

CKGSB BCI

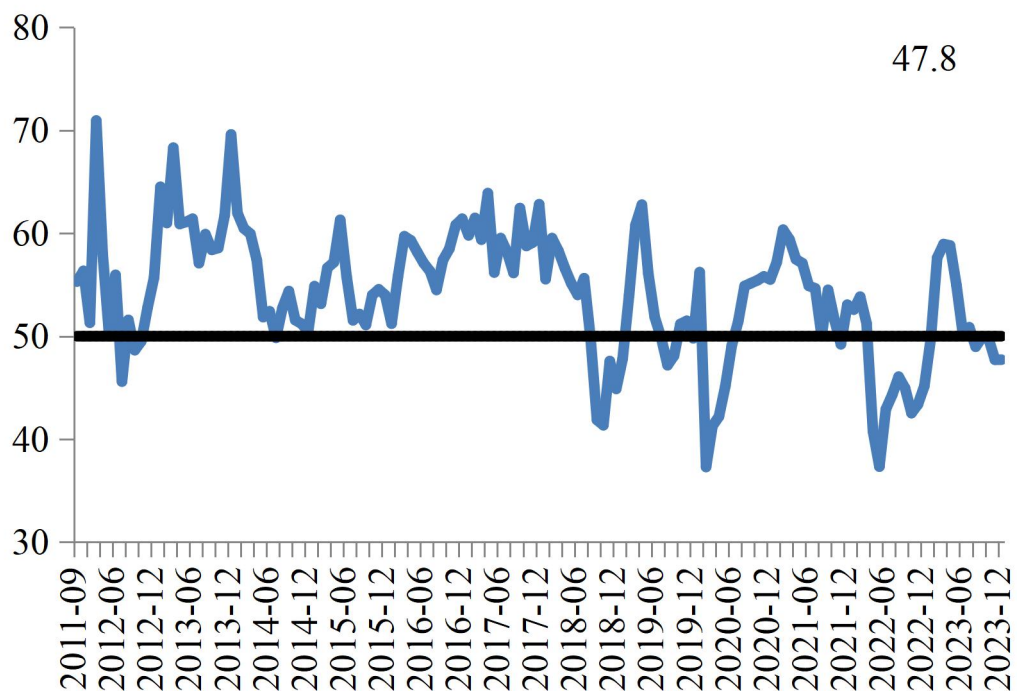
December 2023

28 December 2023

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 47.8 in December, a slight improvement on November's total of 47.7 (Figure 1), yet still under the confidence margin of 50.0. It looks like the economy is still struggling to emerge from troubled times.

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 the current state of affairs. In December 2023, they performed as follows:

Figure 2 Corporate Sales Index


Source: CKGSB Case Center and Center for Economic Research

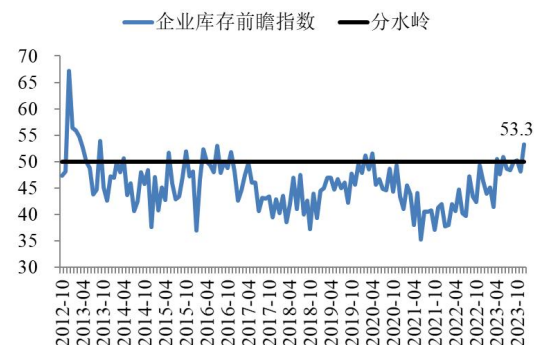
Figure 3 Corporate Profit Index


Source: CKGSB Case Center and Center for Economic Research

Two of the four subindices rose and two fell this month. The corporate sales index rose from 55.47 to 55.49 in December (Figure 2), while the corporate profit index fell from 42.0 to 41.6 (Figure 3). For profit expectations to remain below the confidence threshold for seven consecutive months is a rarity in our 12-year-long survey.

