

Chart of the Day

Following the unexpected dual shocks in early 2022 of Russia's Ukraine invasion and COVID's resurgence, the world's 2nd largest economy (China) is slowing down, and therefore, so is global growth.

According to China-focused research firm Gavekal Dragonomics, in a bottoms-up analysis of China's 100 largest cities, accounting for 70% of China's GDP, all but 13 cities have imposed some sort of lockdown or restrictions in response to COVID's resurgence - with Shanghai's 27 million person city most prominent among them. In fact, the intensity of such lockdowns is still increasing. All 100 cities were classified between level 0 (no restrictions) and level 4 (full lockdown).

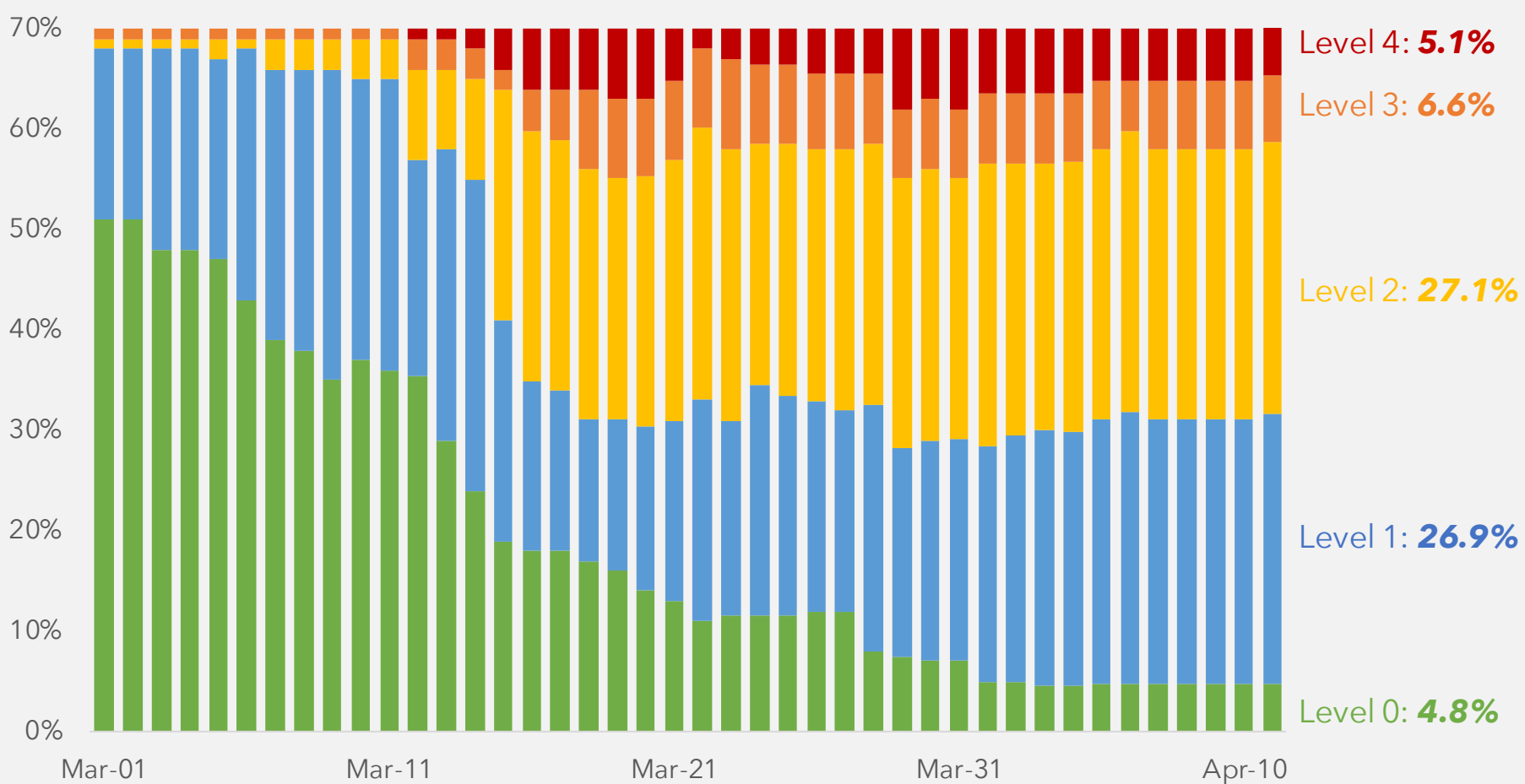
The sheer strength and scale of China's "dynamic zero COVID tolerance strategy" in the face of Omicron, as compared to the West, is an extension of numerous complex factors, including: a philosophically different approach to virus mitigation from Day 1, its 1.4 billion population living largely in densely populated urban settings, an aging population, comparatively lower vaccination rates among elderly and vulnerable populations, vaccines with generally lower efficacy, and a poorly resourced national hospital system (as compared to the West).

To be sure, the critically important confirmation of President Xi Jinping's unprecedented third term in November also looms large in decision-making, with a public health crisis clearly taking priority over the economy.

China's lockdowns are not just a domestic problem. Given the country's outsized role in global production, warehousing, transportation and demand, the implications for global growth, inflation and supply chains are formidable. In the last week alone, the IMF has sharply downgraded 2022 global growth from 4.4% to 3.6%, while the World Bank has downgraded growth expectations even more, from 4.1% to a meager 3.2%.

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Lockdown intensity, by share of GDP affected (top 100 cities = 70% of GDP)



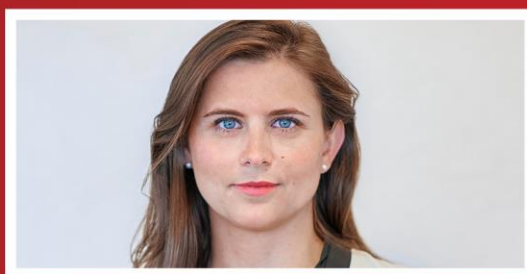
Source: (1) Gavekal Dragonomics / Macrobond. Local Government Websites. Data as of April 11, 2022.

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