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# The state of the Chinese economy

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# Current state of the Chinese economy

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- **The negative impact of Covid-19 on the Chinese economy has started becoming visible.** Various institutions have constantly revised down 2020 GDP growth projection from 5.5% to 6% (Dec 2019) to 1.5% to 4% now. Consensus forecasts estimate contraction of the economy in Q1 by 5% to 9% followed by sharp recovery in Q2 and onwards.
- **High frequency indicators suggest that urban activities have almost recovered to pre-outbreak level by March.** Traffic congestion and property sales reached the same level as early January (before the outbreak), and coal consumption also shows a clear improvement trajectory. **However, people flow is still limited due to mobility restrictions and quarantine policy.** Daily passenger volume remains only 25% of pre-outbreak period and cinemas just re-opened in late March, after a 2-month nationwide shutdown.
- **Monthly indicators suggest that Jan-Feb economic activities were severely impacted by Covid-19 and nationwide shutdown.** Double-digit decline happened in every corner of the economy, including industrial output, fixed asset investment, trade and retail sales. Yet the investor confidence index and consumer confidence index remain in an optimistic zone, indicating stable market sentiment.
- **Most sectors experienced a severe downturn both in supply and demand.** Automotive industry suffered a ~40% shrink in both production and sales; textiles and home appliances were also hit by over 30% decline. However, mobility restriction promoted grocery consumption and shift toward digital activities.
- **Staged fiscal and monetary policy has been released to mitigate the economic shock.** On the fiscal side, continued tax and fee deduction and a stimulus package on infrastructure investment was announced, with total size over 2% of GDP; on the monetary side, reserve required ratio and interest rate were lowered by 0.5-1.5% and 0.1% respectively, to provide additional liquidity and decrease financing costs.

# China economy dashboard: Summary of key indicators

## 1 Macro impact

- As the Covid-19 outbreak continued, consensus forecasts estimate contraction of China's economy in Q1 by 5% to 9% followed by sharp recovery in Q2 and onwards
- Consensus forecasts have revised from 5.5-6% in last December to 1.5-4% in March for China 2020 full year growth

■ Stable/improving<sup>1</sup>
■ Moderate<sup>1</sup>
■ Negative/deteriorating<sup>1</sup>

## 2 Daily indicators

	Recovery rate (%) <sup>2</sup>	
	Week 5 <sup>3</sup>	Week 12
Traffic congestion index	82	102
Air pollution index	74	85
Property sales	2	95
Coal consumption	52	74
Passenger volume	16	25
Movie box office	0	0

## 3 Monthly indicators

	12/ 2019	02/ 2020 <sup>4</sup>
Manufacturing PMI	50.0	35.7
Industrial value added growth, yoy, %	6.9	-13.5
FAI growth, 3mma, yoy, %	6.8	-12.4
Trade volume growth, yoy, %	11.3	-11.0
Unemployment rate, %	5.2	6.2
Investor confidence index	61.4	54.3
Retail sales growth, yoy, %	8.0	-20.5
CPI, %	4.5	5.2
Ipsos consumer confidence index	69.1	64.2
Restart ratio of industrial firms, %		97.0
Baidu restart index, %		70.0

## 4 Sector impact

	Production growth, %	Retail sales growth, %
Auto	-46	-37
Textile	-38	-31
Home appliance	-34	-30
Soft drink	-29	3
Smartphone	-40	n/a
Crude Oil	4	n/a
Medicine	n/a	0
Food	n/a	10

## 5 Policy response

- Ministry of Finance announced a **RMB ~1.1 trillion (~1.2% of GDP)** package to implement **tax and fee cut** policy
- An **investment stimulus** package over **RMB 1 trillion (~1% of GDP)** was also released to promote facility building in public healthcare and "new infrastructure"
- People's Bank of China lowered the Reserve Required Ratio (RRR) by **0.5-1.5%** and released **RMB 550 billion** liquidity into the market
- People's Bank of China has **lowered interest rate by 0.1%** through open market operations; 1-year **LPR was lowered by 0.1%** as well to reduce financing cost

1. Color coding of indicators is just for directional reference. It is based on macroeconomic benchmark (e.g. GDP growth), government target and/or trajectory (increasing vs. declining).

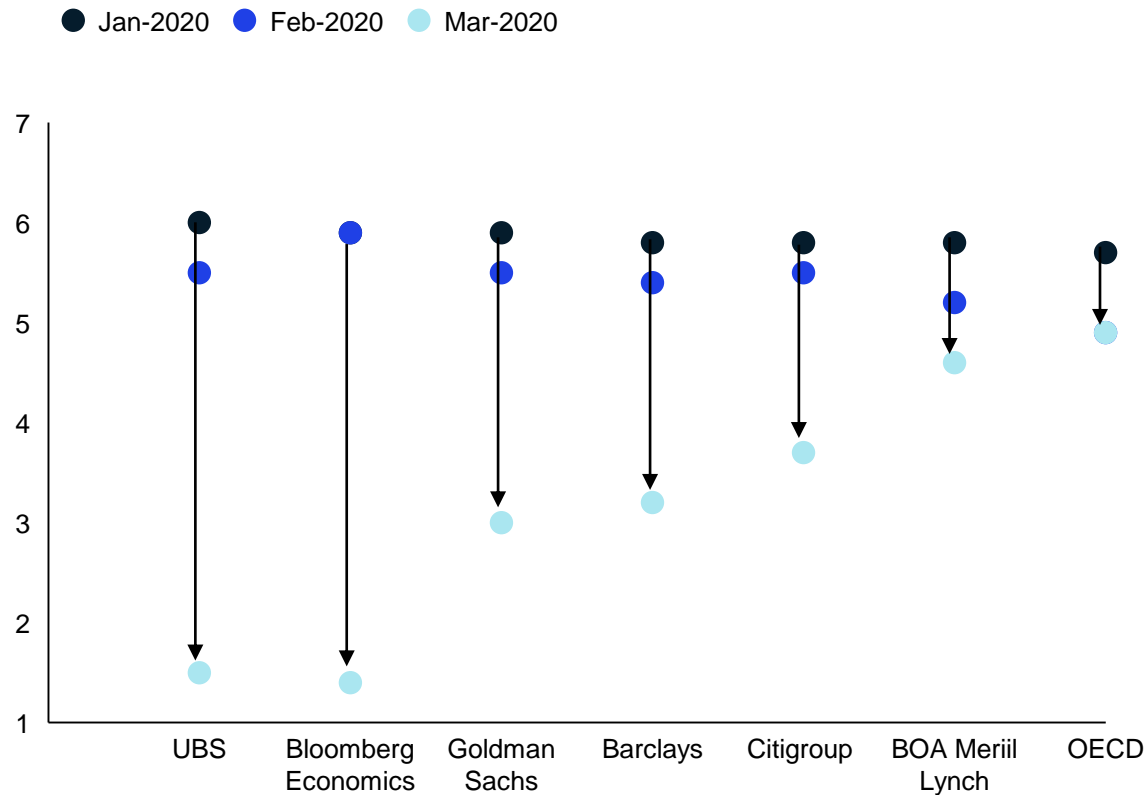
2. The recovery rate is calculated as the average daily index of the week over the index of January 1 2020

