

CKGSB BCI

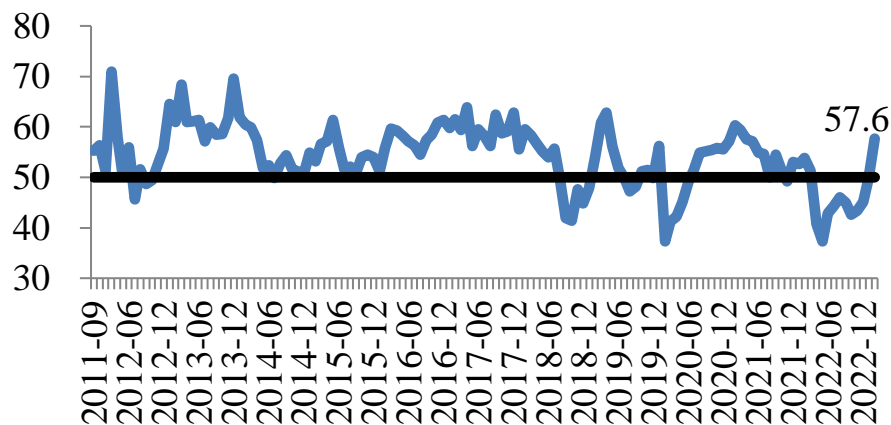
February 2023

28 February 2023

CKGSB Case Center and Center for Economic Research

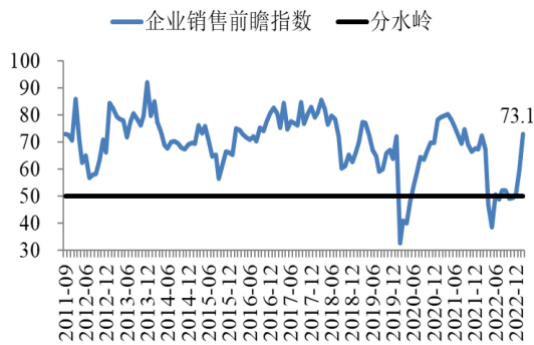
In February, the CKGSB Business Conditions Index (BCI) registered 57.6, a vast improvement from January's score of 49.7 (Figure 1). This month, apart from the company competitiveness index (which measures company positioning, not operational performance), all indicators rose, showing that China's economic recovery is in process. The BCI is improving, and with this, the year's economic outcomes should be something to look forward to.

Figure 1 Business Conditions Index (BCI)

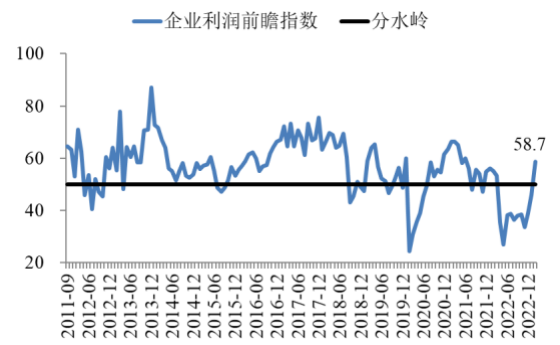


Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises four sub-indices: sales, profit, financing environment and inventory. Three measure prospects and one, the corporate financing index, measures current conditions. In February 2023, these sub-indices performed as follows:

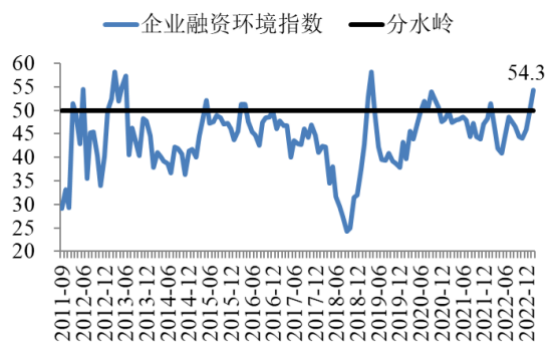
Figure 2 Corporate Sales Index


Source: CKGSB Case Center and Center for Economic Research

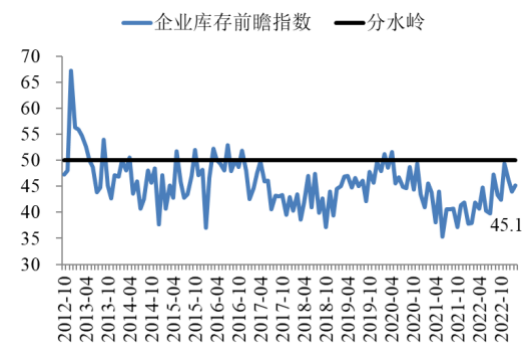
Figure 3 Corporate Profit Index


Source: CKGSB Case Center and Center for Economic Research

Of these, all four rose this month. The corporate sales index went up from 59.9 to 73.1 (Figure 2), while the corporate profit index rose from 45.9 to 58.7 (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

