Chinese economy contracted by 6.8 percent in first quarter

Nick Beams 18 April 2020

In a foretaste of what is to come in the rest of the world when official data are released, China, its second largest economy, has recorded a 6.8 percent year-on-year decline in gross domestic product for the first quarter of the year.

Compared to the last quarter of 2019, output was down 9.8 percent. It was the first year-on-year contraction since Beijing began reporting quarterly data in 1992.

The fall was larger than had been predicted, with the median forecast of economists polled by Bloomberg putting the contraction at 6 percent.

The announcement of the plunge in the Chinese economy comes just days after the International Monetary Fund forecast the world economy would shrink by 3 percent this year and experience a loss of output over 2020 and 2021 of \$9 trillion.

It has predicted that China will maintain a positive growth rate of 1.2 percent for the year as the effects of the coronavirus pandemic start to wear off and production resumes.

But the Chinese economy is very much dependent on what happens in the rest of the world. It faces the danger of a second wave of infections if the pandemic is not brought under control elsewhere and its economy will be hit by a global slump.

Reporting on its outlook report earlier this week, IMF chief economist Gita Gopinath said: "The rest of the global economy is now in the grips of the pandemic and there are severe containment measures around the world so that would have a big negative impact in terms of external demand on China's growth."

Under conditions where the economy was already experiencing a significant slowdown—last year's growth was just 6.1 percent, its lowest level in almost three decades – the pandemic has delivered a major

blow to the Xi Jinping regime's aim of having the economy double in size in the decade 2010–2020.

That may still be possible if growth surges to 6 percent in the rest of the year but this appears highly unlikely given global conditions and the significant internal contraction.

Other data, released with the GDP result, showed that fixed asset investment fell by 16 percent in the first quarter compared to last year, while infrastructure spending, which forms a key component of the Chinese economy, was down 20 percent.

In the recent period, Chinese government and financial authorities have sought to make the economy more consumer-based. However, retail sales fell by 16 percent in March.

Exports also fell in March by 6.6 percent after plummeting by 17.2 percent in January and February.

According to an economic research firm, Trivium China, cited by the *Wall Street Journal*, Chinese business activity has returned to about 83 percent capacity, up from the level of roughly 70 percent a month ago but now appears to have flattened to a level of 80 percent.

"That last 20 percent is going to be harder than all the progress made so far," Trivium said in a note to its clients this week.

The Journal described the economy as still being in a "fragile state." While many of the restrictions have been lifted new ones have also been enacted, including on international flights, in order to try to prevent a second wave of infections.

Accurate jobs and unemployment data for China are always somewhat difficult to obtain because a considerable part of its labour force comprises migrant workers from the country side.

According to estimates by UBS economists, nonfarm

employment fell by 78 million in the first quarter, comprising 50 million to 60 million in the service sector and 20 million in the industrial and construction sectors. This is out of a total working-age labour force of 900 million.

The official urban unemployment rate, widely regarded as an understatement, stood at a record high of 6.2 percent at the end of February, and can be expected to rise still further in the coming months, even if the economy returns to positive growth.

Facing political hostility because of its repressive policies and the growth of social inequality, the Xi Jinping regime rests on its capacity to promote economic expansion and maintain what it calls "social stability." The government sets a target of providing at least 10 million more urban jobs each year.

But according to UBS economist Wang Tao, even as the labour market recovers, nonfarm employment will fall by 14 million this year, wiping out the job gains of the past two years.

It was significant that as Xi toured areas affected by the county's lockdown measures in early February he insisted that there should be "no large-scale layoffs."

The government confronts a major problem in finding employment for the record number of college graduates now coming on to the labour market.

Earlier this week at a State Council meeting, Premier Li Keqiang said the government cared more about job creation than it did about the GDP growth target and noted that "the employment situation is dire for college graduates this year."

In 2009, the government responded to the global financial crisis and the loss of 23 million jobs with a massive stimulus package, comprising government spending of around half a trillion dollars and an expansion of credit. Overall, the stimulus measures are estimated to have amounted to about 16 percent of GDP at the time.

But that option is not open to it in the present crisis because of the consequences of its previous measures. Growth rebounded after 2009. But the result was housing market bubbles, the construction of ghost towns and massive debt. According to the Institute of International Finance, the ratio of total debt to GDP expanded from 173 percent in 2008 to around 300 percent by 2019.

Accordingly the government and the People's Bank

of China (PBoC) have eschewed the kind of measures seen in other major economies. The government has given some tax breaks for companies and provided additional funds for banks to lend to struggling companies. The PBoC has shifted to a somewhat looser monetary policy by lowering one of its key lending rates.

But given the state of the world economy and the hammer blows China has already suffered, it is doubtful such measures will be able to halt the downward slide and maintain the "social stability" on which the Xi regime, ruling in the interests of an ultrawealthy oligarchy, depends.



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