

CKGSB BCI

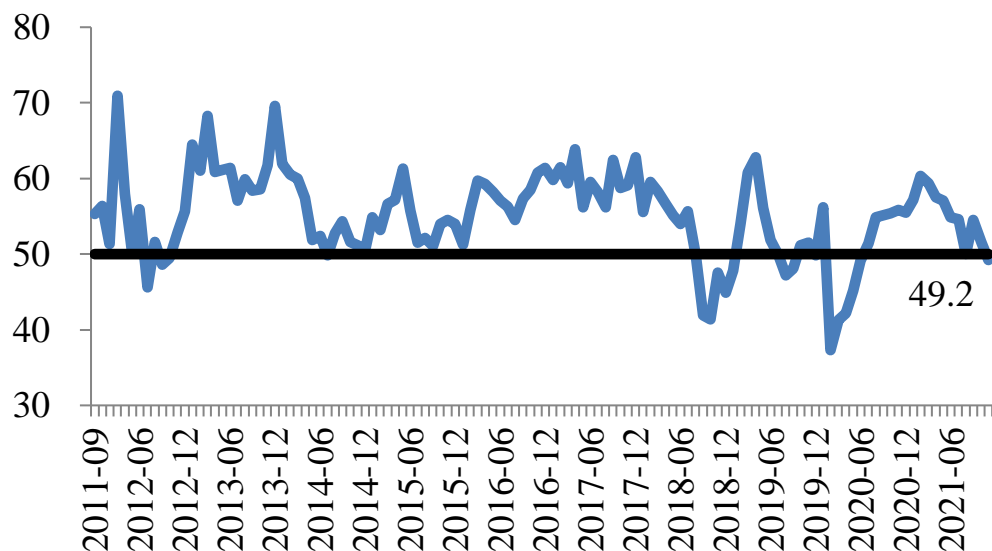
November 2021

26 November 2021

CKGSB Case Center and Center for Economic Research

In November, the CKGSB Business Conditions Index (BCI) weakened from 51.6 to 49.2 (Figure 1) continuing to trend downward, showing readers that business conditions remain weak this winter.

Figure 1 Business Conditions Index (BCI)



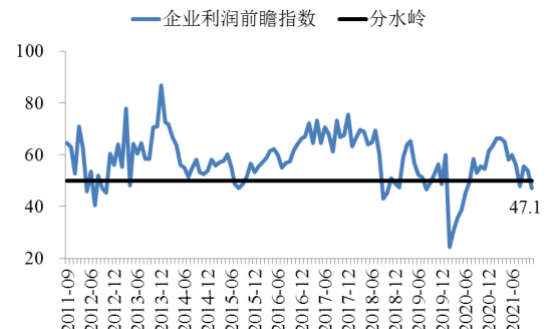
Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises of 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 November 2021, these sub-indices performed as follows:

Figure 2 Corporate Sales Index



Figure 3 Corporate Profit Index



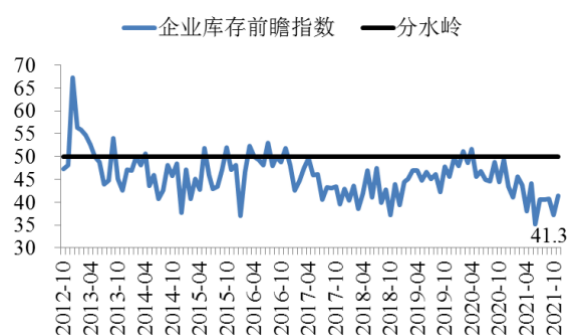
Source: CKGSB Case Center and Center for Economic Research

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This month, three fell and one rose. The corporate sales index fell from 69.1 to 66.5 (Figure 2), and the corporate profit index landed at 47.1, down from 53.9, definitively below the confidence line (Figure 3).

