

CKGSB BCI

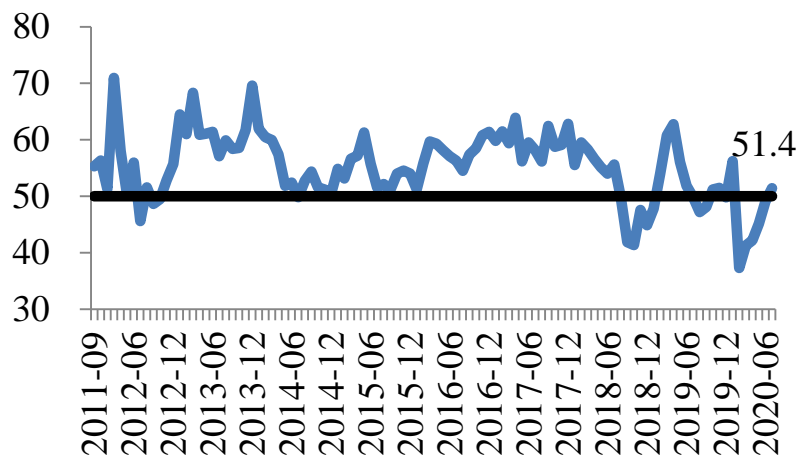
July 2020

30 July 2020

CKGSB Case Center and Center for Economic Research

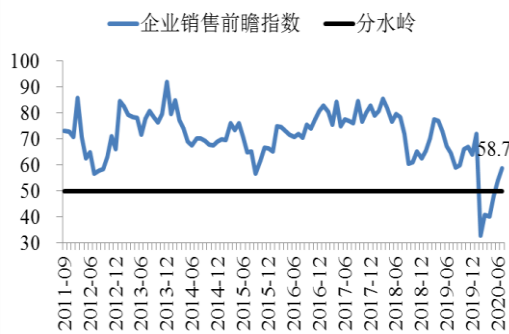
In July, the CKGSB Business Conditions Index (BCI) registered 51.4, up 2.3 points on June's 49.1 (Figure 1). Economic growth has been returning gradually for the past six months, and confidence has crossed the threshold of 50.0 indicating that the majority of survey respondents have an optimistic outlook on business over the next six months.

Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises four sub-indices: corporate sales, corporate profits, corporate financing environment and inventory levels. Three measure future prospects and one, the corporate financing index, measures the current climate. In July 2020, these sub-indices performed as follows:

Figure 2 Corporate Sales Index


Source: CKGSB Case Center and Center for Economic Research

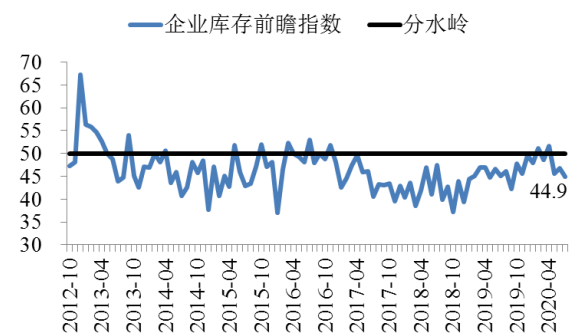
Figure 3 Corporate Profit Index


Source: CKGSB Case Center and Center for Economic Research

Three rose and one fell this month. The corporate sales index moved further into the realm of confidence by rising from 54.1 to 58.7 (Figure 2), and the corporate profit index rose from 45.4 to 49.4 (Figure 3).

Figure 4 Corporate Financing Index

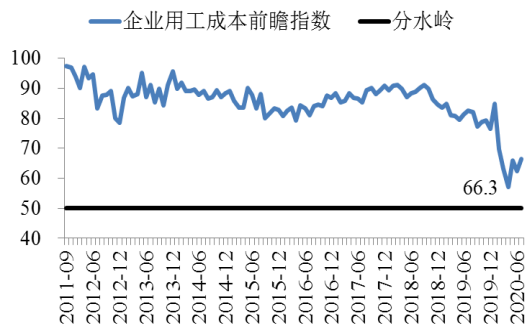

Source: CKGSB Case Center and Center for Economic Research

Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

Corporate financing prospects improved somewhat on last month, with the index rising from 49.7 to 52.0 (Figure 4). Financing conditions will have eased for many companies by now, and this is shown in a financing index over 50.0, an impressive feat given the adverse circumstances. The inventory index has fallen, but not by much, from 46.8 to 44.9 (Figure 5).

