

# CKGSB BCI

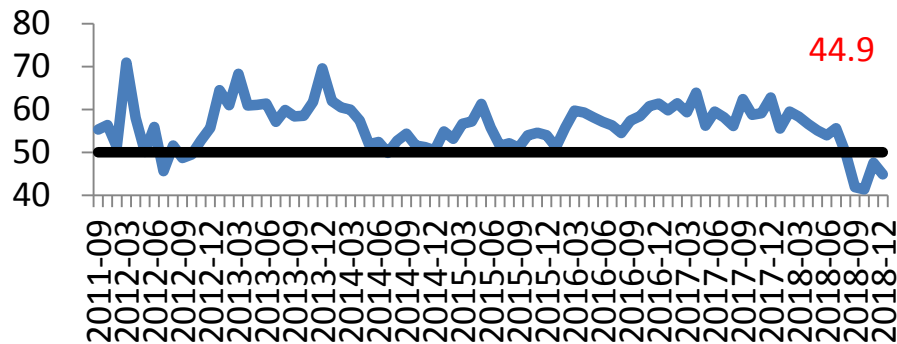
December 2018

24 December 2018

CKGSB Case Center and Center for Economic Research

While the CKGSB Business Conditions Index (BCI) rebounded in November 2018, this month unfortunately, turned negative yet again, falling from 47.6 to December's reading of 44.9 (Figure 1).

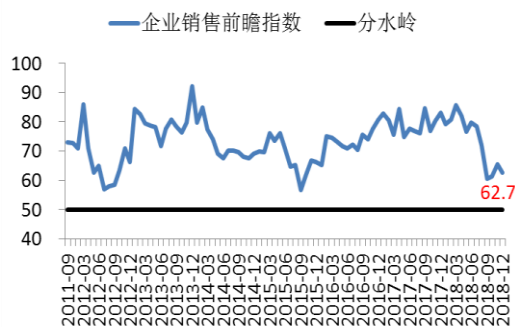
**Figure 1 Business Conditions Index (BCI)**



Source: CKGSB Case Center and Center for Economic Research

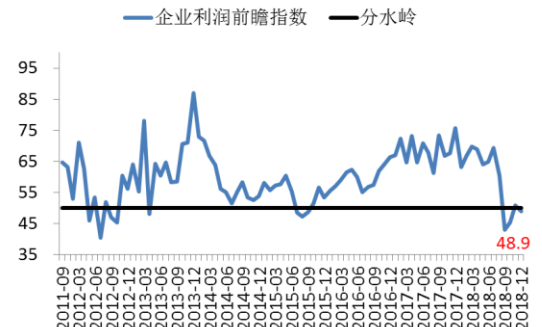
The CKGSB BCI comprises four sub-indices for corporate sales, corporate profits, corporate financing environment and inventory levels, three of which measure future prospects and one, the corporate financing index, measures the current situation. The December figures are as follows:

**Figure 2 Corporate Sales Index**



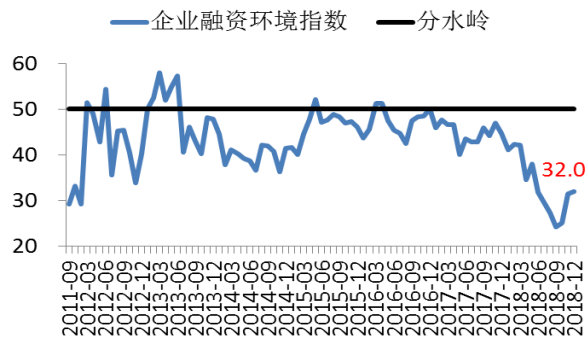
Source: CKGSB Case Center and Center for Economic Research

**Figure 3 Corporate Profit Index**

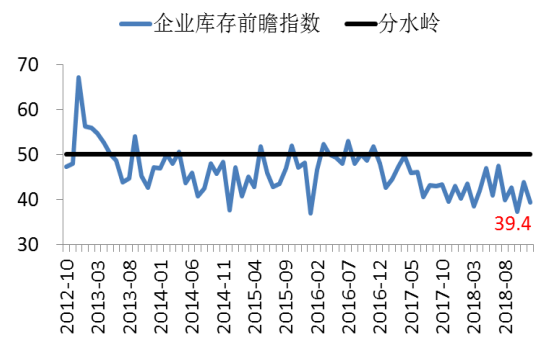


Source: CKGSB Case Center and Center for Economic Research

This month, four fell and one rose. The corporate sales index fell from 65.3 to 62.7 (Figure 2), and the corporate profit index fell from 50.9 to 48.9, crossing back below the confidence threshold of 50.0 (Figure 3).

