

The Outlook for the Chinese Economy

Lockdown lifted but large, unavoidable slowdown forecast for 2020

YURI ISE
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
A member of MUFG, a global financial group

15 APRIL 2020

(ORIGINAL JAPANESE VERSION RELEASED ON 3 APRIL 2020)

The number of new cases of Covid 19 infection in China are now falling. In light of this situation, the lockdown in Hubei province was lifted on 25th March with the exception of Wuhan, where there are plans to lift the lockdown on 8th April.

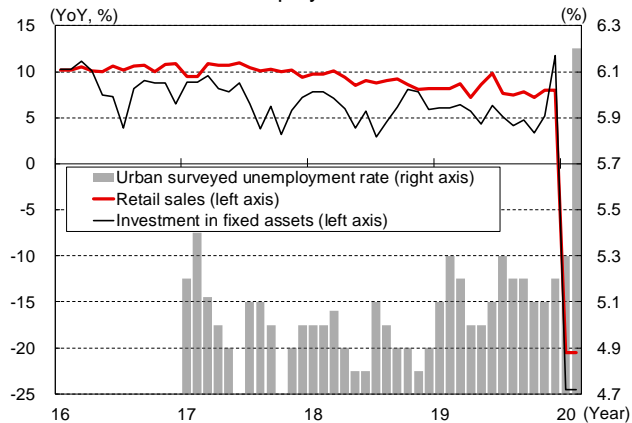
Economic indicators published monthly show an unprecedented fall across the board from January to February when Covid 19 spread across China: growth of retail sales was -20.5% YoY, fixed capital investment was -24.5% YoY and industrial value added was -13.5% YoY (Chart 1). On the employment front, there was a sharp deterioration in the surveyed unemployment rate, which rose to 6.2% in February (increase of 0.9% points from the previous month). Although the current level of economic activity appears to be recovering compared to February, estimates based on statistics published daily, such as coal consumption and the Traffic Congestion Index, suggest activity is still around 80% of normal (Chart 2). There is a strong possibility that monthly indicators for March will also show a large fall of around the same amount as the average of January and February, including data before the lockdown in Wuhan (23rd January).

Taking this into account, the real GDP growth rate is forecast to drop by a considerable amount to around -8% YoY in the January-March quarter. This temporary, sharp economic contraction was vital in containing the spread of Covid 19. This is unprecedented negative growth and, even if there is growth of 6% across the three remaining quarters this year, the economy will only expand by around 3% YoY in 2020. Moreover, from the April-June quarter onwards, even if China swiftly returns to a position where regular production (or even a recovery in production) is possible compared with other countries and regions, it is difficult to imagine its economy will completely recover as there is a large decrease in the level of economy activity in the US and European economies due to Covid 19 and the movement of people internationally is still limited. Therefore, it is likely that positive growth will remain minimal this year and the real GDP growth rate will be around 2%.

As the US and Europe enter a state of emergency, attention once again turns to what sort of policy action the Chinese government has taken. To maintain liquidity on the monetary front and to assist small and medium-sized businesses, which provide the majority of jobs, the government already took action in January and February and decided to introduce deductions or an exemption from social security fees (on 20th March it was announced last year's

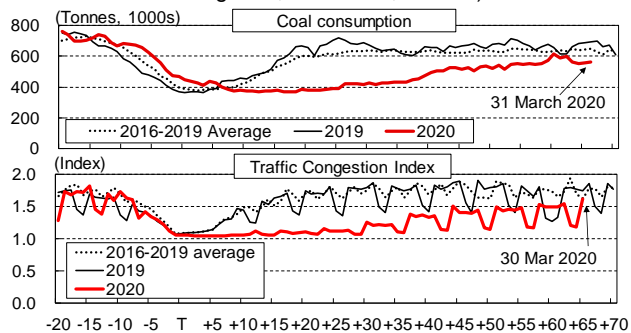
unemployment insurance premiums will be returned to job-saving firms) and provide RMB 500 billion to banks for special relending at a favourable interest rate (an additional RMB 1 trillion was added at the end of March). China put its efforts into ensuring stable employment, which is what European countries and the US are also doing now.

Chart 1: Retail Sales, Investment in Fixed Assets, Unemployment Rate



Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

Chart 2: Coal Consumption of 6 Large Electricity Companies and Traffic Congestion Index (average of Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan)



Note: 1. Traffic Congestion Index is the typical travel time compared to the actual travel time. Subject is city residents
 2. T is the Lunar New Year. 25 Jan for 2020
 Source Wind Financial Terminal, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta Tel: +81-(0)3-3240-3204

Written by Yuri Ise <yuri_ise@mufg.jp>

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.