

CKGSB BCI

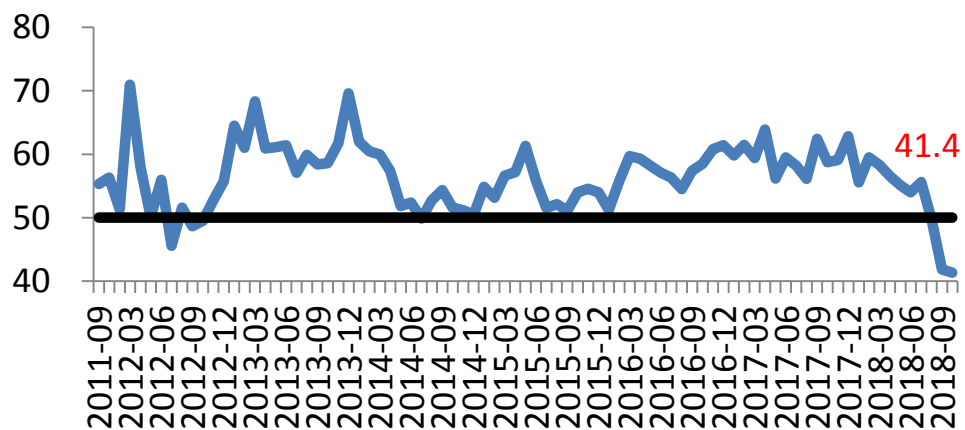
October 2018

26 October 2018

CKGSB Case Center and Center for Economic Research

Last month's CKGSB Business Conditions Index (BCI) fell to its lowest level since the survey began, and this month, the business confidence levels is even worse. In October, the BCI dropped to an unprecedented low of 41.4 from 41.9 in September. Most surveyed companies are now experiencing a tough operating environment and have become even more pessimistic about business prospects for the next six months (Figure 1).

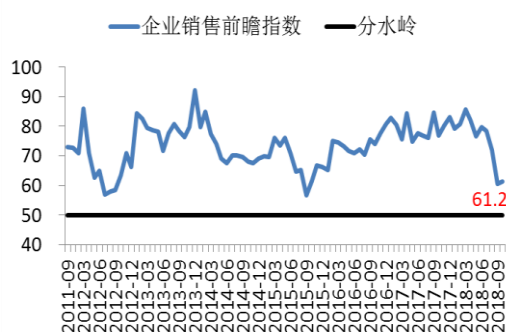
Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises of four sub-indices for corporate sales, corporate profits, corporate financing environment and inventory levels, three of which measure future prospects and one, the corporate financing index, measures the current situation.

Figure 2 Corporate Sales Index



Source: CKGSB Case Center and Center for Economic Research

Figure 3 Corporate Profit Index

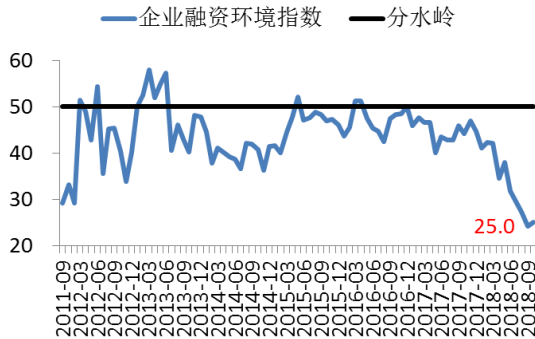


Source: CKGSB Case Center and Center for Economic Research

This month, three rose and one fell. The corporate sales index rose from last month's 60.4 to 61.2

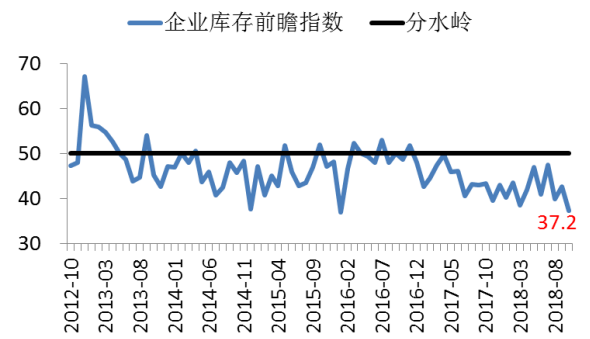
(Figure 2), and the corporate profit index rose from 43.0 to 45.3 (Figure 3).

