

CKGSB BCI

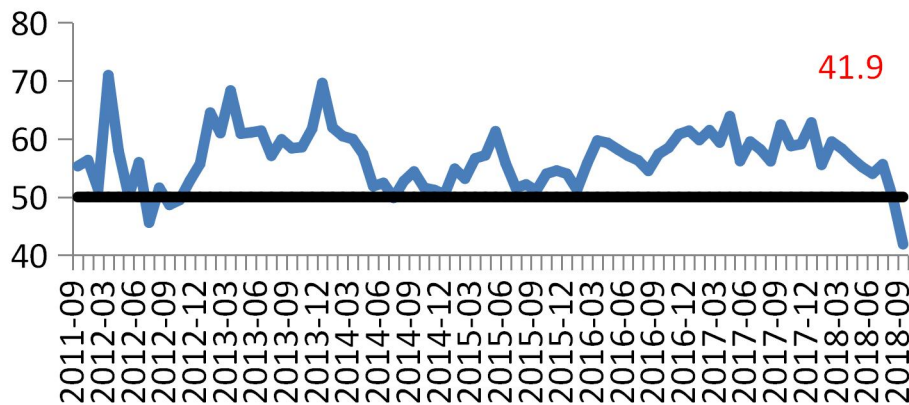
September 2018

27 September 2018

CKGSB Case Center and Center for Economic Research

From a historical perspective, this month’s CKGSB Business Conditions Index (BCI) shows a “substantial deterioration” in conditions. Most surveyed companies are now experiencing unprecedented difficulties and have become increasingly pessimistic about business prospects for the next six months. The September index registered 41.9, a sharp fall from August’s index of 49.8 (Figure 1). Below the confidence threshold, the BCI is now at its lowest point since the survey began in 2012, meaning that for most, business has never been worse.

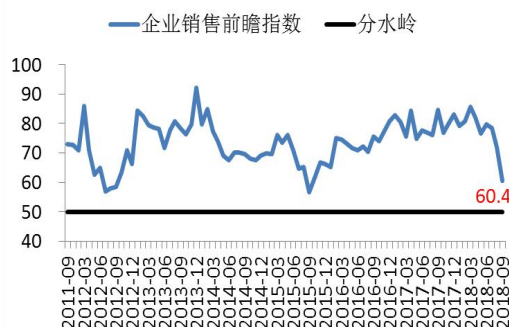
Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

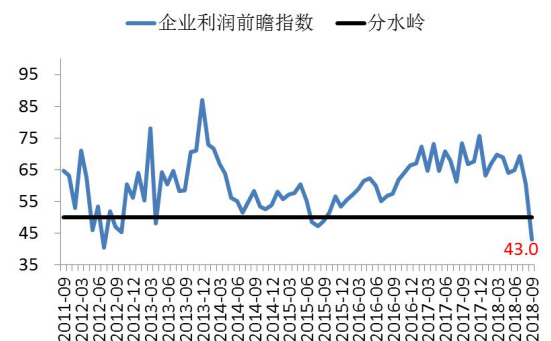
The CKGSB BCI comprises four sub-indices for corporate sales, corporate profits, corporate financing environment and inventory levels, three of which measure future prospects and one, the corporate financing index, measures the current situation.

Figure 2 Corporate Sales Index



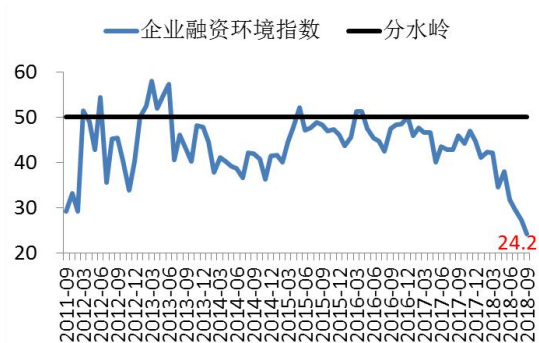
Source: CKGSB Case Center and Center for Economic Research

