**
- **Main Economic Indicators for January to February Show Record Drops in Investment, Production, and Consumption**

[Industry]

- **February Auto Sales Down 80%**

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- **China Council for the Promotion of International Trade: 3,325 Force Majeure Certificates Issued as of February 21**
- **Exports Down 17.2%, Imports Down 4.0% Year-On-Year (YoY) for January to February**

[Finance/Exchange]

- **Foreign Reserve Balance Decreases by USD 8.8 Billion Month-on-Month (MoM) in February Following Two-Month Increase**

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[Economy]

◆February PMI Posts Record Lows of 35.7 in Manufacturing and 29.6 in Non-Manufacturing

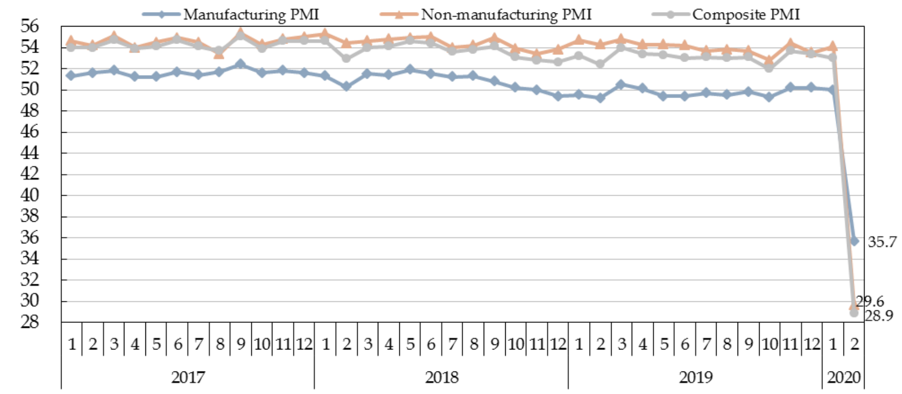
On February 29, the National Bureau of Statistics (NBS) and China Federation of Logistics & Purchasing (CFLP) announced that the February manufacturing PMI decreased 14.3 points month-on-month (MoM) to 35.7, and the February non-manufacturing PMI decreased 24.5 points MoM to 29.6. These both fall well short of the economic sentiment benchmark figure of 50 and are the lowest PMI levels recorded (Fig. 1). This manufacturing PMI falls below the 38.8-point number seen in November 2008 during the global financial crisis, suggesting that the spread of the COVID-19 coronavirus has severely affected economic activity.

By component in manufacturing, figures for production (27.8, down 23.5 points MoM), new orders (29.3, down 22.1 points MoM), and imports (31.9, down 17.1 points MoM) indicate that both China's supply and demand fell sharply. The new export orders (28.7, down 20.0 points MoM) component also signifies a sharp drop in overseas demand (Fig. 2). In addition, expected production and business activities, which indicates future business confidence, decreased to 41.8 (down 16.1 points MoM). Delays in the resumption of business operations, tie-ups in logistics after resuming operations, and the difficulty of raw-material procurement are considered to be factors for this decrease.

Non-manufacturing suffered a serious blow with a decline exceeding that of manufacturing. The transportation, food and drink, accommodation, and travel industries were especially hit hard. On the other hand, with the growing use of telecommuting, online education, and online healthcare, the telecommunications and Internet software-related industries performed strongly.

The composite PMI, a weighted average of the manufacturing and non-manufacturing PMIs that reflects the overall business confidence in China, decreased 24.1 points MoM to 28.9 (Fig. 1).

