

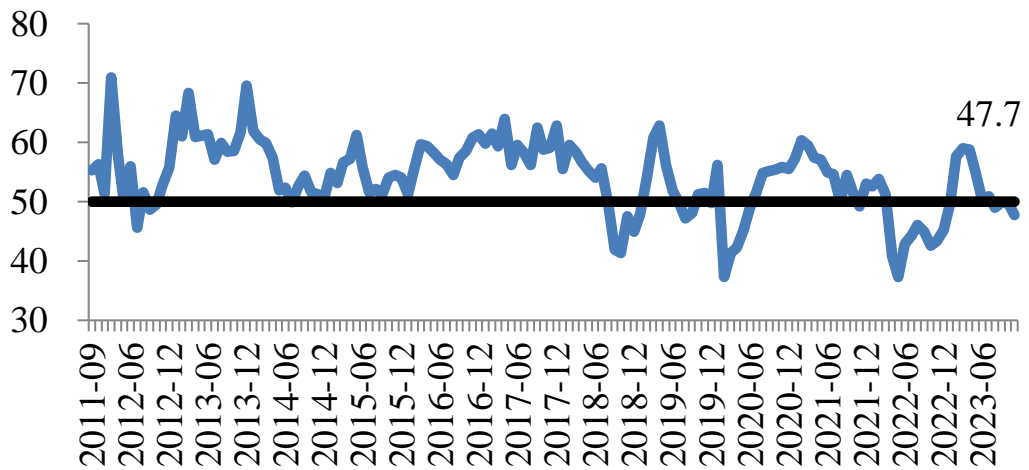
CKGSB BCI November 2023

30 November 2023

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 47.7 in November, a small decrease on October's figure of 49.8 (Figure 1), and under the confidence margin of 50.0. It suggests that the economy has not yet emerged from its troubles.

Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises four sub-indices: sales, profit, financing environment, and inventory. Three measure prospects and one, the corporate financing index, measures the current state of affairs. In November 2023, they performed as follows:

Figure 2 Corporate Sales Index


Source: CKGSB Case Center and Center for Economic Research

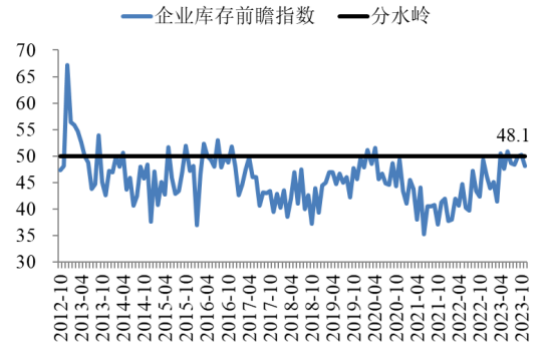
Figure 3 Corporate Profit Index


Source: CKGSB Case Center and Center for Economic Research

Three of the four subindices fell this month. The corporate sales index fell from 57.8 to 55.5 (Figure 2), while the corporate profit index fell from 45.9 to 42.0 (Figure 3). For profit expectations to stay below the confidence threshold for such a long time has been rarely seen in our 12-year-long survey.

Figure 4 Corporate Financing Index


Source: CKGSB Case Center and Center for Economic Research

Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

Corporate financing prospects rose somewhat from 44.9 to 45.3 (Figure 4). The index for inventory fell from 50.2 to 48.1. (Figure 5).

While for the other subindices —sales and profit— a positive trajectory indicates growth, when it comes to inventory, a positive trajectory indicates falling levels of warehoused stock and a falling index points to overcapacity. We need to consider the specific meaning of the four sub-indices of sales, profit, financing and inventory. Put simply, when the first three sub-indices rise, it means that the situation is improving, and when they fall, the situation is deteriorating. For inventory the reverse is true.

Aside from the main BCI, we also forecast costs, prices, investment and recruitment demand over the next six months. We begin with costs:

Figure 6 Labor Costs Index


Source: CKGSB Case Center and Center for Economic Research

Figure 7 Overall Costs Index

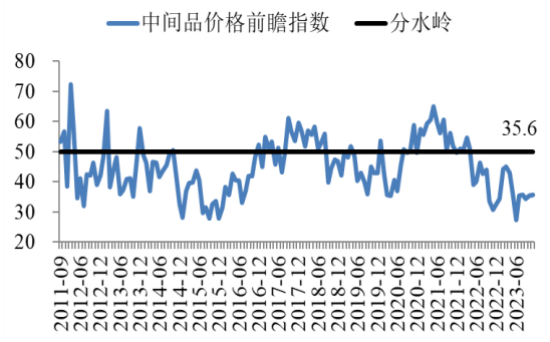

Source: CKGSB Case Center and Center for Economic Research

This month, labor cost expectations rose from 68.4 to 70.4. The overall costs index rose similarly, from 65.2 to 71.9. The still high overall cost predictions mean most companies anticipate rising staff costs in the next six months, and the same is true for overall costs. Although high labor and overall costs increase pressure on companies' bottom lines, they do not necessarily mean a deterioration of business conditions in China over the next six months. It could also mean the economy is improving, as companies are pushed to spend more as demand warms up. When the economy is improving, company output or sales increase, and more people and materials are needed for production, which means operating conditions are on the up. When unit costs of production or sales rise, demand may have increased. Companies feel the impact of cost hikes, but this is mitigated by boosted sales. For specific data, see Figures 6 and 7.

Let's look at price prospects. The consumer price index rose this month, from 44.7 to 46.0 (Figure 8). The producer price index rose marginally this month, with an index of 35.6 this month from 35.4 last month (Figure 9), an improvement but at a very low level.

