

Economic Letter From Asia: Chinese Ruminations

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Chinese Ruminations

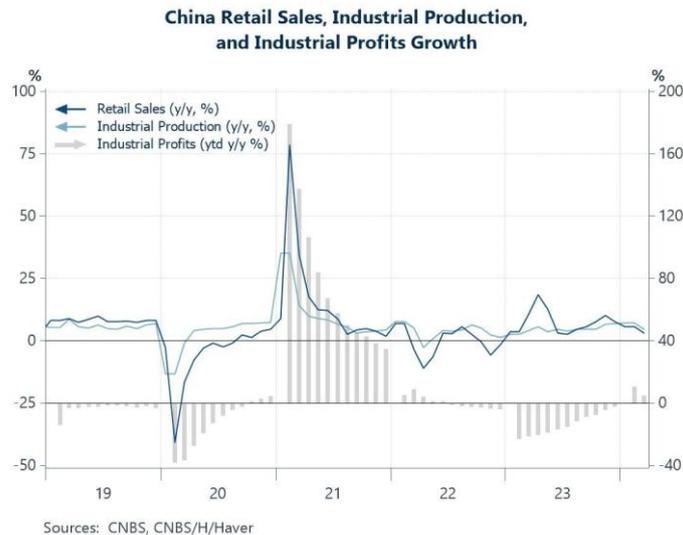
In this week's letter, we examine recent developments in China. We first take a pulse on the economy, with a nod to its consensus-beating real GDP performance in Q1. We note, however, some signs of weakening momentum, and, most notably, some disappointing industrial and retail sales readings seen for March. As such, it remains to be seen if the economy is conclusively out of the woods, especially when pockets of weakness remain. We analyze next some trends in China's tourism space, which has seen a pickup in international air travel volumes, likely boding well for tourism-reliant economies in Asia. We then investigate export trends in the broader Asian region in relation to China. Here, we notice a mixed landscape: while some economies like Japan have reduced their export dependence on China, others, such as Vietnam, are seeking deeper economic integration. Lastly, we delve into shifts in cross-currency relationships, observing a decline in the correlation between yuan-yen and yuan-baht returns, among other notable trends.

We deduce from the recent developments that China's recovery, whilst still underway, remains uneven and not yet set in stone. Nonetheless, China's tourism sector continues to strengthen, initially in domestic travel and more recently in international trips. Moreover, beneath the interim recovery lies shifts in economic relationships with other Asian economies, relating to both export dependence and to currency moves.

China's recent economic results

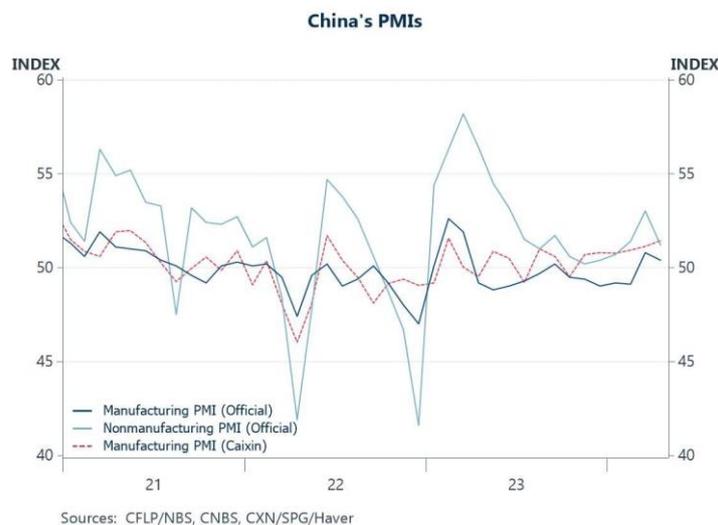
China continues to be focal point for global investors, given its potential impacts on the world economy. The domestic economy posted better than expected real GDP results for Q1, with growth accelerating to 5.3% y/y during the period. The impulse came from net exports, which contributed to growth for the first time in six quarters. Looking at China's March data, however, we saw rather disappointing results from its industrial and retail sector as growth rates slowed towards the end of the quarter (Chart 1). Hence, while China's January and February figures offered some hope of economic stabilization, its more recent dataflow for March now raise concerns about weakening momentum.

Chart 1: China retail sales, industrial production, and industrial profits growth



Moving to more forward-looking indicators, we saw last week that activity expanded at a slower pace in April, as indicated by weaker official PMI readings (Chart 2). The key drag on the manufacturing figure stemmed from new orders, which grew at a much slower rate even as output growth accelerated. Touching on the non-manufacturing sector, new orders registered a more pronounced decline over the period, as input prices increased and business expectations turned sour. The Caixin manufacturing gauge, however, which is based on a smaller sample size and fewer large producers, indicated a slightly quickened expansion for the period.

