

CKGSB BCI

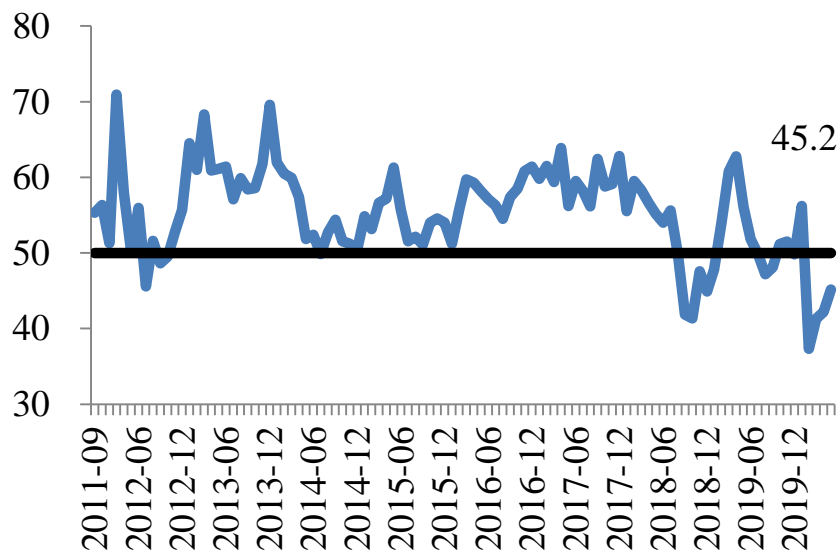
May 2020

28 May 2020

CKGSB Case Center and Center for Economic Research

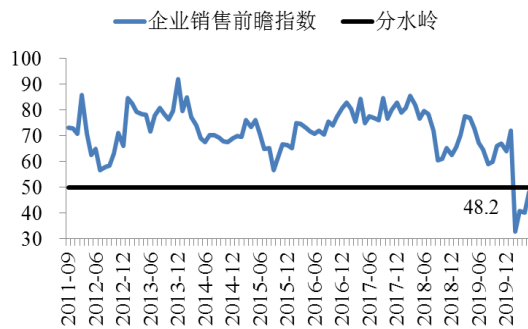
In May, the CKGSB Business Conditions Index (BCI) registered 45.2, up three percentage point on April's 42.2 (Figure 1). Economic growth prospects remain weak, and data shows that respondents are mostly pessimistic about business prospects over the next six months. This shows there is not enough economic activity in progress, and people are prepared for uncertain times ahead.

Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

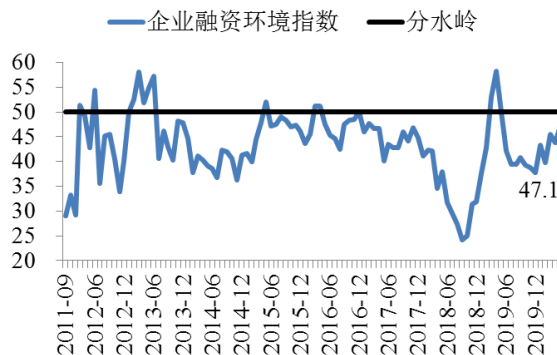
The CKGSB BCI comprises four sub-indices: corporate sales, corporate profits, corporate financing environment and inventory levels. Three measure future prospects and one, the corporate financing index, measures the current climate. In May 2020, these sub-indices performed as follows:

Figure 2 Corporate Sales Index

Figure 3 Corporate Profit Index

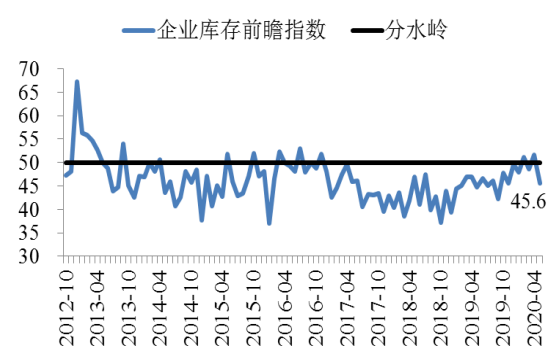

Source: CKGSB Case Center and Center for Economic Research

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Two rose and two fell, but fluctuations were not considerable. The corporate sales index rose from 40.8 to 48.2 (Figure 2), and the corporate profit index rose from 35.7 to 38.8 (Figure 3). These improvements in sales and profit prospects are likely due to the post-epidemic resumption of work. Company conditions have improved on last month, and businesses are going through a period of recovery.

Figure 4 Corporate Financing Index


Source: CKGSB Case Center and Center for Economic Research

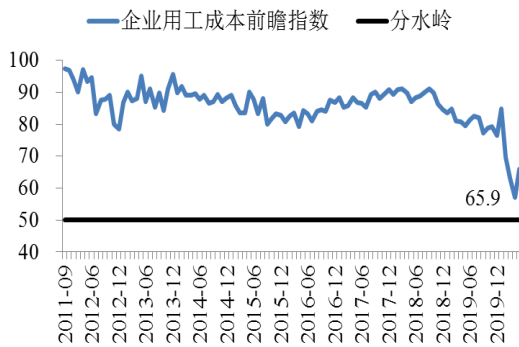
Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

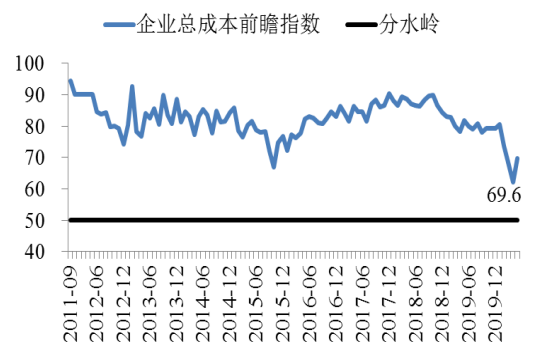
Corporate financing prospects are somewhat better this month, with the index rising from 43.9 to 47.1 (Figure 4). The index has experienced ups and downs in recent months, which suggests our sample companies have relatively stable financing situations.