3. The week 5 of year 2020

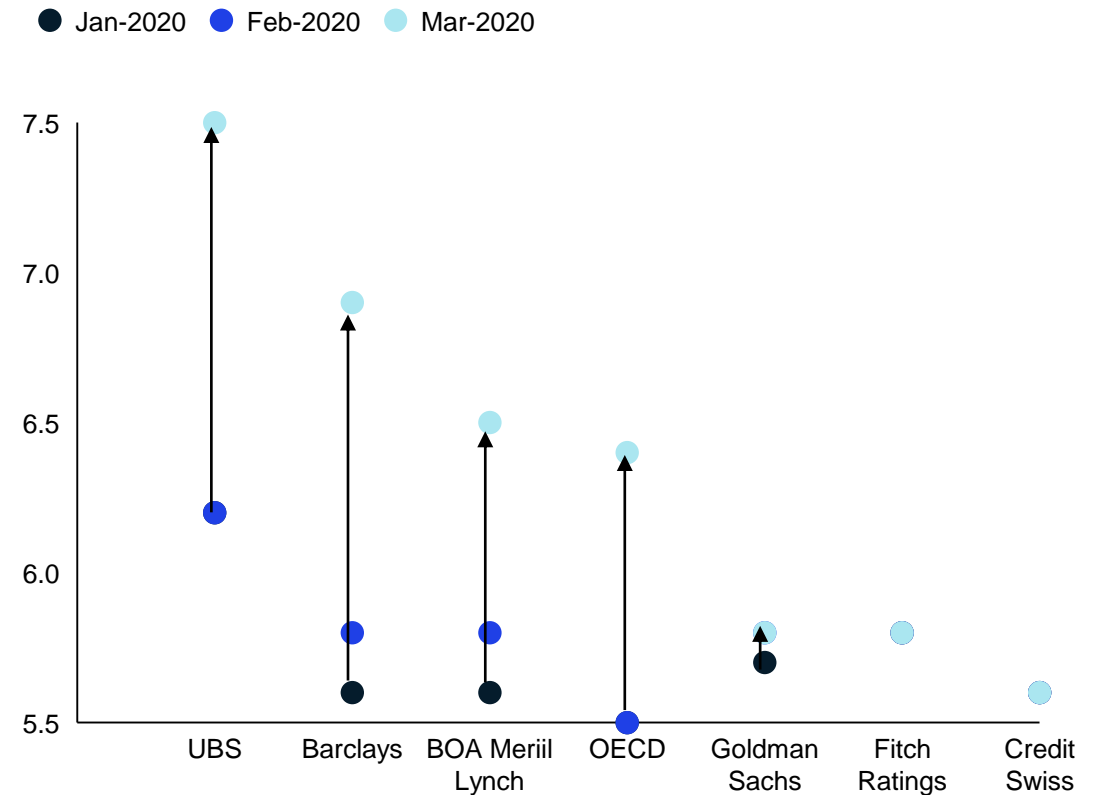
4. Feb. 2020 or latest available

# ① Multiple institutions have consistently revised downward China's 2020 GDP growth projection

2020 yearly real GDP growth rate projection<sup>1</sup>, Percentage



2021 yearly real GDP growth rate projection, Percentage

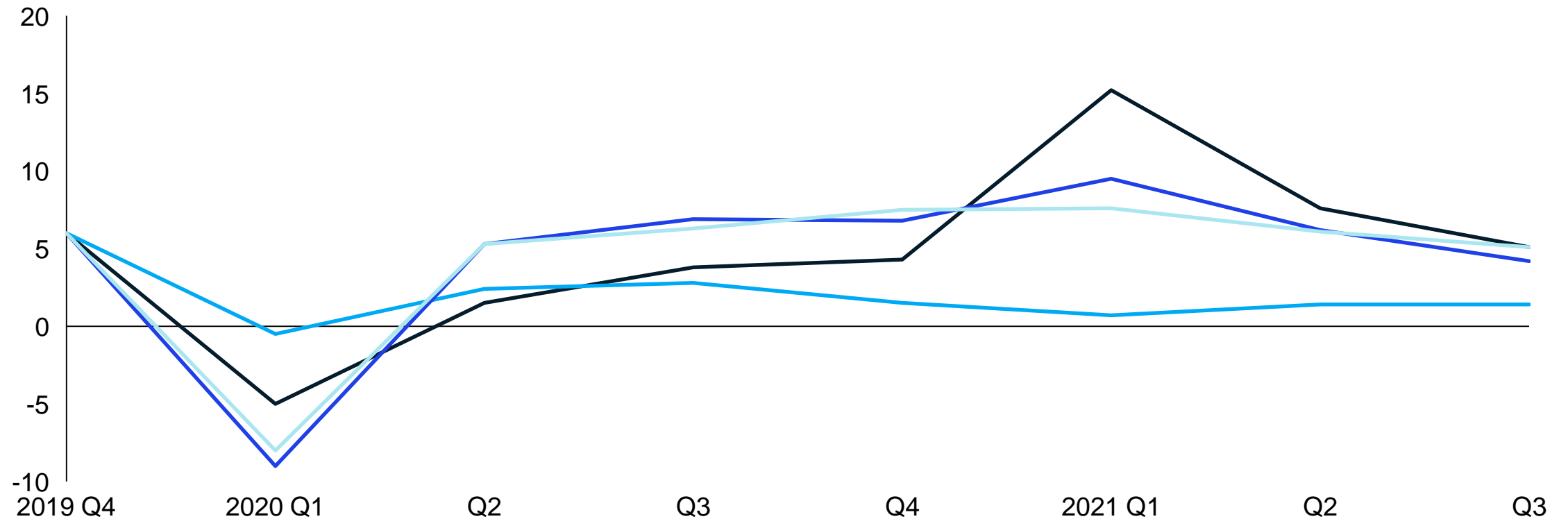


1. For McKinsey simulation of economic impact based on different scenarios, please refer to the McKinsey article: [Safeguarding our lives and our livelihoods: The imperative of our time](#), March 2020

# ① Consensus forecasts suggest a sharp recovery starting Q2 2020

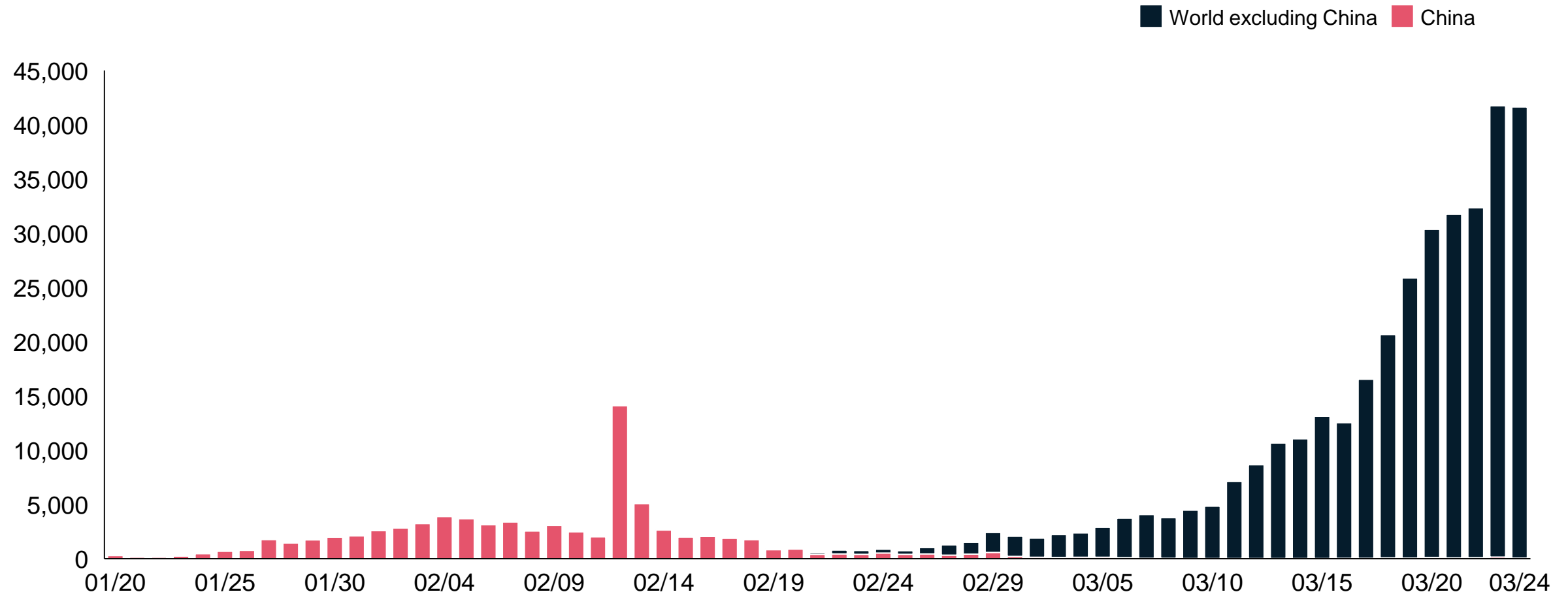
2020-2021 quarterly real GDP growth rate projection, Percentage