Figure 4 Corporate Financing Index



Source: CKGSB Case Center and Center for Economic Research

Figure 5 Inventory Index



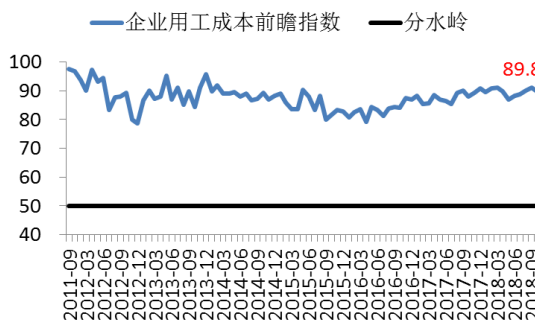
Source: CKGSB Case Center and Center for Economic Research

This month's corporate financing index had a minor rebound from 24.2 to 25.0, still well under the confidence threshold. It shows that in terms of financing difficulties, companies are yet to turn the corner (Figure 4).

The inventory index dropped significantly from 42.7 in September to 37.2 this month (Figure 5). This index was the only one to rise last month, but has now returned to form. As the other three indices rebounded, this one turned the opposite direction, and this drag on the BCI may account for the overall index's continued downward trajectory.

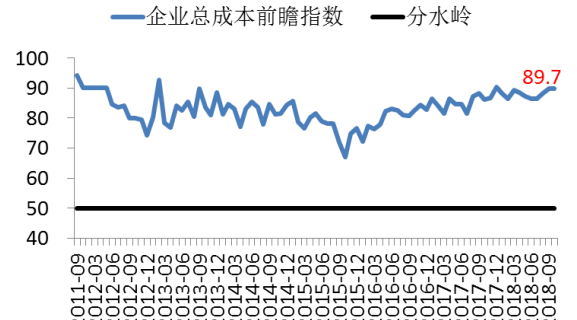
Aside from the main BCI, we also forecast costs, prices, investment and recruitment demand over the next six months. Let us begin with costs.

Figure 6 Labor Costs Index



Source: CKGSB Case Center and Center for Economic Research

Figure 7 Overall Costs Index

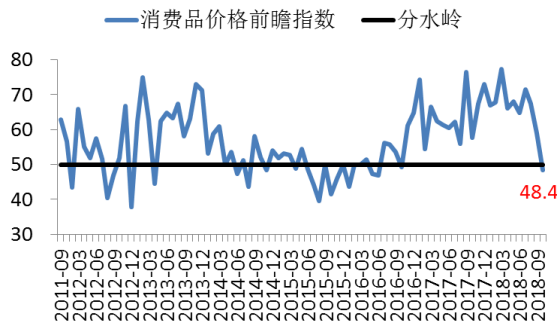


Source: CKGSB Case Center and Center for Economic Research

While business conditions have seriously deteriorated, labor and overall costs forecasts continue to rise. This month, labor costs registered 89.8 and the overall costs 89.7, similar to last month. From a longer term perspective, no matter how the economy is performing, these two indices have remained stubbornly high, and no fall in either is expected any time soon. This remains hard to explain. For detailed data, see Figures 6 and 7.

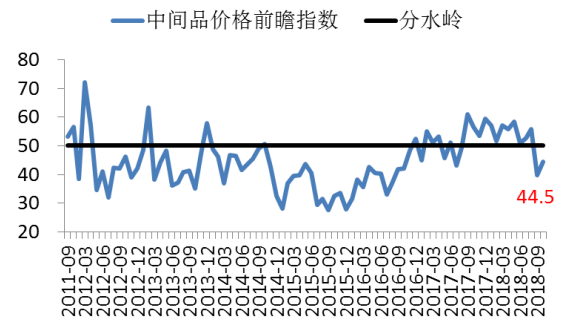
On the prices side, the consumer prices index fell from 59.0 to 48.4 this month (Figure 8), breaking through the confidence threshold. The producer prices index rose from 39.9 to 44.5, (Figure 9). This continued decline in expectations for prices shows us that without government intervention, China could be in for a significant economic downturn.