Figure 3 Corporate Profit Index

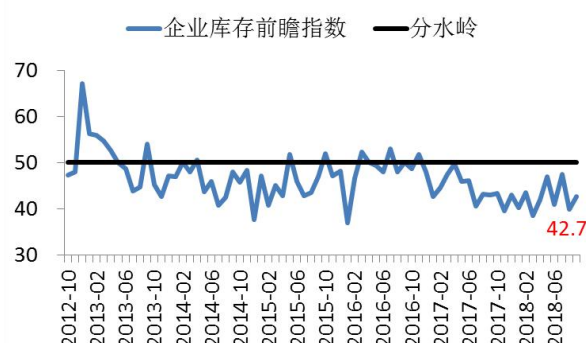


Source: CKGSB Case Center and Center for Economic Research

This month, three fell and one rose. The corporate sales index fell from last month's 72.0 to 60.4, the fifth lowest since the BCI began (Figure 2), and the corporate profit index fell from 60.4 to 43.0, the second lowest since the BCI began (Figure 3).

Figure 4 Corporate Financing Index


Source: CKGSB Case Center and Center for Economic Research

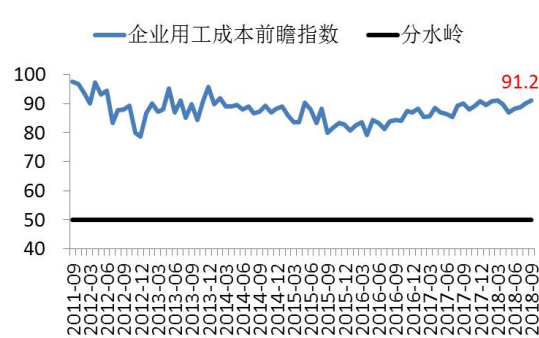
Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

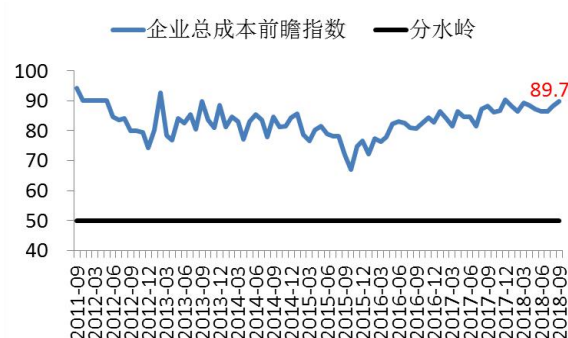
This month's corporate financing index fell from 27.3 to 24.2, well below the confidence threshold. This is the lowest figure since the BCI began. Figure 4 shows clearly that surveyed businesses are experiencing serious financing difficulties.

The inventory index rose from 40.0 in August to 42.7 in September (Figure 5). The long term inventory backlog has been reflected in sub-50 indices for much of the time since the BCI survey began, so this rebound is somewhat surprising.

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

Figure 6 Labor Costs Index


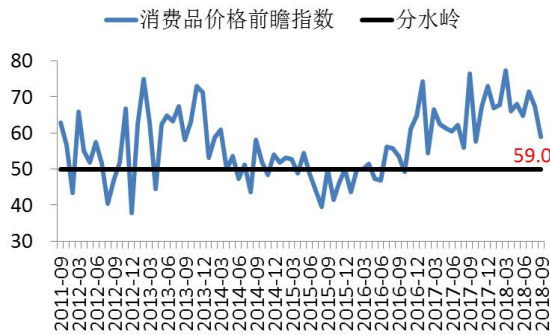
Source: CKGSB Case Center and Center for Economic Research

Figure 7 Overall Costs Index


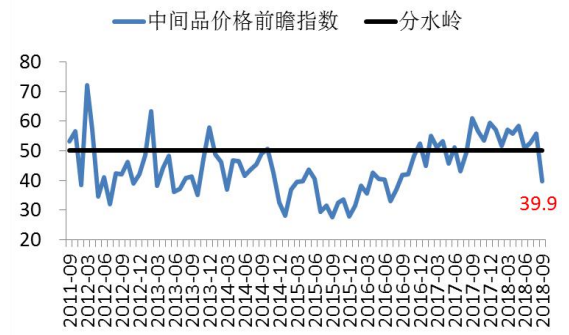
Source: CKGSB Case Center and Center for Economic Research

Although overall business conditions have seriously weakened, labor and overall costs forecasts continue to rise with serious implications. This month, the former registered 91.2 and the latter 89.7, higher than in August. No matter how the economy is performing, these two indices have never fallen far, and we do not expect to see a fall in either any time soon. An explanation for this is, however, elusive. For detailed data, see Figures 6 and 7.