— UBS — Oxford Economics — Goldman Sachs — Barclays



# ① Covid-19 has become a worldwide issue, injecting uncertainty into world and China's recovery path

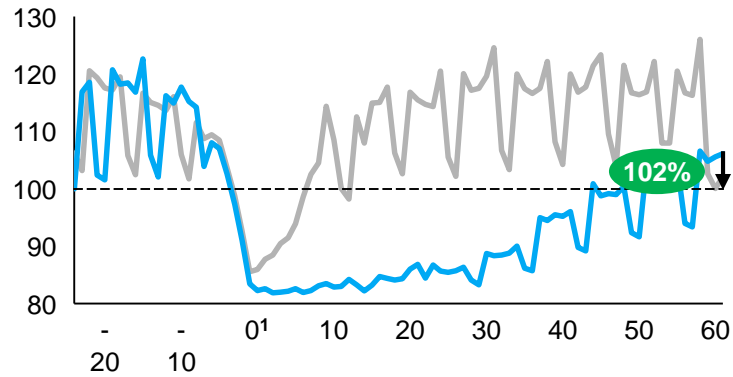
Daily new Covid-19 cases



# 2 Daily indicators: industrial, real estate, people flow, box office, and air pollution

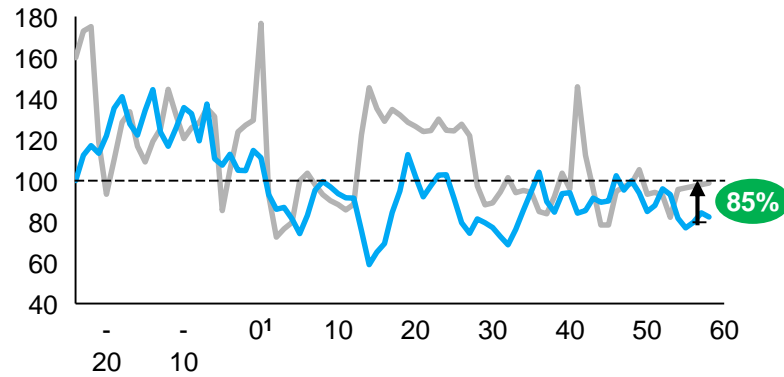
**Daily traffic congestion index**

Jan. 1<sup>st</sup> 2020=100



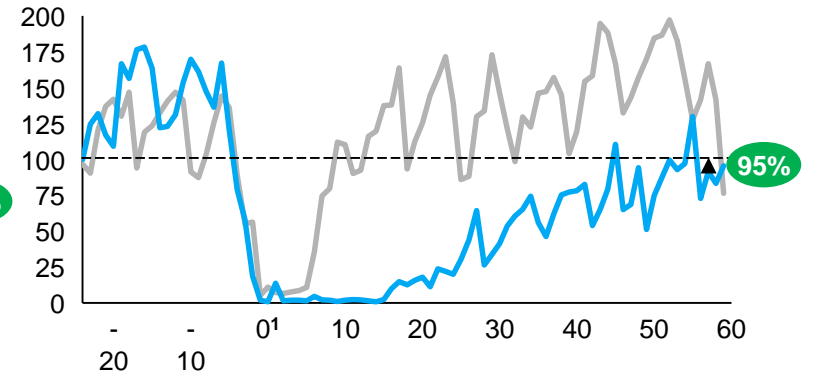
**Air pollution index**

Jan. 1<sup>st</sup> 2020=100



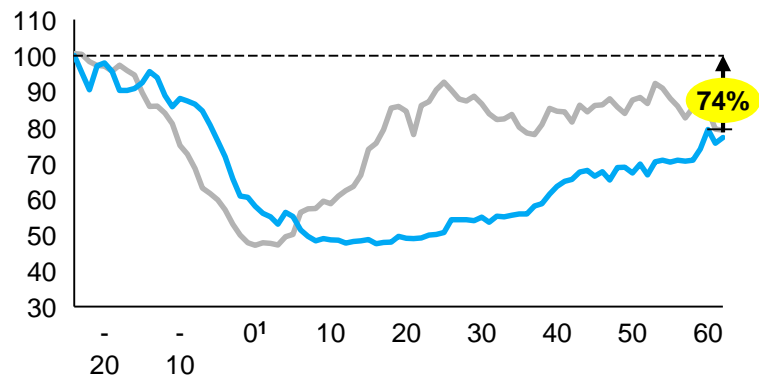
**Daily residential property sales volume**

Jan. 1<sup>st</sup> 2020=100



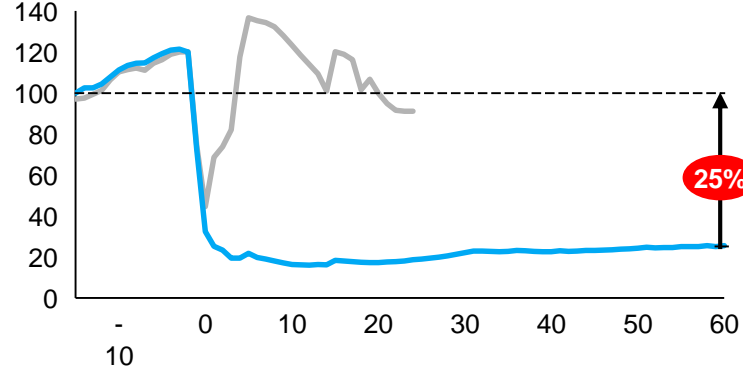
**Daily coal consumption**

Jan. 1<sup>st</sup> 2020=100



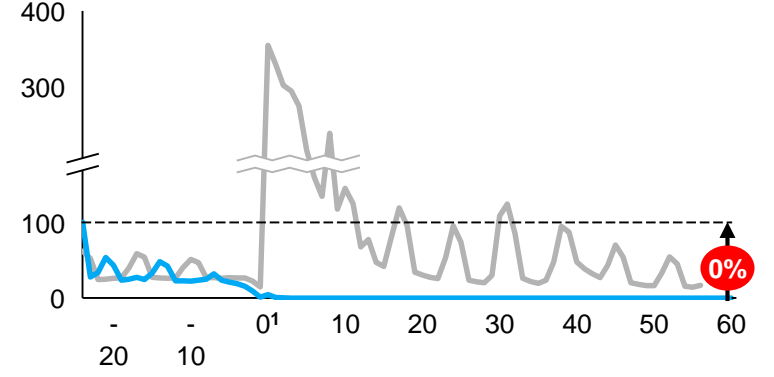
**Daily passenger volume**

Jan. 1<sup>st</sup> 2020=100



**Movie box office<sup>2</sup>**

Jan. 1<sup>st</sup> 2020=100



1. Day 0 is the Chinese New Year of each year

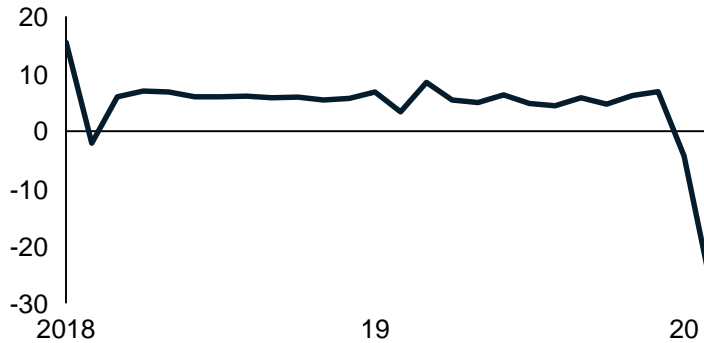
2. Cinemas were closed since February 2020 due to coronavirus, as a result the box office showed 0 since then

