

CKGSB BCI

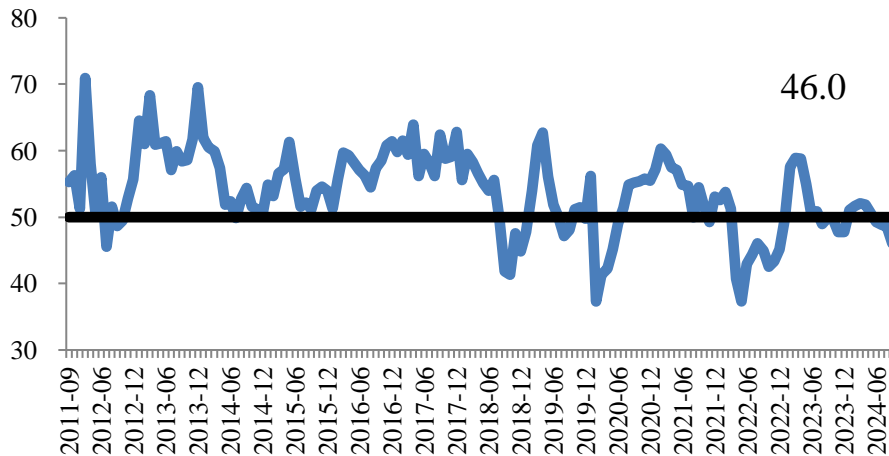
September 2024

27 September 2024

CKGSB Case Center and Center for Economic Research

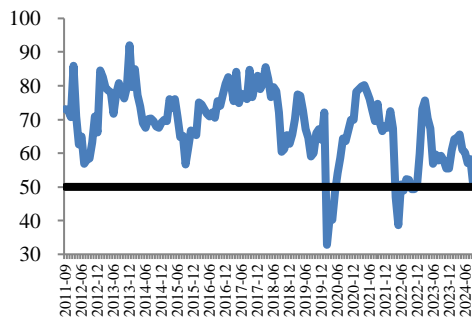
The CKGSB Business Conditions Index (BCI) registered 46.0 in September, falling from August's overall figure of 48.6 (Figure 1). The government has recently issued a series of economic stimulus policies which have given an immediate boost to the market. Their impact further down the line remains to be seen.

Figure 1 Business Conditions Index (BCI)

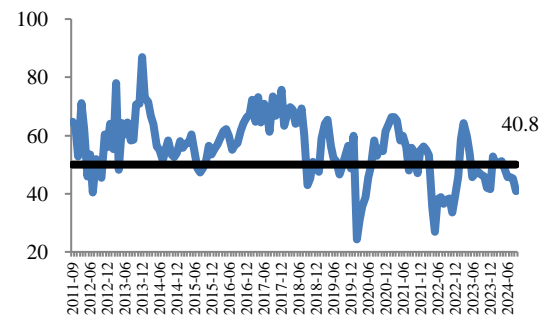


Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises four sub-indices: sales, profit, financing environment, and inventory. Three measure prospects and one, the corporate financing index, measures the current state of affairs. In September 2024, they performed as follows:

