

CKGSB BCI

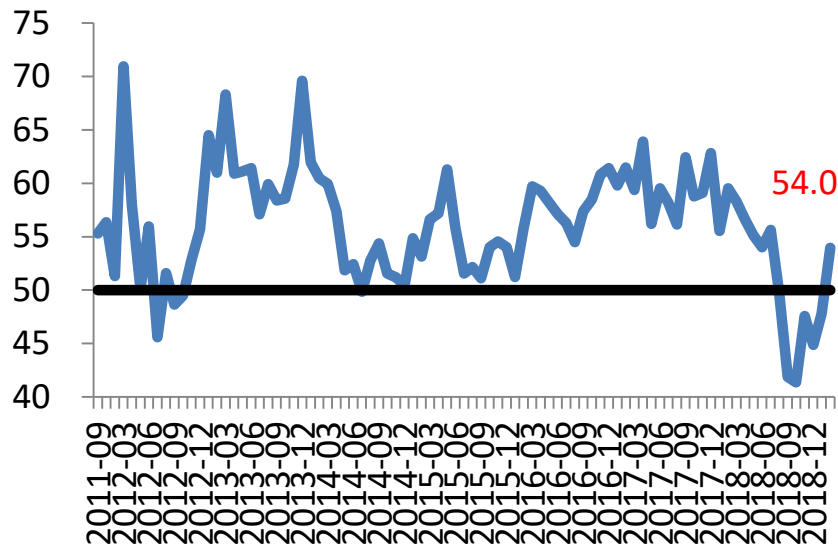
February 2019

25 February 2019

CKGSB Case Center and Center for Economic Research

This month, the CKGSB Business Conditions Index (BCI) rose significantly from 44.9 to 54.0, crossing the confidence threshold of 50.0 (Figure 1).

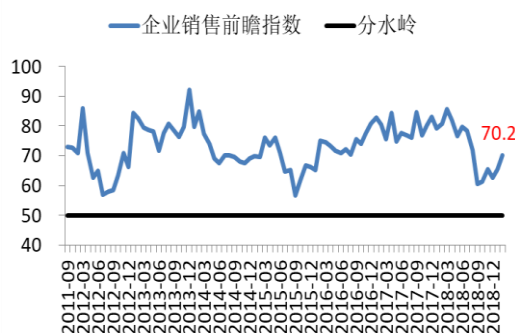
Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

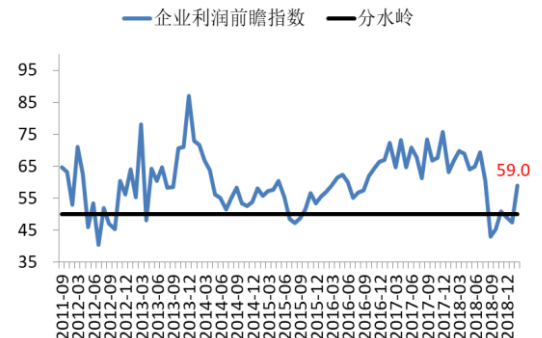
The CKGSB BCI comprises four sub-indices: corporate sales, corporate profits, corporate financing environment and inventory levels. Three of these measure future prospects and one, the corporate financing index, measures the current climate. For February, these sub-indices have performed as follows:

Figure 2 Corporate Sales Index



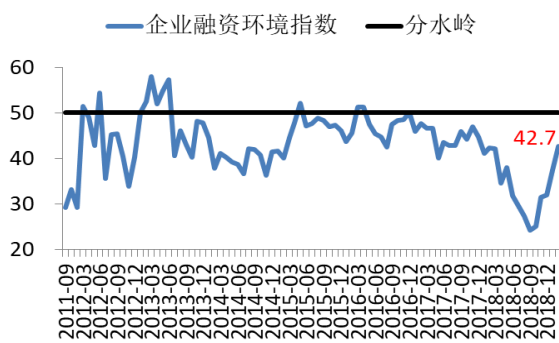
Source: CKGSB Case Center and Center for Economic Research

Figure 3 Corporate Profit Index

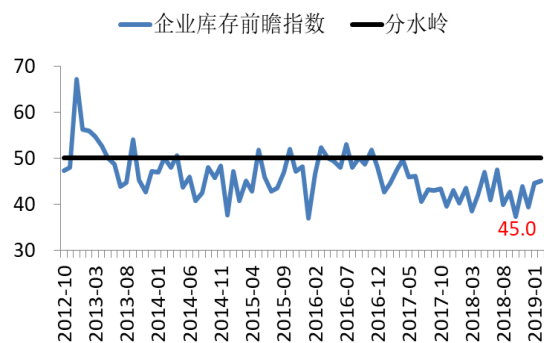


Source: CKGSB Case Center and Center for Economic Research

This month, all four rose. The corporate sales index rose from 65.5 to 70.2 (Figure 2), and the corporate profit index rose from 47.4 to 59.9, over the confidence threshold of 50.0 (Figure 3).

