

CKGSB BCI

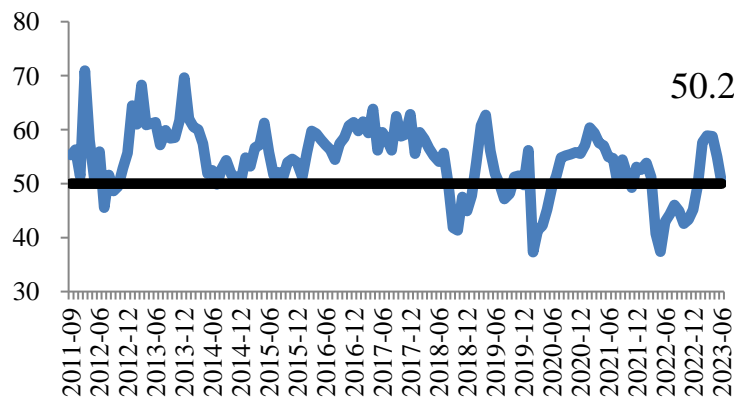
June 2023

29 June 2023

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 50.02 in June, sliding significantly (except for inventory and industry competitiveness) on all counts from May's healthier score of 55.0 (Figure 1), and only just crossing the confidence threshold of 50.0.

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 June 2023, these performed as follows:

Figure 2 Corporate Sales Index



Figure 3 Corporate Profit Index



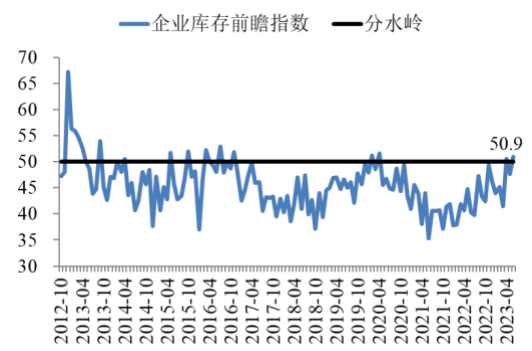
Source: CKGSB Case Center and Center for Economic Research

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Three of the four sub-indices fell this month. The corporate sales index fell considerably, from 67.4 to 56.9 (Figure 2), while the corporate profit index fell again from 53.9 to 45.8 (Figure 3). For profit expectations to tip below the confidence threshold is something rarely seen in the 12 years we have conducted this survey.

Figure 4 Corporate Financing Index


Source: CKGSB Case Center and Center for Economic Research

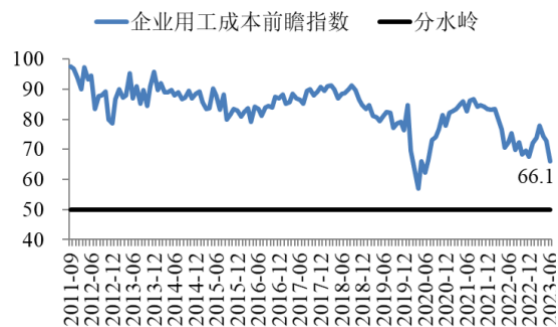
Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

Corporate financing prospects fell slightly from 51.7 to 48.4 (Figure 4), tipping below the confidence threshold like many others this month. The index for inventory is interesting in June: it rose from 47.6 to 50.9 (Figure 5), above the confidence line of 50.0 for one of the rare occasions in the past 12 years.

While a positive trajectory indicates growth for the other sub-indices such as sales and profit, when it comes to inventory, a positive trajectory indicates falling warehoused stock and a falling index suggests overcapacity.

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

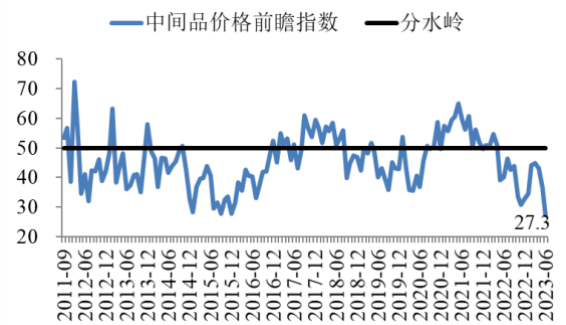

Source: CKGSB Case Center and Center for Economic Research

This month, labor cost expectations fell significantly, from 72.9 to 66.1. The overall costs index fell equally dramatically, from 73.8 to 64.8. The rise in overall cost predictions means companies anticipate rising labor costs over the next six months. Although rising 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, the output or sales of enterprises increase, and more people and materials need to be invested in production, which may mean that the operating conditions of enterprises improve. It is when the unit costs of production or sales rise that companies feel the impact of worsening business conditions. For specific data, see Figures 6 and 7.

Turning to prices, consumer price expectations fell clearly from 52.3 to 44.2 (Figure 8). The producer price forecast fell again from 36.5 to 27.3 (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, however, they have trended downwards. This month both fell again. 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 fell from 62.7 last month to 52.3 this month (Figure 10); the index for employment fell as well, from 61.6 to 54.2 in June. (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

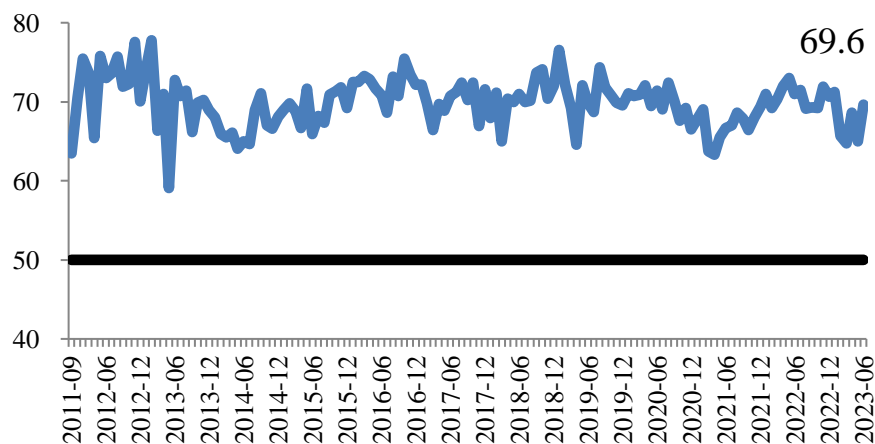
Figure 11 Recruitment Index



Source: CKGSB Case Center and Center for Economic Research

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 64.7 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. 139 surveys have now been completed between May 2012 and June 2023 and 134 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.

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.

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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

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

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

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

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