3. The recovery rate is calculated as the average daily index of the week over the index of January 1 2020

# ③ Monthly indicators: industrial activities, investment, and trade

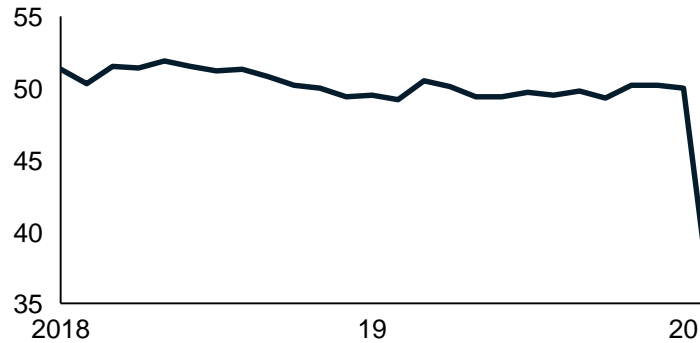
**Industrial value added growth**

Year on year, percent



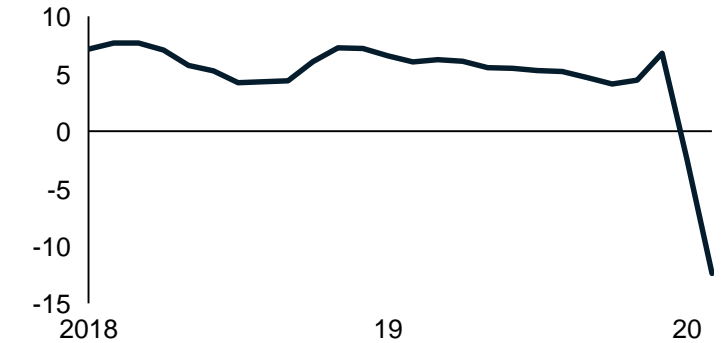
**Manufacturing PMI<sup>1</sup>**

Percent



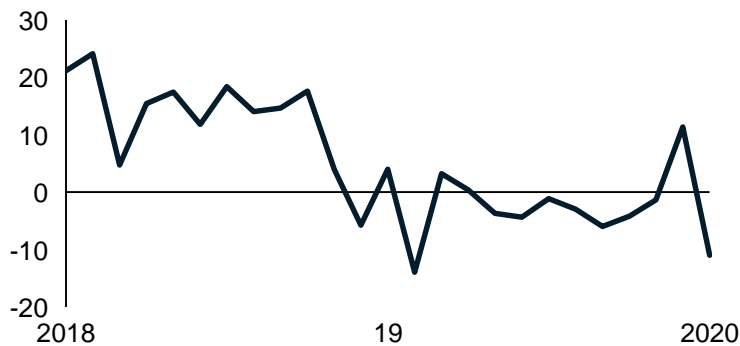
**Fixed asset investment growth**

Year on year, 3mma, percent



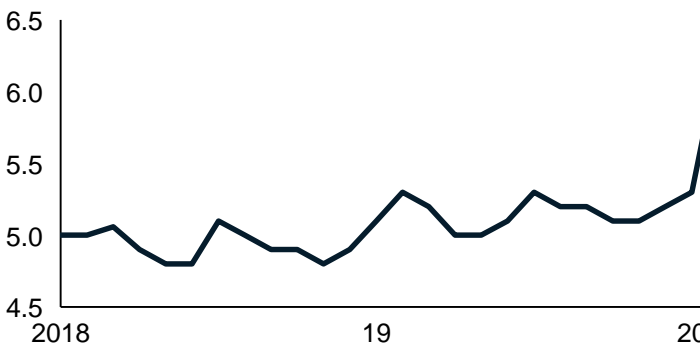
**Trade volumes growth**

Year on year, percent



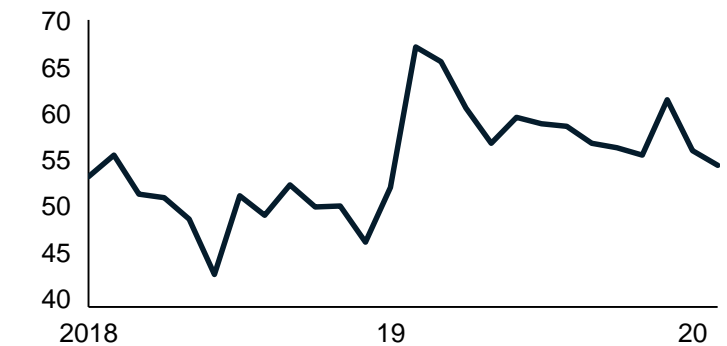
**Unemployment rate**

Percent



**Investor confidence index<sup>2</sup>**

Percent



1. Purchasing manager index usually takes 50 as demarcation point. PMI > 50 reflects economic expansion; PMI < 50 reflects economic contraction

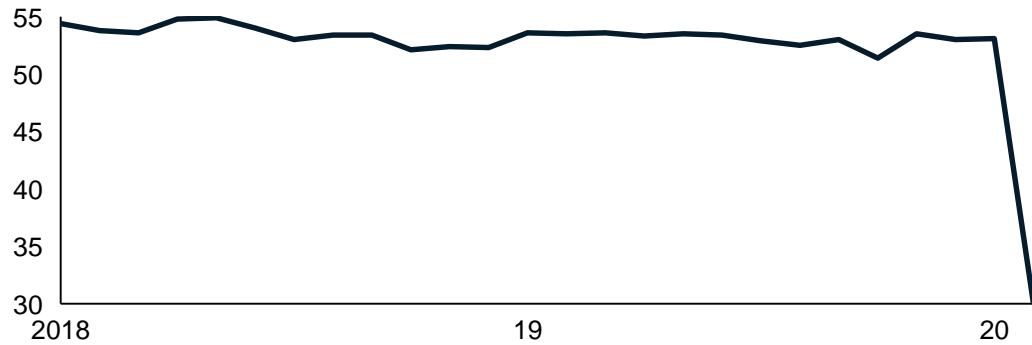
2. Investor confidence index takes 50 as demarcation point. Index > 50 reflects investor to be optimistic to market; index < 50 reflects investor to be pessimistic to market



# 3 Monthly indicators: retail and consumers

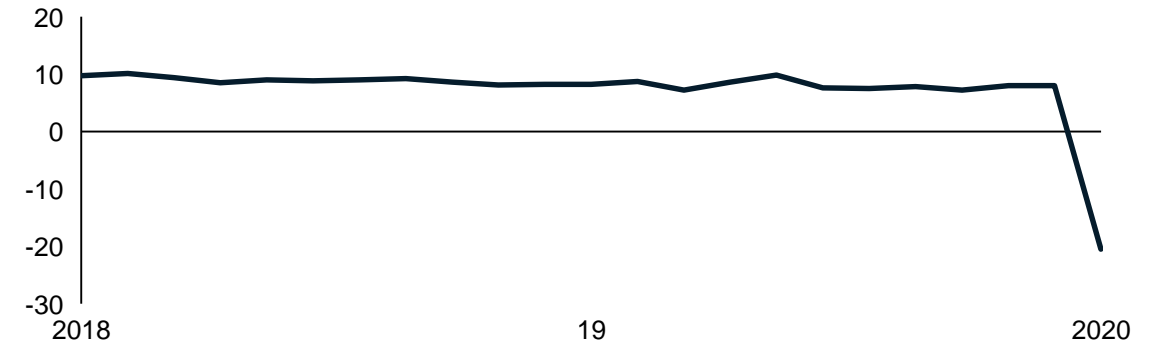
**Services PMI<sup>1</sup>**

Percent



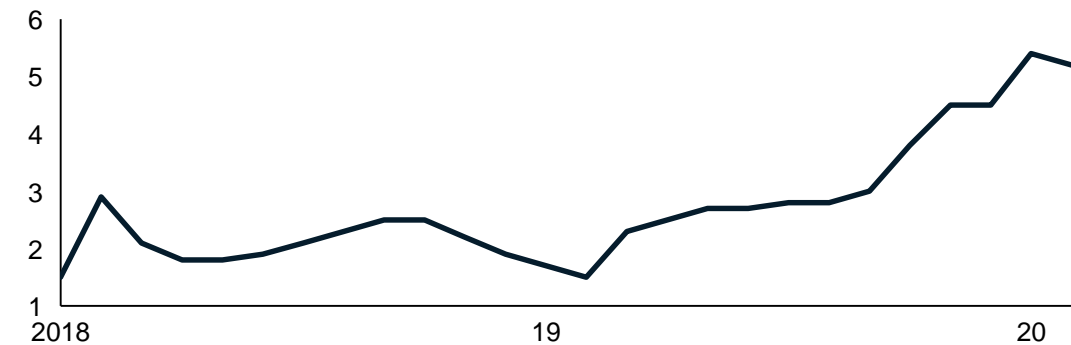
**Overall retail sales growth**

Year on year, percent

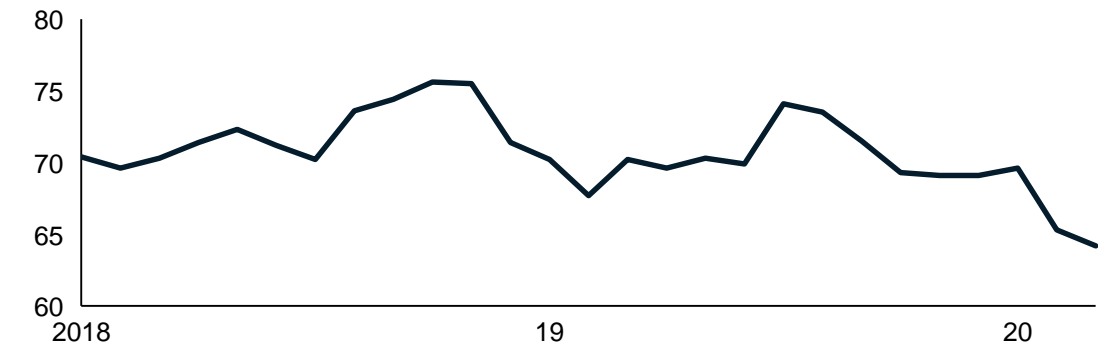


**Consumer price index**

Year on year, percent



**Ipsos consumer confidence index<sup>2</sup>**



1. Purchasing manager index usually takes 50 as demarcation point. PMI > 50 reflects economic expansion; PMI < 50 reflects economic contraction