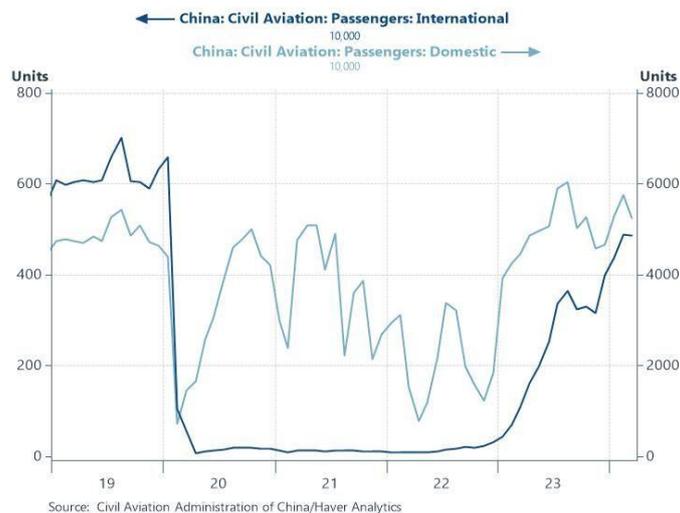
Chart 2: China's PMIs



China's tourism space

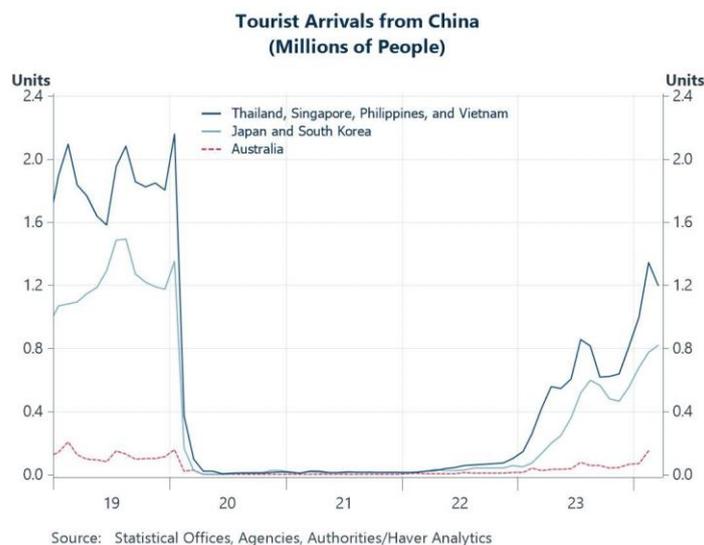
There have been some bright spots, however, despite hints of cooling momentum. For one, air passenger traffic via international routes have surged since December 2023 to reach over 70% of pre-pandemic levels in March this year (Chart 3). The upswing implies that China's travel-related rebound has perhaps finally expanded more conclusively beyond its borders, a development which may bode well for tourism-reliant economies in Asia. Meanwhile, domestic civil air traffic seems to have reached a plateau after having exceeded pre-pandemic levels in mid-2023.

Chart 3: Civil aviation trends in China



The boost in Chinese international travel is reflected in the numbers of receiving Asia Pacific economies as well, as shown in Chart 4. Specifically, tourist arrivals from China reached 73% of their pre-pandemic average in February for some ASEAN economies, although the proportion tapered to about 65% in March. Apart from potential boosts from China's week-long New Year holidays, visa-free travel, introduced by some ASEAN economies for Chinese tourists, may have driven the increase too. The jump in arrivals has benefited economies like Thailand, which had been lacking one of its main sources of tourism revenue – namely Chinese tourists – until recently. Looking ahead, the outturn of China's May Day holidays, which span nearly a week, is one to watch for indications of China's outbound tourist momentum.

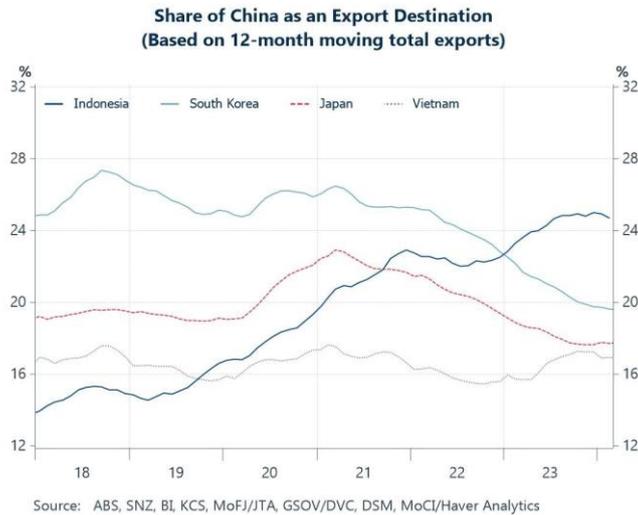
Chart 4: Tourist arrivals from China



Shifts in export dependence on China

In the trade sector, we continue to observe gradual shifts in the significance of China as an export destination among Asian economies. For advanced Asian economies like Japan and South Korea, the proportion of exports destined for China has decreased to approximately 17.8% and 19.5% respectively. Conversely, the share of exports from ASEAN economies like Vietnam and Indonesia to China has increased, driven by factors such as enhanced manufacturing integration and commodity exports.

