China’s 1Q22 GDP growth was moderate but more pain will come in 2Q

GDP in the first quarter still enjoyed moderate growth, with the damage from lockdowns mainly visible in consumption. But support from fiscal and monetary policy has not been enough to fully offset the damage to GDP created by the lockdowns. We may need to revise our GDP forecasts further if fiscal support does not come in time

Given strict social distancing measures in China, more cities could find themselves being put into lockdown

GDP in the first quarter does not fully reflect lockdown impacts

China's GDP grew 4.8%YoY in 1Q22, which is not all that weak considering the high base effect of 18.3%YoY GDP growth in 1Q21.

Consumer spending was affected by travel restrictions within China during the Beijing Winter Olympics. And there were also some travel restrictions in March as Shenzhen and Shanghai started lockdowns during the month. As a result of these restrictions, retail sales contracted 3.5%YoY in the quarter.

But industrial production posted growth of 5%YoY, which was not as weak as suggested by recent PMI surveys. The official manufacturing PMI was under 50 in March. Some manufacturing suffered as a result of lockdowns due to limited delivery services and later port disruptions in Shenzhen, Shanghai and Qingdao. But most are still operating in closed-loop operations.

Fixed asset investments grew 9.3%YoY YTD as infrastructure investments are the growth engine for 2022. We have noticed that the central government has kept urging local governments to issue special bonds to fund infrastructure projects.

Lockdowns are a pain point for China and the government

Further impacts from lockdowns are imminent, not only because there has been a delay in the delivery of daily necessities, but also because they add uncertainty to services and factory operations that have already impacted the labour market. The surveyed jobless rate rose to 5.8% in March from 5.5% in February.

We assume that most office work can be done via "work from home" in lockdown situations but this is far less certain if residents are moved to isolation facilities.

For factories, the problem of lockdown comes from slow delivery services and port disruptions. Shanghai is responding to the damage of the latest lockdown on the city's economic growth and has delivered a plan to lift its lockdown restrictions. But the plan still lacks a timetable. We believe that reopening will depend on the number of daily Covid cases. We have estimated that a full month of lockdown will lead to a 6% loss of GDP for Shanghai and a 2% loss of GDP for the whole of China. This loss will increase if the lockdown lasts longer.

Away from Shanghai, more cities are going into lockdown, even when just one Covid case is found. These cities would like to copy Shenzhen city's model, in which early lockdown resulted in a swift reopening (in Shenzhen's case the official lockdown period was only 7 days), limiting the economic loss.

Looking forward and potential forecast revision

Shanghai's GDP for April will be very poor. There is some policy help, but it will not nearly offset the damage from lockdowns. The city has provided 21 relief measures to individuals as well as businesses. The PBoC cut 25 bps on RRR for major banks and 50 bps for smaller banks. But there has been no additional interest rate cut.

We have already downgraded GDP to 4.6% from 4.8% but that was done before the latest PBoC action. With more cities going into lockdown and the PBoC being cautious with interest rate support, we may further reduce our GDP growth forecasts. We are holding off taking this action for now and waiting to see if the central government will provide more fiscal support for the economy.

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