

THE RECENT RECOVERY OF THE CHINESE ECONOMY DURING THE GRADUAL LIFTING OF THE COVID-19 LOCKDOWN

At the beginning of March, the Chinese government began to relax the most stringent of the measures taken to fight COVID-19 that had been in force since January, relaxing home confinement and the restrictions on movement of people and on the normal pursuit of economic and business activity. Given the disruption these containment measures involved for economic activity, the latter has been recovering since, as outlined by the latest data for April and May. Both the contraction of activity in the first few months of the year and its subsequent recovery have displayed geographically heterogeneous profiles, given the higher initial incidence of the disease in Hubei province, and its subsequent spread, on a smaller scale, in the form of localised outbreaks. This box describes the main features of the incipient recovery in the Chinese economy, which may provide an indication of the developments that can be expected in other economies, such as the Spanish one, that are lagging China by several months.

In China, unlike in other places, strict lockdown measures were imposed on only a small fraction of the national territory. Hubei, the province where the disease originated, and which accounts for around 4% of the country's population and GDP, was isolated from the rest of China on 23 January, when severe restrictions were also imposed on mobility within the province. Restrictions were introduced in more limited areas, at prefecture or district level, in some adjoining regions and in regions with significant outbreaks of the disease (which at the time accounted for around 10% of the population and 14% of GDP)¹ (see Chart 1). The lockdown measures were at their strictest in the second week of February, when they began to be relaxed somewhat, although unevenly. With the exception of Hubei, the government allowed business activity to be resumed between 3 and 10 February (at the discretion of local authorities), when the extended Chinese New Year holiday period was over. In Hubei, industry

remained closed until 10 March and the lockdown was lifted at the end of that month.² As at the date of this report going to press, only this province, the region of Tibet and the city of Beijing maintain a high level of alert,³ although certain smaller areas remain in lockdown as a result of recent outbreaks, as is currently the case in some districts of the capital.⁴ Among other health measures, in general, the entry of foreign visitors to the country has been restricted since 28 March, temperature controls in public spaces have been maintained, individual prevention measures remain in force and recreational activities involving large gatherings are still restricted.

The translation of the different degrees of provincial lockdown to less movement of people in each territory is reflected in certain indicators, such as the traffic congestion indicator compiled by the company TomTom.⁵ According to this index, both the initial reduction in mobility and its subsequent recovery to pre-epidemic levels show a clear correlation with the imposition and progressive easing of the restrictions to control the health crisis, when Hubei province, the other provinces in which lockdown measures were imposed and the rest of China are distinguished (see Chart 2). Even in these latter areas, in which no explicit quarantine measures have been implemented, mobility has still not reached the levels of the end of last year, after a persistent fall, possibly associated, among other factors, with the uncertainty of citizens regarding the course of the disease in the country and possible changes in behaviour, leading to greater individual prevention. In comparative terms, the course of mobility developments in the main Chinese cities (Beijing and Shanghai), after adjusting for the timing of events, is similar to the pattern observed in other capitals of the world affected by lockdown measures at a later point in time (see Chart 3).

The heterogeneity of lockdown measures across provinces and their gradual lifting is reflected in Chinese

1 The administrative divisions in China are, in descending order, provinces, prefectures, districts/counties, municipalities and communities/villages.

2 Except in the case of the city of Wuhan, where the lockdown was lifted after 11 weeks on 8 April.

3 In China there are four levels of health alerts. Level I (the highest) means that the provincial authorities, under central government coordination, may impose quarantines and close businesses. Under level II, controlled interprovincial travel is permitted. Under level III, control is at prefecture level. Finally, level IV corresponds to a situation of normality.

4 On 13 June, an outbreak was detected originating from one of the largest wholesale markets in Beijing, which has affected more than a hundred people. As a result of this episode severe containment measures were reimposed, such as selective isolation of residential complexes in certain districts, the suspension of face-to-face classes and restrictions on movement out of the capital.

5 Available at https://www.tomtom.com/en_gb/traffic-index/. Other measures of movement used, such as indices compiled by Google and Apple, are not available for China.