On the prices side, the consumer prices index fell from 67.3 to 59.0 this month (Figure 8). The producer prices index fell sharply from 55.9 to 39.9, taking us somewhat by surprise (Figure 9). This continued decline in price prospects reminds us of the impact of macro-economic policy. If not redressed soon, it may contribute to major economic downturn.

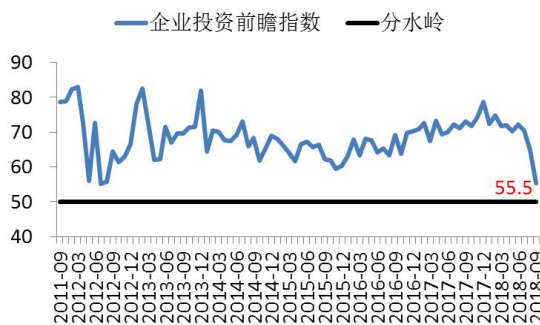
Figure 8 Consumer Prices Index


Source: CKGSB Case Center and Center for Economic Research

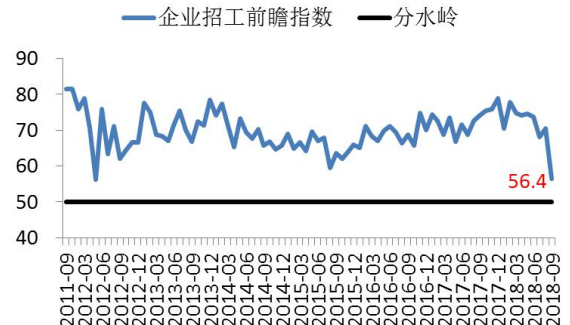
Figure 9 Producer Prices Index


Source: CKGSB Case Center and Center for Economic Research

We now turn to investment and recruitment. Although the investment and recruitment indices have never reached the heights of the costs indices, they have consistently remained at the more confident end of the scale. However, the past two months have seen the trend tip in the negative direction. This month's investment index is 55.5 (Figure 10), and the recruitment index is 56.4 (Figure 11). These indices are now precariously close to the confidence threshold of 50.0. When businesses plan for less investment and start recruiting fewer staff, it is clear their confidence in near future business prospects has been shaken. This is by no means a minor issue.

Figure 10 Investment Index


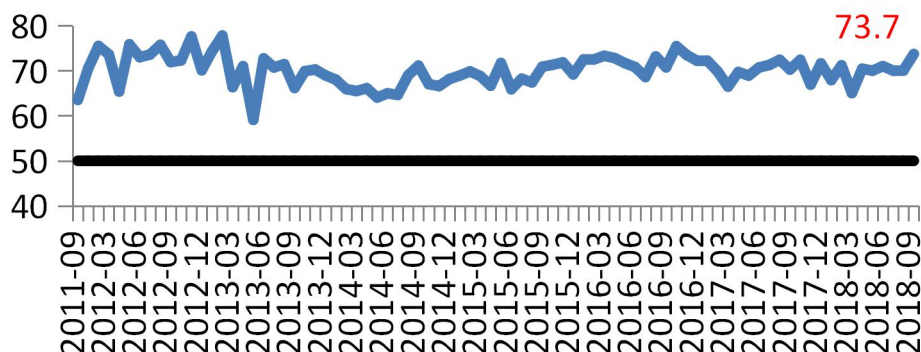
Source: CKGSB Case Center and Center for Economic Research

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 market. Figure 12 shows surveyed companies' level of competitiveness over time. As our sample mostly comprises of the companies of CKGSB alumni, their competitiveness is consistently higher than the average (50 points) in their respective industries. Lower performing firms will be experiencing worse prospects.

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. 82 surveys have been completed in total and 77 monthly reports have been published between May 2012 and September 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

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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.

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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.

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