[Fig. 1] PMI Trends



Source: Created based on data released by the NBS and the CFLP

[Fig. 2] Trends of Major Components in the Manufacturing PMI

		Manufacturing PMI	Production	New orders	New export orders	Raw materials prices	Imports	Employment	Expected production and business activities
2019	Jan	49.5	50.9	49.6	46.9	46.3	47.1	47.8	52.5
	Feb	49.2	49.5	50.6	45.2	51.9	44.8	47.5	56.2
	Mar	50.5	52.7	51.6	47.1	53.5	48.7	47.6	56.8
	Apr	50.1	52.1	51.4	49.2	53.1	49.7	47.2	56.5
	May	49.4	51.7	49.8	46.5	51.8	47.1	47.0	54.5
	Jun	49.4	51.3	49.6	46.3	49.0	46.8	46.9	53.4
	Jul	49.7	52.1	49.8	46.9	50.7	47.4	47.1	53.6
	Aug	49.5	51.9	49.7	47.2	48.6	46.7	46.9	53.3
	Sep	49.8	52.3	50.5	48.2	52.2	47.1	47.0	54.4
	Oct	49.3	50.8	49.6	47.0	50.4	46.9	47.3	54.2
	Nov	50.2	52.6	51.3	48.8	49.0	49.8	47.3	54.9
	Dec	50.2	53.2	51.2	50.3	51.8	49.9	47.3	54.4
2020	Jan	50.0	51.3	51.4	48.7	53.8	49.0	47.5	57.9
	Feb	35.7	27.8	29.3	28.7	51.4	31.9	31.8	41.8

Source: Created based on data released by the NBS and the CFLP

◆Main Economic Indicators for January to February Show Record Drops in Investment, Production, and Consumption

On March 16, the National Bureau of Statistics (NBS) released the main economic indicators for January to February, which showed record lows in investment, production, and consumption with double-digit year-on-year (YoY) drops. The unemployment rate also increased to 6.2%, indicating the severity of the impact the coronavirus (COVID-19) has had on the economy.

[Fig. 1] Main Economic Indicators for February

Item	December 2019			January 2020			February 2020			
	Amount		YoY (%)	Amount		YoY (%)	Amount			YoY (%)
Investment in fixed assets (excl. by rural companies)*	(RMB Bn)	55,147.8	5.4	(RMB Bn)	-	-	↘	(RMB Bn)	3,332.3	▲ 24.5
(State-owned sector)	(RMB Bn)	(Undisclosed)	6.8	(RMB Bn)	-	-	↘	(RMB Bn)	(Undisclosed)	▲ 23.1
(Private sector)	(RMB Bn)	31,115.9	4.7	(RMB Bn)	-	-	↘	(RMB Bn)	1,893.8	▲ 26.4
By industry sector: Primary	(RMB Bn)	1,263.3	0.6	(RMB Bn)	-	-	↘	(RMB Bn)	55.8	▲ 25.6
By industry sector: Secondary	(RMB Bn)	16,307.0	3.2	(RMB Bn)	-	-	↘	(RMB Bn)	915.8	▲ 28.2
By industry sector: Tertiary	(RMB Bn)	37,577.5	6.5	(RMB Bn)	-	-	↘	(RMB Bn)	2,360.7	▲ 23.0
Industrial production (value-added)**	-	-	6.9	-	-	-	↘	-	-	▲ 13.5
Total retail sales of consumer goods	(RMB Bn)	3,877.7	8.0	(RMB Bn)	-	-	↘	(RMB Bn)	5,213.0	▲ 20.5
Consumer price index (CPI)	-	-	4.5	-	-	5.4	↘	-	-	5.2
Industrial producer price index (PPI)	-	-	▲ 0.5	-	-	0.1	↘	-	-	▲ 0.4
Industrial producer purchase price	-	-	▲ 1.3	-	-	▲ 0.3	↘	-	-	▲ 0.5
Exports	(USD Bn)	237.65	7.6	(USD Bn)	-	-	↘	(USD Bn)	292.45	▲ 17.2
Imports	(USD Bn)	190.85	16.3	(USD Bn)	-	-	↘	(USD Bn)	299.54	▲ 4.0
Trade balance (surplus)	(USD Bn)	46.79	-	(USD Bn)	-	-		(USD Bn)	▲ 7.1	-
Inward foreign direct investment (executed basis)	(USD Bn)	13.75	0.3	(USD Bn)	12.68	2.2		(USD Bn)	(Undisclosed)	Undisclosed)

*: Year-to-date total

**: February 2020 figures reflect the sum of January and February for independently-accounted state-owned companies, and non-state-owned companies with annual sales of RMB20Mn or higher