Figure 4 Corporate Financing Index


Source: CKGSB Case Center and Center for Economic Research

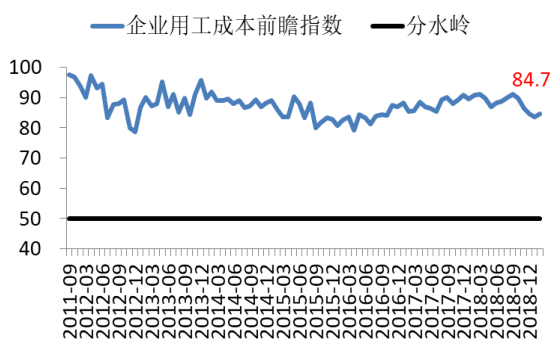
Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

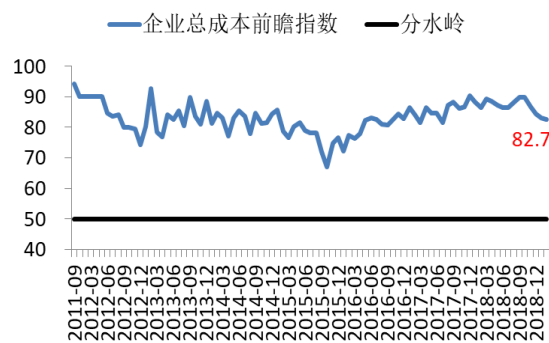
This month's corporate financing index rose from 37.5 to 42.7, remaining under the confidence threshold of 50.0 (Figure 4).

The inventory index rose slightly from 44.5 in January to 45.0 in February (Figure 5).

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

Figure 6 Labor Costs Index


Source: CKGSB Case Center and Center for Economic Research

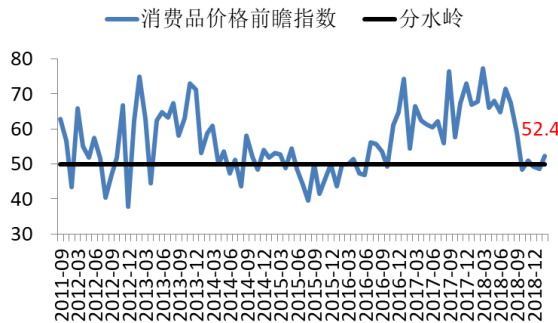
Figure 7 Overall Costs Index


Source: CKGSB Case Center and Center for Economic Research

This month's labor costs forecast was 84.7 and the overall costs forecast was 82.7. Labor costs show a small rebound on last month, but the overall costs forecast has fallen slightly. No matter how the economy is performing, these two indices have remained stubbornly high (See Figures 6 and 7).

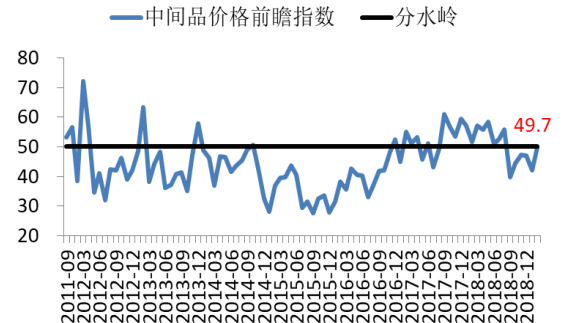
Turning to prices, the BCI's consumer price forecast rose marginally in February, from 48.5 to 52.4 (Figure 8), above the confidence threshold. The producer prices index rose from 42.2 to 49.7, still under the confidence threshold (Figure 9).

