THE WALL STREET JOURNAL.

https://www.wsj.com/articles/chinas-economic-slowdown-is-rippling-all-around-the-world-11652347800

WORLD

China's Economic Slowdown Is Rippling All Around the World

The country's crumbling economic growth is being felt everywhere from German factories to Australian tourist spots; Apple and General Electric warn of production problems

By Jason Douglas Follow *in Singapore and David Harrison* Follow *in Washington*

May 12, 2022 5:30 am ET

For decades, the world has depended on China as a massive factory floor and market. As the country's economic growth crumbles, the pain is spreading globally.

Lockdowns aimed at stamping out Covid-19 are throttling activity in the world's second-largest economy. Overseas demand for China's exports is fading as economies wrestle with surging prices and rising interest rates.

The effects of China's slowdown are showing up everywhere from German factories to Australian tourist spots. Exports are weakening in Asia as China's neighbors watch their largest market sag. Companies including Apple Inc. and General Electric Co. warned investors about production and delivery problems stemming from China's troubles, as well as dwindling sales.

Car sales in China have collapsed, hitting auto makers including BMW maker Bayerische Motoren Werke AG, Volkswagen AG and Tesla Inc. Tesla sold just 1,512 cars made at its Shanghai plant in April, down 98% from the more than 65,000 it sold in March, according to data released Tuesday by the China Passenger Car Association. Toyota Motor Corp. on Tuesday apologized for repeatedly missing its production plans, in part because of lockdowns in China, saying it expects to churn out 700,000 vehicles in May rather than the 750,000 it previously expected.

China's deceleration represents a double whammy for the global economy. The country isn't just a huge market for the rest of the world's goods, components and raw materials, but it is the manufacturing dynamo at the center of global trade.

That means its weakening economy is bad news for commodity exporters such as Brazil, Chile or Australia that supply China with oil, copper and iron ore. It is bad news for manufacturing powerhouses such as Germany, Taiwan and South Korea that rely on China as a huge market for machinery, cars and semiconductors, as well as a critical link in world-wide supply chains for their companies.

And it is bad news for the U.S., where galloping inflation is squeezing household budgets. Federal Reserve Chairman Jerome Powell warned last week that, alongside the war in Ukraine, China's economic woes could aggravate inflationary pressures in the U.S. if they prevent the healing of supply chains that is essential to help cool inflation.

"Everyone has exposure," said Carlos Casanova, senior economist for Asia at Union Bancaire Privée in Hong Kong. "Whatever happens in China significantly impacts global growth."

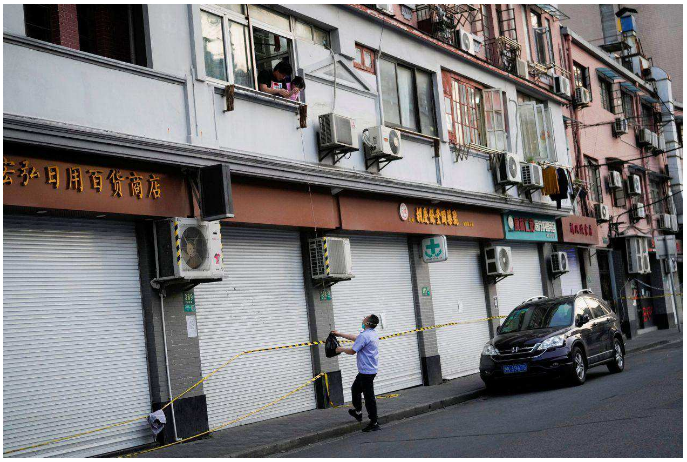
China in 2021 accounted for 18.1% of global gross domestic product, according to International Monetary Fund data, behind the U.S. at 23.9% but ahead of the 27 members of the European Union at 17.8%. It accounts for almost a third of global manufacturing output, according to United Nations data from 2020. China's economy expanded modestly at the beginning of the year but data for March and April point to a sharp slowdown.

Beijing's zero-tolerance strategy for smothering Covid-19 outbreaks led to strict lockdowns in manufacturing hubs like Jilin province in China's northeast and megacities like Shenzhen and Shanghai. Tight controls have kept millions at home, shut factories and stores and crippled transportation, adding more pressure to an economy that was already feeling the pain of a real-estate downturn and regulatory crackdowns on high-growth sectors like technology and education.

Official data Monday showed Chinese export growth slowed sharply in April, as lockdowns hammered factories and global demand waned, especially in Europe and Japan. After adjusting for inflation, imports of iron ore were 13% lower than a year earlier, imports of copper were down 4% and imports of cars and chassis were down 8%, according to economists at Nomura.