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

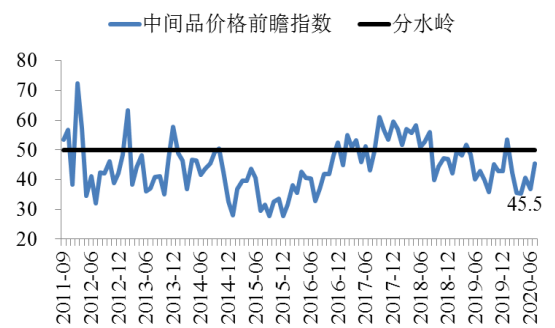

Source: CKGSB Case Center and Center for Economic Research

This month's labor cost forecast rose from 62.4 to 66.3. The overall cost forecast also climbed somewhat, from 66.8 to 68.6. Costs have been a consistent point of confidence over the years, but met their match with the coronavirus, and they have now started a slow climb out of the first quarter slump. See Figures 6 and 7 for more.

Turning to prices, the consumer price forecast improved slightly from 45.8 to 46.4 (Figure 8) while the producer price index rose from 36.8 to 45.5 (Figure 9).

Figure 8 Consumer Price Index


Source: CKGSB Case Center and Center for Economic Research

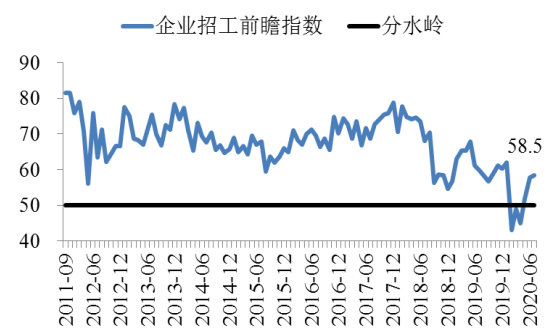
Figure 9 Producer Price Index


Source: CKGSB Case Center and Center for Economic Research

We now turn to investment and recruitment. These two indices have been consistently at the more confident end of the scale since the BCI began. In recent months however, both weakened, especially recruitment, before beginning to rebound. The investment index moved up to 60.1 from 55.7 (Figure 10), and the recruitment index rose to 58.5 in July from 57.9 in June (Figure 11).

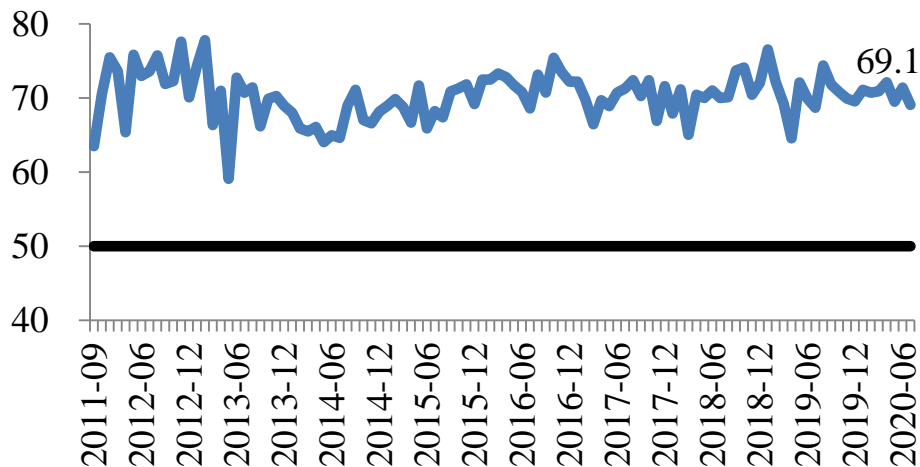
Figure 10 Investment Index


Source: CKGSB Case Center and Center for Economic Research

Figure 11 Recruitment Index


Source: CKGSB Case Center and Center for Economic Research

Finally, we include an index recording our sample's relative strength in the marketplace. Figure 12 shows surveyed companies' self-reported competitiveness compared with peers. As our sample mostly comprises of excellent private firms headed by CKGSB alumni, their competitiveness is higher than average (50 points) in their respective industries. It should be noted that Chinese industry as a whole will be having a harder time than our sample.

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 regarding 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 survey was carried out. 103 surveys have now been completed and 99 monthly reports published between May 2012 and July 2020 (There were three months at the beginning 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 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

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 - Director, CKGSB Case Center and Center for Economic Research; CKGSB Economics Professor; Associate Dean for MBA (+86 10 8518 8858 ext. 3235 wli@ckgsb.edu.cn)

Gu Chongqing - Senior Researcher, CKGSB Case Center and Center for Economic Research
+86 2162696677 cqgu@ckgsb.edu.cn

Xueying Li – Research Assistant, CKGSB Case Center and Center for Economic Research
+86 10 85378477 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.