

# CKGSB BCI

November 2018

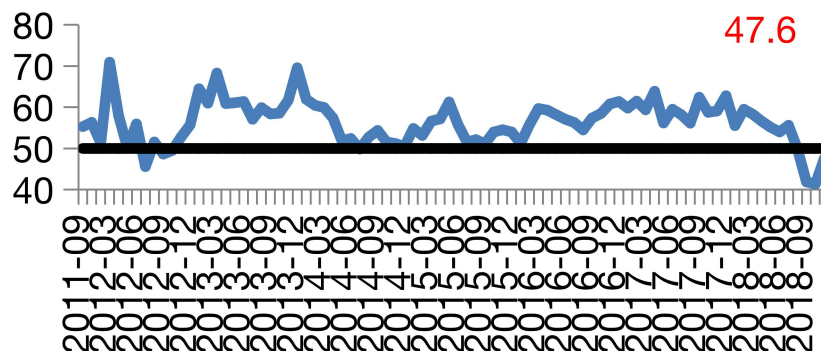
27 November 2018

CKGSB Case Center and Center for Economic Research

In recent months, the CKGSB Business Conditions Index (BCI) has fallen dramatically, reaching new lows month on month. This month however, there is light at the end of the tunnel. According to our survey and analysis, the November BCI rebounded significantly from 41.9 to 47.6, and is again nearing the confidence threshold of 50.0 (Figure 1).

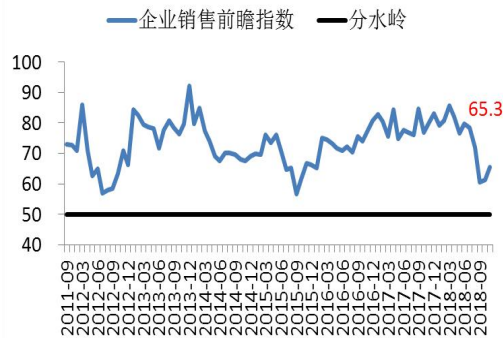
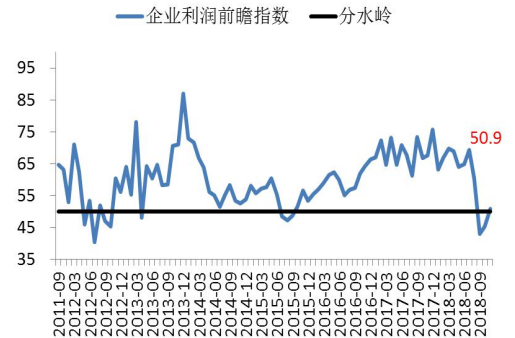
In addition to the main BCI survey, we also conducted a temporary questionnaire this month on the impact of recent policies on business operations among private entrepreneurs in China. Interested readers will find the results published at the end of this report.

**Figure 1 Business Conditions Index (BCI)**



Source: CKGSB Case Center and Center for Economic Research

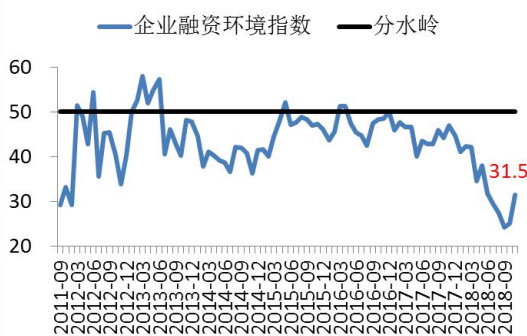
The CKGSB BCI comprises of four sub-indices for corporate sales, corporate profits, corporate financing environment and inventory levels, three of which measure future prospects and one, the corporate financing index, measures the current situation. The November figures are as follows:

**Figure 2 Corporate Sales Index**

**Figure 3 Corporate Profit Index**


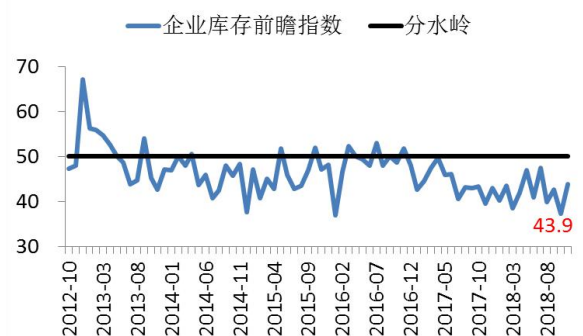
Source: CKGSB Case Center and Center for Economic Research

Source: CKGSB Case Center and Center for Economic Research

This month, all four appreciated to varying degrees. The corporate sales index rose from 61.2 to 65.3 (Figure 2), and the corporate profit index rose from 45.3 to 50.9, tipping it above the confidence index of 50.0 (Figure 3).