***: February 2020 figures reflect the sum of January and February

Source: Created based on data released by the NBS

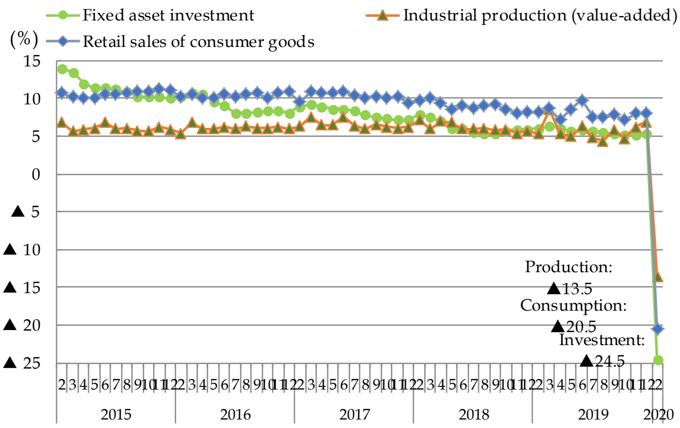
<Investment, Production and Consumption>

Investment in fixed assets for January to February decreased by 24.5% YoY, plunging into negative territory from the 5.4% YoY increase in December 2019. In particular, there was a significant YoY decrease in investment in the manufacturing industry; manufacturing was down 31.5%, infrastructure fell 30.3%, and real estate dropped 16.3% (Figs. 2 and 3).

Industrial production for January to February decreased by 13.5% YoY, falling from the 6.9% YoY increase in December 2019 into negative figures. Main industrial products also saw enormous YoY decreases in production. The production of automobiles went down by 45.8% YoY to 2.005 million units, including new energy vehicles (down by 62.8% YoY to 51,000 units). The production of metal processing machinery dropped by 44.6% YoY to 40,000 units, smartphones fell by 32.5% YoY to 98.36 million units, and notebook PCs decreased by 31.4% YoY to 26.87 million units. Conversely, crude steel production maintained a growing trend, rising 3.1% YoY to 1.547 trillion tons (Fig. 2).

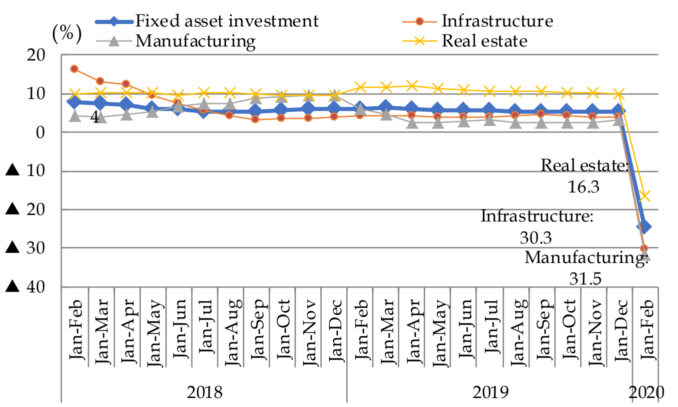
The total retail sales of consumer goods for January to February decreased by 20.5% YoY, falling into negative territory from the 8.0% YoY increase in December 2019. Taking a closer look

[Fig. 2] Growth in Fixed Asset Investment, Industrial Production, and Retail Sales of Consumer Goods



Notes: Fixed asset investment figures are year-to-date totals from January.
Industrial production and sales figures use cumulative Jan-Feb total for Feb. only.
Source: Created based on data released by the NBS

[Fig. 3] Growth in Fixed Asset Investment by Sector



Source: Created based on the data released by the NBS at retail sales by sector, dining was hit by a YoY drop of 43.1%, far larger than that of consumer goods with a YoY drop of 17.6%. While the sales of consumer goods on the internet maintained a growing trend with a 3.0% YoY increase, the growth slowed down in comparison with the 19.5% increase for all 2019 (Fig. 2).

