

China's population is increasingly likely to start to decrease in the next few years

SHOHEI TAKASE
ECONOMIC RESEARCH OFFICE

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

21 JULY 2021

(ORIGINAL JAPANESE VERSION RELEASED ON 30 JUNE 2021)

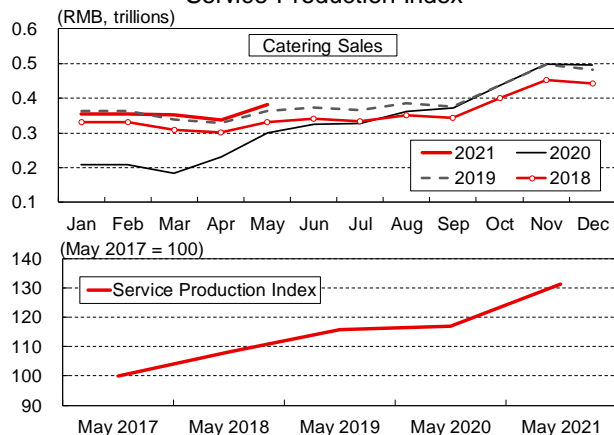
China's economy continues to grow at a robust pace. Even in the face-to-face service industry, which is slow to recover in other countries, catering sales in May exceeded their 2019 level before the pandemic for the third consecutive month and the service sector as a whole is returning to its former growth trajectory (Chart 1). It is generally thought that China will maintain this robust growth for the time being; for example, the World Bank revised its most recent forecast for China's real GDP growth rate upwards to 8.5% YoY for 2021 and 5.4% YoY for 2022 from its previous forecast in January.

Based on the above, China has been quick to recover from the pandemic, yet there has been an increased interest in its population demographics in recent years in terms of economic growth in the medium- and long-term future. According to the National Population Census published in May, China's population hit 1.41 billion in 2020 and increased 0.1% YoY, thereby maintaining an upward trend by a small amount. However, this growth was the lowest since current records began, with the exception of 1960 and 1961, when the population decreased for two straight years after the Great Leap Forward (Chart 2). The main reason for this is the decline in the number of births which, ironically, has been accelerating since the "One Child Policy" was relaxed and later abolished during the latter half of the 2010s. A couple of the economic reasons for this are said to be the financial burden of mortgages, caused by a rise in house prices, and an increase in the cost of raising children. Given this situation, the government said it would "work to achieve an appropriate birth rate by developing the systems for public-interest childcare" in its 14th Five-Year Plan announced in March. At a meeting of the Political Bureau of the Communist Party of China Central Committee in May, the government launched a specific policy which "allows all married couples to have up to three children". Nevertheless, it is difficult to predict if the government will be successful or not considering the issues with the structure of the population of those in their 20s and 30s; this cohort has already been decreasing in the first place as a result of past demographics and they are unfamiliar with families that have siblings due to the "One Child Policy" that was in place for many years.

The United Nations' 2019 population statistics indicate 2032 as a medium variant (total fertility rate of 1.70 between 2020 and 2025) and 2025 as a low variant (total fertility rate of 1.45 between 2020 and 2025) for when the total population will start to fall. However, according to the most recent Population Census, the total fertility rate in 2020 was only 1.3 and it is likely that the impact of the pandemic on the number of births will materialise during this year for the

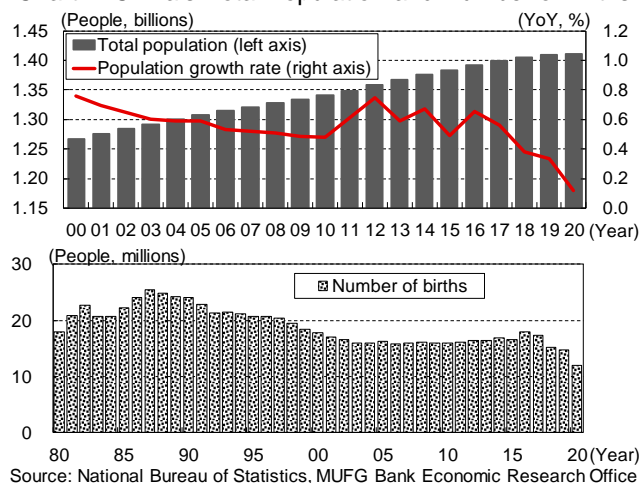
most part. Taking this into account, it will be important to keep an eye on if the decrease in the total population occurs earlier and any impact this will have on the potential growth rate.

Chart 1: China's Catering Sales and Service Production Index



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

Chart 2: China's Total Population and Number of Births



Source: National Bureau of Statistics, 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 Shohei Takase <Shiyouhei_takase@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.