Commentary on the June 2020 CKGSB Business Conditions Index

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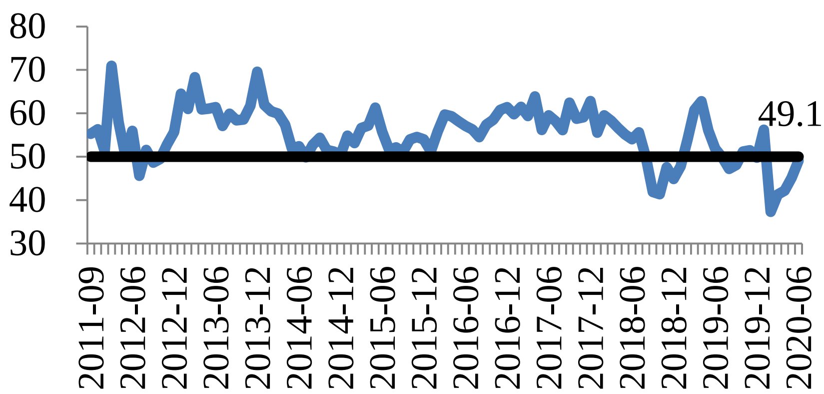
In June 2020, the CKGSB Business Conditions Index (BCI) welcomed somewhat of a rebound, rising from 45.2 to 49.1 (Figure 1). It is important to note that while China's private economy is still below the confidence threshold, there is now a high chance that the rest of the year's economic performance will be relatively good.

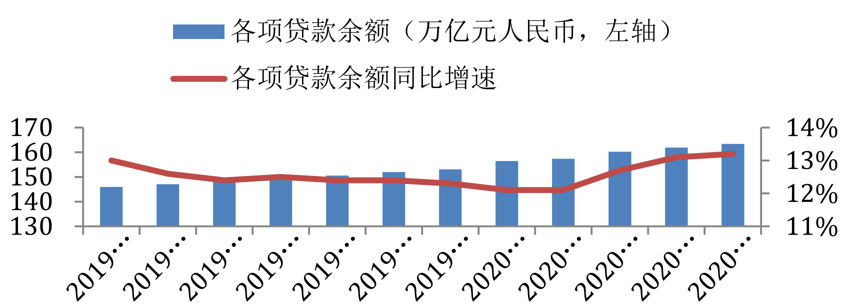
Figure 1 **Business Conditions Index (BCI)**



Source: CKGSB Case Center and Center for Economic Research

The coronavirus epidemic situation has mainly stabilized in China, with the exception of a localized outbreak in the Beijing area that has been contained. As the risks recede, people have begun eating out and shopping. Factories are able to recruit again, and across the economy, recovery has started. What cannot be ignored here is the role of government policy. From the total amount of loans and loan growth rate we can see that new highs have been reached. This can be seen from recent changes in loan balances (Figure 2). As China's financial system is dominated by the banks, the amount of loans largely represents the availability of funds.

Figure 2 **Loans 2019-2020**

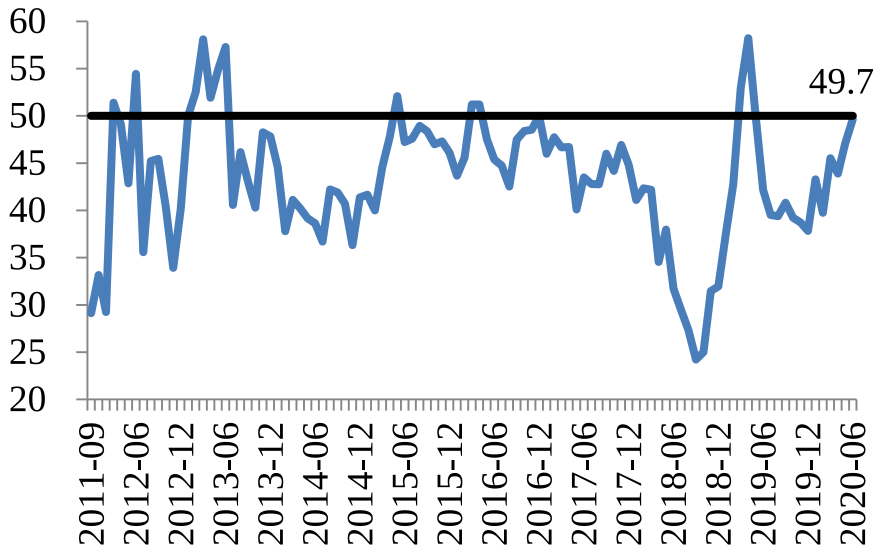


Source: Wind

(blue = total loan balance - unit trillion RMB; red = total loan balance - year-on-year growth)

The government has conducted a round of credit easing, which has had the direct consequence of improving the corporate financing environment (Figure 3). It is clear from Figure 3 that since the end of 2019, financing conditions have trended upwards, albeit with twists and turns, and in contrast to official data, the general direction has improved. The financial environment index is now one step away from the watershed, and it will not be surprising to see it turn positive in the next month or so.