THE RECENT RECOVERY OF THE CHINESE ECONOMY DURING THE GRADUAL LIFTING OF THE COVID-19 LOCKDOWN (cont'd)

Chart 1
SEVERITY OF THE LOCKDOWN IN CHINA

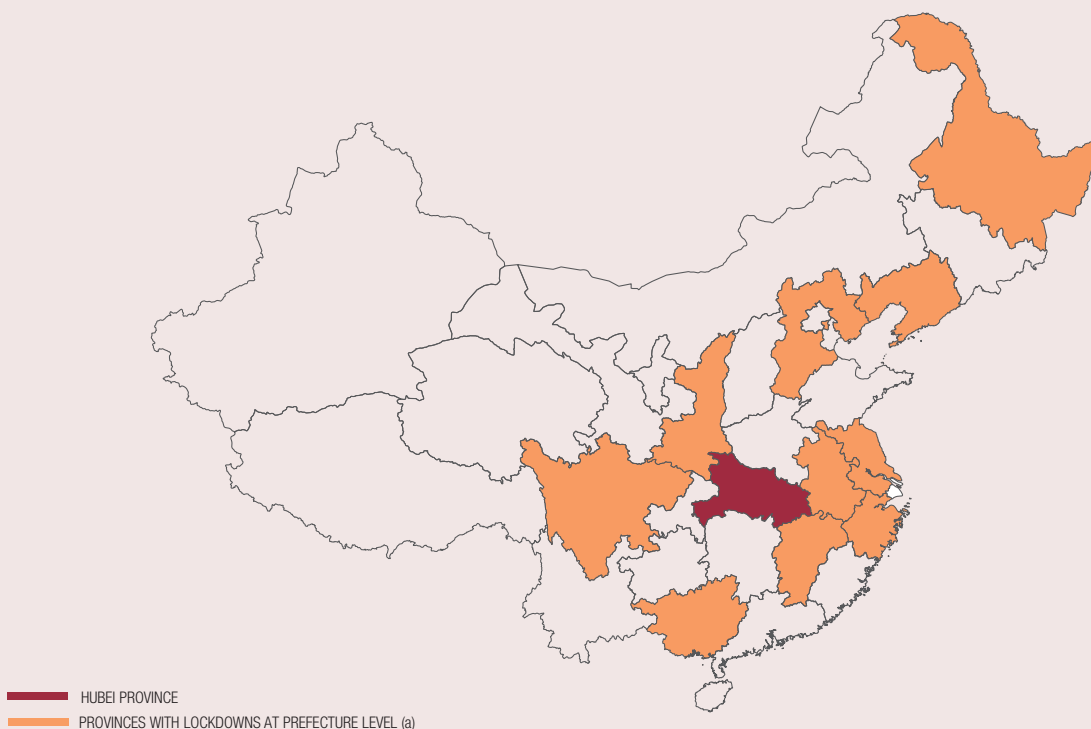


Chart 2
TRAFFIC CONGESTION INDICES IN CHINA

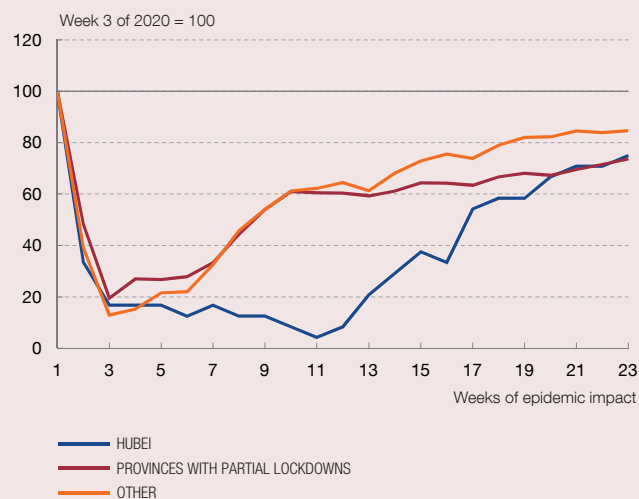
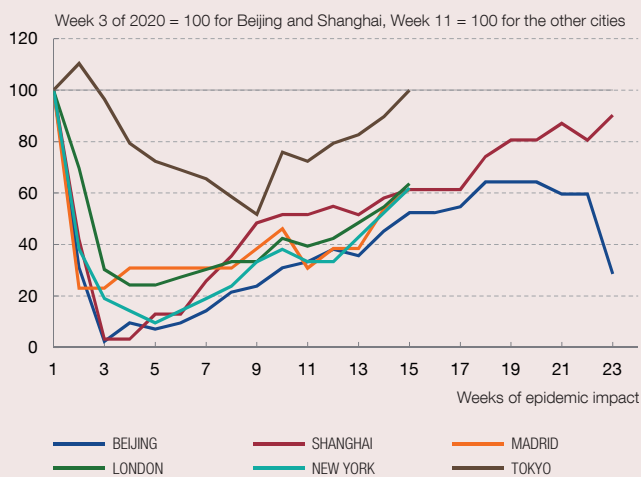


Chart 3
TRAFFIC CONGESTION INDICES IN THE MAIN CITIES



SOURCES: CEIC, TomTom and Banco de España.

a The lockdown was imposed at the provincial level for Jiangxi province.