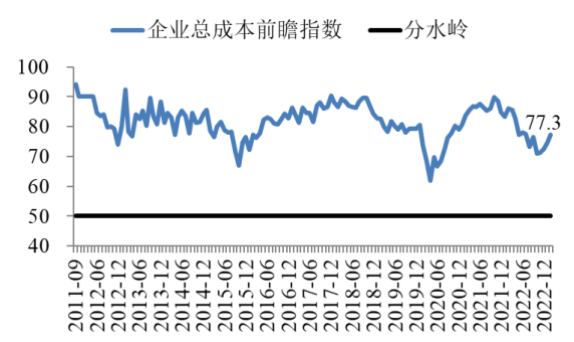
Corporate financing prospects rose from 49.5 to 54.3 this month (Figure 4), crossing the confidence threshold. The index for inventory moved from 44.0 to 45.1 (Figure 5), the only one to remain below 50.0 this month.

For inventory, a positive trajectory indicates falling numbers of goods held in warehouses, while for the other subindices, a positive trajectory indicates growth.

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


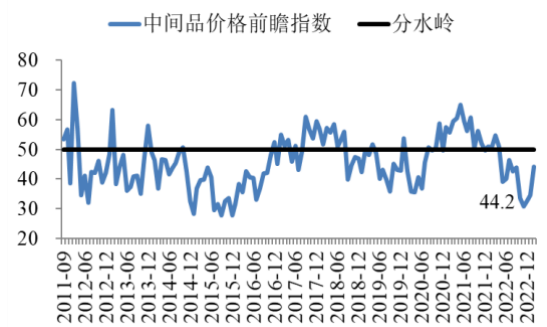
Source: CKGSB Case Center and Center for Economic Research

This month, labor cost expectations rose slightly to 73.7. The total business cost forward index also rose slightly this month, from 74.9 last month to 77.3 this month. The rise in the index for labor costs means that more companies expect labor costs to rise in the next six months, which is tough for business but possibly due to business picking up and more labor being needed. So, it could be a good sign. For specific data, see Figure 6 and Figure 7.

Turning to prices, consumer price expectations rose significantly, from 44.0 to 51.7 (Figure 8). The producer price forecast also headed in a positive direction, moving sharply from 34.4 to 44.2 (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. These two indicators have generally performed poorly in recent times. Both indicators climbed this month, and since the Chinese economy is largely investment-driven, and investment has a strong link with job recruitment, they suggest the Chinese economy is on the mend. In other words, these two indicators look at plans for expansion in China's business world. The index for investment has risen sharply this month, to 63.0 from 53.6 last month (Figure 10); the index for employment has also risen significantly, to 61.6 this month from 56.0 last month. (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

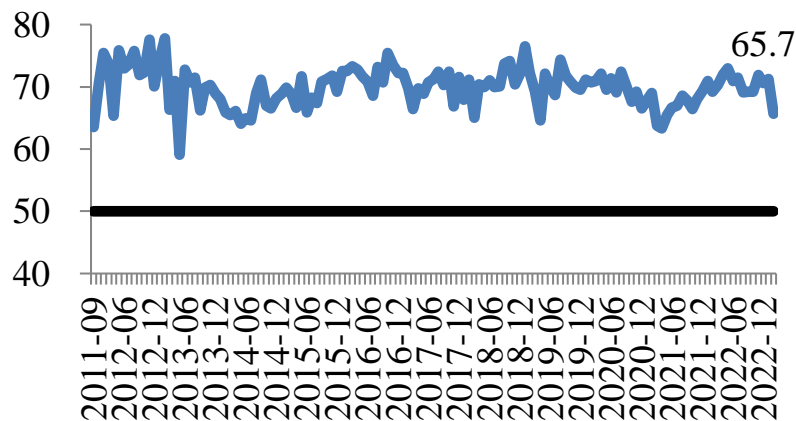
Figure 11 Recruitment Index



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 has fallen to 65.7 this month. 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 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. 135 surveys have now been completed between May 2012 and February 2023 and 130 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

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

Ya'nan Lei – Research Assistant, CKGSB Case Center and Center for Economic Research
+86 10 85378477 cc-pt@ckgsb.edu.cn

Yi Zhou – Assistant Case Researcher, CKGSB Case Center and Center for Economic Research
+86 10 8518 8858 yizhou-pt@ckgsb.edu.cn

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