

CKGSB BCI

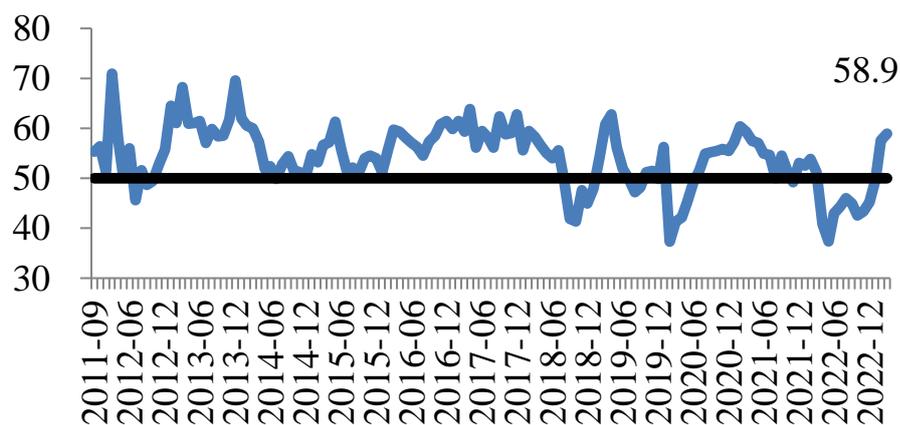
March 2023

31 March 2023

CKGSB Case Center and Center for Economic Research

In March, the CKGSB Business Conditions Index (BCI) registered 58.9, a slight increase on February's overall score of 57.6 (Figure 1), continuing along the upward trajectory set in motion last month, but not to the dramatic degree established before. After five years of improvement, the index nears 60.0, which suggests our sample of successful Chinese enterprises sees business prospects for the next six months in a fairly positive light.

Figure 1 Business Conditions Index (BCI)

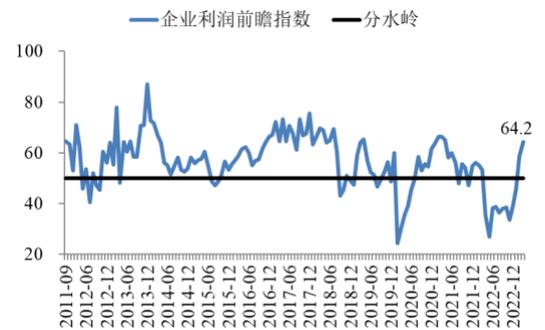


Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises four sub-indices: sales, profit, financing environment and inventory. Three measure prospects and one, the corporate financing index, measures current conditions. In March 2023, these sub-indices performed as follows:

Figure 2 Corporate Sales Index


Source: CKGSB Case Center and Center for Economic Research

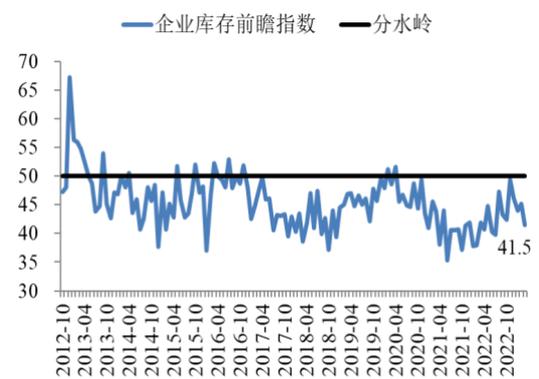
Figure 3 Corporate Profit Index


Source: CKGSB Case Center and Center for Economic Research

Of these, three rose and one fell this month. The corporate sales index went up somewhat from 73.1 to 75.7 (Figure 2), while the corporate profit index increased from 58.7 to 64.2 (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

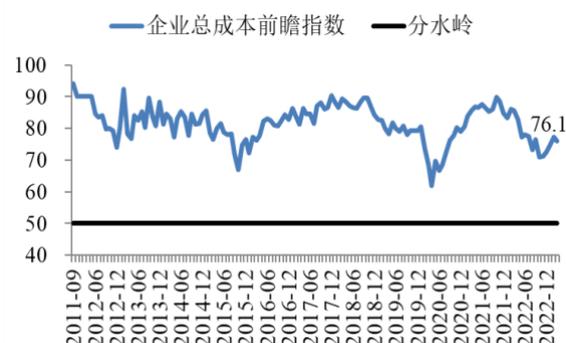
Corporate financing prospects rose from 54.3 this month to 55.3 (Figure 4), remaining above the confidence threshold. The index for inventory dropped from 45.1 to 41.5 (Figure 5), the only index to fall this month, and still below the confidence line of 50.0.