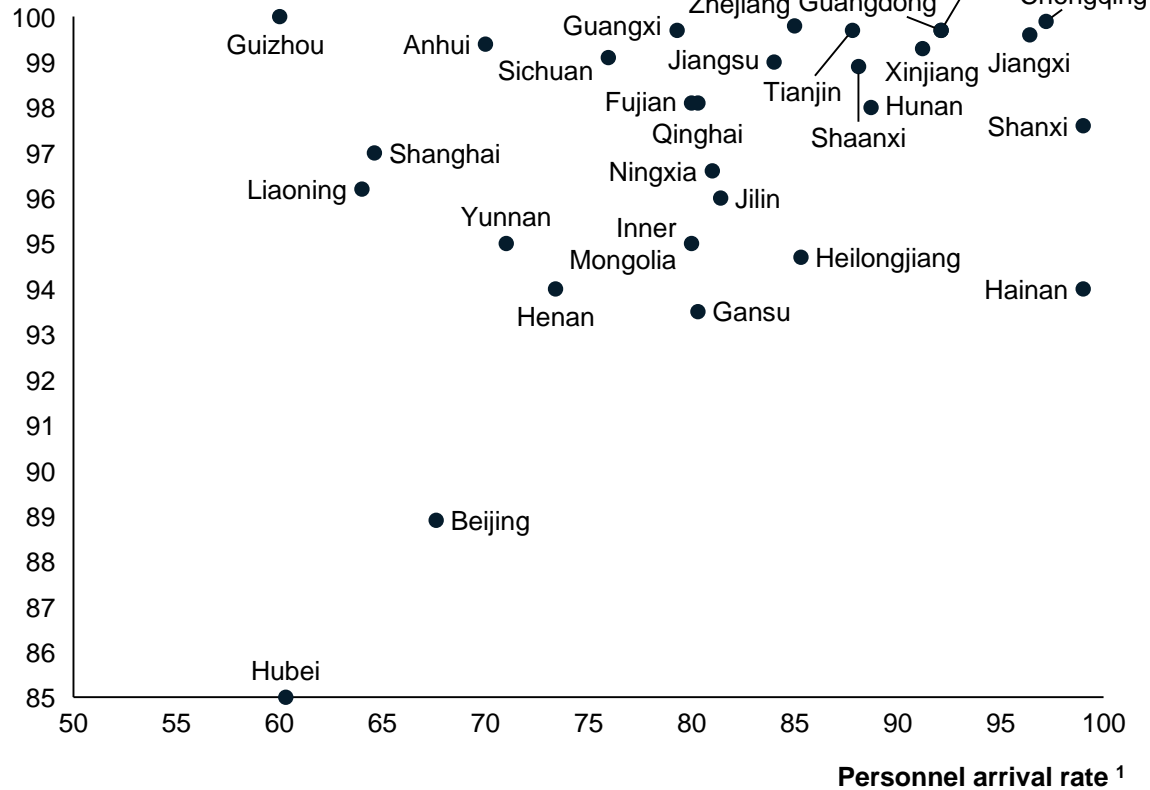
2. Ipsos consumer confidence index takes 50 as demarcation point. Index > 50 reflects consumer to be optimistic to market; index < 50 reflects consumer to be pessimistic to market

# 3 Pace of work resumption by geography

## Economic activity restart status<sup>1</sup>

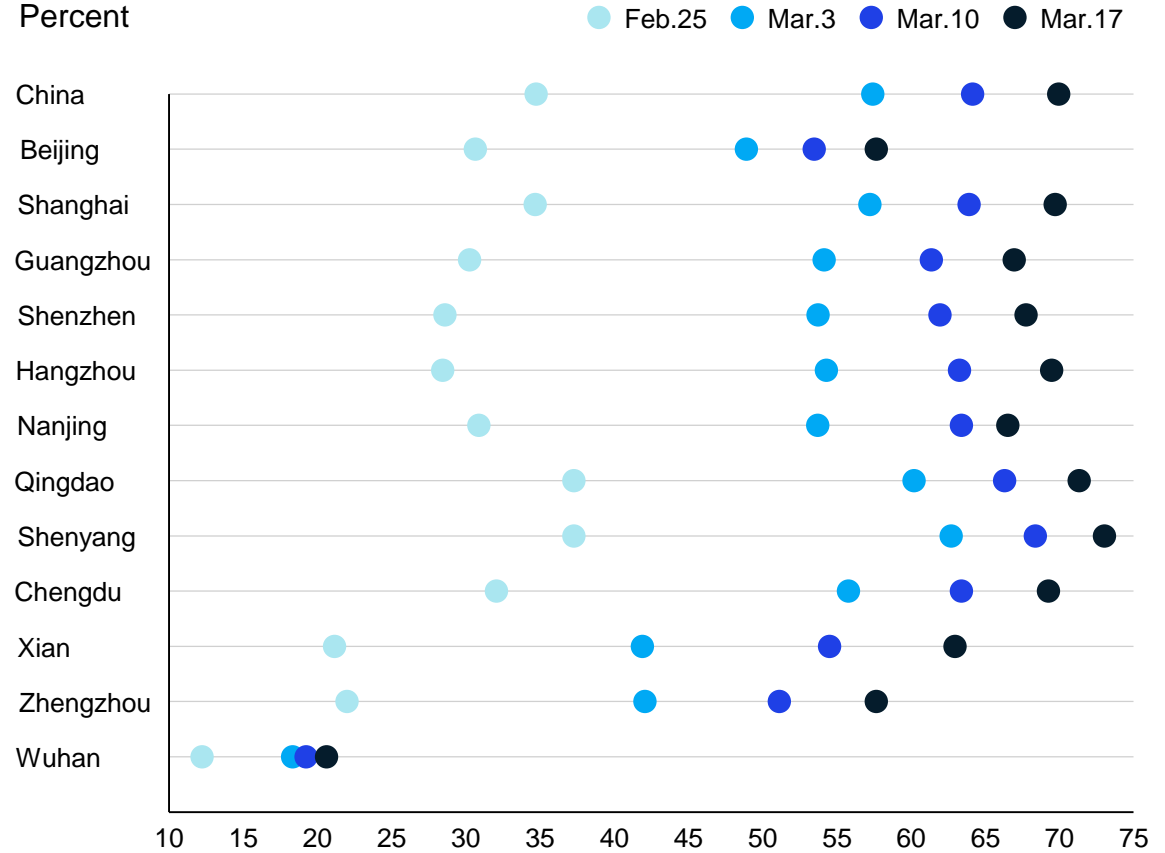
Percent

Restart ratio



## Baidu restart index, major cities

Percent

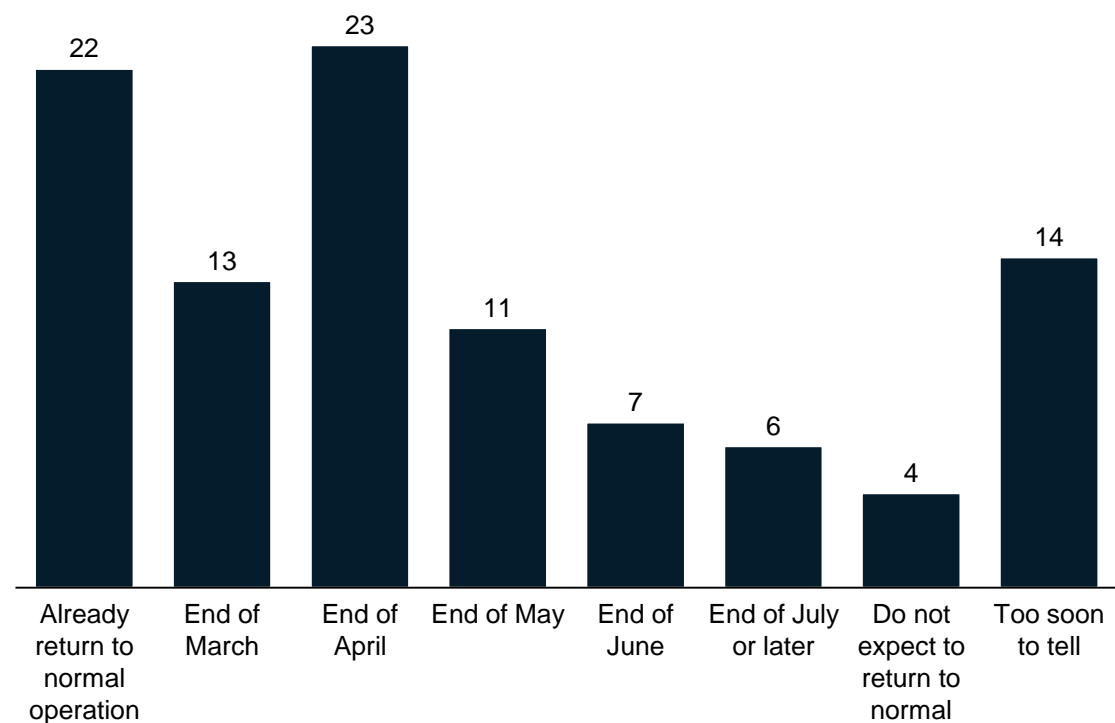


1. Production recovery rate is quoted for Tianjin, Fujian, Shanxi, Hainan and Tibet province. Sichuan personnel arrival rate is for mid-small enterprises. Guizhou province production recovery rate is an estimate.