**Figure 4 Corporate Financing Index**


Source: CKGSB Case Center and Center for Economic Research

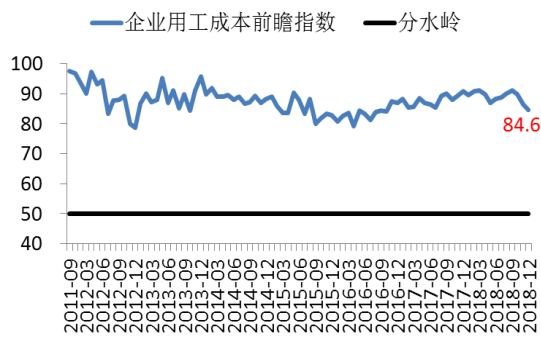
**Figure 5 Inventory Index**


Source: CKGSB Case Center and Center for Economic Research

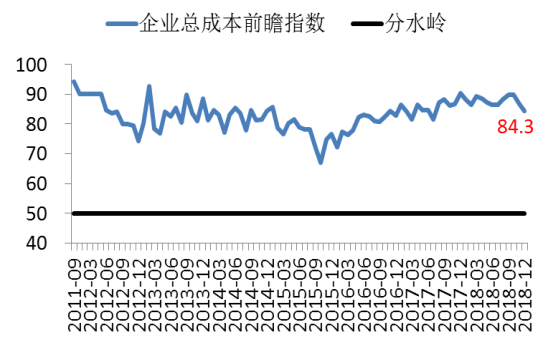
This month's corporate financing index rose somewhat from 31.5 to 32.0, still well under the confidence threshold of 50.0 (Figure 4).

The inventory index fell from 43.9 to 39.4, a clear drop on last month's more promising figure (Figure 5).

Aside from the main BCI, we also forecast costs, prices, investment and recruitment demand over the next six months. Let's begin with costs.

**Figure 6 Labor Costs Index**


Source: CKGSB Case Center and Center for Economic Research

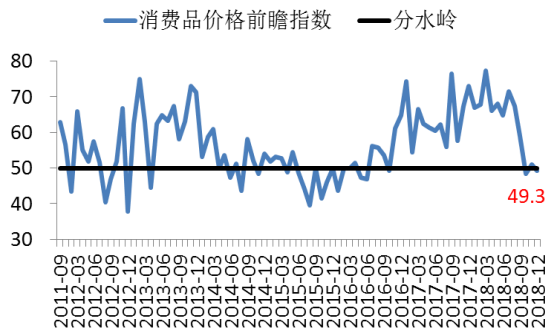
**Figure 7 Overall Costs Index**


Source: CKGSB Case Center and Center for Economic Research

While business conditions have been tough these past months, labor and overall cost forecasts have continued to rise. This month, the labor costs forecast was 84.6 and the overall costs forecast was 84.3, very high on the scale but slightly reduced since last month. It is a bit of a conundrum that no matter how the economy is performing, these two indices remain stubbornly high, and neither is expected to fall any time soon. For detailed data, see Figures 6 and 7.

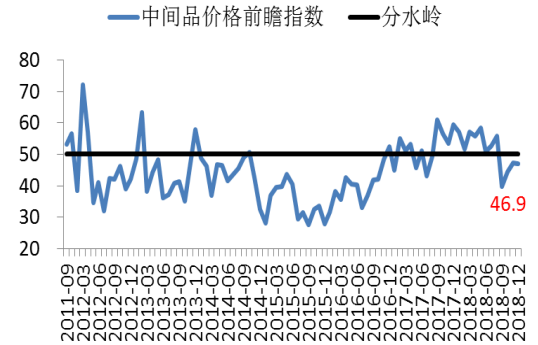
The BCI's consumer price forecast fell somewhat in December, from 51.0 to this month's 49.3 (Figure 8), under the confidence threshold. The producer prices index fell slightly from 47.2 to 46.9 (Figure 9).