THE RECENT RECOVERY OF THE CHINESE ECONOMY DURING THE GRADUAL LIFTING OF THE COVID-19 LOCKDOWN (cont'd)

economic developments.⁶ From the standpoint of production, the recovery in activity has been very visible in industry, which at national level, regained its pre-health crisis levels in April, following the significant contraction of January and February,⁷ although its behaviour varied from one geographical area to another (see Chart 4). In Hubei province, where activity came to a complete standstill for six weeks, industrial production has recovered late, starting from April, while areas subject to partial lockdown and the rest of the country have behaved similarly, with a forceful recovery from March and a return to pre-health crisis levels of activity in the following months. It should be noted that the recovery in Chinese industry reflects certain idiosyncratic and possibly temporary factors, arising from its international specialisation in manufacturing and, within the latter, certain health products. As a result, Chinese industry has been able to supply the demand of many economies that have restricted their activity to contain the expansion of the virus. The pronounced growth in certain export segments (such as plastics, textiles and electronic equipment) point in this direction. Conversely, the contraction of world demand in this period has hampered the recovery of the Chinese economy.

In the labour market, the urban unemployment rate, which stood at 5.3% at the end of 2019, rose to 6.2% in February and then fell by 0.2 pp in the period to April (see Chart 5). The crisis's limited effect on unemployment could, in part, be due to the fact that many firms opted to reduce their employees' working hours rather than resort to dismissals. Furthermore, working from home, which has traditionally been limited in China,⁸ appears to have become particularly important in the sectors in which it is feasible.

From an expenditure standpoint, the recovery has been slower owing to the reduced momentum of private consumption. Household disposable income shrank markedly in Q1, by -3.9% year-on-year, and a considerable increase in the saving rate was recorded (see Chart 6). This could largely be attributable to precautionary motives. In this regard, retail sales in China in May were still 10% below their pre-crisis levels, a phenomenon that was seen in all provinces, irrespective of the severity of the containment measures imposed on them (see Chart 7). By type of good, durables contracted markedly up to May, at which point they appear to have stabilised. Among durables, car sales are an exception, exhibiting a robust

Chart 4
INDUSTRIAL PRODUCTION BY AREA

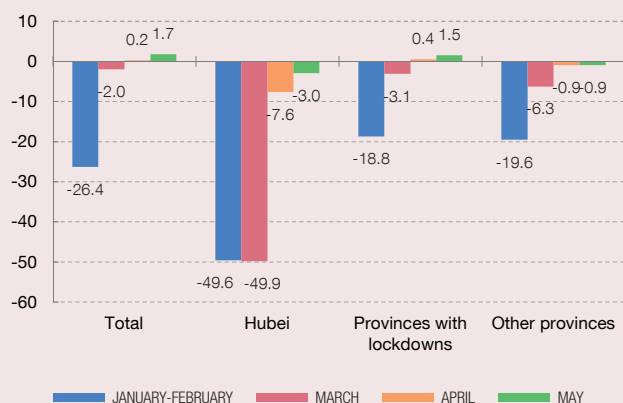
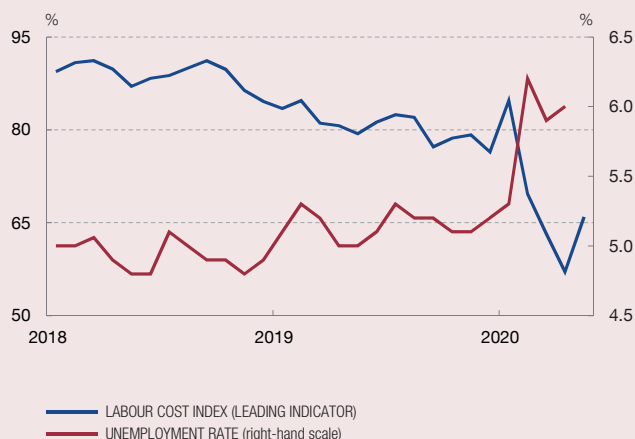


Chart 5
UNEMPLOYMENT AND LABOUR COSTS



SOURCES: CEIC and Banco de España.

6 Heterogeneity across provinces also depends on the degree of interconnection of economic activity between provinces, but there is no data available on this.

7 The activity data for January-February are published jointly to minimise the seasonal distortion caused by the Chinese New Year festivities.

8 In 2018, the penetration rate of working from home in China was 0.6%, compared with 19% in the United States and 13.5% in the EU-28.