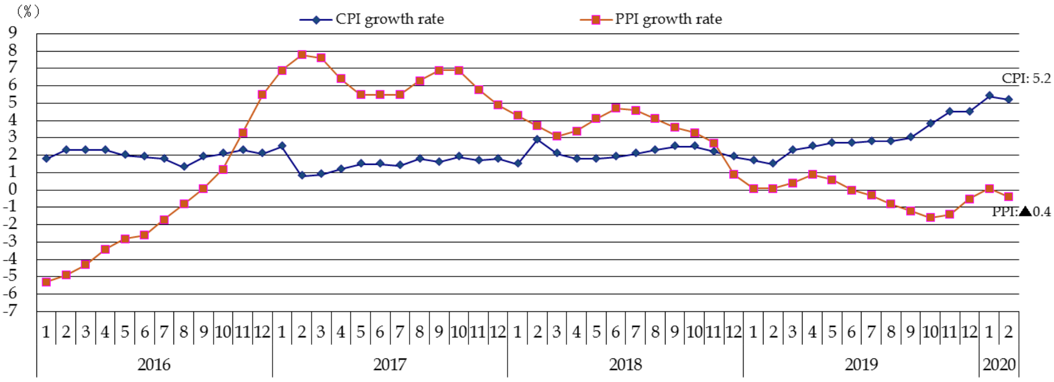
<CPI and PPI>

The February consumer price index (CPI) rose by 5.2% month-on-month (MoM). Although there was a 0.2-point MoM decrease, it has kept at the highest level of CPI since the 5.5% increase in October 2011 (Fig. 4), remaining well above the government's target of around 3%. Taking a closer look at consumer prices, rising food prices were a contributor to increasing CPI with food prices surging up by 21.9% YoY. Non-food products climbed 0.9% YoY.

The NBS attributed the rising food prices to the spread of the coronavirus, which has caused a rise in distribution costs due to strict traffic control, supply shortages due to delayed resumption of business operations, and an increase in demand for foods with long shelf lives due to lockdowns. Among food products, there were also significant YoY price increases particularly in pork (135.2%) and vegetables (10.9%).

The industrial producer price index (PPI) for February decreased by 0.4% YoY, turning negative again. The PPI had lingered in negative territory before it turned positive for the first time in seven months in January (up 0.1% YoY) (Fig. 4). The NBS analyzed that the PPI declined due to the plunging international crude oil prices and weakening demand associated with the delayed resumption of plant operations.

[Fig. 4] Monthly Trends in CPI and PPI



Source: Created based on data released by the NBS

<Employment>

The surveyed unemployment rate in urban areas as of the end of February rose by 0.9 point from 5.3% as of the end of January to 6.2%. This means that it surpassed the government's 2019 target of around 5.5%. The NBS explained that this increase had been caused by a temporary decline in workforce demand associated with the spread of the coronavirus, and it would therefore improve once businesses have resumed their operations.

<Forecast>

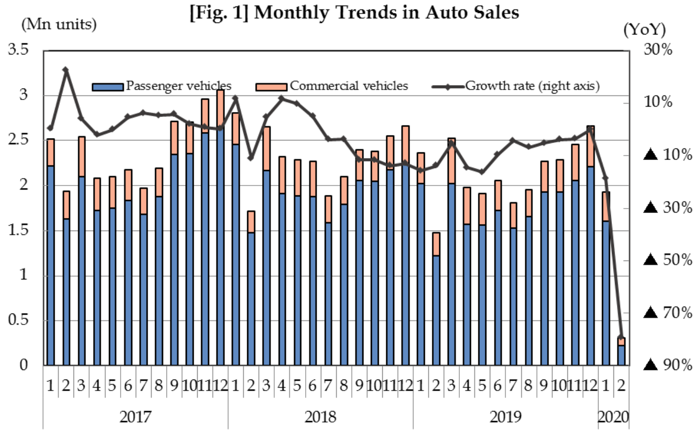
The NBS forecast that the Chinese economy would get back on a stable growth track in the second half of 2020. The NBS has reached such a conclusion based on the current situation where the spread of the coronavirus has been curbed and businesses have gone back to normal in their production and management. It also assumed that demand would bounce back, and the different kinds of emergency measures to support businesses and the economy would start taking effect around Q2 of 2020, when the impact of the coronavirus is expected to recede.