Some economists expect China's economy to shrink in the second quarter compared with the first and joblessness is rising. Top officials have pledged to revive growth with big spending on infrastructure projects, but many economists are skeptical that the government or central bank can do much to reboot the economy while sticking with ultra-strict Covid restrictions.

“China’s policy makers have heralded easing to prevent a growth slowdown—but have yet to fully act,” senior economists at BlackRock Investment Institute, the investment analysis division of the world’s largest asset manager, BlackRock Inc., said in a note to clients Monday, in which they downgraded their stance on Chinese assets to neutral.



The effects of China’s growth stumble are being felt widely. In Lincoln, Neb., Bison Inc., which makes and installs sports equipment for schools, has had projects held up because its suppliers can’t receive switches and other electronic components from China. Those components make it possible to move basketball equipment around school gymnasiums, Chief Executive Nick Cusick said.

“$80,000 or $100,000 projects are being delayed because of the lack of some $200 components,” he said.

Apple said recently that lockdowns in China could cost the company between $4 billion and $8 billion in lost sales due to supply-chain problems. General Electric said its healthcare division was facing production and delivery problems because of the lockdowns.

In Japan, Sony Group Corp. and Nintendo Co. said Tuesday that supply constraints linked to China would hurt production of their flagship videogame consoles. Sony Chief Financial Officer Hiroki Totoki said Covid-19 restrictions, including the lockdown in Shanghai, have made it hard for companies there to manufacture and ship parts used in their machines.

In Australia, Fortescue Metals Group Ltd., the world’s No. 4 producer of iron ore, said lockdowns in China have hit steel demand and lifted commodity transport costs. Rio Tinto PLC, the world’s second-biggest mining company by market value, said in a quarterly report in late April that Covid-19 lockdowns pose downside risks to near-term construction activity in China.

At one of the world’s largest lavender farms in Tasmania, Australia, Managing Director Robert Ravens said some 85,000 people visited every year before the pandemic, with a significant number arriving from China. Mr. Ravens said that while he has seen more international visitors at

Bridestowe Lavender Estate since borders reopened to tourists in February, few have been from China.

“I cannot sense that China will return to its pre-Covid numbers in the foreseeable future,” Mr. Ravens said.

Taiwan and South Korea’s exports to China in April each fell 3.9% compared with March, according to economists at Goldman Sachs. The slide highlights how some Asian economies are tightly plugged into China’s industrial engine, making them especially vulnerable to a slowdown.

Data from the Organization for Economic Cooperation and Development show that whereas Chinese parts and other inputs account for around 1.4% of the value of U.S. goods exports to the rest of the world, in South Korea they account for 5.2%, in Taiwan, 6.3% and in Vietnam, 14.4%.

In Europe, German manufacturing output recorded its biggest month-on-month decline in March since the start of the pandemic in 2020, reflecting the ripples from China but also the fallout from Russia’s invasion of Ukraine.

BMW last week reported a 19% decline in production volume in the first three months of 2022 compared with a year earlier, citing global supply bottlenecks for components as well as China’s lockdowns. Vehicle deliveries to China declined by about 9% during the quarter, BMW said.

Sportswear manufacturer Adidas AG said its revenue in China decreased by 35% in the first three months of the year from a year earlier, while higher sourcing and freight costs ate into profitability.

"China is so important for us as a marketplace," Jörg Wuttke, president of the European Union Chamber of Commerce in China, said at a recent news conference. Around 900,000 jobs in Germany depend on the Chinese market, he said, while German companies employ close to one million people in China.

Mr. Wuttke said he expects the worst of the Covid-related disruption from the recent lockdowns hasn't even been felt in Europe yet, as shipments that were supposed to leave China during the last couple of months would only now start to arrive in European ports.

The amount of drag China puts on the global economy will depend on how severe the country's downturn gets. Fortescue Metals and Rio Tinto both said they are optimistic that Chinese demand will recover and some economists are hopeful that ebbing caseloads and government stimulus will propel faster growth later in the year. With Western demand easing, supply-chain strains may not get as bad as they were last year, some analysts say.

In the U.S., businesses took advantage of some improvement in supply chains early in the year to replenish depleted inventories. Business inventories rose 12.4% in February from a year earlier, the biggest increase in records going back to 1993.

That should provide a cushion to further disruption, said Phil Levy, chief economist at freight forwarding technology company Flexport Inc.—at least for a while.

"It matters immensely how long this stuff lasts," he said.

—Tom Fairless in Frankfurt, Rhiannon Hoyle in Adelaide, Australia, and Mike Cherney in Sydney contributed to this article.

Write to Jason Douglas at jason.douglas@wsj.com and David Harrison at david.harrison@wsj.com

Appeared in the May 13, 2022, print edition as 'World Feels the Pain Of China's Slowdown'.