**Commentary on the July 2022 CKGSB Business Conditions Index**

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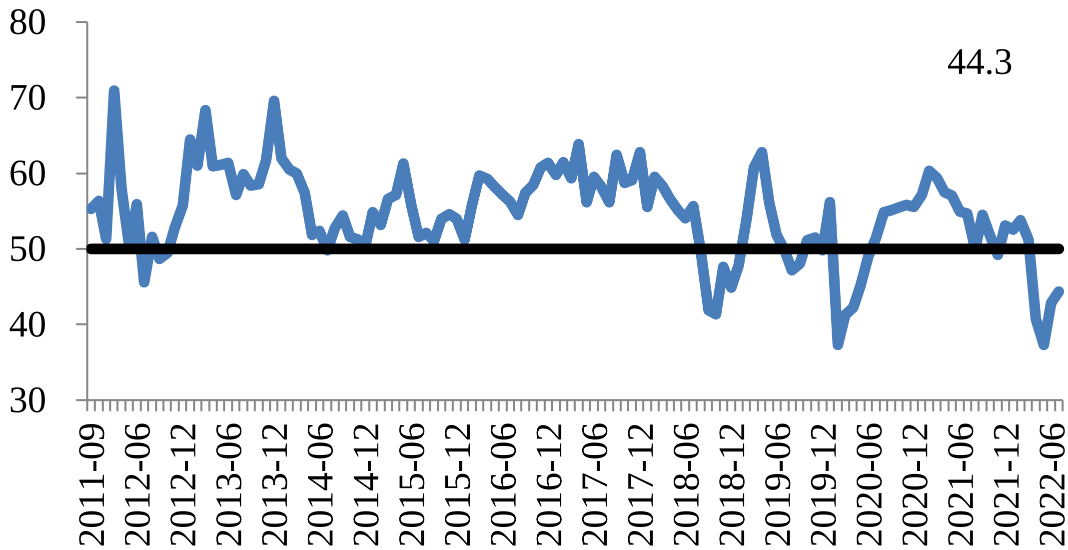
In July, the CKGSB Business Conditions Index (BCI) rose from 42.9 to 44.3, a small improvement on June's data, but still below the confidence threshold of 50.0. This reflects higher expectations of growth in China's business community but recovery is still weak.

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




Source: CKGSB Case Center and Center for Economic Research

The following is a detailed comment on the current macroeconomic situation. First of all, it should be noted that the government's policies to stimulate economic growth have had an immediate effect, reflecting the advantages and responsiveness of the Chinese government in focusing its efforts on major tasks. An article in state media magazine *China Comment* titled "A policy package should go all the way."

Both our data and that of the government are saying the economy is getting better, and much of this is the result of policy. However, the data also suggest that policy is having less of an impact that before, leaving China's economy with some way to go before it returns to normal.

Unfortunately, the increasingly contagious new subvariants of Covid-19 have reached China. And as China insists on "zero-Covid", for as long as the virus lurks, people and businesses will experience lockdowns, hurting livelihoods and pushing down growth prospects. China is by and large a country that is now open to the rest of the world. So, while people from abroad can be quarantined, filtering out most channels of infection, the virus can hardly be eliminated altogether. For this reason, we hold only muted optimism over China's economic outlook.

This year's coronavirus outbreaks have hit consumption especially hard – Restaurants cannot open their doors, movie theaters cannot let people in to watch films, and gyms are closed. The knock-on effect on the quality of living has had a massive impact on the service sector.

Most countries abandoned "zero-Covid" since omicron sped up transmission. The number of people infected worldwide is far greater than in relative terms in China, putting huge pressure on medical institutions, and economic development. China is a manufacturing hub of the world, and the global economy has a huge impact on China's domestic situation. The impact of the 2008 US financial crisis on China was a good example. Now the coronavirus has brought huge uncertainty to the future of the global economy. The Chinese economy is stymied by the uncertainty.

Looking at expenditure, a country's GDP can be roughly divided into consumption, investment and net exports. As mentioned, net exports are uncertain at present, and won't have as good a year as last. There are two biggest problems facing consumption now, one is the impact of the pandemic, and the other is a fall in incomes. Given that neither will shift much, we don't have high expectations for future consumption. From this point of view, companies and people should be prepared to reduce leverage. Investment is the bulk of China's economic growth, with a focus on infrastructure and real estate. The relationship between infrastructure construction and the government is relatively close, so it is more flexible. Real estate is not doing well, with developers unable to deliver homes on time. The problem of "unfinished buildings" has led some home buyers to stop paying bank loans and mortgages to force developers to pay up or finish building as soon as possible. Judging from historical experience, the rise and fall of real estate is connected to government regulation, and this time is no exception. The ratio shall not exceed 100%, and the cash-to-short-term debt ratio shall not fall any lower. But the difference is that this time, when the government loosened its regulations on home buying, the industry did not have the same kind of rebound it had in the past. This shows that the "mortgage strike" may have had a limited impact on the industry, but its emotional impact on homebuyers cannot be ignored.

China is now a very complex economy. In a recent speech by Li Keqiang on July 19, 2022, the premier spoke at the World Economic Forum's global entrepreneurs dialogue at the Great Hall of the People. According to a Xinhua News Agency report, Li Keqiang said that the current international and regional situation is undergoing a profound evolution which is creating significantly challenges and uncertainties. When introducing China's economic situation, Li Keqiang said that in the second quarter of 2022, due to unexpected factors such as Covid-19, downward pressure on the economy has increased, and major indicators fell deeply in April. We are also soberly aware that the foundations for economic recovery are not yet solid, and hard work is needed to stabilize the overall economic market. The statements above are all consistent with our data and analysis.

In addition, two sentences in Li Keqiang's speech caught my attention. One was about putting stable growth in a more prominent position and insisting on not "flooding" the market. The second was not engaging in massive stimulus measures. This illustrates the government's bottom line, which is to save the economy, but not triggering growth for growth's sake to achieve GDP figures at all costs. In other words, a bailout on the scale of the four trillion-dollar settlement is out of the question this time. Ensuring that China's economy does not stall is very important, but it also means speculators lose the protection of the government or must pay for their aggressive expansion at an earlier stage, such as Evergrande Group. From this perspective, China's decisionmakers obviously have vision.

This is a commentary on the CKGSB BCI report for July 2022 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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