

CHINA ECONOMIC UPDATE MAY 2022



The COVID-19 pandemic could accelerate China's long term demographic pressures

NAB Group Economics

In line with global trends, the COVID-19 pandemic contributed to a downturn in China's birth rates in 2020. However, the negative trend in China continued into 2021, in contrast to most advanced economies, which saw birth rates recover. A continuation of this trend could accelerate China's growing demographic drag that is already impacting the country's growth prospects.

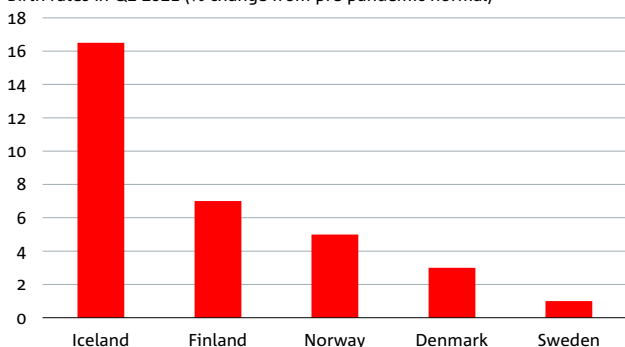
THE PANDEMIC IMPACTED FAMILY PLANNING GLOBALLY, INCLUDING CHINA

The COVID-19 pandemic had a differing effect on birth rates in individual countries. Generally, the lockdowns that were introduced early in the pandemic to reduce the spread of the virus resulted in a subsequent decline in birth rates in the latter months of 2020 and early months of 2021. However, in the case of advanced economies, recoveries were generally observed in 2021 – with a broad range of countries returning to typical rates, while some Nordic countries (particularly Iceland, Finland and Norway) saw birth rates rise above the trends exhibited between 2015 and 2019 – suggesting something of a baby boom.

NORDIC COUNTRIES BIRTH RATES

Baby boom in Q2 2021, particularly in Iceland

Birth rates in Q2 2021 (% change from pre-pandemic normal)



Source: National Geographic, NAB Economics

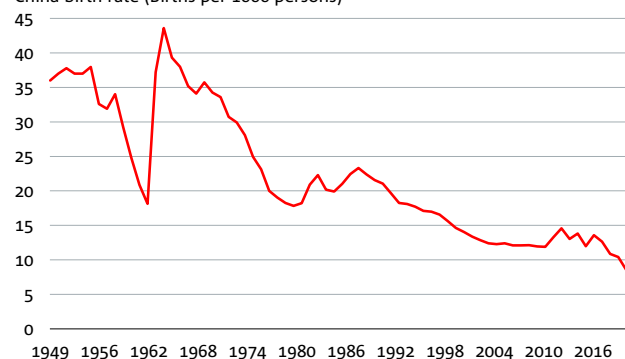
In contrast with the higher frequency (either monthly or quarterly) data for births in many advanced economies, China's birth rate data is only released annually. These data show that China's birth rate

dropped significantly in 2020 – down to 8.52 births per 1000 of the population (from 10.41 births in 2019) – before falling further in 2021 – to 7.52 births per 1000, a record low since the founding of the People's Republic in 1949.

CHINA'S BIRTH RATES

Record low in 2021, following 2020 decline

China birth rate (Births per 1000 persons)



Source: CEIC, NAB Economics

The general decline in birth rates across the globe in 2020 was not unexpected – with demographers noting a range of historical precedents for birth rates declining during periods of significant economic downturn and public health crisis. For example, a study by the Brookings Institution showed larger declines in birth rates in US states that had the largest increases in unemployment as a result of the pandemic. Advanced economies typically saw a recovery in their birth rates around nine months after the start of fiscal support packages to households, as these measures reduced the uncertainty around incomes. Some demographers have attributed the particularly generous family support payments in the Nordic countries that underpinned their baby boom.