THE RECENT RECOVERY OF THE CHINESE ECONOMY DURING THE GRADUAL LIFTING OF THE COVID-19 LOCKDOWN (cont'd)

recovery in April and May, possibly supported by public subsidies. By distribution channel, the recovery has varied, with an increase in e-commerce, which was already widely established in China.

A slower recovery has also been recorded in the services sector, which displays asymmetries across the various activities. While real estate services have outstripped the level of activity recorded in December, accommodation and food services and passenger transport are still

posting cumulative drops since January of 22% and 45%, respectively (see Chart 8). Only a partial recovery has been recorded in domestic tourism.⁹ For example, during the public holidays of early May, tourism revenues fell by 60% year-on-year.

With respect to investment, the 25% year-on-year decrease recorded between January and February has been in the process of correction since March, at a slower rate in the case of capital goods than in that of construction

Chart 6
DISPOSABLE INCOME AND SAVING RATE

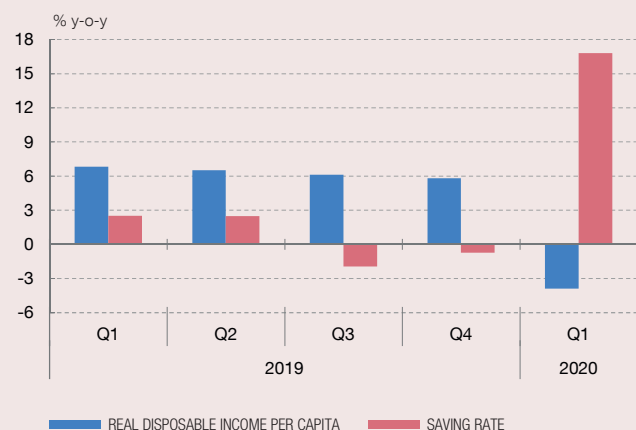


Chart 7
RETAIL SALES

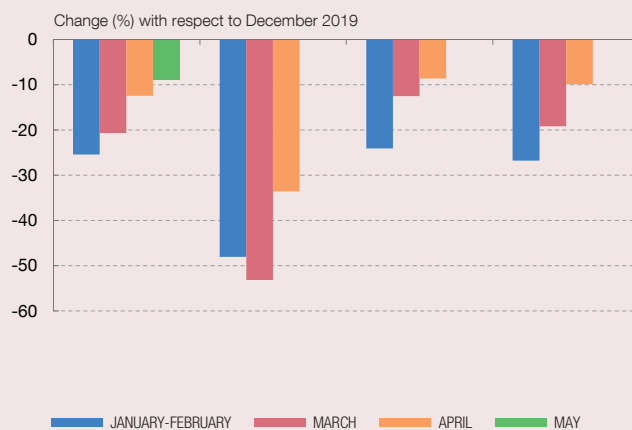


Chart 8
SERVICES

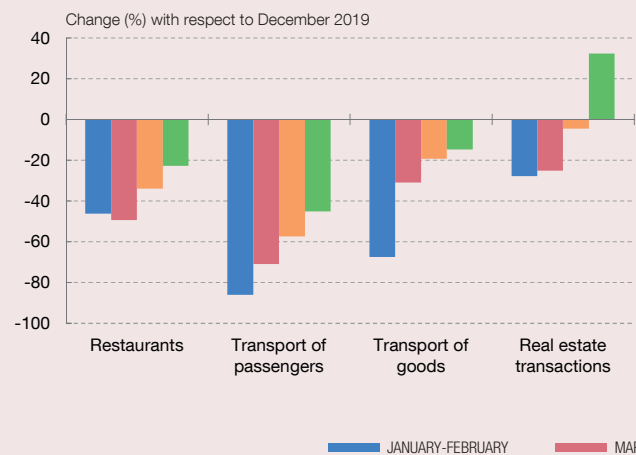
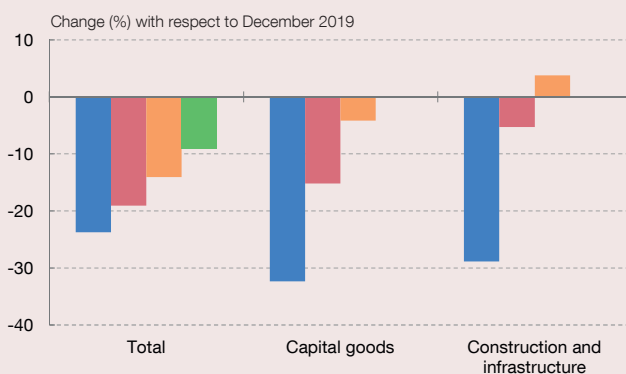


Chart 9
FIXED INVESTMENT (a)



SOURCES: CEIC and Banco de España.

a The changes in capital goods and construction and infrastructure are calculated using year-to-date data.