### ③ Pace of work resumption and potential impact: AmCham survey

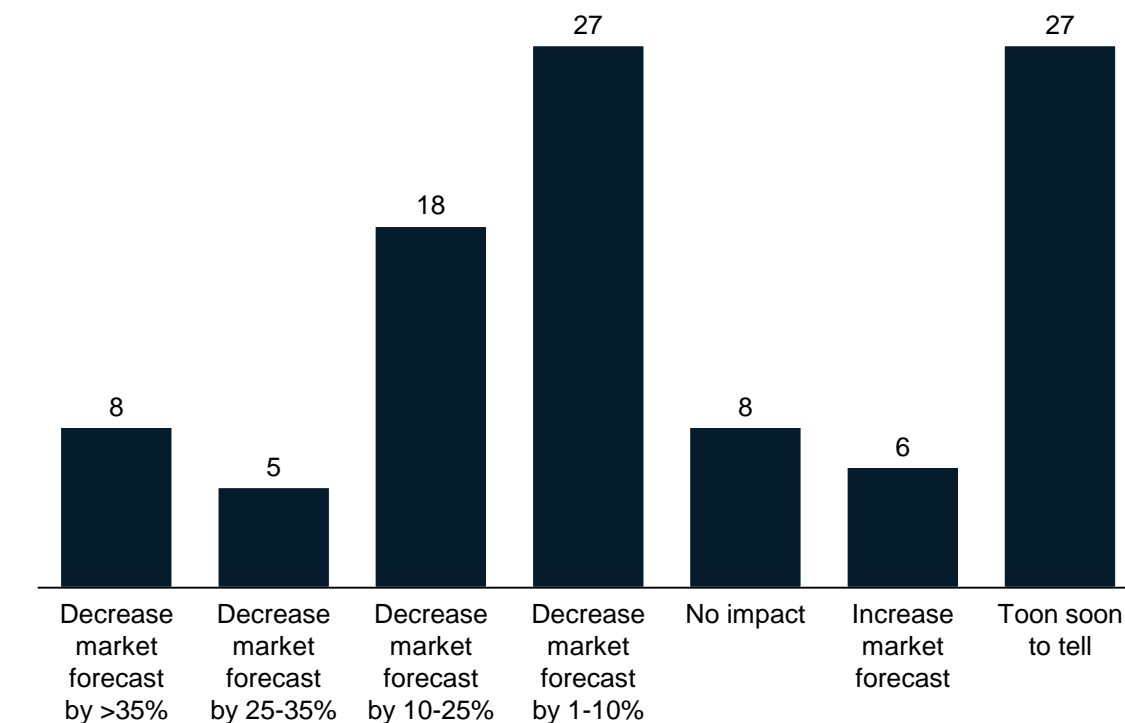
By when do you expect your company's business operations to return to normal?

*% of respondents<sup>1</sup>*



What impact will the COVID-19 pandemic have on your industry's forecasted China market growth for 2020?

*% of respondents<sup>1</sup>*

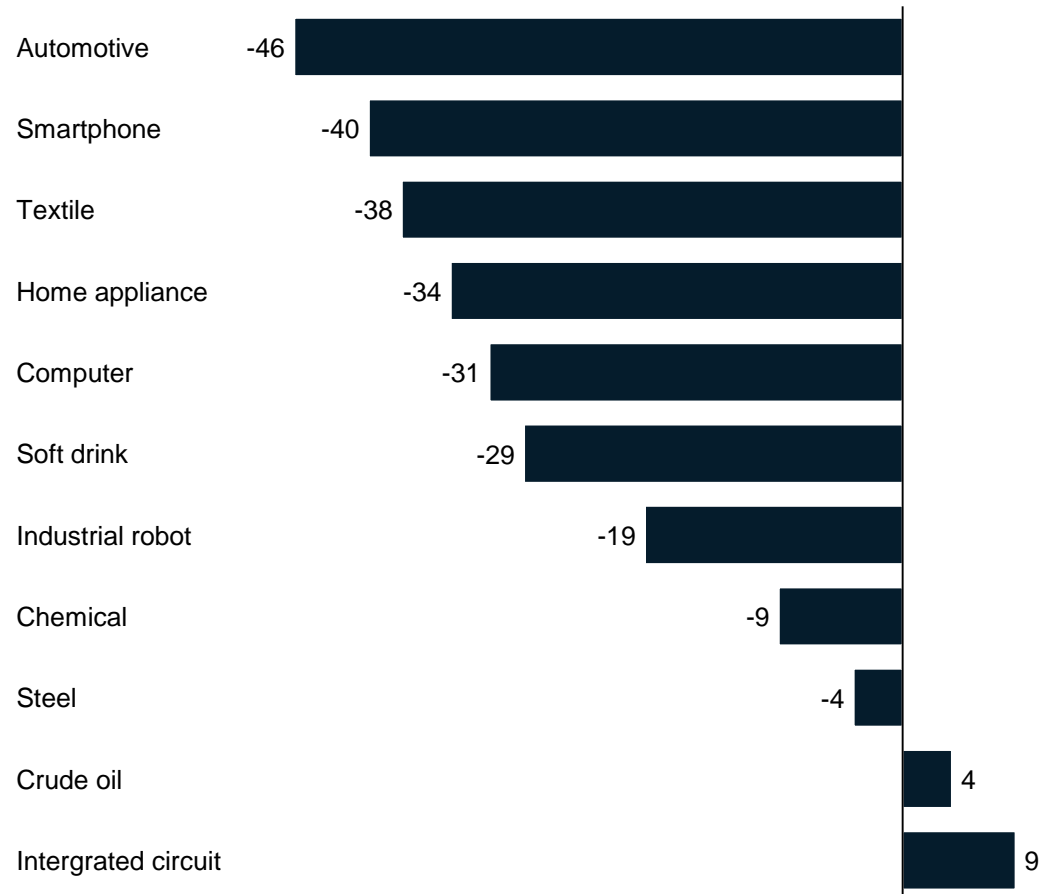


1. Based on AmCham survey released on March 25<sup>th</sup> 2020, total respondents are 118 US companies operating in China