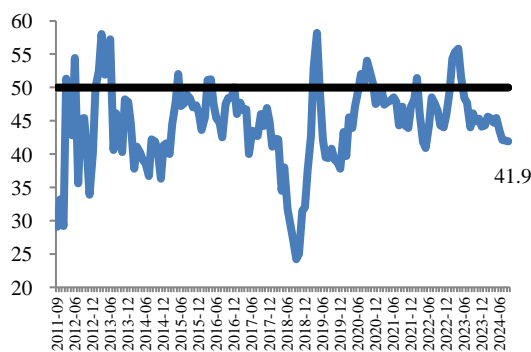
Figure 2 Corporate Sales Index


Source: CKGSB Case Center and Center for Economic Research

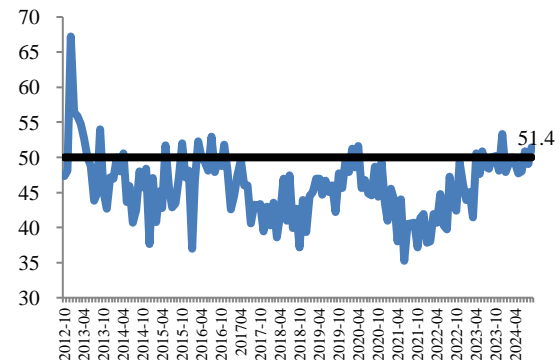
Figure 3 Corporate Profit Index


Source: CKGSB Case Center and Center for Economic Research

One of the four subindices rose and the other three fell in September. The corporate sales index fell from 58.3 to 50.3 (Figure 2) and the corporate profit prospects slid from 45.1 to 40.8 (Figure 3).

Figure 4 Corporate Financing Index


Source: CKGSB Case Center and Center for Economic Research

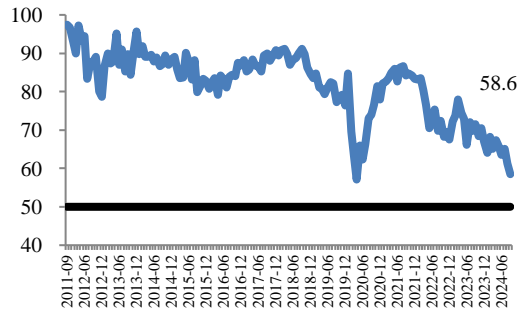
Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

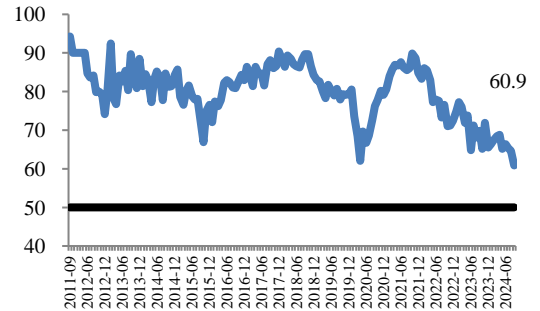
Corporate financing prospects fell from 42.1 to 41.9 (Figure 4), while the index for inventory rose slightly, from 49.0 to 51.4 (Figure 5). Inventory was the only one of the four subindices to rise.

While for the other subindices —sales and profit— a positive trajectory indicates growth, for inventory, a positive trajectory indicates falling warehoused stock and a negative index points to overcapacity. The four sub-indices of sales, profit, financing and inventory have different meanings as a result. Put simply, when the first three sub-indices rise, it means that the situation is improving, and when they fall, the situation is deteriorating. For inventory the reverse is true.

Aside from the main BCI, we also forecast costs, prices, investments and recruitment demand over the next six months. We begin with costs:

Figure 6 Labor Costs Index


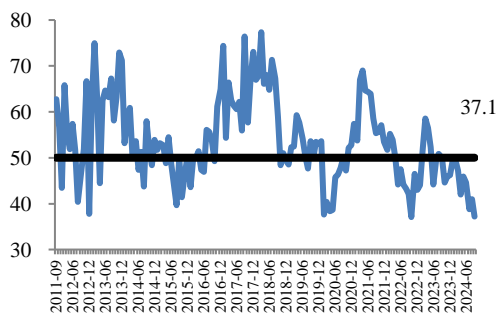
Source: CKGSB Case Center and Center for Economic Research

Figure 7 Overall Costs Index


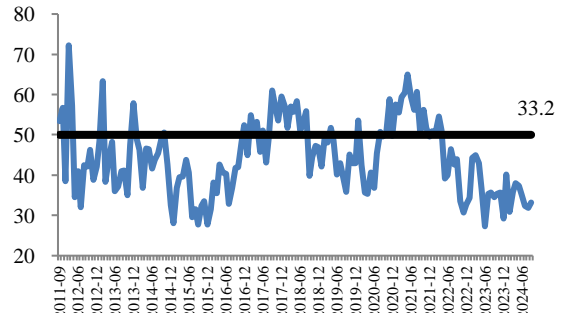
Source: CKGSB Case Center and Center for Economic Research

This month, prospects for labor costs continued to unravel, worsening from 61.4 to 58.6. The overall costs index also fell from 64.6 to 60.9. Labor cost predictions show that most companies anticipate rising expenses in the next half year, as do overall cost predictions. Although high 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 instead be telling us that the economy is heating up, and companies are feeling the push to spend as demand recovers. When unit costs of production or sales rise, this may mean demand has grown. Companies feel the impact of cost hikes, but improved sales mitigate this. For specific data, see Figures 6 and 7.