Figure 8 Consumer Prices Index



Source: CKGSB Case Center and Center for Economic Research

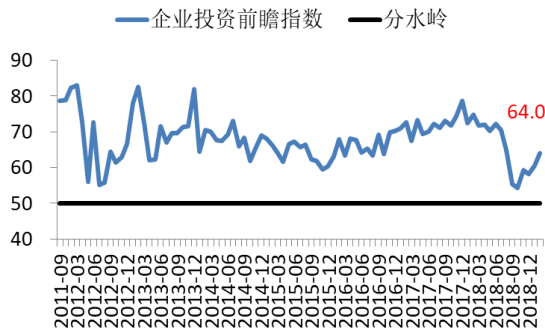
Figure 9 Producer Prices Index



Source: CKGSB Case Center and Center for Economic Research

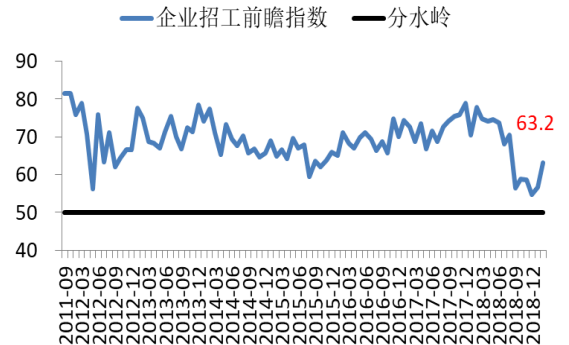
We now turn to investment and recruitment. These two indices were consistently at the more confident end of the scale since the BCI began. In recent months however, their fortunes have weakened, especially recruitment. Despite this trend emerging, February's investment index rose to 64.0 (Figure 10), and the recruitment index rose to 63.2 (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

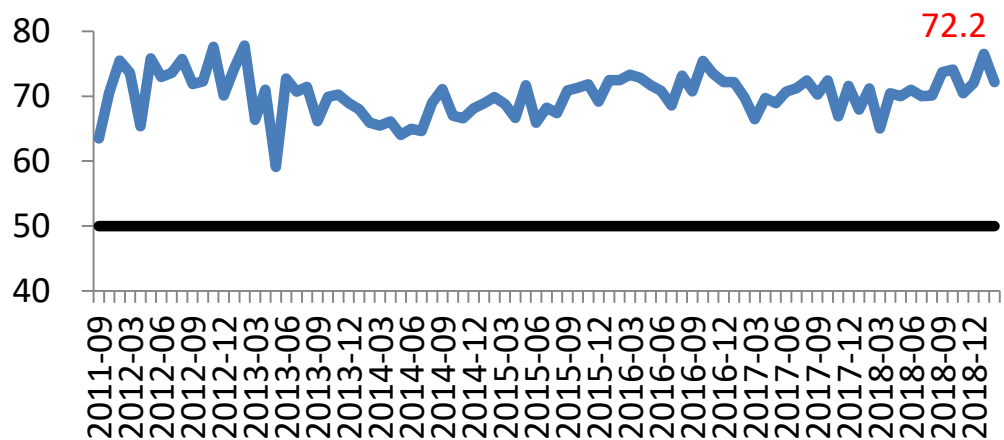
Figure 11 Recruitment Index



Source: CKGSB Case Center and Center for Economic Research

Finally, we include an index recording our sample's relative strength in the marketplace. Figure 12 shows surveyed companies' level of competitiveness over time. As our sample mostly comprises of CKGSB alumni firms, we can be assured that their competitiveness is higher than average (50 points) for their respective industries. This means that Chinese industry as a whole will be experiencing tougher conditions than our sample firms.

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 survey was carried out. 87 surveys have been completed in total and 82 monthly reports have been published between May 2012 and February 2019 (At the start, 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

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

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

Yang Yan – Assistant Director, CKGSB Case Center

+86 10 8537 8479 yanyang@ckgsb.edu.cn

Gu Chongqing - Senior Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3336 cqgu@ckgsb.edu.cn

Zhu Yunhai – Senior Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8537 8467 yhzhu@ckgsb.edu.cn

Wang Xiaoyu – Research Assistant, CKGSB Case Center and Center for Economic Research

cc-pt@ckgsb.edu.cn

Disclaimer

This report is based on public information and field research carried out by CKGSB Case Center and CKGSB Center for Economic Research. Sources of these data are deemed reliable, but the two Centers do not guarantee their accuracy and completeness. Opinions expressed in this report reflect only the judgment of the researchers in the two Centers on the day when the report is released, and are subject to change without prior notice. CKGSB holds no liability for any loss that might be brought about by using this report. Readers are advised to use their own discretion and to consider whether any comment or suggestion given in this report is suitable for their personal situation.