## ④ Impact on sectors: production and sales

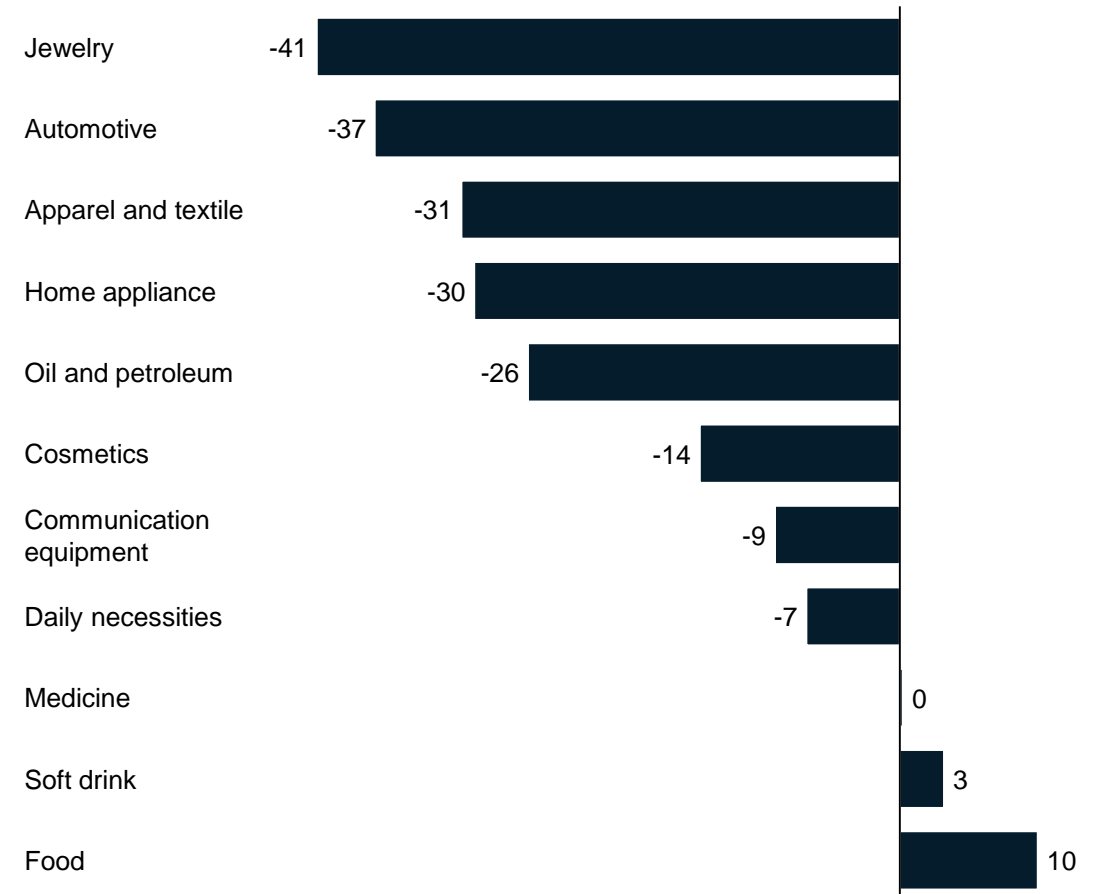
### Production growth by category, Jan. and Feb. 2020

Year on year, percent



### Retail sales growth by category, Jan. and Feb. 2020

Year on year, percent



## ④ Impact on sectors: “stay-at-home economy” and digital channel

### Online grocery Retailers<sup>1</sup>



MissFresh



JD Fresh



DingDong MaiCai

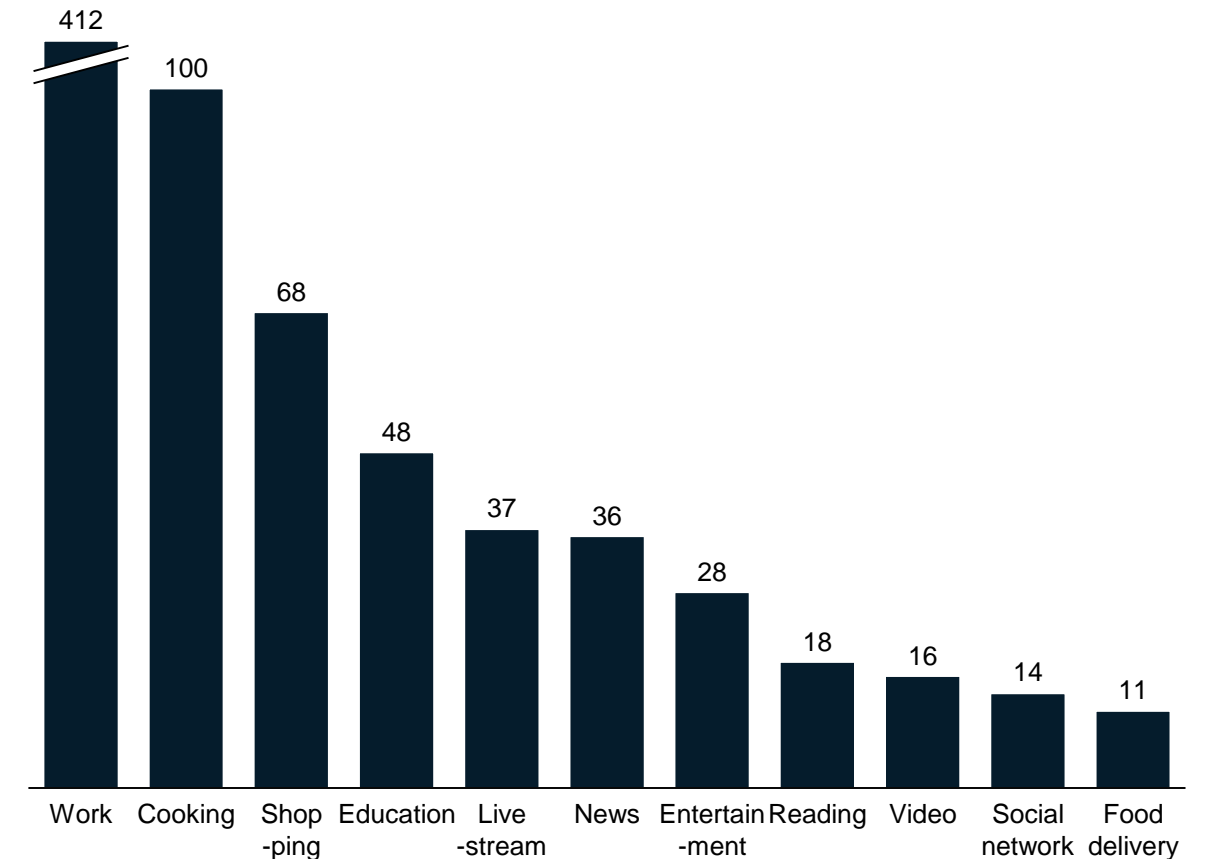


Hema Fresh

### Sales during 2020 Chinese New Year

- Sales revenue increased over **300%** year on year; average transaction value increased over **30%**
- Sales revenue increased **374%** year on year; more than **15,000** tons groceries were sold
- Sales orders rose **80%**; average transaction value increased over **70%**
- Sales orders rose **220%**; demand in major tier 1 and 2 cities increased **3-10** times

### Growth of mobile apps active users by category, Feb. 2020 Year on year, percent



1. Popular fresh food delivery e-commerce platforms in China

## 5 Policy response

### Policy vehicles

### Supportive measures

#### Fiscal policy



**Value added tax cut:** value-added tax will be exempted for taxpayers in **transportation, catering, and daily necessities delivery** sectors during outbreak period; it will also be exempted for **small-scale taxpayers in Hubei province** for 3 months

**Consumption stimulation:** coupons are issued by local government to stimulate consumer expenditure, especially in **catering, tourism, and retail**; tariffs on imported consumer goods will be lowered to encourage cross-border supply

**Infrastructure investment stimulus:** investments in **transport, 5G network and public healthcare** are prioritized to promote consumption upgrade and build "Internet+" ecosystem

**Extended loss carryover period:** firms in **transportation, catering, accommodation and tourism** sectors can carry over their losses logged in 2020 to an extended maximum period of **8 years**

**Deferred social welfare payment:** firms can defer their social welfare payments several months to relieve the cash flow burden

#### Industry-focused support

- Waive **Airlines'** payment to the government's civil aviation development fund
- Provide fiscal support for **auto purchases** and raise quota of plate issuance in purchase limit areas to stabilize consumption

**Low-income people aid:** include residents who lack income sources due to the outbreak in **national subsistence allowance system**; provide temporary cash benefit, price subsidy, accommodation, food and other daily necessities to low-income people for 1-3 months based on qualifications

#### Monetary policy



**Lower reserve required ratio:** People's Bank of China lowered reserve required ratio in March for a select group of banks; all qualifying banks will receive a **0.5-1.5% RRR cut**; the cut will release **RMB 550 billion** into the market

**Lower interest rate:** People's Bank of China **lowered interest rate by 0.1%** in February open market operations to reduce financing cost of enterprises; **LPR was lowered by 0.05%-0.1%** in February as well

**Special re-lending funds:** People's Bank of China delivered RMB 800 billion special re-lending funds for banks to support enterprises related to virus control