Inventory forecasts have fallen below the confidence threshold again, dropping from 51.6 to 45.6. This either means companies are optimistic about future sales and storing more goods, or experiencing poor sales and seeing mounting inventories. We believe that taken together with the sales indices, the former is more likely (Figure 5).

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


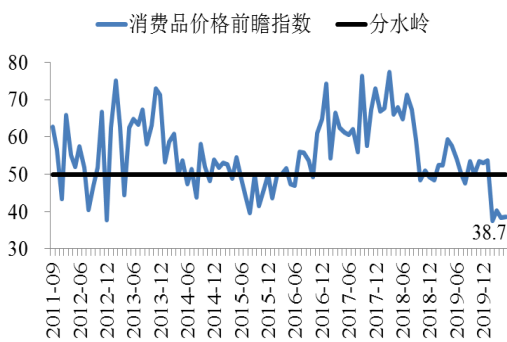
Source: CKGSB Case Center and Center for Economic Research

Figure 7 Overall Costs Index


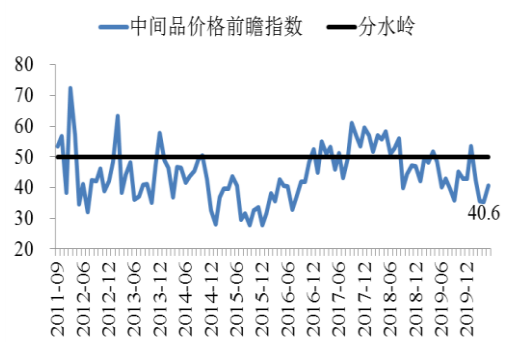
Source: CKGSB Case Center and Center for Economic Research

This month's labor cost forecast grew from 57.1 to 65.9. The overall cost forecast also rebounded somewhat, from 62.0 to 69.6. These two indices have remained high irrespective of conditions over the years, but met their match with the coronavirus. Although they have begun a rebound it is not clear whether or not they will bounce back to new highs. See Figures 6 and 7 for specific data.

Turning to prices, the consumer price forecast remained stable slightly at 38.7 from 38.4 last month (Figure 8). Although we have escaped the clutches of inflation, we have moved a step closer to deflation. The producer price index is higher this month, rising from 35.4 to 40.6 (Figure 9).

Figure 8 Consumer Price Index


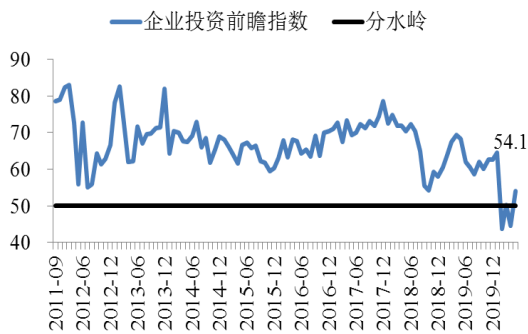
Source: CKGSB Case Center and Center for Economic Research

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, both have clearly rebounded, the investment index to 54.1 from 44.6 last month (Figure 10), and the recruitment index to 52.0 from 45.0 last month (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

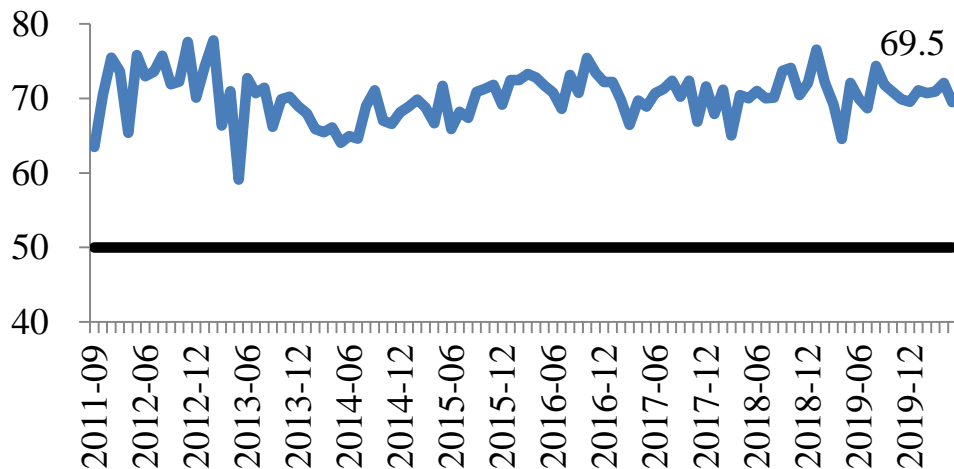
Figure 11 Recruitment Index



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' self-reported 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

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. 101 surveys have now been completed and 97 monthly reports published between May 2012 and May 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

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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.

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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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