**Figure 4 Corporate Financing Index**


Source: CKGSB Case Center and Center for Economic Research

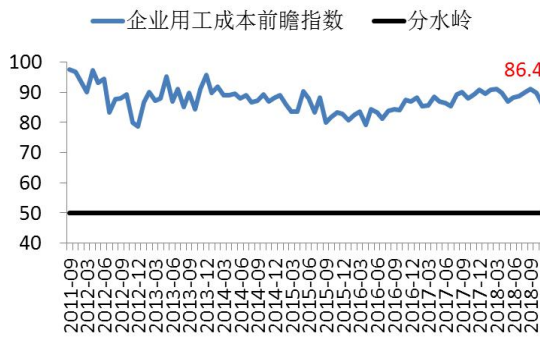
**Figure 5 Inventory Index**


Source: CKGSB Case Center and Center for Economic Research

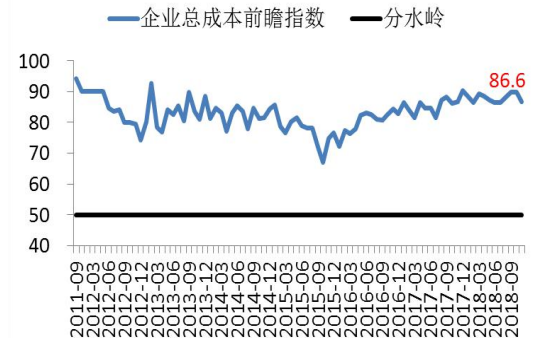
This month's corporate financing index improved from 25.0 to 31.5, still well under the confidence threshold of 50.0. Although still low, it is a much improved score in light of recent data (Figure 4).

The inventory index rebounded from 37.2 to 43.9, a clear move in the positive direction (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**


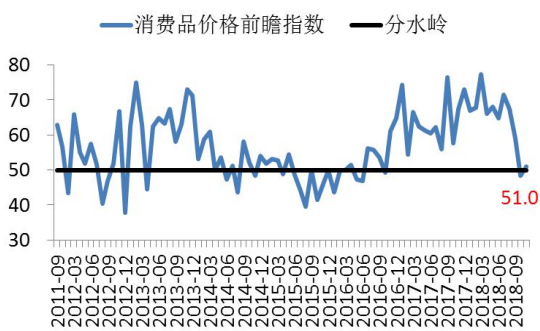
Source: CKGSB Case Center and Center for Economic Research

**Figure 7 Overall Costs Index**


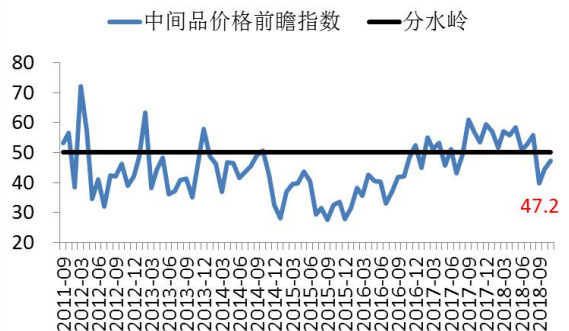
Source: CKGSB Case Center and Center for Economic Research

While business conditions have been tough these past months, labor and overall cost forecasts have continued to rise. This month, the former registered 86.4 and the latter 86.6, similar scores to last month. It is a bit of a conundrum that no matter how the economy is performing, these two indices remain stubbornly high, and neither is expected to fall any time soon. For detailed data, see Figures 6 and 7.

Consumer prices are expected to rise, with the index having rebounded somewhat from 48.4 to 51.0 this month (Figure 8), above the confidence threshold once again. The producer prices index rose from 44.5 to 47.2 (Figure 9).

**Figure 8 Consumer Prices Index**


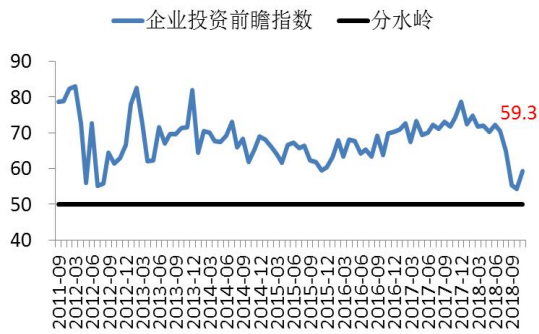
Source: CKGSB Case Center and Center for Economic Research

**Figure 9 Producer Prices Index**


Source: CKGSB Case Center and Center for Economic Research

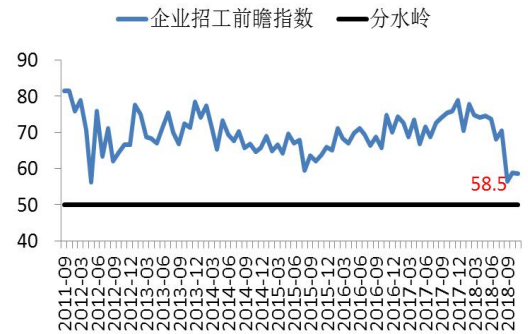
We now turn to investment and recruitment. Although the investment and recruitment indices have never reached the heights of the costs indices, they have consistently remained at the more confident end of the scale. However, the past two months have seen a negative turn. This month's investment index rose somewhat to 59.3 (Figure 10), and the recruitment index fell marginally to 58.5 (Figure 11), with both just below a strong 60.

