

# CKGSB BCI

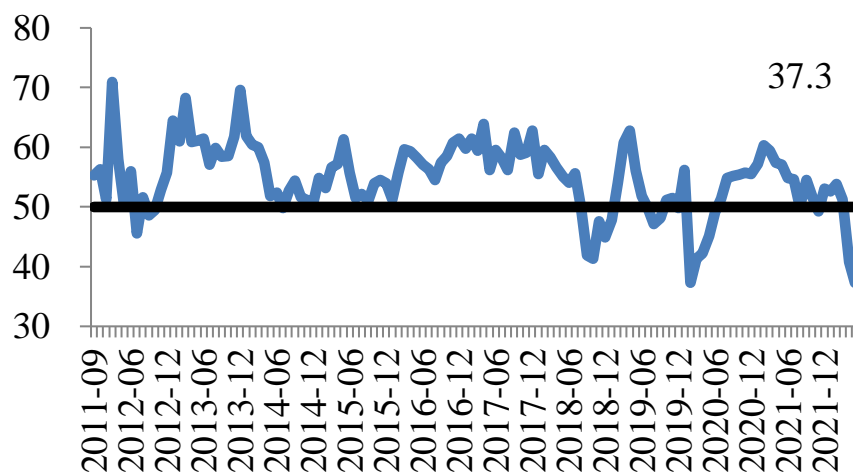
## May 2022

30 May 2022

CKGSB Case Center and Center for Economic Research

In May, the CKGSB Business Conditions Index (BCI) continued to fall, dropping from 40.8 to 37.3 (Figure 1), well below the confidence threshold of 50.0. Aside from the industry competitiveness index – which measures a company’s standing within their sector, therefore not representative of the operational conditions – and the expectation for inventory, all other indices fell. The conditions for private Chinese companies doing business have become worse in every way.

**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 2022, these sub-indices performed as follows:

**Figure 2 Corporate Sales Index**


Source: CKGSB Case Center and Center for Economic Research

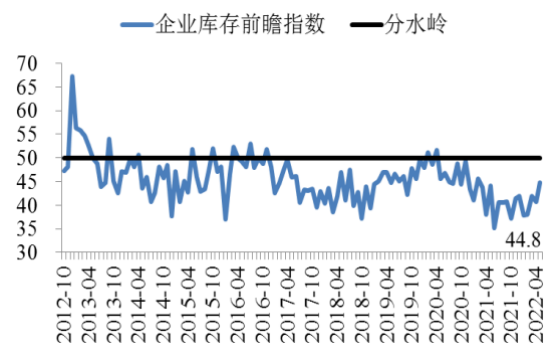
**Figure 3 Corporate Profit Index**


Source: CKGSB Case Center and Center for Economic Research

This month, three fell and one rose. The corporate sales index fell again from 47.0 to 38.7 (Figure 2), while the corporate profit index dropped from 35.3 to 27.0 (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 continued to bounce back, with the index down from 41.9 to 40.9 this month (Figure 4). The inventory index rebounded from 40.6 to 44.8 this month (Figure 5). In terms of inventory and finance, the companies in our sample have had a persistently negative outlook ever since our survey began in 2012, and this month is no exception.

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 from 76.6 to 70.6. The overall costs forecast fell from 82.9 to 77.2. See Figures 6 and 7 for more.

Turning to prices, the consumer price forecast fell this month, from 50.0 to 44.2 (Figure 8) while the producer price index dropped considerably from 51.0 to 39.1 (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. Both indices fell this month, with confidence in investment prospects dropping from 55.7 to 48.6 (Figure 10), and the recruitment score to 48.3 from 56.7 last month (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

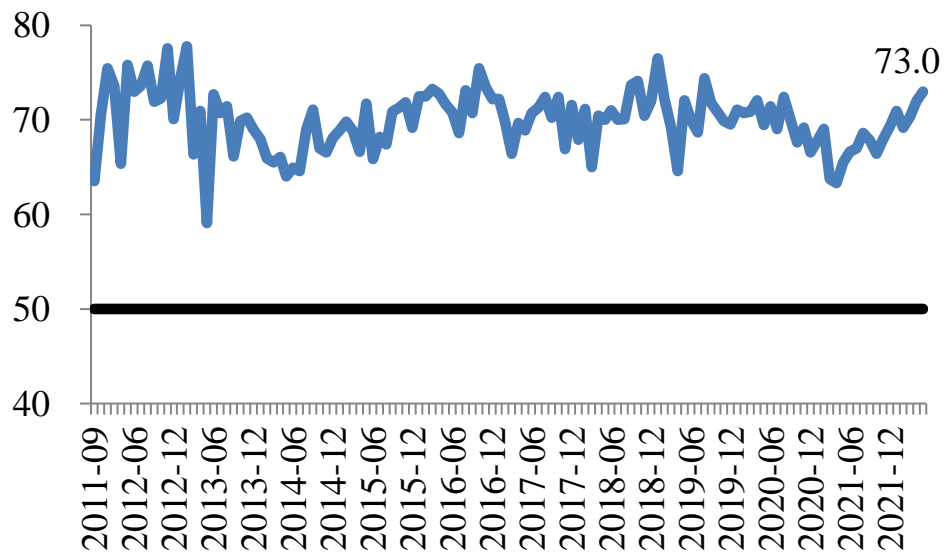
Figure 11 Recruitment Index



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 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 cohorts. This suggests that Chinese industry as a whole is facing a harder time than the BCI 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. 124 surveys have now been completed between May 2012 and April 2022 and 120 reports published (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.

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**The Research Team**

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