

China: Covid-19 has hit factories, investment and retail sales hard, and more is to come

China's industrial production, fixed-asset investment and retail sales were extremely bad in the first two months of 2020 due to the impact of Covid-19. This is not the end of the nightmare. Watch out



An appalling set of activity data

The impact of Covid-19 on the Chinese economy has been extremely damaging, effectively bringing the country to a standstill. Almost all the available resources have been pulled in to save lives and contain the spread of the virus.

Industrial production fell 13.5% year-on-year year-to-date, fixed asset investments fell 24.5% YoY YTD and retail sales fell 20.5% YoY YTD. Industrial output was not as bad as fixed-asset investment and retail sales because there was still iron, steel, and copper production in February, otherwise, it would have been a lot worse than reported.

There is nothing in the history of this data to compare to this set of abysmal figures.

Recovery depends on the global spread of Covid-19

China is now at the recovery stage from the coronavirus but the global spread means that the economy is not going to recover fully anytime soon.

Investment might recover faster than retail sales and industrial production because the government has promoted “new infrastructure” investment to boost economic growth to support the recovery. So fixed asset investment in the coming months should rise from negative growth.

Retail sales have recovered only very slowly as consumers are still wary about going into shopping malls and restaurants. This could continue as there are some imported Covid-19 cases in major cities.

Industrial production will continue to be hit in March and April as the spread of Covid-19 in almost all countries means global demand will stop abruptly, and global supply chains will still be broken as factories around the world suspend operations. We are not optimistic about China’s manufacturing and exports.

Downgrade GDP and yuan forecast

We have downgraded China’s GDP and yuan forecasts just now. You can read about that [here](#).

Forecasts on GDP and USD/CNY for 1Q20 are 3.6%YoY and 7.20, respectively.