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

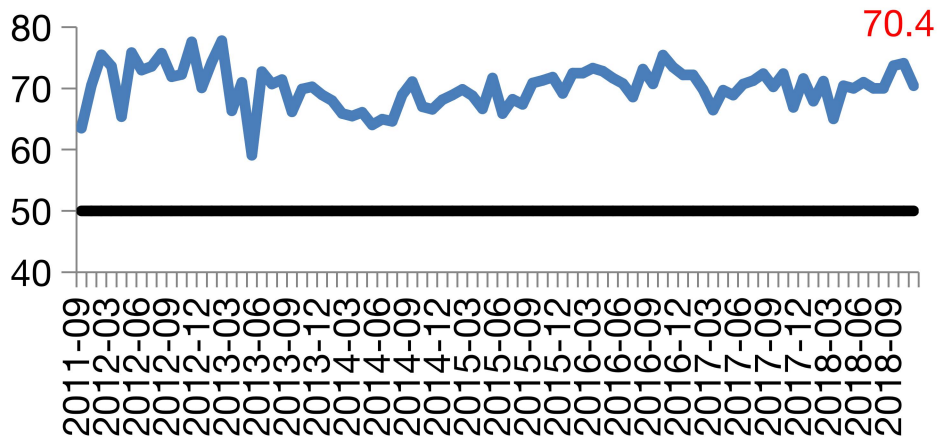
Figure 11 Recruitment Index



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

Rapidly changing macro-economic circumstances have led the government to introduce a series of new policies to support the private SME sector in recent months. We devised a temporary questionnaire comprising of four questions (two multiple-choice, two open-ended) to explore the effects of these policies.

The first multiple-choice question was: "Central government has spent considerable time praising and motivating private industry recently. Has your confidence in future business developments changed in any way?" Our data point of 66.9 indicates confidence has risen recently. It suggests that government encouragement to private enterprises has had a positive impact.

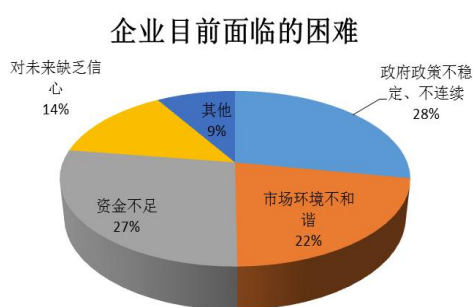
The second multiple-choice question was, "Recently, the central government has introduced a series of

policies aiming to resolve financing issues for private firms. How have these solutions been felt in your company?" Our data point of 52.2 is much higher than the corporate financing index of 31.5 (the corporate financing index measures year-on-year confidence). This means that central government policies to lighten private companies' financing pressures have had an effect.

As for the two open-ended questions, we classified the answers received and displayed them in the following charts:

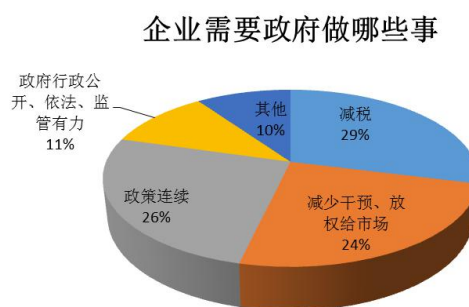
Figures 13 and 14

Figure 13 Business Concerns



Source: CKGSB Case Center and Center for Economic Research

Figure 14 Suggested Government Action



Source: CKGSB Case Center and Center for Economic Research

14% - Lack of confidence in the future  
 28% - Government policies unsustainable and disconnected  
 27% - Insufficient funding  
 22% - Market conditions not friendly  
 9% - Other

11% Transparent government that operates according to the law, strong supervision  
 29% - Lower taxes  
 24% - More Free Market  
 26% - Consistent Policies  
 10% - Other

Figures 13 and 14 show that aside from financing support, businesses need a stable market and policy environment to thrive. For our sample firms, subsidies and credit are not the most important government policies. Tax cuts, decentralization, transparent administration, and policy continuity are far more important.

### 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 surveys were distributed and first results computed. 84 surveys have been completed in total and 79 monthly reports have been published between May 2012 and November 2018 (At the beginning, 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**

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