Chart 5: Asia economies share of China as an export destination



Currency patterns

Lastly, we examine the changes in currency return correlations within Asia. There has been a noticeable decrease in the one-day return correlation between the offshore yuan and several Asian currencies. For one, the correlation between the yuan and the yen has notably weakened, a trend that is understandable given the yen's recent volatility. In contrast, the baht has shown a reduced correlation with both the yuan and the US Dollar Index (DXY), suggesting that its fluctuations are driven by factors beyond movements in the yuan and the dollar. Meanwhile, the returns correlations for the Singapore dollar, Indonesian rupiah, and the South Korean won with both the yuan and the dollar remain relatively stable. These observations highlight the dynamic interplay between economic policies, market trends, and currency movements in shaping the economic landscape of Asia.

Chart 6: Asia FX returns correlation with the US Dollar Index, offshore yuan



Asia FX returns used relate to those against the US dollar (e.g., USD/JPY returns).
Source: Tullet Prebon, ICE, Haver Analytics

About the author



Haver Analytics is pleased to bring [Tian Yong Woon's](#) commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

Data featured in this commentary:

Chart 1: China retail sales, industrial production, and industrial profits growth

Series 1: [yryr%\(N924TRS@EMERGEPR\)](#)

N924TRS@EMERGEPR [China: Retail Sales (NSA, 100 Mil.Yuan)]

Series 2: [yryr%\(N924D@EMERGEPR\)](#)

N924D@EMERGEPR [China: Index of Industrial Value Added (NSA, 2005=100)]

Series 3: [Y924ZPY@EMERGEPR](#)

Y924ZPY@EMERGEPR [China: Profits of Industrial Enterprises (YTD, Y/Y %Chg)]

Chart 2: China's PMIs

Series 1: [S924VM@EMERGEPR](#)

S924VM@EMERGEPR [China: PMI: Manufacturing (SA, 50+=Expansion)]

Series 2: [S924VNG@EMERGEPR](#)

S924VNG@EMERGEPR [China: PMI: Nonmanufacturing Business Activity (SA, 50+=Expansion)]

Series 3: [S924M@MKTPMI](#)

S924M@MKTPMI [China PMI: Manufacturing (SA, 50+=Expansion)]

Chart 3: Civil aviation trends in China

Series 1: [CNNTATPF@TRANSPRT](#)

CNNTATPF@TRANSPRT [China: Civil Aviation: Passengers: International (10,000)]

Series 2: [CNNTATPD@TRANSPRT](#)

CNNTATPD@TRANSPRT [China: Civil Aviation: Passengers: Domestic (10,000)]

Chart 4: Tourist arrivals from China

Series 1: [\(\(\(PHNAFCN@TOURISM + THNACN@TOURISM\) + SGNACN@TOURISM\) + VNNAFCN@TOURISM\)](#)

PHNAFCN@TOURISM [Philippines: Visitor Arrivals from China (NSA, Persons)][I]

THNACN@TOURISM [Thailand: Tourist Arrivals: China (NSA, Persons)]

SGNACN@TOURISM [Singapore: Tourist Arrivals: China (NSA, Persons)]

VNNAFCN@TOURISM [Vietnam: International Visitors from China (Thous.Persons)]

Series 2: [\(JPNAFCN@TOURISM + KRNAC1@TOURISM\)](#)

JPNAFCN@TOURISM [Japan: Visitors from China (NSA, Persons)]

KRNAC1@TOURISM [South Korea: Tourist Arrivals: China: Chinese Nationals (NSA, Persons)]

Series 3: [AUNAWSCN@TOURISM](#)

AUNAWSCN@TOURISM [Australia: Visitor Arrivals, Short-Term: China (NSA, Movements)]

Chart 5: Asia economies share of China as an export destination

Series 1: [\(movt\(N536ITCN@EMERGEPR,12\) % movt\(N536IXFB@EMERGEPR,12\)\)](#)

N536ITCN@EMERGEPR [Indonesia: Exports to People Republic of China (NSA, Thous.US\$)][M]

N536IXFB@EMERGEPR [Indonesia: Exports of Goods, fob (NSA, Thous.US\$)][M]
Series 2: (movt(N542ITCN@EMERGEPR,12) % movt(N542ITC@EMERGEPR,12))
N542ITCN@EMERGEPR [South Korea: Exports to China (NSA, Thous.US\$)][M]
N542ITC@EMERGEPR [South Korea: Exports (NSA, Thous.US\$)][M]
Series 3: (movt(VEACN@JAPAN,12) % movt(VEATTL@JAPAN,12))
VEACN@JAPAN [Japan: Exports to China (NSA, Bil.Yen)]
VEATTL@JAPAN [Japan: Exports of Goods: Value (NSA, Bil.Yen)]
Series 4: (movt(N582IXCN@EMERGEPR,12) % movt(N582IX@EMERGEPR,12))
N582IXCN@EMERGEPR [Vietnam: Exports to China, PR (NSA, Thous.US\$)][M]
N582IX@EMERGEPR [Vietnam: Exports (NSA, Mil.US\$)][M]

Chart 6: Asia FX returns correlation with the US Dollar Index, offshore yuan

Please refer to the Excel file included in the chart pack download.

For more info on our data offerings please email sales@haver.com.