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CHINA AND COVID 19: ECONOMIC CONSEQUENCES

Companies are dealing with the consequences on production and sales of the suspension of activities: let's see how, in the instant analysis by Cesif - the research centre of Italy-China Foundation, with ANRA's cooperation

The analysis coming from China reveal the first signs of economic regression caused by coronavirus consequences, but the impact on the Chinese market is not yet quantifiable and most of the activities have not yet recovered.

A graduated restart

The suspension of the activities until February 10 has been prolonged for some provinces, in particular the one most affected by the virus, Hubei, where the restart of the activities has been scheduled for February 20, with the reservation by the authority to further extend the closure period based on the evolution of the epidemic. The Beijing government is taking action to strike a balance between the willingness to contain the epidemic and the need not to cause too much damage to the Chinese economy. The authorities has started to reassure the population by inviting them to return to their jobs, but many still expressed concern and the restart is slow and difficult. A distinction must be made between the reopening of the plants and the return of workers: according to some analysts, at February 10, only 20% of the total workforce had returned to the workplace. Even if on 9 February business in 24 provinces - which alone represent 80% of Chinese production and 90% of exports – has been resumed, other industrial districts have announced the suspension until 1 March 2020.

The reopening is taking place with different adhesion between state and private companies: according to official sources of the China's State-owned Assets Supervision and Administration Commission over 80% of the nearly 20 thousand Chinese state-owned manufacturing companies resumed operations on February 17, among these the oil, petrochemical, energy, transport and telecommunications industries (opening of 95% of the plants) while for the mining, iron and steel and component industries the opening is 80%.

It is different for private companies: the recruiting agency Zhaopin.com has estimated that approximately 70% of the plants have resumed operations since Monday 10 February, while 18% of the companies interviewed have decided to adopt a monitoring approach to the evolution, without announcing an effective reopening date. More smart-working friendly sectors such as IT, where part of the activity can be carried out by employees at home, has fully restarted.

The impact on the Chinese economy

The suspension of the activities will undoubtedly have repercussions on the Chinese economic performance in 2020. According to Morgan Stanley's analysis, if the peak of the virus occurs between February and March the Chinese growth of the first quarter could drop between -0.5% and -1%, although the post-epidemic period could be affected by a restructuring of domestic demand. Projecting these data onto a global economic growth plan and assuming that the coronavirus peak is between February and March, Morgan Stanley calculates that world growth could drop from -0.15% to -0.3% in the first quarter. On the other hand, if the epidemic continues for three or four months, global growth could be further affected in the second quarter with a drop from -0.2% to -0.4%. Finally, according to estimates by Citigroup analysts, a spread of the virus until the end of March could bring Chinese GDP growth in the first quarter of 2020 to 3.6% and annual growth to 5.3%, compared to the estimates prior to epidemics that gave a first quarter of + 4.8% and of the year to + 5.5%.

Chinese and multinational companies are starting to feel the effects of suspension of activities and cutting of supply and supply lines. Productions of consumer goods, high-tech goods and the textile industry were particularly affected: the interruption of production in these sectors has an adverse effect both on orders, for delays and cancellations of deliveries, and on raw materials, goods and goods intermediates, forcing companies to find alternative suppliers.

Looking at the technology sector, TrendForce estimates for China an 8% drop in car sales in the first four months, -10.4% in the amount of smartphones produced, -16% in sales of smart watches and -16 for smart speakers.

Great difficulties for Automotive

For the first time since the 1990s, the automotive sector in China recorded a negative trend in production (-11.53%) between 2017 and 2019, while sales fell by -10 in the same period, 96%. The reasons can be attributed to the trade war with the United States and the regulations introduced by the Chinese government to limit the purchase and use of cars and reduce polluting emissions. Analyst estimates give different results, but all agree in confirming a higher than expected drop in sales for the first four months of the year.

The issue of components is different, a sector in which China holds world leadership as the headquarters of many factories of multinational companies. The market has grown steadily in recent years so much that in 2017, according to consulting firm Roland Berger, the top 100 Chinese component suppliers had sales of over $ 150 billion. Among these, the top three most profitable companies are Bosch, Continental and Denso, and the Chinese trade balance for auto parts alone is in a surplus of 30 billion dollars between 2015 and 2017.

The current difficulties are due to the closure of the final automotive production and assembly plants, but also to that of the entire chain of auto components of which the province of Hubei is one of the major production centres. The city of Wuhan, in fact, hosts numerous automotive manufacturers such as the Chinese Dongfeng group, the Japanese Honda Motor, the French PSA Group, the American General Motors, the German Bosch and the Italian Magneti Marelli. The Wuhan industrial park includes numerous assembly and component systems for motor vehicles, so much so that by 2020, according to another analysis by IHS Markit, production was expected in the city of 1.6 million vehicles, the 6 % of total production.

The European automotive industry produces millions of vehicles in China and has dozens of plants with tens of thousands of employees: the companies had announced the reopening who for the 10 who for February 17, but in reality it seems that this is happening at leopard spot and in some cases has been further postponed.

Supply chain and manufacturing crisis

China is the world's largest producer and exporter of electronic products, the high-tech industry is therefore the one most affected by the containment measures of the epidemic: the high-tech companies are trying to move orders to other contexts or identify lines of alternative production that can meet the required production rates. The closures concern both the factories and the direct sales stores: for example Apple has temporarily closed 39 of the 42 stores in China, 6 outlets remain open in Hong Kong, the interruption in the production of the components will determine according to the company's forecasts a between 5 and 10% drop in Iphone sales this year. Supply problems also for Sony, which hypothesizes repercussions for the interruption of connections with the Asian country, and for Siemens, which has set up an anti-crisis team and expects repercussions in terms of production and sales, considering that China is the largest market. company reference (10% of the group's total sales). Ericsson for its part has suspended production of the telephony sector in China, where it employs 11,000 employees, including 450 in Wuhan.

Airbus announces that it has temporarily stopped the operation of the Tianjin plant that produces the Airbus A320neo and represents 10% of its production: the plant produces 6 of the sixty planes produced each month by the airline and the closure could lead to a delay in the deliveries to Asian customers.