

CKGSB BCI

March 2020

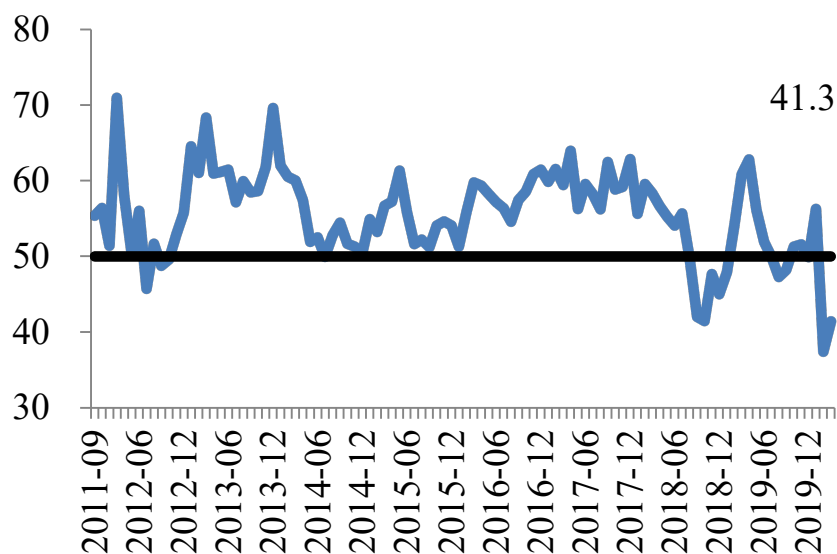
25 March 2020

CKGSB Case Center and Center for Economic Research

As predicted, following the loosening of epidemic prevention conditions in China, more and more people have been able to get back to work. The CKGSB Business Conditions Index (BCI) fell to an all time low in February, and this month the majority of indices have regained ground, to a greater or lesser extent. But the degree of rebound is extremely limited, and from this we can tell that recovery from the widespread effects of Covid-19 will be long and hard.

In March, the CKGSB BCI registered 41.3, a small improvement on the 37.3 registered in February (Figure 1).

Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises four sub-indices: corporate sales, corporate profits, corporate financing environment and inventory levels. Three measure future prospects and one, the corporate financing index, measures the current climate. In March, these sub-indices performed as follows:

Figure 2 Corporate Sales Index


Source: CKGSB Case Center and Center for Economic Research

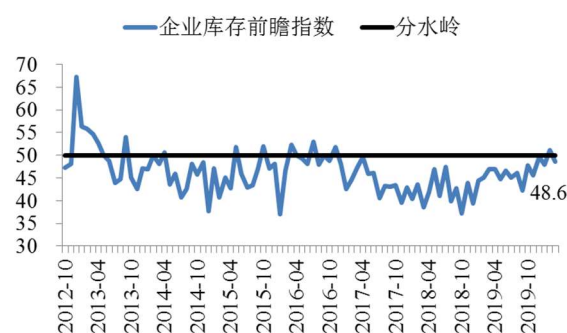
Figure 3 Corporate Profit Index


Source: CKGSB Case Center and Center for Economic Research

This month, three rose and one fell. The corporate sales index rose from 32.8 to 40.8 (Figure 2), and the corporate profit index rose from 24.3 to 30.7 (Figure 3). The improvement in sales and profits is likely to be the result of the return to business operations. Company conditions may have improved somewhat, but from the figures, we can see that the extent of this recovery is still very small.

Figure 4 Corporate Financing Index


Source: CKGSB Case Center and Center for Economic Research

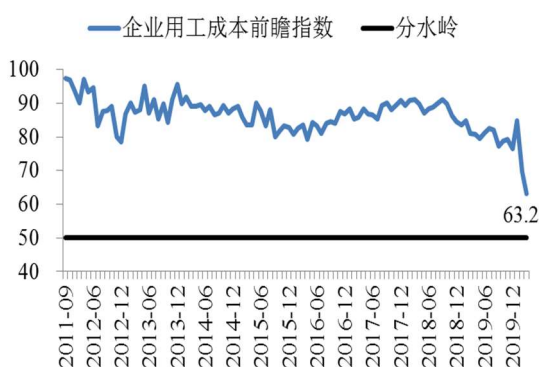
Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

This month's corporate financing index improved somewhat, rising from 39.7 to 45.5 (See Figure 4). This means the many government measures to assist small and medium sized companies through the crisis have had an effect.

Contrary to the other sub-indices, the inventory index returned below the confidence margin of 50.0 to land at 48.6 from last month's 51.2 (Figure 5). This is not necessarily a bad thing, as when confidence in inventory rises it tends to indicate mass warehousing of goods. With inventory confidence dropping, business confidence is likely to be on the up.

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's labor cost forecast fell clearly from 69.6 to 63.2, and the overall cost forecast did the same, falling from 73.7 to 68.4. To date, no matter how the economy has performed, these two indices have remained high throughout. Their fall in the pthsast two mon shows the knock on effect of a sharp decline in business performance (See Figures 6 and 7 for specifics).

Turning to prices, the consumer price forecast rose from 37.6 to 40.4 (Figure 8). As we appear to have escaped inflation, we have moved closer to deflation. The producer price index fell this month, from 42.5 in February to 35.7 in March (Figure 9).