These measures were in stark contrast with China's fiscal support during the pandemic – which focused spending on measures to support businesses. Anecdotal evidence suggests that there was a significant increase in unemployment in many regions of the country – which was problematic given the limited and inconsistent social safety nets provided by governments. This meant that even those who maintained employment had an increased tendency to save, likely reducing their incentives to have children. According to recent reports, this policy has not changed with respect to the lockdown in Shanghai. The lack of income support likely contributed to the decline in China's birth rate in 2021, while the policy response to current COVID-19 outbreaks (along with any further outbreaks) could also impact family planning decisions in 2022.

It will take many years to determine whether potential Chinese parents merely deferred having children due to the pandemic or will forgo having children entirely.

DEMOGRAPHIC DRAG HAS BEEN A LONG RUNNING CONCERN

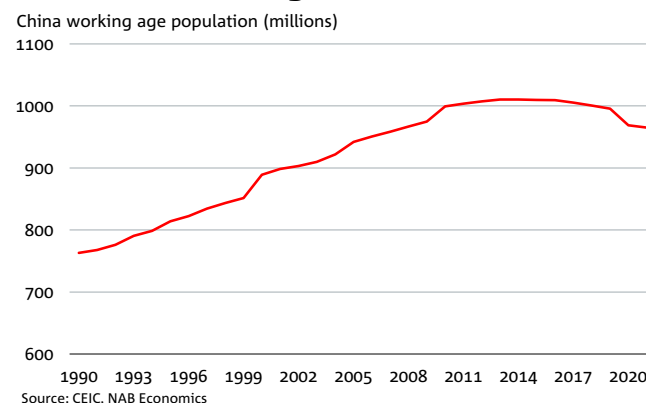
The downward trend in China's birth rate has been a long run phenomenon. China's birth rate peaked in 1963 before stabilising across the rest of the decade. The steep decline commenced in the early 1970s – well ahead of the introduction of the One Child Policy in 1980, which was implemented in part due to fears of overpopulation – followed by a more gradual decline between 1987 and 2010.

For a time, these trends provided an additional boost to China's economic growth – as fewer children meant that the working aged people made up a larger share of the total population (a trend typically referred to as a demographic dividend). However, this effect is temporary and the benefits reverse when the population ages sufficiently.

China's working age population – defined as aged 15 to 64 – peaked in 2013 at just over 1.01 billion and has subsequently declined each year since. This declining productive share of the population is required to support a growing retired one – the share of the population aged over 65 has risen from just under 7% in 2000 to over 14% in 2021.

DEMOGRAPHIC DRAG

China's working age population has declined since 2013



China's family planning policies have been loosened significantly over the past decade. Authorities had already started easing the One Child Policy prior to 2013, when they announced that couples would be permitted to have two children if one of the parents was an only child (earlier policy relaxation required both parents to be only children). In 2016, the One Child Policy became the Two Child Policy. Finally, in mid-2021, the Politburo announced that couples would be permitted to have three children.

It is possible that these policy changes had some positive impact on China's birth rate – birth rates between 2011 and 2017 exceeded the average recorded in the decade to 2010 – however the increase did not persist, with declines recorded each year since 2018.

Various surveys of households and individuals in recent years have shown that relatively few Chinese parents want more than one child. These surveys point to one child being a cultural norm – given that the One Child Policy was in force for multiple generations – as well as general costs of living, the specific cost pressures associated with raising children and the potential for discrimination (particularly by employers and against women) for having multiple children.

CONCLUSIONS

China's declining birth rates in 2021 – in contrast to the recovery in many advanced economies – highlights the lack of direct fiscal support for households during the pandemic. Given the impact of COVID-19 lockdowns in various centres in China (without any apparent change in fiscal support), birth rates may not increase significantly in 2022 (if at all). This increases the likelihood of a peak in China's population much sooner than previously thought – which was anticipated in 2031 in the 2019 edition of the UN Population Prospects.

Changes to family planning policy that are limited to the number of children permitted does not seem likely to support an increase in birth rates that will delay or reverse the increasing demographic drag. Chinese authorities may need to emulate the Nordic countries' fiscal support for parents (or similar policies) if they seek to significantly increase birth rates.

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