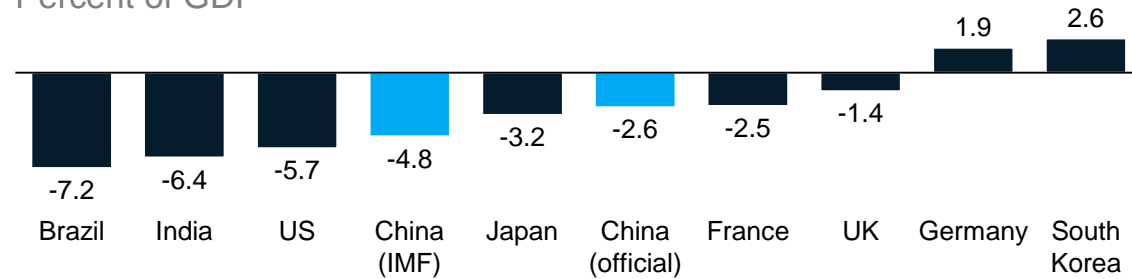
**Credit provision:** China's commercial banks has provided over **RMB 1.4 trillion** of credit support to help companies restart by March

**Targeted support for SMEs:** More customized credit loans have been offered to SMEs, especially in **farming, breeding, wholesale, retail, catering, logistics, and tourism** sectors; procedures are streamlined for SMEs in applying for loans and relending funds; overall financing costs of inclusive financing services for SMEs are to be lowered by at least **0.5%** in 2020

## 5 Fiscal policy

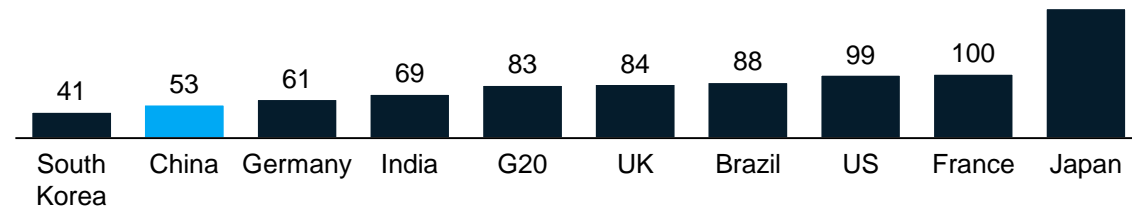
### Fiscal deficit ratio, 2018

Percent of GDP



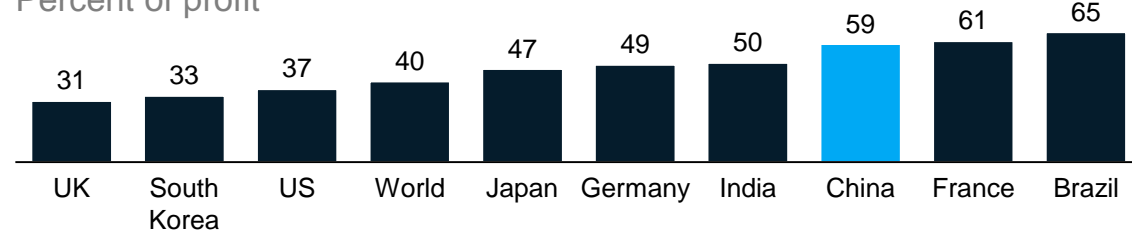
### Government debt ratio, 2019

Percent of GDP



### Corporate total tax burden<sup>1</sup>, 2019

Percent of profit



1. Total tax burden measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits. Taxes withheld (such as personal income tax) or collected and remitted to tax authorities (such as value added taxes, sales taxes or goods and service taxes) are excluded.

### Fiscal policy still have space to support the economy

- By March, the Ministry of Finance has announced a **RMB ~1.1 trillion** (~1.2% of GDP) tax and fee cut package to lower costs for enterprises; the deduction mostly impacts **value added tax and social safety**
- A investment stimulus package was also released, estimated at over **RMB 1 trillion** (~1% of GDP); the focus mainly covers public healthcare and “new infrastructure”
- China is still able to use active fiscal policy to promote economic growth
  - China’s deficit ratio is medium level across countries, the expenditure could expand moderately to fuel the stabilization considering the negative impact of COVID-19 outbreak
  - China’s government leverage is relatively low and the risk is well under control; government bonds could be a source of funding
  - China’s enterprises still face heavier tax burden, further deduction in tax and fee can effectively release more resources for enterprises’ operation and boost revenues
- As a result, **more issuance of (special) government bonds and further cut in taxes and fees** could be expected in 2020 to cope with potential downturn due to COVID-19



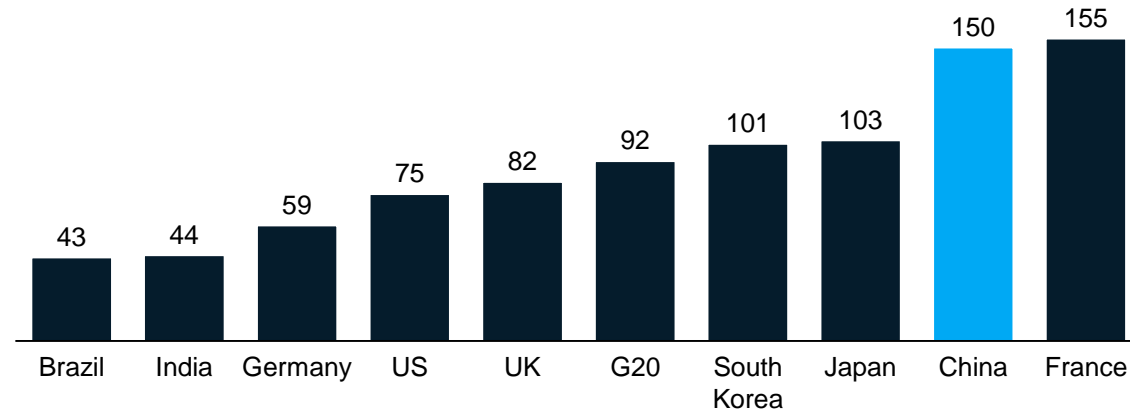
China’s government has room to appropriately raise its budget deficit ratio...China will expand investment and boost consumption...

**Spokesman of National Bureau of Statistics**

## 5 Monetary policy

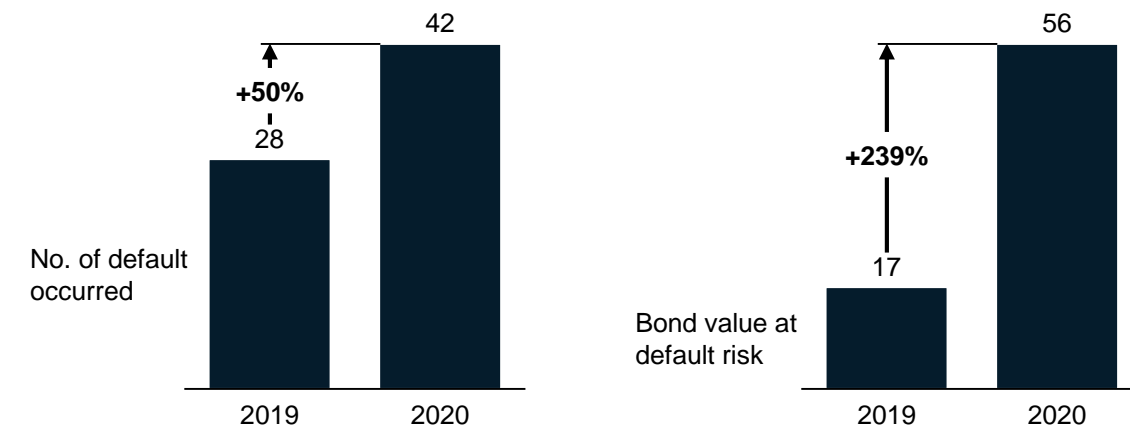
### Corporate debt ratio, 2019

Percent of GDP



### Corporate bond default, Jan.- mid Mar.

Percent of profit



### More easing monetary policy could happen, but could be moderate to control financial risk

- People's Bank of China lowered the Reserve Required Ratio (RRR) in March by 0.5-1.5% based on the qualification of the banks and released **RMB 550 billion** liquidity into the market
- People's Bank of China **lowered interest rate by 0.1%** in February open market operations to reduce financing cost of enterprises; **LPR was lowered by 0.05%-0.1%** in February as well
- Considering China's high corporate debt ratio, the ease of monetary policy could be **moderate** to help ensure the smooth operations of enterprises. As a result, further cuts in the reserve required ratio and interest rate could be expected in the rest of 2020, but its effect in boosting growth is likely to be limited in the face of financial risk



In 2020, the prudent monetary policy will pay more attention to moderate flexibility and keep credit growth in line with the nominal growth rate of GDP...it is necessary to maintain the basic stability of prices and be able to prevent financial risk...

**People's Bank of China**