Figure 8 Consumer Prices Index



Source: CKGSB Case Center and Center for Economic Research

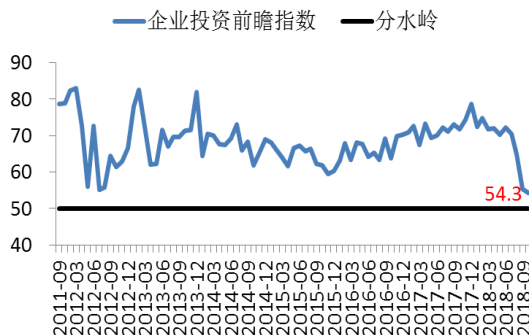
Figure 9 Producer Prices Index



Source: CKGSB Case Center and Center for Economic Research

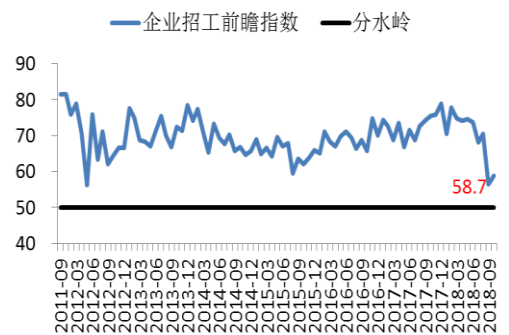
We now turn to investment and recruitment. Although the investment and recruitment indices have never reached the heights of the costs indices, they have consistently remained at the more confident end of the scale. However, the past two months have seen the trend tip in the negative direction. This month's investment index is 54.3 (Figure 10), and the recruitment index is 58.7 (Figure 11), both under 60. When businesses plan to invest less and recruit fewer staff, their confidence is clearly shaken. This is something to be taken seriously.

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

Figure 11 Recruitment Index

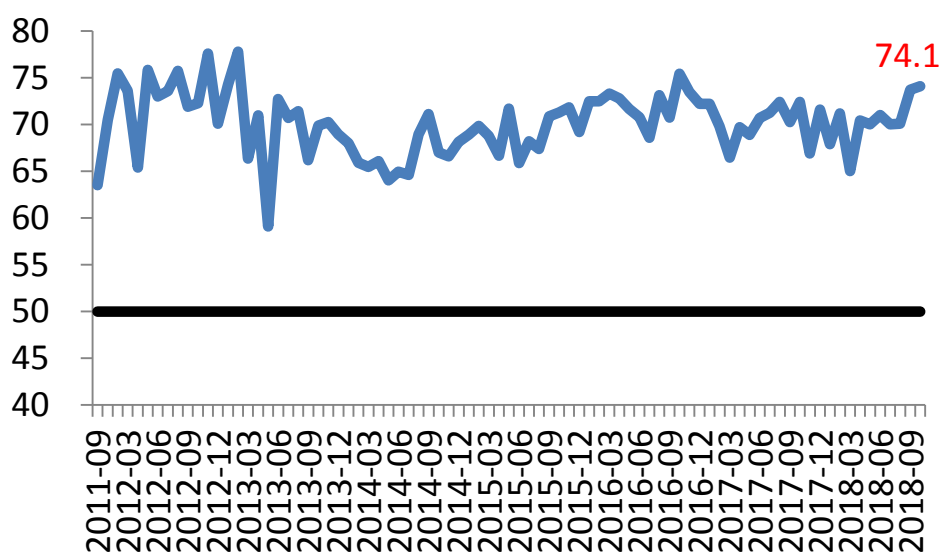


Source: CKGSB Case Center and Center for Economic Research

Finally, we include an index recording our sample's relative strength in the market. Figure 12

shows the surveyed companies' level of competitiveness over time. As our sample mostly comprises of the companies of CKGSB alumni, their competitiveness is consistently higher than the average (50 points) in their respective industries. Lower performing firms will be experiencing worse prospects.

Figure 12 Industry 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 about the macro-economic 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 surveys were distributed and first results computed. 83 surveys have been completed in total and 78 monthly reports have been published between May 2012 and October 2018 (At the beginning, there were three months for which no report was issued).

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 an value above 50 means that the variable that the index measures is expected to increase, while an index 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

Education for a New Era of Global Business

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.

Thought Leaders on Business in China

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.

World-Class Faculty with a Global Perspective

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

Li Wei - CKGSB Economics Professor; Director, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3235 wli@ckgsb.edu.cn

Yan Yang – Assistant Director, CKGSB Case Center

+86 10 8537 8479 yanyang@ckgsb.edu.cn

Gu Chongqing - Senior Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3336 cqgu@ckgsb.edu.cn

Zhu Yunhai – Senior Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8537 8467 yhzhu@ckgsb.edu.cn

Xiaoyu Wang – Research Assistant, CKGSB Case Center and Center for Economic Research

cc-pt@ckgsb.edu.cn

Disclaimer

This report is based on public information and field research carried out by CKGSB Case Center and CKGSB Center for Economic Research. Sources of these data are deemed reliable, but the two Centers do not guarantee their accuracy and completeness. Opinions expressed in this report reflect only the judgment of the researchers in the two Centers on the day when the report is released, and are subject to change without prior notice. CKGSB holds no liability for any loss that might be brought about by using this report. Readers are advised to use their own discretion and to consider whether any comment or suggestion given in this report is suitable for their personal situation.