

CKGSB BCI

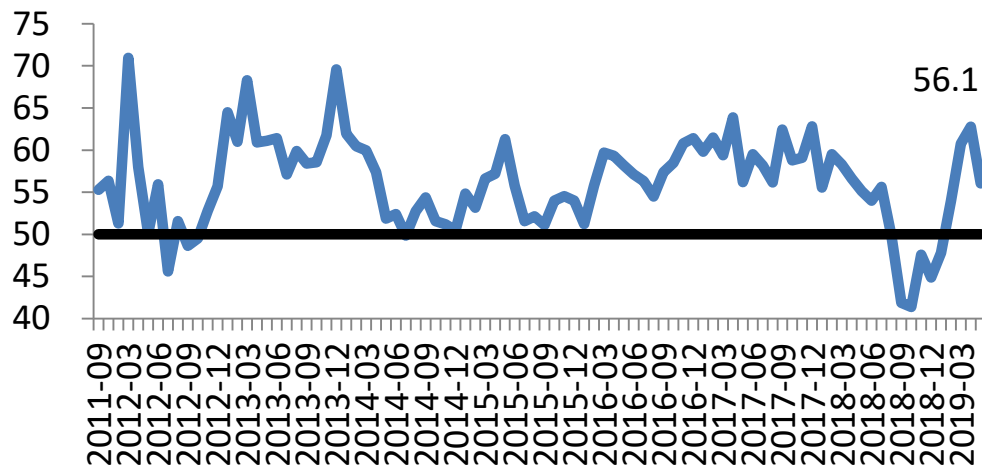
May 2019

26 May 2019

CKGSB Case Center and Center for Economic Research

In May, the CKGSB Business Conditions Index (BCI) registered 56.1, a significant deterioration on last month's 62.8, bringing the positive trend of the last six months to an end (Figure 1).

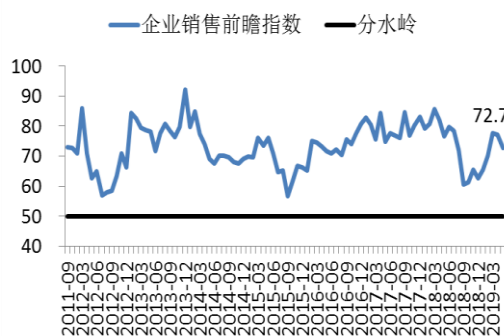
Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

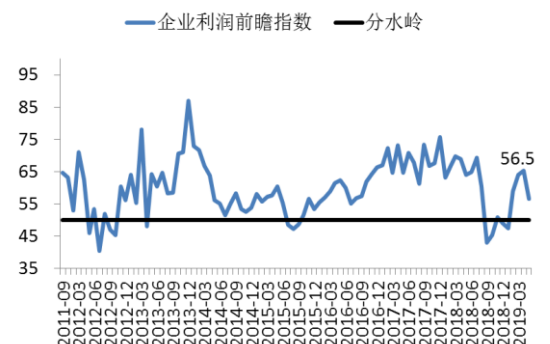
The CKGSB BCI comprises four sub-indices: corporate sales, corporate profits, corporate financing environment and inventory levels. Three measure future prospects and one, the corporate financing index, measures the current climate. In March, these sub-indices performed as follows:

Figure 2 Corporate Sales Index



Source: CKGSB Case Center and Center for Economic Research

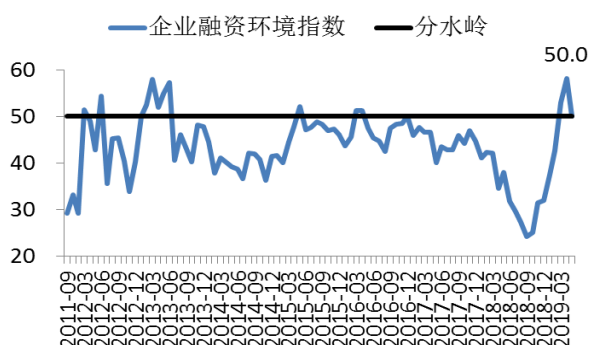
Figure 3 Corporate Profit Index



Source: CKGSB Case Center and Center for Economic Research

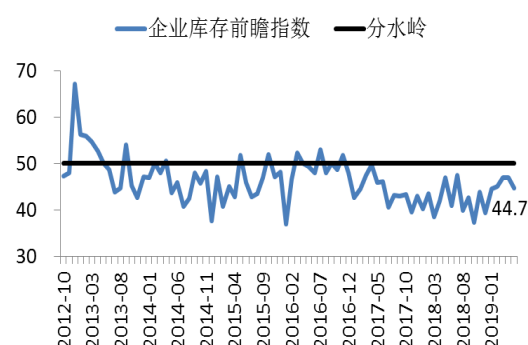
This month, all of them fell. The corporate sales index fell from 77.1 to 72.7 (Figure 2), and the corporate profit index fell from 65.4 to 56.5 (Figure 3).

Figure 4 Corporate Financing Index



Source: CKGSB Case Center and Center for Economic Research

Figure 5 Inventory Index

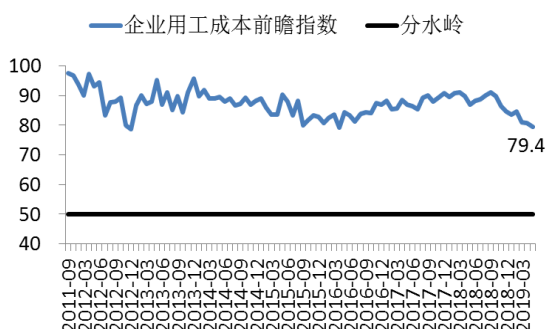


Source: CKGSB Case Center and Center for Economic Research

This month's corporate financing index fell from its highest ever index of 58.2 to land exactly on the threshold of optimism: 50.0. (See Figure 4). The inventory index fell to 44.7 (Figure 5).

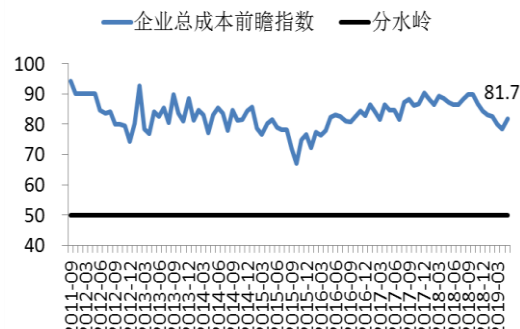
Aside from the main BCI, we also forecast costs, prices, investment and recruitment demand over the next six months. Let's begin with costs:

Figure 6 Labor Costs Index



Source: CKGSB Case Center and Center for Economic Research

Figure 7 Overall Costs Index

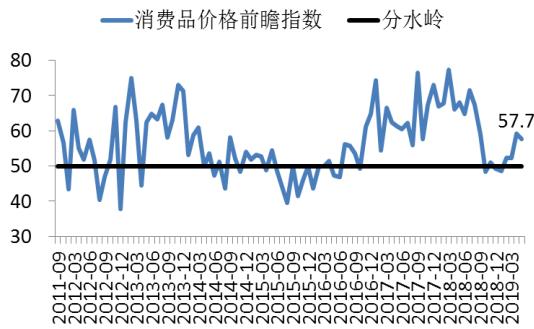


Source: CKGSB Case Center and Center for Economic Research

This month's labor costs forecast was 79.4 and the overall costs forecast was 81.7. Both have fallen since last month. Considering that no matter how the economy is performing, these two indices have remained stubbornly high, the recent downward trend is something to be noted (See Figures 6 and 7 for more).

