

CKGSB BCI

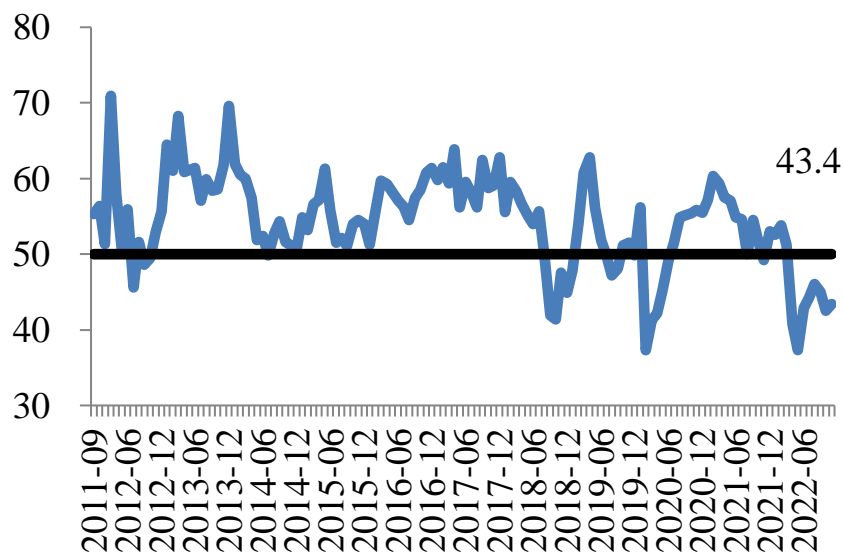
October 2022

24 November 2022

CKGSB Case Center and Center for Economic Research

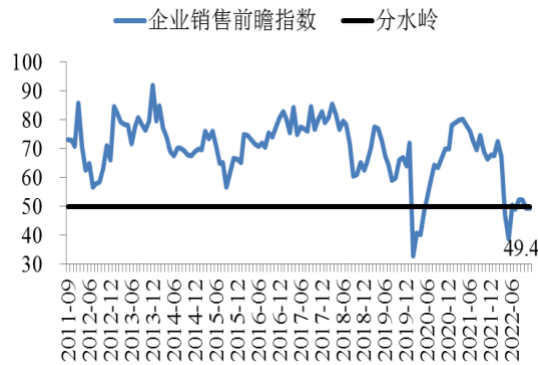
In November, the CKGSB Business Conditions Index (BCI) registered 43.4, from 42.5 in October (Figure 1), remaining below the confidence threshold of 50.0. With the index roughly level with last month, the tiny rebound hardly gives cause for positive thinking at the end of the year. Indeed, with the BCI below 50.0, most company leaders surveyed remain pessimistic about the next six months of business in the world's second largest economy.

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 current business conditions. In November 2022, these sub-indices performed as follows:

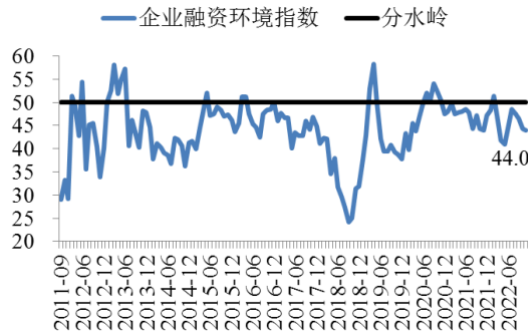
Figure 2 Corporate Sales Index


Source: CKGSB Case Center and Center for Economic Research

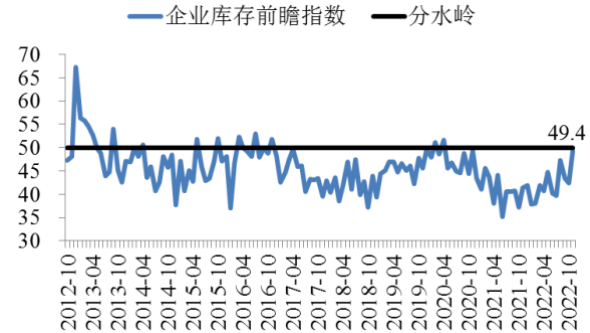
Figure 3 Corporate Profit Index


Source: CKGSB Case Center and Center for Economic Research

Of these, two rose and two fell this month. The corporate sales index went up marginally from 49.3 to 49.4 (Figure 2), while the corporate profit index fell yet again from last month's 38.4 to 33.4 (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 fell slightly from 44.3 to 44.0 this month (Figure 4). November saw the inventory outlook rise from 42.4 to 49.4 (Figure 5). On these two counts, the companies we survey have a persistently negative outlook, and this month has done nothing to buck the trend.

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

The CKGSB BCI labor cost forecast rose fractionally from 68.3 to 69.5. Overall costs expectations nosed upwards from 71.0 to 71.3. See Figures 6 and 7 for the trajectory these indices have taken.

Turning to prices, consumer prices are expected to rise, with the index improving from 37.1 to 46.4 (Figure 8). The producer price forecast went in the other direction, falling from 33.5 to 30.7 (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 indices have both been at the more confident end of the scale since the BCI began. In the past few months, they trended downwards, now hovering at the confidence threshold. Confidence in investment prospects has slipped from 52.7 in October to 47.9 this month (Figure 10), and recruitment confidence has dropped from 54.5 to 48.2 (Figure 11). Both these indices are now resting below the confidence marker of 50.0, a very rare condition in over 12 years of conducting the BCI.

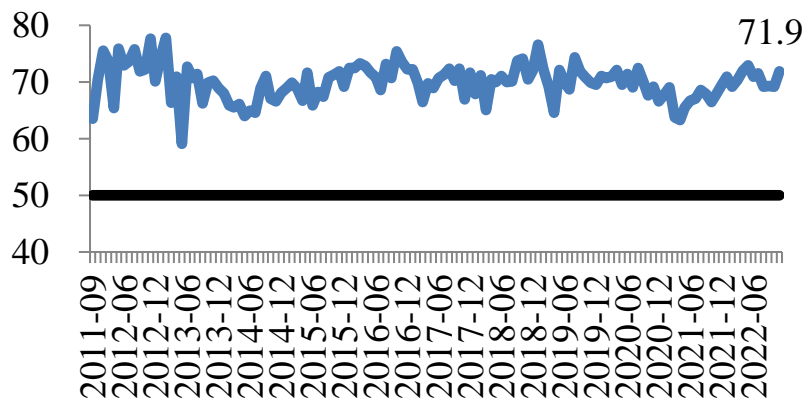
Figure 10 Investment Index


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. 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 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. 132 surveys have now been completed between May 2012 and October 2022 and 127 reports published (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

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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.

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

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