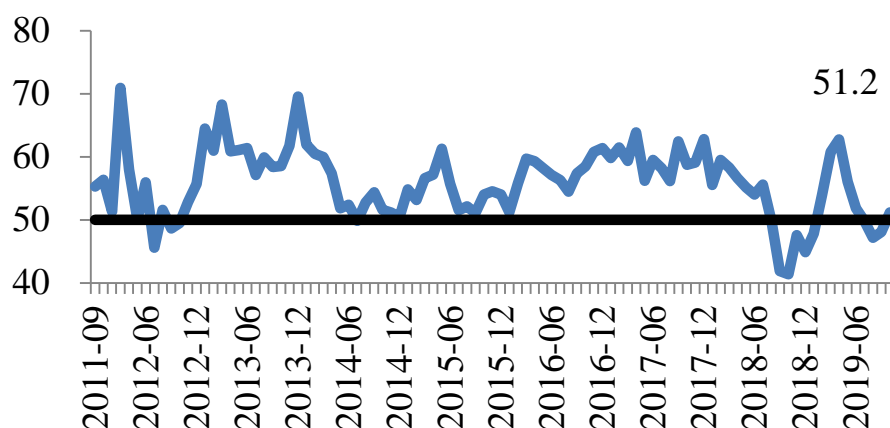


## Commentary on the October 2019 CKGSB Business Conditions Index

*Professor Li Wei*

The CKGSB Business Conditions Index improved moderately on last month's 48.1, rising to 51.2, taking confidence across the threshold of 50.0 (Figure 1).

Figure 1 Business Conditions Index (BCI)

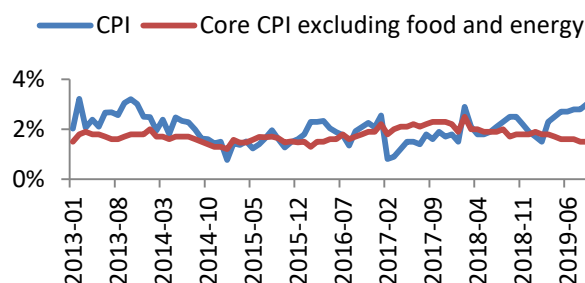


Source: CKGSB Case Center and Center for Economic Research

This month's BCI shows a range of complementary ups and downs. Here we will mainly discuss three issues:

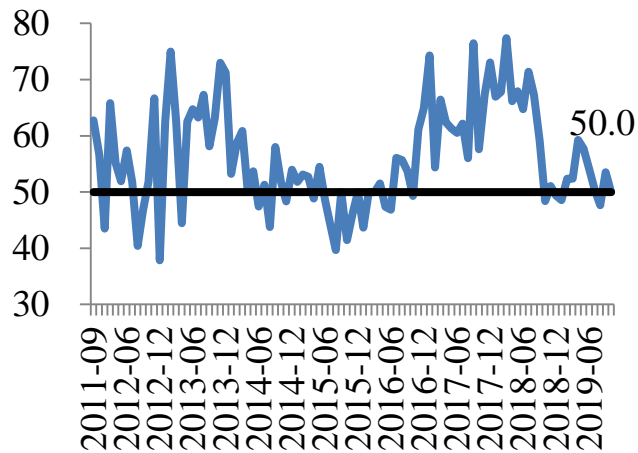
First, the recent market inflation. This can be chiefly accounted for by the sharp rise in the price of pork, and the knock-on effect on other meat prices, including beef and lamb. When it comes to inflation, we need to look at international, CPI data for China:

Figure 2 Consumer Price Index for China (source Wind)



We can see from Figure 2 that since the beginning of 2019, the CPI has in fact risen, but if you consider core CPI, without food and energy prices, the indicator is much more stable, and is now actually falling. If you compare core CPI with the BCI consumer price index, both have fallen (Figure 3).

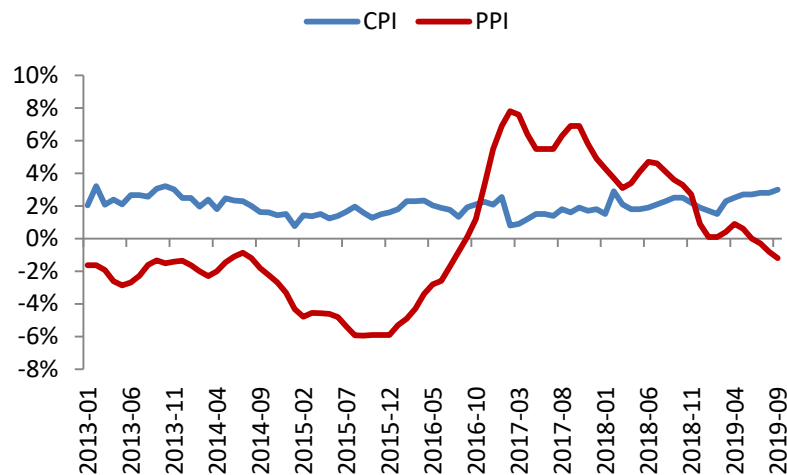
Figure 3 BCI Consumer Price Index for China



Source: CKGSB Case Center and Center for Economic Research

Let's consider PPI, producer price index. From official statistics, the value of CPI is higher than PPI over the long term. What is causing this phenomenon? Let's take a look at the values of PPI and CPI:

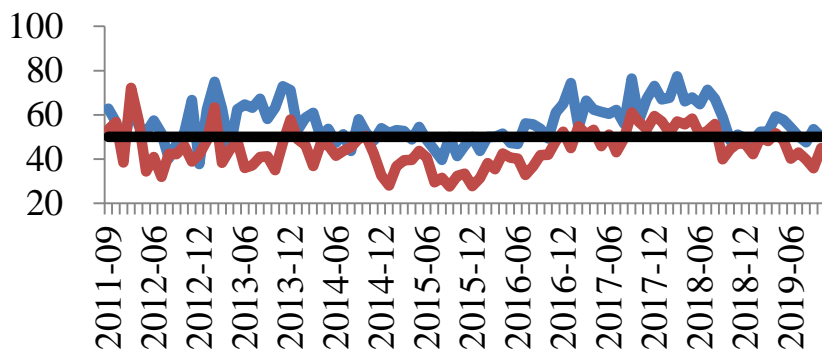
Figure 4



Source: Wind

We see this trend in other parts of the BCI too. Similar to official data, consumer prices are higher than producer prices. Here is the data:

Figure 5 Consumer prices (blue) and producer prices (red)

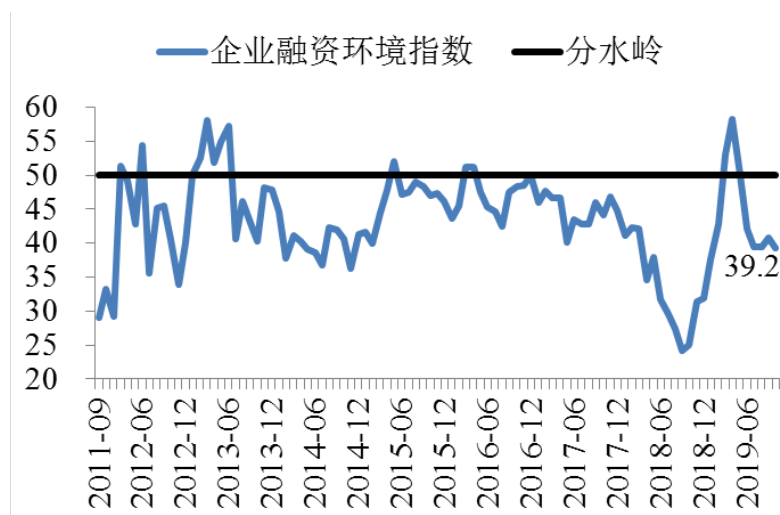


To conclude, at present, whether for consumer or producer products, prices are developing in a relatively stable direction. But using the current data to determine whether this will turn inflationary or deflationary will require more research.

Second, we should consider the investment environment, due to a significant decline of the BCI investment index. Let us remind the reader that our survey is taken by students and graduates of CKGSB, most of whom are private entrepreneurs, so this investment outlook mainly concerns their business environment. Given that private firms are the most active and hard-working in the Chinese economy, if they cool down on investment, it means they are not feeling optimistic about short-term development.

In fact, although the environment of private entrepreneurs has not changed substantially, it also has not deteriorated much. For example, the corporate financing outlook (Figure 6) has stabilized at around 40 since June, as have employment costs and total costs, having recently fallen below 80, a positive change for business operations.

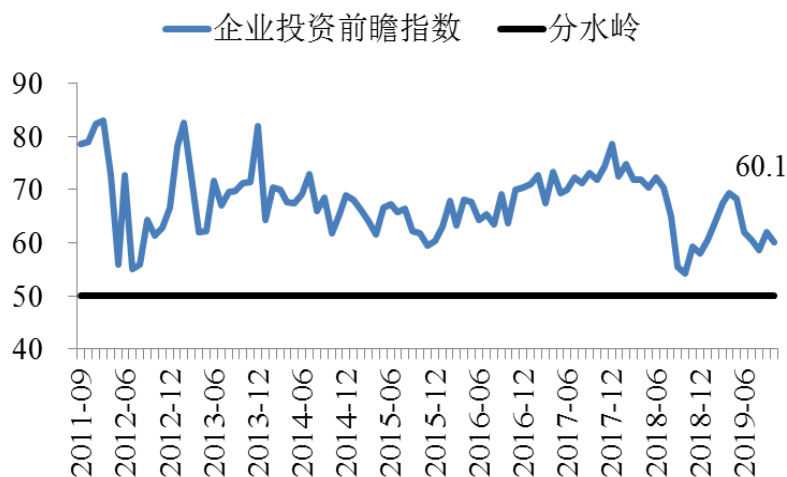
Figure 6 Corporate financing outlook



Source: CKGSB Case Center and Center for Economic Research

Under such circumstances, companies are still not optimistic about the future, and keep the purse strings drawn tight instead of investing. Although the corporate investment outlook has not fallen much to date, we should still pay attention to it (Figure 7).

Figure 7 Corporate investment outlook



Source: CKGSB Case Center and Center for Economic Research

Third, we need to pay close attention to the inventory index, because it rose by 5.5 this month to 47.7, just a short step from the 50 point confidence threshold. The long-term performance of the inventory index has been weak, predominantly below 50, and indicates that surveyed companies have obvious inventory accumulation pressure. In a normal market economy, inventory is kept in case of emergency, but in China, such a large backlog cannot be explained by one or two factors. The inventory problem may well be an expression of other issues, rather than a cause in itself such as overcapacity. It may only be possible to solve the inventory issue when China's long awaited economic reforms are finally in place.

This is the commentary on the CKGSB BCI report for October 2019. Do not hesitate to contact the BCI team by email as shown in the accompanying BCI data report.

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October 25, 2019