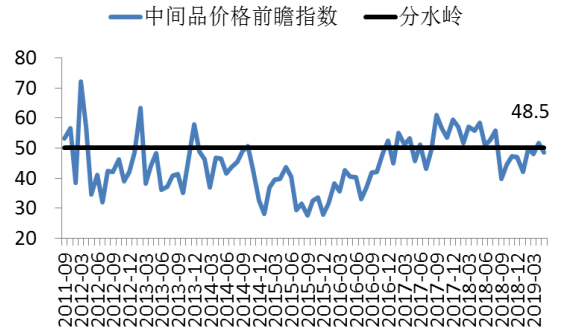
Turning to prices, the consumer prices forecast fell from 59.3 to 57.7 (Figure 8), while the producer prices index fell below the confidence threshold, from 51.7 to 48.5 (Figure 9).

Figure 8 Consumer Prices Index



Source: CKGSB Case Center and Center for Economic Research

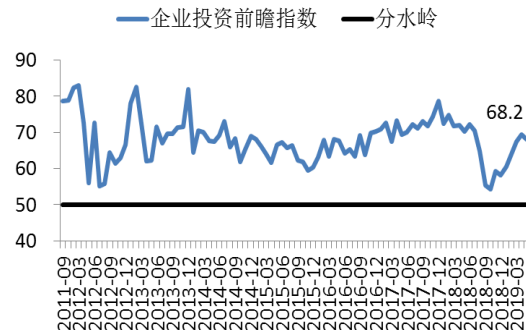
Figure 9 Producer Prices Index



Source: CKGSB Case Center and Center for Economic Research

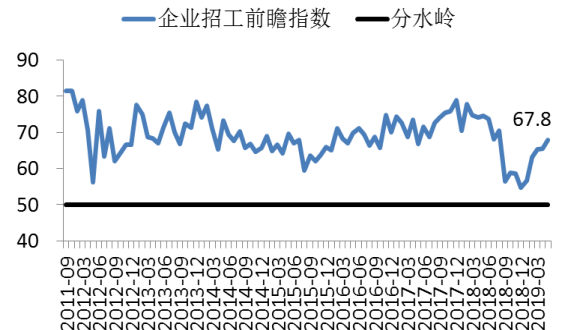
We now turn to the important issues of investment and recruitment. These two indices have been consistently at the more confident end of the scale since the BCI began. This year however, both have weakened, especially the recruitment index. The positive trend has reversed, with May's investment index falling slightly from 69.4 to 68.2 (Figure 10), and the recruitment index rising somewhat to 67.8 from last month's 65.4 (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

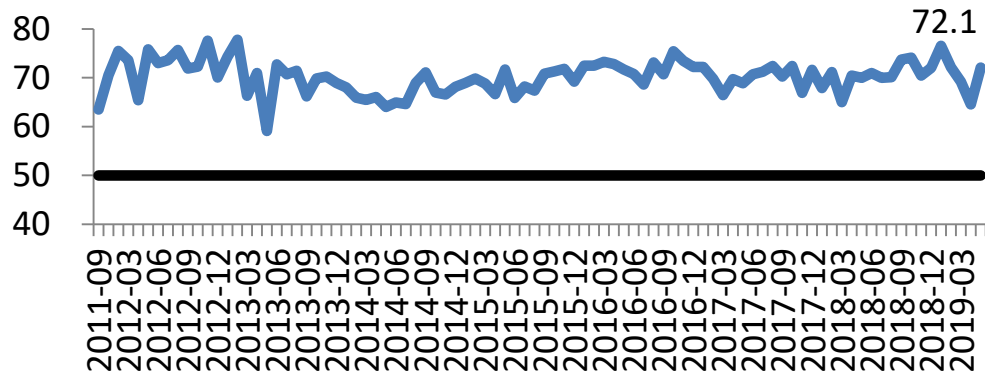
Figure 11 Recruitment Index



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.

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. 90 surveys have been completed in total and 85 monthly reports have been published between May 2012 and May 2019 (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 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

Yuan Cao – 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.