Figure 3 **Corporate financial conditions**

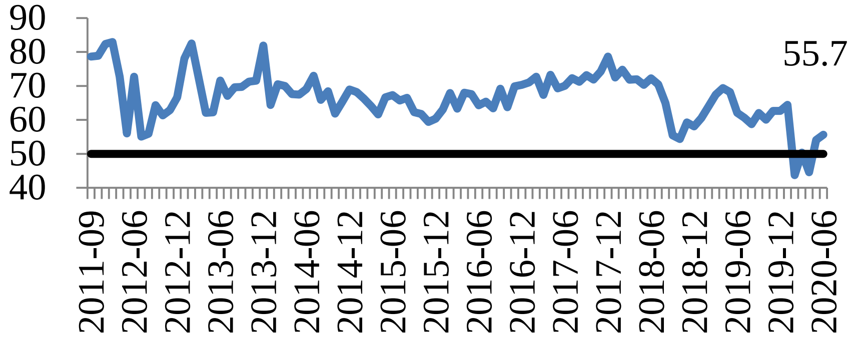


Source: CKGSB Case Center and Center for Economic Research

It should also be noted that the current economic policy is cautious compared to previous stimulus policies, especially compared with the 2009 high-volume credit policy, leaving the government with considerable room for further maneuver. With all this caution, it seems policy makers have learned their lesson. The 2009 stimulus gave the Chinese economy the juice to achieve a V-shaped rebound. Many loans ended up on local financing platforms, housing prices have skyrocketed, and economic distortions grew increasingly serious. Suffice to say that the problems the stimulus brought with it have been no less difficult to handle that those in need of solving a decade ago. Given this background, policymakers have every reason to avoid large-scale stimulus plans now.

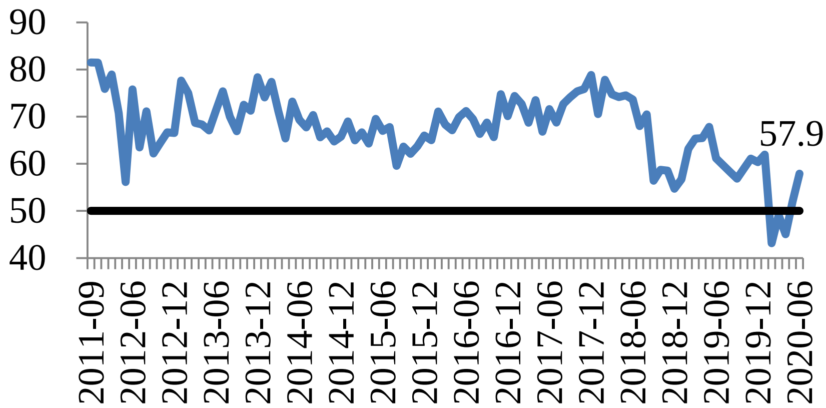
Another fairly fortunate part of this recovery can be seen in the investment index (Figure 4) and the recruitment index (Figure 5).

