

CKGSB BCI

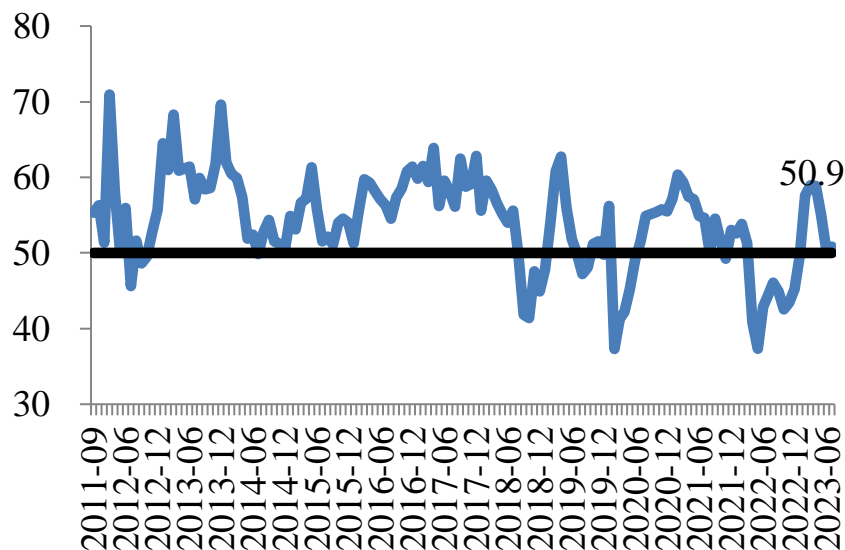
July 2023

31 July 2023

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 50.9 in July, roughly on par with June’s score of 50.02 (Figure 1), showing only a marginally better prognosis for business over the next six months. Coming after months of downward trending figures, even this tiny upshoot of confidence is welcome.

Figure 1 Business Conditions Index (BCI)

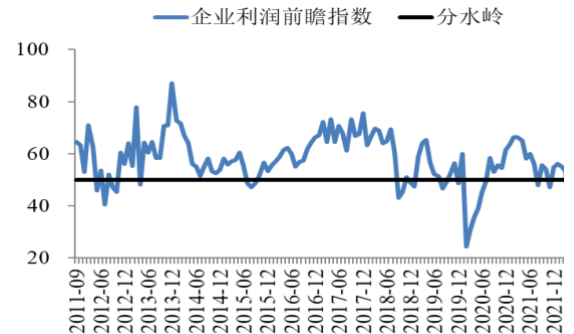


Source: CKGSB Case Center and Center for Economic Research

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 July 2023, they performed as follows:

Figure 2 Corporate Sales Index


Source: CKGSB Case Center and Center for Economic Research

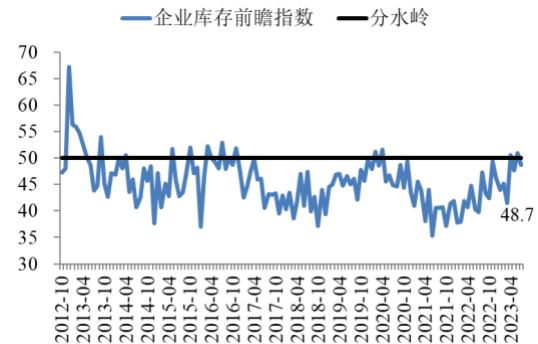
Figure 3 Corporate Profit Index


Source: CKGSB Case Center and Center for Economic Research

Two of the four subindices rose this month. The corporate sales index rose from 56.9 to 59.5 (Figure 2), while the corporate profit index rose slightly from 45.8 to 47.1 (Figure 3). For profit expectations to stay below the confidence threshold has been rare in our 12 year-long 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 from 48.4 to 47.7 (Figure 4), below the confidence threshold. The index for inventory switched direction, falling from 50.9 to 48.7. For the BCI inventory score to fall below 50.0 has been a regular occurrence in recent Chinese economic history (Figure 5).

While for the other subindices —sales and profit— a positive trajectory indicates growth, when it comes to inventory, a positive trajectory indicates falling warehoused stock and a falling index suggests overcapacity. We need to consider the specific meaning of the four sub-indices of sales, profit, financing and inventory. To put it simply, when the first three sub-indices rise, it means that the situation is improving, and when it falls, the situation is worsening.

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

In July, the index measuring labor costs rose significantly from 66.1 last month to 72.1 this month. The total cost index rose from 64.8 to 71.2 in July. More companies expect total labor costs in the next 6 months to rise, and the same is true for total cost prospects. It should be noted here that the exponential rise in company costs is not necessarily a reflection of a deterioration in operating conditions. When the economy is improving, output or sales may increase, and more resources may need to be invested in production, which may mean that operating conditions are improving. Only when the cost of producing a unit of output or sales rises do a company's operating conditions weaken. The current increase in cost-side prospects suggests that aggregate demand is on the up, alongside company operating conditions. For specific data, please refer to Figures 6 and 7.

Let's look at price prospects. The consumer price index significantly rebounded this month, from 44.2 last month to 49.2 (Figure 8). The producer price index also rose clearly this month, with an index of only 27.3 last month turning into one of 35.4 this month (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 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 improved somewhat from

52.3 to 52.7 (Figure 10); the index for employment stayed at the same level at 54.2 (Figure 11). Both figures are extremely close to the threshold between confidence and gloom.

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

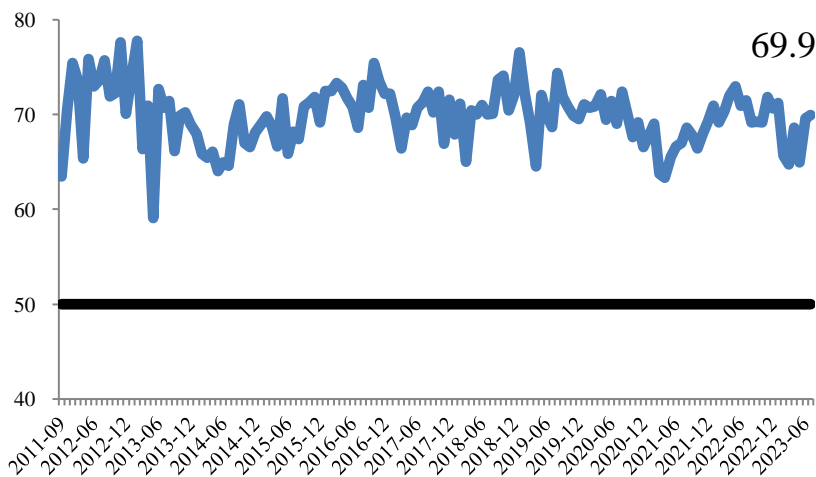
Figure 11 Recruitment Index



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 rose to 69.9 in July. 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. 140 surveys have now been

completed between May 2012 and July 2023 and 135 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

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