

CKGSB BCI

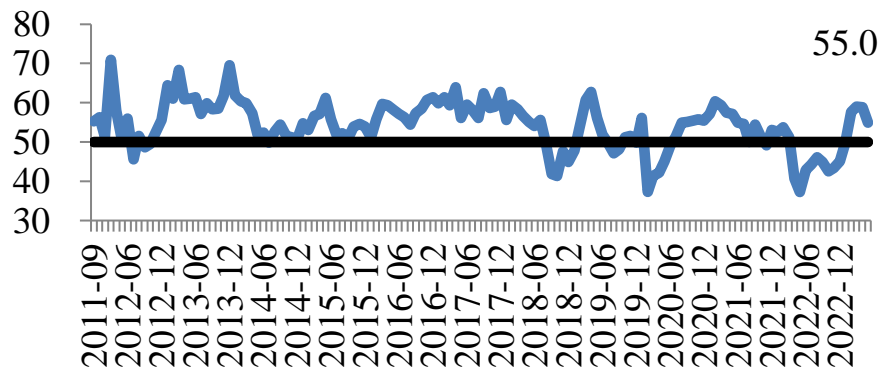
May 2023

25 May 2023

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 55.0 in May, sliding from April's score of 58.8 (Figure 1), but remaining above the confidence threshold of 50.0.

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 May 2023, these sub-indices performed as follows:

Figure 2 Corporate Sales Index



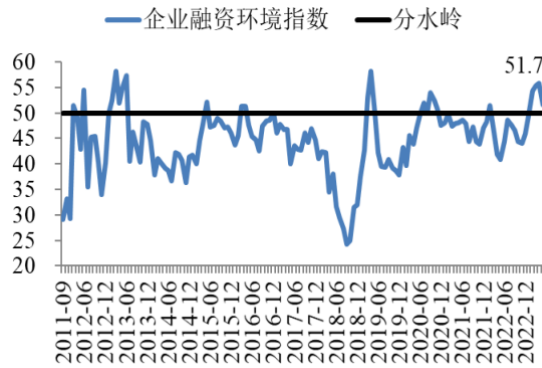
Source: CKGSB Case Center and Center for Economic Research

Figure 3 Corporate Profit Index

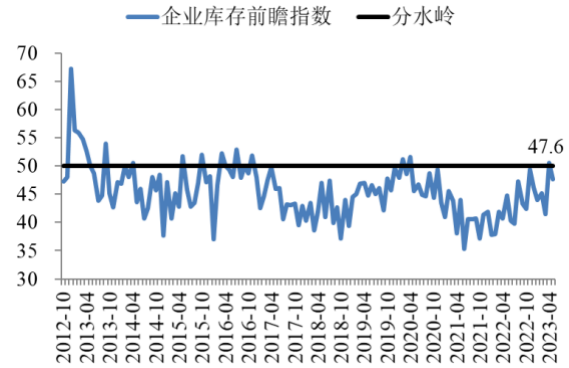


Source: CKGSB Case Center and Center for Economic Research

All the sub-indices fell this month. The corporate sales index continued to drop, from 70.4 to 67.4 (Figure 2), while the corporate profit index fell again from 59.6 to 53.9 (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 slightly from 55.9 to 51.7 (Figure 4), staying above the confidence threshold. The index for inventory fell back to 47.6 from 50.5 (Figure 5), falling below the confidence line of 50.0 again.

While for the other sub-indices —sales and profit— a positive trajectory indicates growth, when it comes to inventory, a positive trajectory indicates falling numbers of goods held in warehouses and a falling index suggests goods are not being shifted as fast as companies would like.

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, labor cost expectations fell from 74.4 to 72.9. The overall costs index rose slightly, from 71.9 to 73.8 this month. The rise in overall cost expectations is the only rise across the BCI this month. Although rising 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 also mean the economy is improving, as companies are pushed to spend more as demand

warms up. When the economy is improving, the output or sales of enterprises increase, and more people and materials need to be invested in production, which may mean that the operating conditions of enterprises improve. It is when the unit costs of production or sales rise that companies feel the impact of worsening business conditions. For specific data, see Figures 6 and 7.

Turning to prices, consumer price expectations fell from 56.5 to 52.3 (Figure 8). The producer price forecast fell from 43.0 to 36.5 (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, yet they remain above 60.0. 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 has fell sharply this month, to 62.7 from 68.2 last month (Figure 10); the index for employment fell slower, to 61.6 this month from 64.6 last month. (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

Figure 11 Recruitment Index

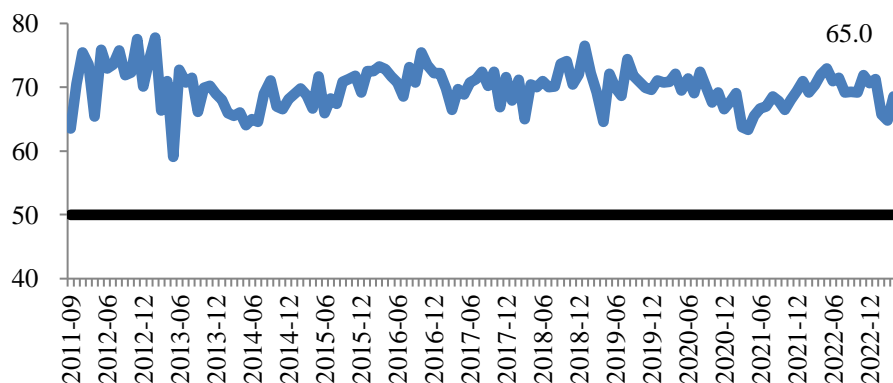


Source: CKGSB Case Center and Center for Economic Research

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 has fallen to 64.7 this month. 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. 138 surveys have now been completed between May 2012 and March 2023 and 133 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

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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