ECONOMIC NEWS

China's Real GDP Drops for the First Time

HIGHLIGHTS

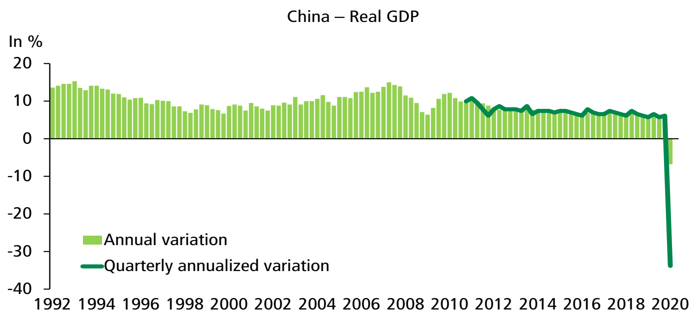
- For the first time since 1992, when quarterly data started becoming available, China's real GDP contracted in the first quarter of 2020. Its annual variation fell from 6.0% at the end of 2019 (the weakest growth ever recorded) to -6.8%. In terms of annualized quarterly variation, it plunged 33.8%.

COMMENTS

It was clear that, as the source of the COVID-19 pandemic, China would post the first drop in its real GDP. Since January, a number of economic indicators have nosedived, mostly because of the public health and lockdown measures ordered in the region of Hubei and elsewhere in the country. From transporting people and goods, to air pollution indicators, to visits to movie theatres, a whole range of numbers seem to suggest that the Chinese economy has ceased to grow. During the 1997–1998 financial crisis in Asia, real GDP growth only slowed to 6.9% over a period of four quarters. At the lowest point of the 2008–2009 recession, growth in real GDP only slowed to 6.4%. Information on the quarterly variations in real GDP in China has only been available since 2010, and the lowest annualized growth recorded since then was 5.3% in the summer of 2019.

Official Chinese figures provide few details on what makes up quarterly real GDP. We know that the primary sector (extraction and agriculture) saw an annual variation of -3.2%. The manufacturing sector (secondary sector) was hit harder, falling 9.6%, while services (tertiary sector) fell 5.2%. Other indicators, however, point to a rebound already under way since March, as the annual variation in industrial output went from -20.5% (based on the average for January and February) to only -1.1% The annual variation in retail sales also improved, albeit modestly, rising to -15.8% from -20.5%. Although the annual variation numbers are still negative, they do seem to suggest a jump in monthly variations. After plunging in February, the rebound of the Chinese PMI indexes in March is also encouraging.

GRAPH
Chinese GDP down!



Sources: National Bureau of Statistics of China and Desjardins, Economic Studies

IMPLICATIONS

The Chinese economy is providing a preview of what most of the other economies around the world can expect. On the one hand, its dramatic decline will be reflected in the second quarter in the real GDP of other countries, each of which, in turn, must go through the necessary public health and lockdown measures. As a result, COVID-19 is inflicting a severe blow to the global economy, which was already impacted by the plunge in China's economy in the first quarter, with other countries to follow in the second quarter. On the other hand, once the measures that the authorities implemented are gradually eased, the hope is that economic activity will rebound, as some of the Chinese indicators are already showing.

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