Figure 8 Consumer Price Index


Source: CKGSB Case Center and Center for Economic Research

Figure 9 Producer Price Index


Source: CKGSB Case Center and Center for Economic Research

We now turn to investment and recruitment. These indices have both been at the more confident end of the scale since the BCI began. In the past few months, they have continued to trend downwards, and this month has been no exception. Since the Chinese economy is largely investment-driven, and investment has a strong link with job recruitment, they are important to follow. In other words, these two indicators look at plans for expansion in China's business world. The index for investment rose from 53.9 to 55.0 (Figure 10); the index for employment rose slightly from 54.7 to 56.3 (Figure 11).

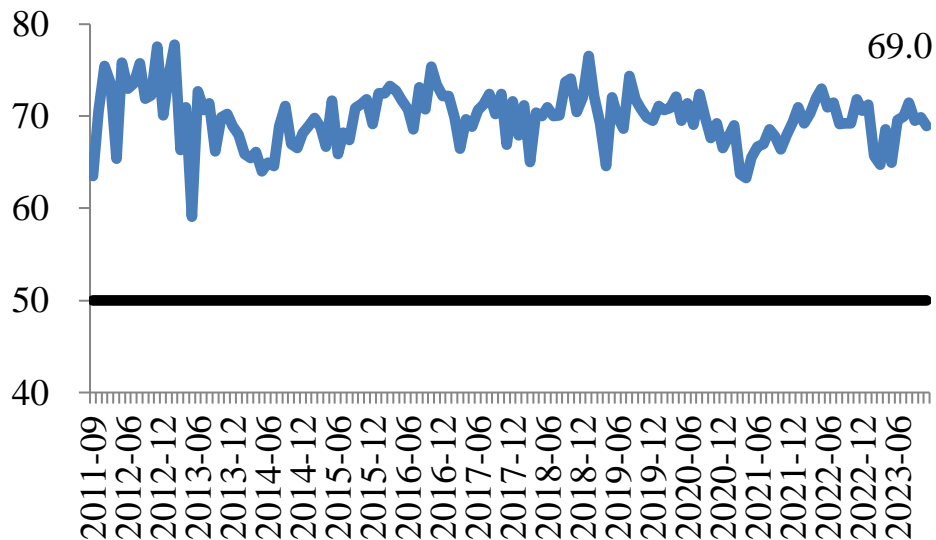
Figure 10 Investment Index


Source: CKGSB Case Center and Center for Economic Research

Figure 11 Recruitment Index


Source: CKGSB Case Center and Center for Economic Research

We conclude with an index recording our sample's relative strength in the marketplace. Figure 12 shows self-reported competitiveness compared with industry peers. This hovered at 69.0 in November. As our sample is mainly excellent private firms run by CKGSB alumni, their competitiveness is higher than average (50 points) in their respective cohorts. This suggests that Chinese industry is, on the whole, having a harder time than our BCI sample.

Figure 12 Company Competitiveness


Source: CKGSB Case Center and Center for Economic Research

CKGSB BCI Introduction

In June 2011, the CKGSB Case Center and the Center for Economic Research initiated a project to gauge the business sentiment of executives regarding the macroeconomic environment in China – calling it a business conditions index.

Under the direction of Professor Li Wei, the two research centers designed and tested the BCI survey in July 2011. In September 2011, the first survey was carried out. 144 surveys have now been completed between May 2012 and November 2023 and 139 reports published (Three months at the beginning resulted in no report).

Explanation of the Index

The CKGSB Business Conditions Index (CKBCI) is a set of forward-looking diffusion indicators. The index takes 50 as its threshold, so a value above 50 means that the variable that the index measures is expected to increase, while a value below 50 means that the variable is expected to fall. The CKGSB BCI uses the same methodology as the PMI index.

The survey asks senior executives of companies whether their main products are for consumers or non-consumers, and then asks how they think product prices will change in the next six months. Based on survey responses, we have been able to report expectant changes in consumer and producer prices.

We ask companies for information pertaining to their relative competitive positions in their respective industries. Based on survey responses, we compute a competitiveness index for our sample. The higher the competitiveness index, the more competitive our sample firms are in their respective industries.

Method of Calculation

During each survey, respondents are asked to indicate whether certain aspects of their business (e.g., sales) are expected to increase, remain unchanged, or decrease over the forthcoming six months as compared to the same time period last year. The diffusion index is calculated by summing the percentage of “increase” responses and half of the “remain unchanged” responses.

Of all the indices measured for the CKGSB BCI, the overall business conditions index is an aggregate index, which has been calculated, since December 2012, by averaging its four constituent indices of sales, profit, financing environment and inventory. The aggregate BCI index before December 2012 used a different composition of constituent indices, and is therefore not directly comparable to the current BCI index.

About Cheung Kong Graduate School of Business

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Established in Beijing in November 2002 with generous support from the Li Ka Shing Foundation, CKGSB is China’s leading non-profit, independent educational institution. The school offers innovative English MBA, Chinese MBA, Executive MBA and Executive Education programs. In addition to its campus in the center of Beijing, it has teaching sites in Shanghai and Shenzhen and representative offices in Hong Kong, London and New York.

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CKGSB faculty, through their on-the-ground research and close relationships with leading domestic executives, provide global thought leadership on both the theory and the practical reality of real-life business in China. They consistently generate important insights into areas that are poorly understood outside of China, such as the globalization strategies of Chinese companies and

competition and collaboration among state-owned enterprises, private businesses and multinationals.

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CKGSB is the only business school in China with the reputation and resources to attract faculty from top business schools such as Wharton, Stanford, NYU and INSEAD. The majority of CKGSB faculty members were born and raised in China before leaving to study and teach abroad. Their bicultural backgrounds have endowed them with a valuable capacity to interpret global business in the context of both China and the West.

The Research Team

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