[Industry]

◆February Auto Sales Down 80%

According to an announcement by the China Association of Automobile Manufacturers (CAAM) on March 12, auto sales for January nosedived 79.1% YoY to 310,000 units (January: down 18.7% YoY to 1.927 million units), recording a YoY drop for the 20th consecutive month. Cumulative auto sales for January to February decreased 42.0% YoY to 2.238 million units (Figs. 1 and 2).

[Fig. 1] Monthly Trends in Auto Sales



Source: Created based on data released by the CAAM

CAAM points out that auto production has been affected by the unfolding impact of the coronavirus spread including the delayed resumption of business operations and disrupted supply chains of components. CAAM forecasts that both production and sales in March will improve greatly over the February figures as businesses have gradually been resuming their operations and production activities since late-February. However, it expects the auto market will suffer a dire impact in the first half of 2020.

Analyzing by vehicle type, passenger vehicle sales for February plummeted 81.7% YoY to 224,000 units, and commercial vehicle sales dropped 67.1% YoY to 86,000 units (Fig. 2).

The number of Chinese-brand passenger vehicles sold in February was down 77.6% YoY to 118,000 units. Chinese brands accounted for 52.6% of all passenger vehicle sales this month, increasing the share by 15.1 points from the previous month. Major foreign brands were reportedly hit by an over 80% YoY decrease in sales of both passenger and commercial vehicles in February.

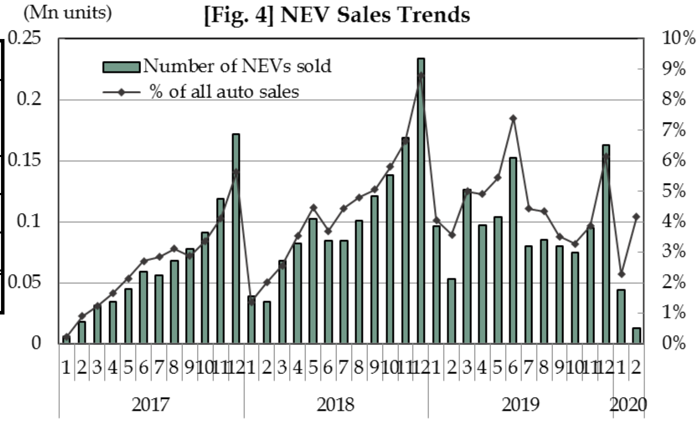
New energy vehicle (NEV) sales for February also significantly decreased 75.2% to 13,000 units, suffering a YoY drop for the eighth consecutive month (Figs. 2 and 3).

[Fig. 2] Auto Sales and Growth Rates for February 2020

	February 2020		Jan-Feb 2020	
	Units sold (Mn)	YoY	Units sold (Mn)	YoY
Auto sales	**0.310**	**▲79.1%**	**2.238**	**▲42.0%**
Passenger vehicles	0.224	▲81.7%	1.831	▲43.6%
Commercial vehicles	0.086	▲67.1%	0.407	▲33.2%
New energy vehicles	0.013	▲75.2%	0.06	▲59.5%

Source: Created based on data released by the CAAM

[Fig. 4] NEV Sales Trends



Source: Created based on data released by the CAAM

[Trade/Investment]

◆China Council for the Promotion of International Trade: 3,325 Force Majeure Certificates Issued as of February 21

The China Council for the Promotion of International Trade (CCPIT) announced that as of February 21, a total of 3,325 force majeure certificates have been issued by local trade promotion agencies nationwide for companies that are unable to fulfill contracts for foreign trade due to the spread of the COVID-19 coronavirus, covering a total of RMB 270 billion in contract amounts. At the same time, the CCPIT stressed that the certificate is the proof of "objective, factual circumstances," not a "trump card" to exempt contractual obligations.