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

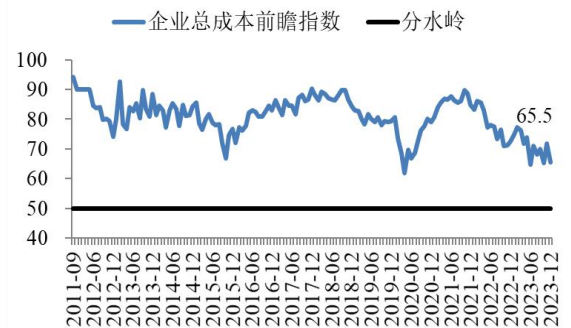
Corporate financing prospects fell somewhat from 45.3 to 44.1 (Figure 4). The index for inventory rose from 48.1 to 53.3. (Figure 5).

While for the other subindices —sales and profit— a positive trajectory indicates growth, when it comes to inventory, a positive trajectory indicates falling levels of warehoused stock and a falling index points to overcapacity. We need to consider the specific meaning of the four sub-indices of sales, profit, financing and inventory. Put simply, when the first three sub-indices rise, it means that the situation is improving, and when they fall, the situation is deteriorating. For inventory the reverse is true.

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, the prognosis for labor costs fell from 70.4 to 67.1. The overall costs index dropped more obviously, from 71.9 to 65.5. These high cost predictions mean most companies anticipate rising expenses in the next half year. Although high 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 instead mean the economy is heating up, and companies are feeling the push to spend as demand recovers. When unit costs of production or sales rise, this may mean demand has grown. Companies feel the impact of cost hikes, but this is mitigated by improved sales. For specific data, see Figures 6 and 7.

Let's look at price prospects. The consumer price index rose marginally this month, from 46.0 to 46.2 (Figure 8). The producer price index, however, fell by a clear margin, with 35.6 in November sinking further to 29.3 in December (Figure 9), languishing at the very bottom of the index.

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 slid significantly. Since the Chinese economy is largely investment-driven, and investment has a strong link with job recruitment, their trajectory is important to follow. In other words, these two indicators look at

plans for expansion in China's business world. The index for investment fell back from 55.0 to 53.3 (Figure 10); the index for employment fell slightly from 56.3 to 55.2 (Figure 11).

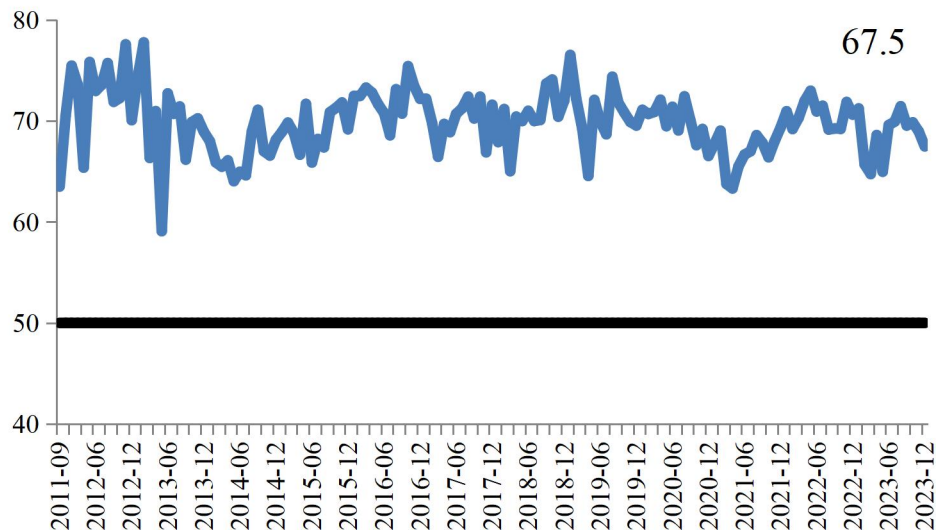
Figure 10 Investment Index


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 hovered at 67.5 in December. As our sample is comprised mainly of excellent private firms run by CKGSB alumni, their competitiveness is higher than average (50 points) in their respective sectors. Chinese industry is therefore, 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 macroeconomic 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. 145 surveys have now been completed between May 2012 and December 2023 and 140 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

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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.

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.

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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

Yi Zhou – Assistant Case Researcher, CKGSB Case Center and Center for Economic Research
+86 10 8518 8858 yizhou-pt@ckgsb.edu.cn

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

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