Figure 4 **Investment index**



Source: CKGSB Case Center and Center for Economic Research

Figure 5 **Recruitment index**

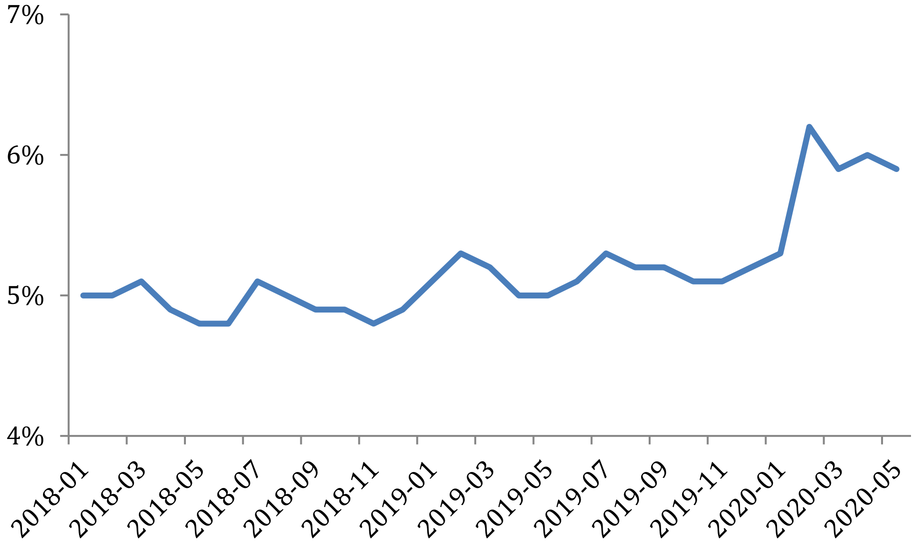


Source: CKGSB Case Center and Center for Economic Research

The corporate investment index crossed the watershed in May, and although it did not grow by much this month, there was a clear consolidation of the gain. Investment means future capacity growth and economic development. Without investment, economic growth is not possible, which makes it vital to the Chinese economy. The pandemic was one of the things that hit investment confidence recently, following a long period of stability at over 60, which knocked the index below 50 for a time, showing how private firms viewed the future – with narrowed expectations and lower rates of investment. As the public health outlook improves in China, company expectations improve too, as does the will to invest. But it remains difficult to say whether this trend can continue or not. We shall just have to wait and see.

The recruitment index has taken a similar path to that of investment, on a high for a long time, and falling below 50.0 when the coronavirus pandemic struck. As the new normal arrives, recruitment prospects are again rising, from 45.0 in April to 52.0 and 57.9 in May and June, respectively. Our figures are performing better than the official figures. According to Wind data, unemployment in May 2020 was 5.9%, which is still very high (Figure 6).

Figure 6 **Urban unemployment rate**



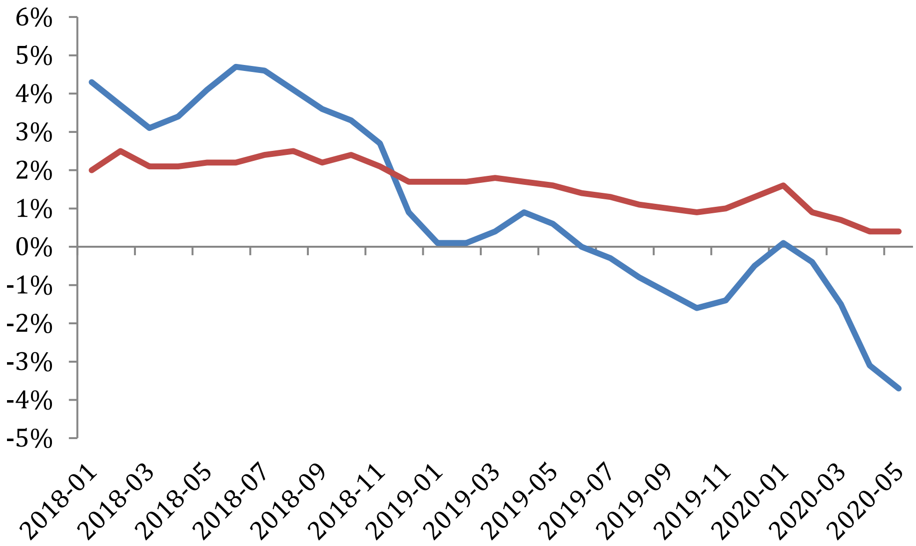
Source: Wind

As our recruitment index is a forward-looking index, if nothing else goes wrong, the official unemployment rate will gradually decline with time. Put another way, unemployment is not projected to be a big problem.

The last thing to talk about is the consumer price index and producer price index. These two have performed very differently this month. The former rose from 38.7 in May to 45.8 in June, and the latter fell from 40.6 in May to 36.8 this month. The consumer price index deviates from official figures, while the producer price index is consistent with them.

In the past two months, the non-food CPI has stabilized at a new low of 0.4%, while the overall CPI has fallen from 5.2% in February to 2.4% in May, at odds with our consumer price index rebound. As the BCI's consumer price data is a projection, it is possible that the CPI will make a similar rebound to some point in the future. PPI has continued to decline to negative digits, and has now fallen to -3.7% (Figure 7). Both PPI and producer products reflect current pricing of industrial products, with current and forward-looking indices both weak. This may reflect China's serious overcapacity issue, the addressing of which still has a long way to go.

Figure 7 **PPI Total industry (blue) and Non-Food CPI (red)**



Source: Wind

This is a commentary on the CKGSB BCI report for June 2020. Do not hesitate to contact the BCI team by email as shown in the accompanying BCI data report.

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