The CCIPT Commercial Legal Service Center has listed the following seven points to keep in mind when a company requests to be exempted from a breach of contract due to force majeure.

The CCIPT Commercial Legal Service Center has listed the following seven points to keep in mind when a company requests to be exempted from a breach of contract due to force majeure.

1. The law and the provision of the contract must be carefully reviewed to determine whether exemption from liability due to force majeure is applicable. If the performance of the contract is still possible, it must be promptly executed to avoid the risk of contract breach.
2. The affected party must promptly notify the counterparty of the transaction and retain evidence related to the force majeure event. If notifications are made, evidence related to the force majeure event is to be included to the fullest extent possible.
3. If it is difficult to procure raw materials to perform the contract, the affected party must retain evidence showing that the best efforts to secure materials from alternative suppliers have been made wherever possible.
4. The force majeure certificate must be properly recognized as proof of objective, factual circumstances, not as a waiver of a breach of contract.
5. Even when the counterparty of the transaction acknowledges the force majeure, if the situation changes and the difficulties in performing the contract are resolved, best efforts must be taken to perform the contract.
6. Dispute resolution methods such as mediation must be utilized.
7. Cooperation with specialized organizations is preferable since claiming an exemption of liability due to epidemics is complicated and involves international commitments and foreign laws.

Application for the issuance of a force majeure certificate is to be done through the CCIPT website (https://www.rzccpit.com/).

◆Exports Down 17.2%, Imports Down 4.0% Year-On-Year (YoY) for January to February

On March 7, the General Administration of Customs (GAC) released the trade statistics bulletin (USD-denominated). The bulletin revealed that for January to February 2020, exports declined 17.2% YoY to USD 292.45 billion, and imports decreased 4.0% YoY to USD 299.54 billion (Figs. 1 and 2). The GAC explained that declines in exports and imports for January to February were caused by the impact of the coronavirus pandemic and the subsequently prolonged Chinese New Year holidays. It also pointed out that while exports showed a significant drop, imports suffered only a slight decrease with the help of an increase in demand for bulk goods, such as agricultural products, infection control supplies, crude oil, and coal. When looking at imports of agricultural products, soy beans rose by 14.2% YoY, and pork showed a 2.6-times YoY increase.

[Fig. 1] Outline of Trade Statistics for Jan-Feb 2020

Trade Statistics for Jan-Feb 2020 (USD Bn)		
	Amount	YoY (%)
Exports	292.45	▲17.2%
Imports	299.54	▲4.0%
Trade balance	▲ 7.1	-
Trade Statistics for 2019 (USD Bn)		
	Amount	YoY (%)
Exports	2,498.41	0.5%
Imports	2,076.89	▲2.8%
Trade balance	421.51	-

Source: Created based on the data released by the GAC

[Fig. 2] Monthly Trends in Chinese Exports and Imports

Source: Created based on the data released by the GAC

Regarding trade with the U.S. for January to February, China's exports significantly decreased 27.7% YoY to USD 42.97 billion, while its imports increased 2.5% YoY to USD 17.6 billion (Fig. 3). China's trade surplus was USD 25.37 billion, decreasing by 39.7% YoY.

*Calculated by MUFG Bank based on the data released by the GAC.

As for trade with Japan for the same period, China's exports fell 24.5% YoY to USD 17.04 billion, while its imports fell 9.3% YoY to USD 22.51 billion (Fig. 3). In trade with the EU as well, China saw YoY drops in both exports (down 18.4%, USD 45.28 billion) and imports (down 11.4%, USD 34.69 billion).

Concerning trade with the ASEAN countries, China imported goods worth USD 40.99 billion (up 7.2% YoY) and maintained a high growth trend, while it exported goods worth USD 44.33 billion (down 5.1% YoY). As a result, the ASEAN bloc became the largest trading partner for China in terms of the sum of exports and imports. Breaking down imports from the ASEAN countries on a YoY basis, three countries in particular showed remarkable increases in the region: Vietnam (up 24.2%, USD 9 billion), Malaysia (up 14.5%, USD 11 billion), and Indonesia (up 13.0%, USD 5.87 billion).

