Commentary on the February 2019 CKGSB BCI

Professor Li Wei

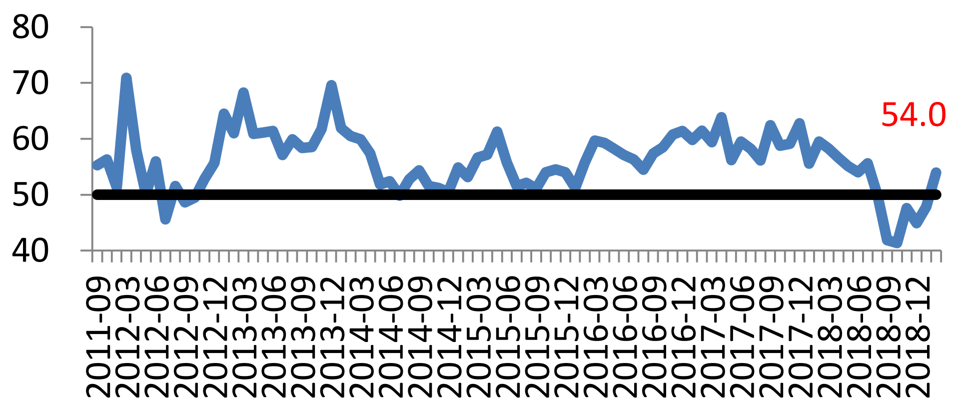
Recently, Didi Chuxing announced it would lay off 15% of their staff, amounting to around 2,000 people. JD.com has decided to start performance appraisals, sacking those who rated poorly, and cutting 10% of its executives at VP level and above. Real estate research institute CRIC released its latest research on February 14, reporting this year's Spring Festival-related hometown real estate boom was far less impressive than usual.

Without a doubt, this information fits uncomfortably with the sense that China's economy bottomed out. China, however, is a large and complex place and local reports and situations are relevant. For this reason, survey statistics of significant samples are particularly important to provide the bigger picture.

In the second half of 2018, the CKGSB Business Conditions Index (BCI) accurately predicted downward pressure on the Chinese economy. Today, the BCI provides evidence of a very different trend.

In February, the CKGSB Business Conditions Index (BCI) registered at 54.0, a noticeable improvement on January's reading of 47.8 (Figure 1). The rebound encompasses all aspects of the economy, and all four sub-indices. Sales forecasts are again over 70.0, profits are predicted to rise, with their index of 11.6 percentage points higher than last month: 59.0. The financial climate index has registered at 42.7, under the confidence threshold, but far higher than the abysmal figure from September 2018. Although the inventory index only rose by 0.5, its score of 45.0 is a big improvement.

Figure 1 Business Conditions Index (BCI)

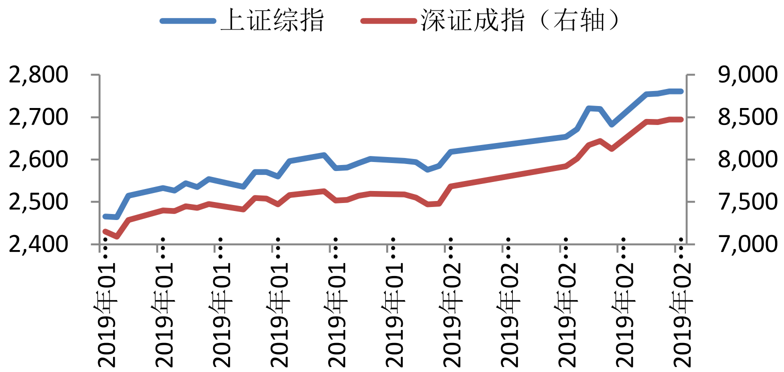


Source: CKGSB Case Center and Center for Economic Research

Aside from the main BCI, the labor cost forecast is set to improve, and overall costs are basically stable. At the prices end, the index has also increased somewhat while investment and recruitment prospects have rebounded sharply. In particular, the recruitment index rebounded to 63.2. For more statistics, see this month's BCI report.

Whichever way you look at it, China's A-share indices are also swinging in a positive direction (Figure 2), in line with our BCI results.

Figure 2 Stock Market Indices



Blue: Shanghai SSE Composite Index; Red: Shenzhen Composite Index
Source: Wind

Judging from the current BCI and related indexes, the Chinese economy has been going through a fairly strong rebound. In 2018, a number of internal and external factors such as deleveraging and the US-China trade war led the economy through a considerable period of downward pressure. This spread to employment, unsettling the population. Vanke, a major real estate company, urged people to “battle through.” Despite subsequent measures implemented by the government to stimulate growth, including slashing the reserve requirement ratio (RRR) and cutting taxes, skepticism persisted. Now it appears that many may have underestimated the impact of these policies.

Although market economy has its flaws, such as the impact of externalities, it remains the best way to organize economic activity from a long-term historical perspective. With this in mind, we must also acknowledge that sometimes governments can improve market outcomes. I am not here to popularize economics education or judge the current policies of the Chinese government. Instead, I hope to discuss the best roles for the market and government in China. Indeed, the core of China's reform and opening up agenda has reshaping of the relationship between government and the market. In the 1950s, China abandoned private business and established a state-run and planned economic system. Decades of implementation let the market to an economic dead-end. In the past 40 years, the scope of the government, the state-owned economy and the planned economy shrank, while the private economy flourished. In 1992 at the 14th National Congress, the ultimate ambition was: to develop a “socialist market economic system.”

After decades of reform, the private economy has dominated the Chinese economy, providing the most employment opportunities. But compared to many developed countries, the Chinese government still plays a pivotal role in the economy. In 2008, the US subprime mortgage crisis evolved into a global financial crisis. Hoping to buffer the impact of this crisis, the Chinese government implemented a four trillion RMB stimulus plan. This not only prompted a rapid rebound, but also brought the world economy back from the brink. However, this significant credit injection rapidly increased China's overall leverage ratio, alerting many international organizations to China’s situation. The Chinese government has since sworn off any such “flooding” as a method of stimulating economic growth in the future.

This kind of government intervention is something almost unforeseen by most overseas economists. However, this must make us pause for thought. Today, as reforms enter deeper waters, how can we evaluate China’s market-government relationship? How can we best develop a market-government relationship consistent with national conditions? I believe this is far greater discussion.

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

CKGSB Professor Li Wei

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