While for the other subindices —sales and profit— a positive trajectory indicates growth, when it comes to inventory, a positive trajectory indicates falling numbers of goods held in warehouses and a falling index suggests that goods are not being shifted fast enough,

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, labor cost expectations rose from 73.7 to 78.0. The overall business costs index fell slightly this month, from 77.3 to 76.1 this month. The rise in the index for labor costs and overall costs mean more companies expect costs to pick up over the next six months, increasing pressure on their bottom lines. It can also suggest the economy is improving, as companies are pushed to spend more as demand warms up. When the economy is improving, the output or sales of enterprises increase, and more people and materials need to be invested in production, which may mean that the operating conditions of enterprises improve. Only when the unit costs of production or sales rise do companies feel the impact of worsening conditions of doing business. For specific data, see Chart 6 and Chart 7.

Turning to prices, consumer price expectations rose from 51.7 to 58.6 (Figure 8). The producer price forecast also headed in a positive direction, moving from 44.2 to 44.9 (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 both been at the more confident end of the scale since the BCI began. In the past few months, they trended downwards, now hovering at the confidence threshold. These two indicators have generally performed poorly in recent times. Both indicators climbed this month, and since the Chinese economy is largely investment-driven, and investment has a strong link with job recruitment, they suggest the Chinese economy is on the mend. In other words, these two indicators look at plans for expansion in China's business world.

The index for investment has risen sharply this month, to 63.0 from 53.6 last month (Figure 10); the index for employment has also risen significantly, to 61.6 this month from 56.0 last month. (Figure 11).

Both investment and employment prospects indices have been at the high end ever since we began surveying our contingent of successful private companies. However, both have weakened in recent months. This month, they both rose. Since the Chinese economy is largely investment-driven, and investment is closely linked to hiring, the picture suggests that the Chinese economy is on the mend. In addition, the rise of the investment index means that more companies expect to put money into their plans for the next half year. The recruitment index shows that they will also be taking on more staff. In other words, these two indicators consider Chinese private business appetite for expansion, and find it has growth. The forward-looking index for investment rose slightly this month, to 65.2 this month from 63.0 last month (Figure 10), while the index for employment increased from 61.1 to 66.1 this month (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

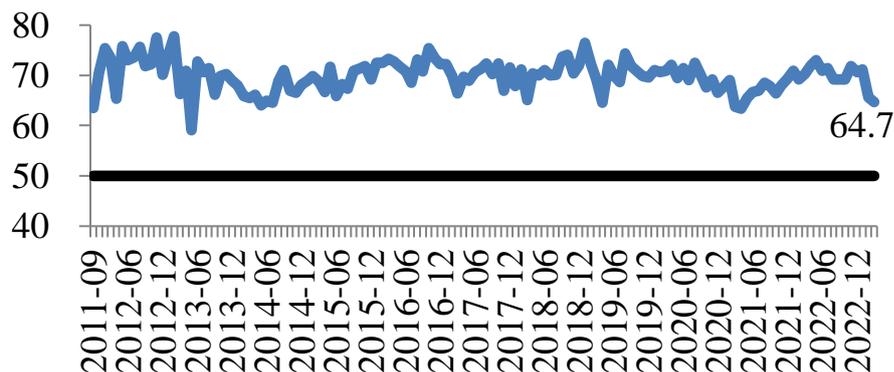
Figure 11 Recruitment Index



Source: CKGSB Case Center and Center for Economic Research

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 has fallen to 64.7 this month. As our sample is mainly excellent private firms run by CKGSB alumni, their competitiveness is higher than average (50 points) in their respective cohorts. This suggests that Chinese industry is, 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 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. 136 surveys have now been completed between May 2012 and March 2023 and 131 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

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

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