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AFP

China industrial production shrinks for first time in decades

BEIJING: China's industrial production has contracted for the first time in three decades as the coronavirus epidemic wreaked havoc on the economy, official data showed Monday.

Industrial production for January and February shrank 13.5 per cent in the first two months of the year, markedly worse than a Bloomberg poll of analysts which forecaste a 3pc drop on-year.

Retail sales plummeted 20.5pc from a year ago during the same period — its worst showing in decades as well — after rising 8pc in 2019.

Analysts had expected a 4pc fall.

Data in the first two months is released together to account for regular seasonal factors during the Lunar New Year holiday.

But this year, China's businesses and factories saw an unusually slow return to work after an extended Spring Festival break, as Beijing attempted to curb the rapid spread of the coronavirus. Consumers were urged to stay home and avoid gatherings.

The drop in industrial output marked a sharp reversal from 6.9pc growth in December, and 5.7pc growth for 2019 overall.

ING chief economist for Greater China Iris Pang said it is the first contraction since January 1990, when industrial production shrank 21.1pc.

Fixed-asset investment was down 24.5pc on-year, a drop on the 5.4pc rise seen last year.

The data, released by the National Bureau of Statistics (NBS) on Monday, was the latest in a series of economic indicators showing the extent of the epidemic's impact on China's economy.

China's exports plummeted in the first two months of this year, dropping 17.2pc, and the country's trade surplus with the US sharply narrowed 40pc.

The NBS said Monday that China's economic development in the first two months had been affected by the outbreak of COVID-19, but reiterated officials' stance that the impact was "short-term and external".

“At present, the virus spread has been basically curbed and the outlook for epidemic prevention and control is getting positive,” said NBS spokesman Mao Shengyong Monday.

“The current situation reflects that COVID-19 has stopped the Chinese economy almost totally in the first two months,” ING’s Pang told AFP.

Although the situation appears to be improving in China, Pang added that factories and exporters “will continue to suffer from a withdrawal of export orders, or an abrupt disruption of the supply chain even if there are orders as the virus spreads rapidly around the world.

Nomura chief China economist Lu Ting added that the market had been “way too conservative” in their forecasts.

He told AFP that going forward, “external demand will plummet, so this will significantly hit China’s exports”.

There is also a risk of a second wave of new infections in China as people return to their regular lives, he said.

Julian Evans-Pritchard, senior China economist at Capital Economics, said the contraction in industrial and services production suggested “that official GDP growth averaged negative 13 percent during the first two months of the year”.

He added: “Further ahead, the pace of recovery is likely to remain slow. A jump in unemployment, from 5.2pc to 6.2pc, will weigh on consumer spending even once the virus disruption fades.”