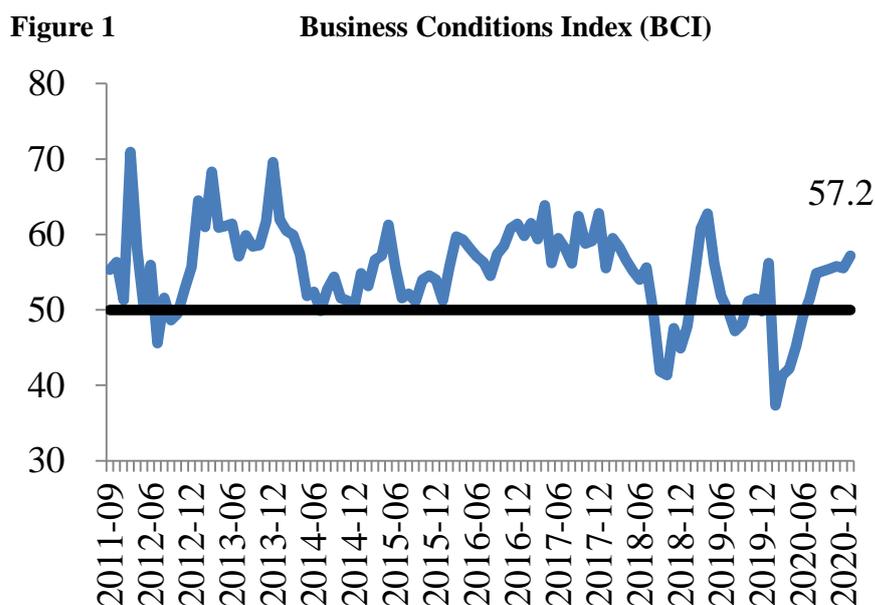


Commentary on the January 2021 CKGSB Business Conditions Index

Professor Li Wei

The CKGSB Business Conditions Index (BCI) reported a slight rise from 55.5 in December to 57.2 in January (Figure 1).



Source: CKGSB Case Center and Center for Economic Research

There are some highlights in this month's data, firstly that the costs side index continues to rise and already registers higher than 80. From a positive perspective, this means industry operates at full load, while from a negative perspective it means that if China wishes to fulfill its goal of reducing economic costs, it has a long way to go.

Not considering other factors, and only looking at housing prices, these have risen significantly in many cities in recent months, which has led to stringent real estate controls being imposed in some places. We know that it is just a matter of time before high housing costs filters down to living and land use costs. The happiness of the people, especially young people without housing, will be reduced as a result. The measures the government adopts keep shifting: “three rules” today and “five rules” tomorrow. But housing prices keep rising nevertheless.

Although the country's decision-makers are concerned about the real estate market and afraid that its problems will spill out into the financial system, most of the measures taken are remedial rather than solution-based. For example, the real estate tax debate is all talk but no action. Recently, even the chatter has ceased. Another example is the confirmation of rural land rights and the incorporation of collective land into the market. These are ongoing discussions that always fade to

black in the end.

In fact, the government's real estate control policy has a fundamental flaw. It requires the real estate market to act within its bounds, neither too hot nor too cold. In contrast, the government is more afraid that the real estate market gets too cold, as it has too many interests in it, and is in far too deep to extricate itself. No matter how high-level leaders warn that the real estate market is the "gray rhino" of China's economy, the housing market keeps its engines running, and the key lies within it.

The key to structural reforms in the Chinese economy is cost reduction. This can be clearly seen from the BCI survey. The cost index has been high for nearly 10 years, ranging between high and very high, which shows that reforms have yet to take hold. If even basic reforms cannot be completed, we may face the danger of not being able to maintain a high level of economic growth in the near future. In this case, maintaining levels of urban and rural employment and balancing regional economic development will become tougher to achieve.

There is another focus of this month's commentary, namely inventory prospects are dropping, which means businesses are retaining more of their goods. Meanwhile both consumer and producer price prospects are rising. Together, these three indices form a contradiction. Why are inventories growing so much now that products are selling well and prices are up?

We asked some survey participants for more insights. Based on their feedback, we listed possible reasons for this phenomenon. Companies are primarily concerned that upstream companies may have depleted stock because of the impact of the pandemic. Supply chain risks are their number one concern. Second, they are worried about price increases in raw materials and other inputs and have stocked up in advance. Third, the current interest rate is low, and companies are willing to use cheap funds to increase inventory. There may be various other minor reasons, but these are the three main ones. In these uncertain pandemic times, companies are responding in different ways.

Similarly, consumer prices and producer prices are on the rise, which means that while sales are booming, companies are also under pressure from rising costs. Combined with a substantial increase in commodity prices, companies are having trouble reducing costs right now.

Finally, let's take a look at the investment index and recruitment index. In the past, these two indexes tended to move in the same direction, but this month they went in opposite directions, with investment prospects falling while recruitment prospects climbing, albeit not by much. We tend to believe that both will stay steady. Last year, China's GDP growth rate reached 2.3% year-on-year, which is likely to be the only positive growth in the global economy. Some people predict that China's economy will do much better this year than last, reaching as high as 6.5% growth.

Following economic growth, where should we focus our structural reforms? Structural reform is related to the long-term development of China's economy and the only way to achieve high-

quality development. After the economy achieves a certain degree of growth, more attention should

be paid to structural reform. This is how China will reach its long-term development goals for 2035.

This is a commentary on the CKGSB BCI report for January 2021 to which you are welcome to refer for detailed statistics. Do not hesitate to contact the BCI team by email for the accompanying BCI data report.

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