Figure 8 Consumer Price Index

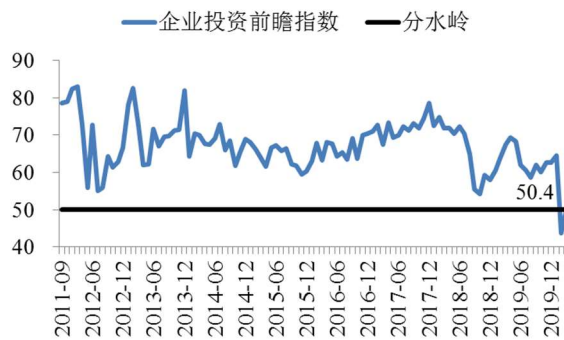

Source: CKGSB Case Center and Center for Economic Research

Figure 9 Producer Price Index


Source: CKGSB Case Center and Center for Economic Research

We now turn to investment and recruitment. These two indices have been consistently at the more confident end of the scale since the BCI began. In the past few months however, both have weakened, especially recruitment. This month, they have performed similarly to all the other indices, registering a moderate comeback. The investment index rose from 43.7 to 50.4 (Figure 10), while the recruitment index rose from 43.2 to 49.1 (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

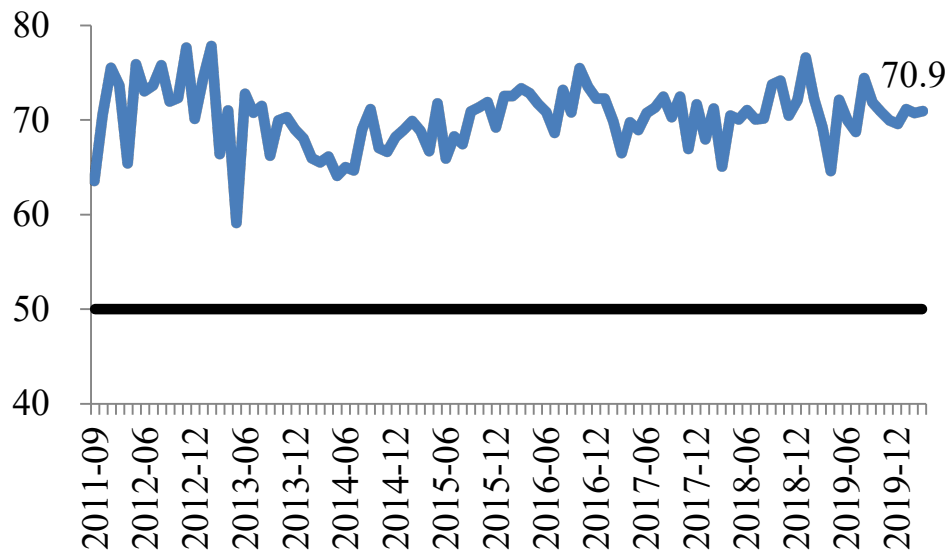
Figure 11 Recruitment Index



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.

Figure 12 Industry Competitiveness

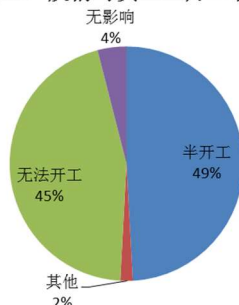


Source: CKGSB Case Center and Center for Economic Research

Since December 2019, China has been at the center of an outbreak of a novel coronavirus causing severe pneumonia, dubbed Covid19 by the WHO. At first, people paid little attention, but as time goes on, it has become clear what power this disease has to disrupt as well as kill. We supplemented this month's BCI survey with four questions on the impact of the epidemic on business.

Chart 1 To date, what impact has the epidemic had on your company getting back to work?

到目前为止，疫情对贵企业开工有何影响？

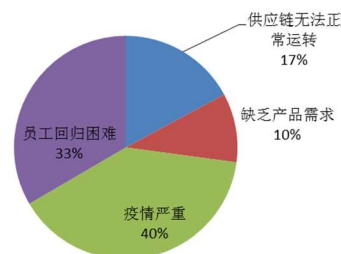


Source: CKGSB Case Center and Center for Economic Research

No impact = 4%; Semi-resumed work = 49%; No way to resume work = 45%

Chart 2 To date, what issues have your company had getting back to work?

到目前为止，贵企业开工的主要困难在哪里？

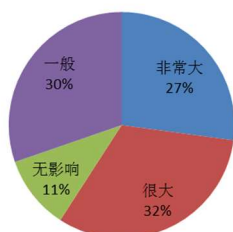


Source: CKGSB Case Center and Center for Economic Research

Lack demand for goods = 10%;
 Irregular supply chain logistics = 17%
 Trouble with staff unable to return to workplace = 33%
 Serious quarantine conditions = 40%

Chart 3 To date, what impact has the epidemic had on loan terms?

疫情对资金周转的影响？

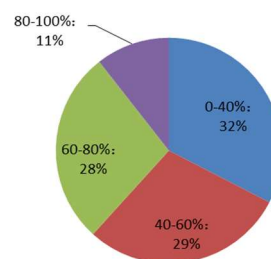


Source: CKGSB Case Center and Center for Economic Research

No impact = 11%
 Extremely big = 27%
 Same as usual = 30%;
 Huge = 32%

Chart 4 By the end of February, to what extent do you expect to have recovered production capacity?

估计在2月底，企业能恢复到过去的几成产能？



Source: CKGSB Case Center and Center for Economic Research

80-100% = 11%
 40-60% = 29%;
 0-40% = 32%

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 survey was carried out. 99 surveys have been completed in total and 93 monthly reports have been published between May 2012 and February 2020 (There were three months at the beginning 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 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

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