Let's look at price prospects. The consumer price index fell somewhat this month, from 41.0 to 37.1 (Figure 8). The producer price index rose from 31.9 to 33.2 (Figure 9). Despite the small uptick, factory gate price prospects are hovering at an all-time low, a sign of the huge price pressure facing China's manufacturing sector.

Figure 8 Consumer Price Index


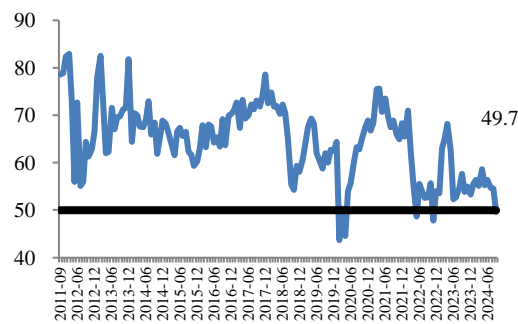
Source: CKGSB Case Center and Center for Economic Research

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 been falling by clear margins. Since the Chinese economy is largely investment-driven, and investment has a strong link with job recruitment, following their trajectory is important. This is because these are two indicators of plans for expansion in China's business world. The index for investment fell from 54.5 to 49.7 (Figure 10); the index for employment slide from 51.0 to 48.8(Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

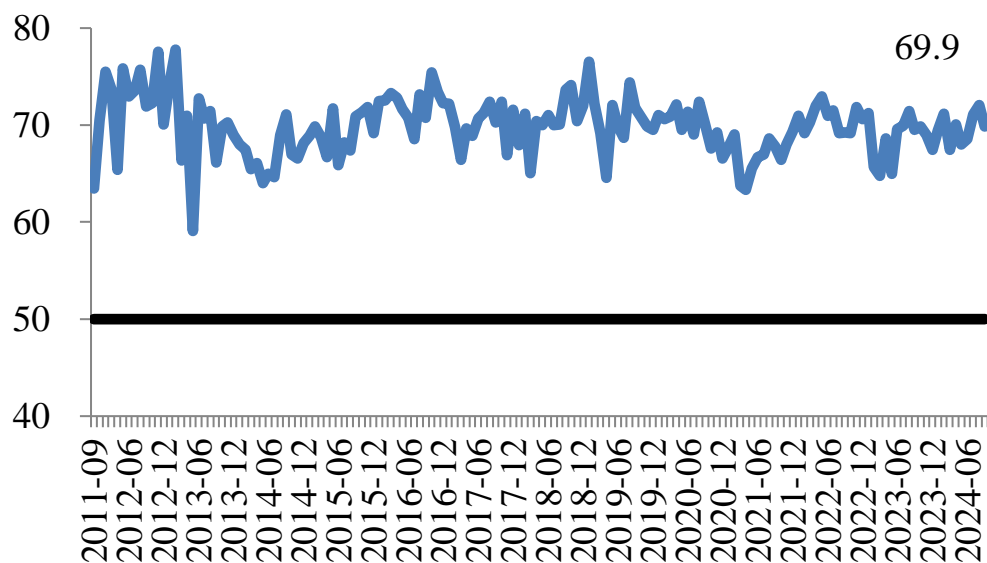
Figure 11 Recruitment Index



Source: CKGSB Case Center and Center for Economic Research

We conclude with an index recording our sample's collective strength in the market. Figure 12 shows self-reported competitiveness compared with industry peers. As our sample is comprised mainly of excellent private firms run by CKGSB alumni, their level of competitiveness is higher than average (50 points) for their respective sectors. Chinese industry is therefore, 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 macroeconomic 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. 154 surveys have now been completed between May 2012 and August 2024 and 149 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.

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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