[Fig. 3] 2019 Import and Export Amounts and Growth Rates for Jan.-Feb. 2020 by Country/Region

(USD Bn)

Country/ region	Exports	YoY	Imports	YoY	Trade balance	Total exports and imports	YoY
U.S.	42.97	▲27.7%	17.60	2.5%	25.37	60.57	▲20.9%
Japan	17.04	▲24.5%	22.51	▲9.3%	▲ 5.47	39.54	▲16.6%
South Korea	13.53	▲18.6%	24.13	▲8.1%	▲ 10.60	37.66	▲12.2%
Taiwan	7.56	1.1%	23.65	▲3.4%	▲ 16.09	31.21	▲2.4%
Hong Kong	29.14	▲20.4%	0.97	▲33.7%	28.17	30.12	▲20.9%
Australia	5.68	▲19.0%	18.87	3.0%	▲ 13.19	24.55	▲3.1%
Germany	9.62	▲24.1%	13.86	▲15.8%	▲ 4.24	23.48	▲19.4%
Vietnam	11.24	▲0.9%	9.04	24.2%	2.20	20.27	8.9%
Malaysia	6.36	▲8.5%	10.96	14.5%	▲ 4.60	17.33	4.8%
Russia	6.01	▲15.4%	11.18	21.7%	▲ 5.17	17.19	5.6%

Note: Top 10 countries/regions by total export and import amounts

Source: Created based on data released by the GACC

The GAC mentioned last month that it was postponing the release of the trade statistics bulletin for January, and instead it would release the trade statistics bulletin for January and February combined for future editions. The GAC stated that it is employing this new method in order to accommodate the gap made by the Chinese New Year holidays in January and February. Doing this would also align their figures with the NBS' main economic indicators that combine January and February figures.

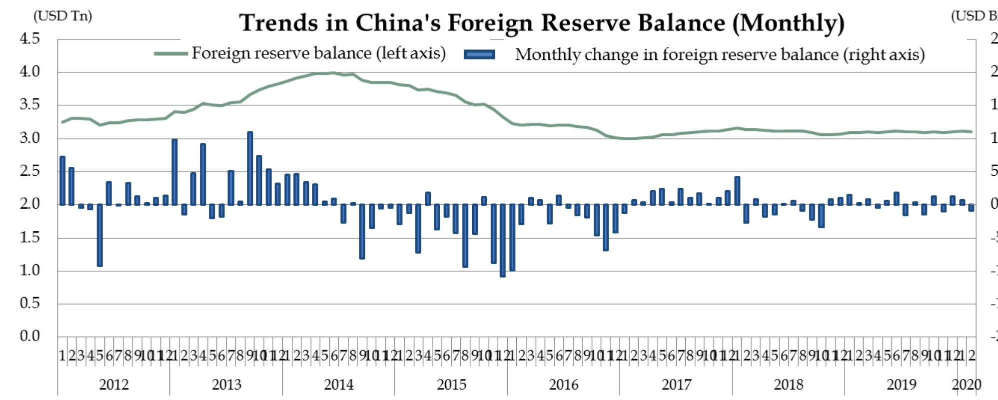
[Finance/Exchange]

◆Foreign Reserve Balance Decreases by USD 8.8 Billion Month-on-Month (MoM) in February Following Two-Month Increase

According to an announcement by the People's Bank of China (PBOC) on March 7, the foreign reserve balance at the end of February decreased by USD 8.8 billion from the previous month to USD 3.1067 trillion, a slight decrease following two months of increases.

An analysis by the State Administration of Foreign Exchange (SAFE) determined that the slight decrease in the foreign reserve balance in February was caused by fluctuations in the U.S. Dollar Index and rising prices of major sovereign bonds associated with changing situations and monetary policies in major economies, which have been sensitive to the coronavirus pandemic.

The SAFE forecast that the Chinese economy would maintain a stable growth trend for the long term, and so would its foreign reserve balance even in the face of a temporary economic slowdown due to the coronavirus in the near future, while the global financial market might become increasingly volatile.



Source: Created based on data released by the PBOC