Figure 8 Consumer Prices Index



Source: CKGSB Case Center and Center for Economic Research

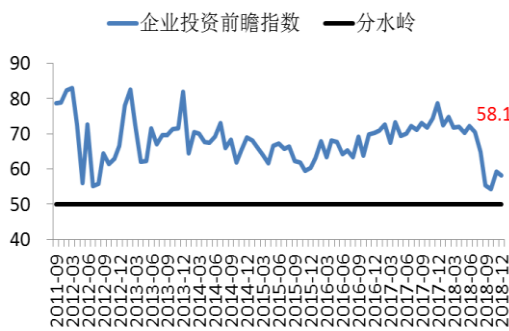
Figure 9 Producer Prices Index



Source: CKGSB Case Center and Center for Economic Research

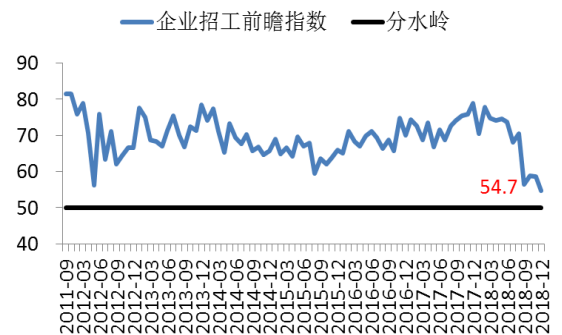
We now turn to investment and recruitment. These two indices have consistently remained at the more confident end of the scale since we began the BCI. In recent months, their fortunes have reversed. This month's investment index fell to 58.1 (Figure 10), and the recruitment index fell marginally to 54.7 (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

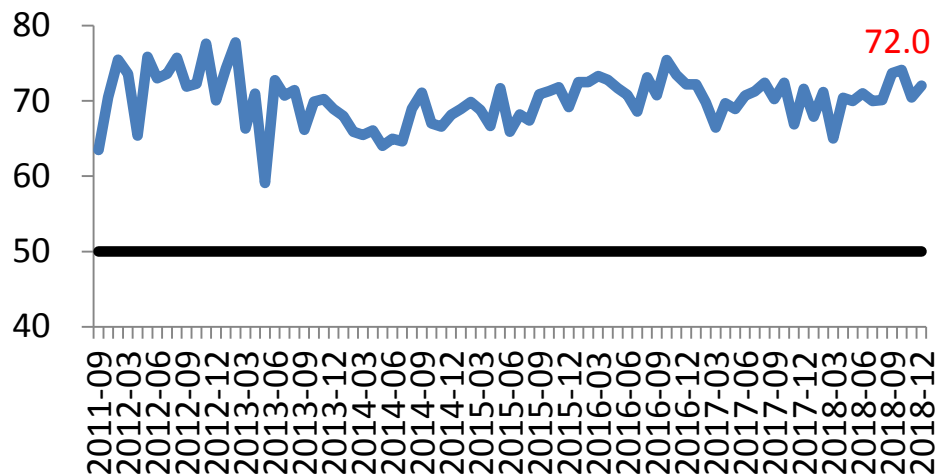
Figure 11 Recruitment Index



Source: CKGSB Case Center and Center for Economic Research

Finally, we include an index recording our sample's relative strength in the marketplace. Figure 12 shows surveyed companies' level of competitiveness over time. As our sample mostly comprises of CKGSB alumni firms, we can be assured that their competitiveness is higher than average (50 points) for their respective industries. This means that Chinese industry as a whole will be experiencing tougher conditions than our sample firms.

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 about 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 surveys were distributed and first results computed. 85 surveys have been completed in total and 79 monthly reports have been published between May 2012 and November 2018 (At the beginning, there were three months 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 an value above 50 means that the variable that the index measures is expected to increase, while an index 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**

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