Figure 4 Corporate Financing Index

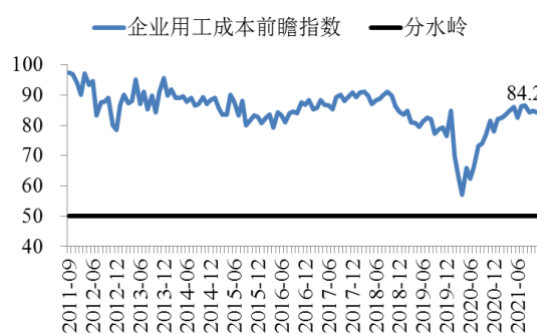

Source: CKGSB Case Center and Center for Economic Research

Figure 5 Inventory Index


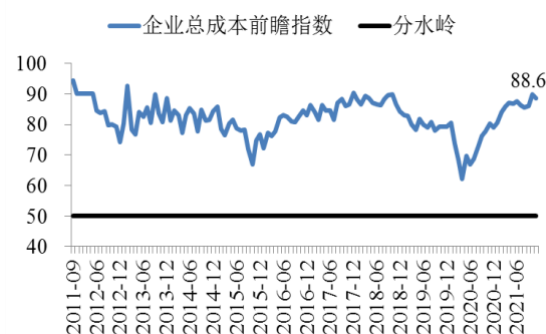
Source: CKGSB Case Center and Center for Economic Research

Corporate financing prospects fell slightly, with the index falling from 44.3 to 43.9 this month (Figure 4), below the confidence threshold. The inventory index rose from 37.2 in October to 41.3 this month (Figure 5). These two indices have shown persistently negative outlooks since our survey began in 2012.

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

The CKGSB BCI labor cost forecast fell somewhat, from 84.7 to 84.2. The overall costs forecast fell from 89.8 to 88.6. See Figures 6 and 7 for more.

Turning to prices, the consumer price forecast rose from 55.6 to 57.1 (Figure 8) while the producer price index fluctuated downwards from 56.3 to 51.8 (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 been consistently at the more confident end of the scale since the BCI began. In recent months, both have trended downwards, especially recruitment. This month again, both indices fell, with investment prospects down from 65.9 to 65.0 (Figure 10), and the recruitment score down from 68.7 to 64.9 (Figure 11).

Figure 10 Investment Index

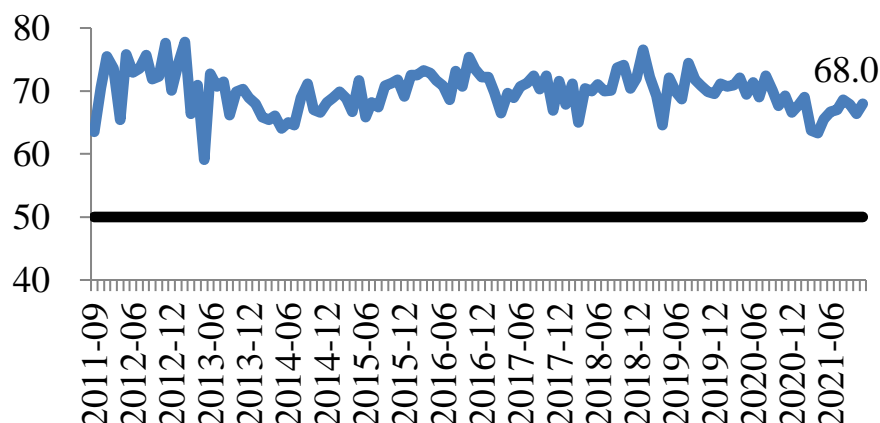

Source: CKGSB Case Center and Center for Economic Research

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 competitiveness compared with peers. As our sample mostly comprises of excellent private firms headed by CKGSB alumni, their competitiveness is higher than average (50 points) in their respective industries. This suggests that Chinese industry as a whole is facing a harder time in the near future than the BCI cohort.

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. 120 surveys have now been completed between May 2012 and October 2021 and 115 reports (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.

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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.

The Research Team

Li Wei - Director, CKGSB Case Center and Center for Economic Research; CKGSB Economics Professor; Associate Dean for MBA, +86 10 8518 8858 ext. 3235 wli@ckgsb.edu.cn

Gu Chongqing - Senior Researcher, CKGSB Case Center and Center for Economic Research
+86 2162696677 cqgu@ckgsb.edu.cn

Mengqiu Zhao – Research Assistant, CKGSB Case Center and Center for Economic Research
+86 10 85378477 cc-pt@ckgsb.edu.cn

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