9 In international tourism, the restrictions have led to year-on-year falls of nearly 100% in inbound and outbound commercial flights.

THE RECENT RECOVERY OF THE CHINESE ECONOMY DURING THE GRADUAL LIFTING OF THE COVID-19 LOCKDOWN (cont'd)

and infrastructure (see Chart 9). The recovery in investment is largely explained by the pick-up in investment by state-owned enterprises, as part of the stimulus measures implemented by various authorities.

As regards consumer prices, it appears that the supply-side factors associated with the epidemic have had some impact on Hubei, where inflation stood above that recorded in the rest of the country until April, owing to the supply problems and the disruptions to production resulting from the containment measures (see Chart 10). In the rest of the country, the trend in prices has, during these months, been determined by the moderation of the food component – once the swine fever outbreak had been overcome – and of fuel. This reversed the upward trend recorded since mid-2019. The other CPI items are showing signs of the effect of the health crisis, with demand-side factors prevailing. For instance, the rise in the price of medical items and the drop in education, recreation and culture prices are noticeable. As a result of these developments,

core inflation has fallen by 0.3 pp since December, to stand at 1.1% year-on-year in May (see Chart 11).

In conclusion, economic activity in most of China - with the exception of Hubei province, which is lagging somewhat - is at an advanced stage in the process of returning to normal. In any event, the experience of China shows that the movement of people gradually returns to normal after the strictest lockdown measures are lifted. However, people are still exercising some caution, and movement has not returned to its pre-epidemic levels. Industrial activity has recovered swiftly, albeit partly supported by factors that may prove to be temporary. As regards expenditure, consumption of durables and services is recovering much more slowly. A rise in the saving rate has also been recorded, which may be attributable to precautionary motives. Lastly, the epidemic has, for the time being, exerted downward pressure on inflation in the country as a whole, although certain supply-side factors, particularly in Hubei, appear to have exerted upward pressure.

Chart 10
HEADLINE INFLATION BY REGION

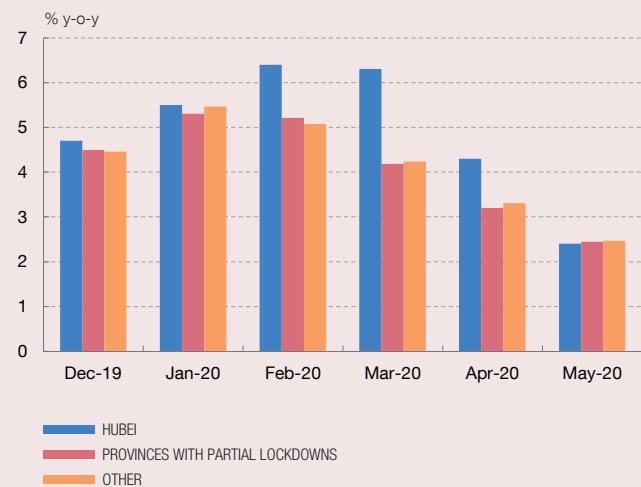
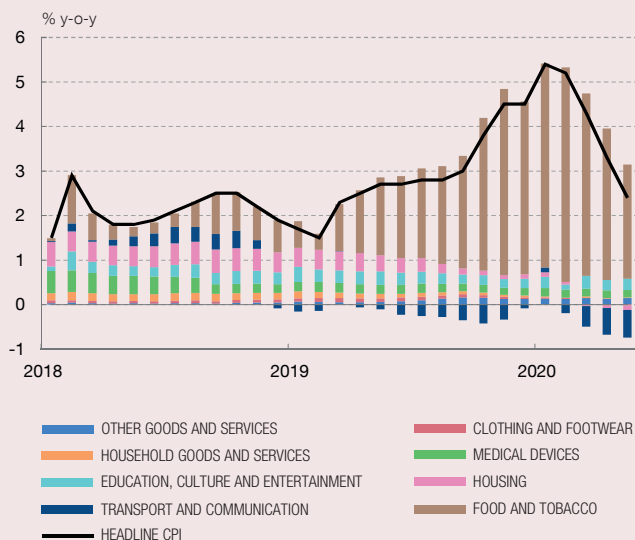


Chart 11
HEADLINE INFLATION AND COMPONENTS



SOURCES: CEIC and Banco de España.