

CKGSB BCI

April 2020

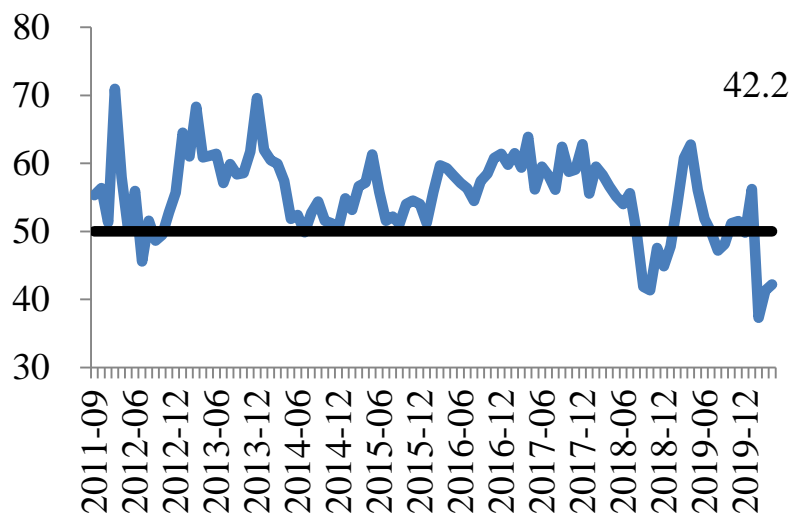
30 April 2020

CKGSB Case Center and Center for Economic Research

This month's BCI fully fits the description of a horizontal price movement, moving neither up nor down by much.

In April, the CKGSB Business Conditions Index (BCI) registered 42.2, up less than one percentage point from March (41.3). From this, we can tell that the economy is still extremely weak. Without strong government policy intervention, economic growth is unlikely to be very positive going forward. Indeed, if by the end of the year, GDP growth is above zero, this will be considered a decent result.

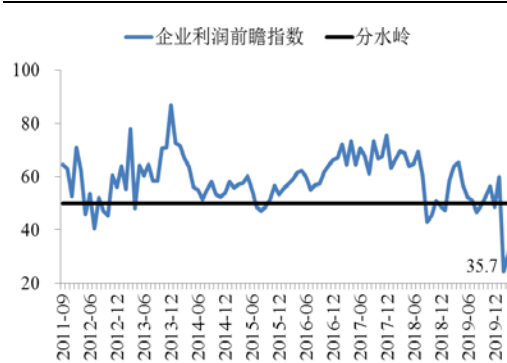
Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises of 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 April, these sub-indices performed as follows:

Figure 2 Corporate Sales Index

Figure 3 Corporate Profit Index


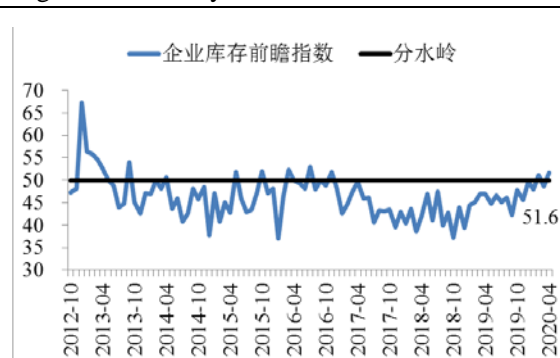
Source: CKGSB Case Center and Center for Economic Research

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This month, two rose and two fell, but fluctuations were not large. The corporate sales index dropped slightly to 40.2 (Figure 2), and the corporate profit index rose from 30.7 to 35.7 (Figure 3). The improvement in sales and profits are probably due to the resumption of work. Company conditions may have improved somewhat, but from the figures, we see that the extent of this recovery is minimal.

Figure 4 Corporate Financing Index


Source: CKGSB Case Center and Center for Economic Research

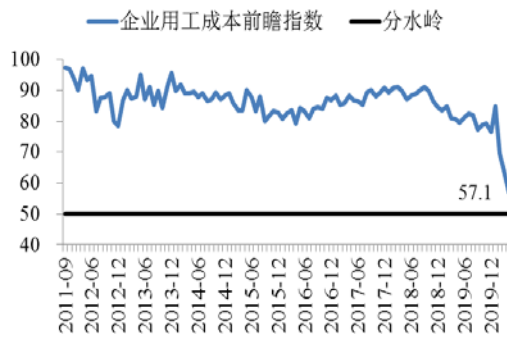
Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

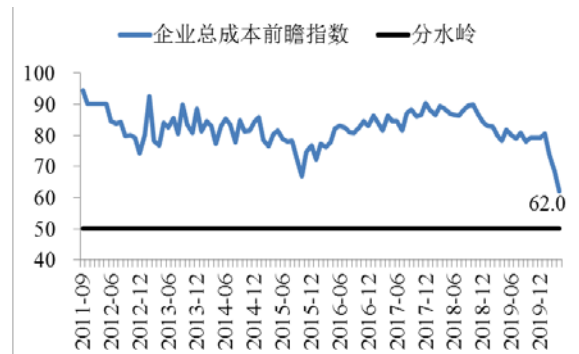
This month's corporate financing index deteriorated somewhat, falling from 45.5 to 43.9 (Figure 4). It appears that government policies aimed at supporting small and medium sized companies through the crisis have not travelled the final mile to reach the accounts of the SMEs in need.

Inventory forecasts are on the rise again, crossing back over the confidence threshold from 48.6 to 51.6 (Figure 5).

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


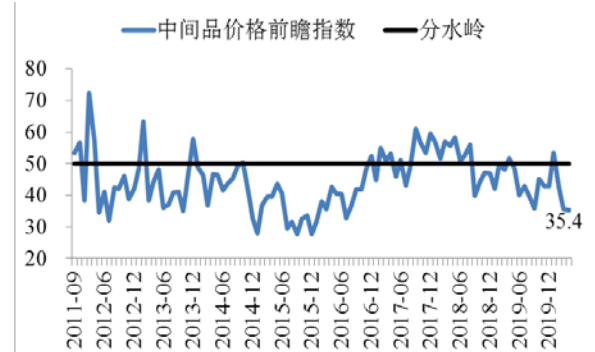
Source: CKGSB Case Center and Center for Economic Research

This month's labor cost forecast fell from 63.2 to 57.1, close to the confidence marker. The overall cost forecast also fell, from 68.4 to 62.0. To date, no matter how the economy has performed, these two indices have remained high throughout, meeting their match only with severe threat of COVID-19. What is not yet clear is whether or not costs will hover at the bottom or bounce back to a new high once the virus has been fully vanquished (see Figures 6 and 7 for specific data).

Turning to prices, the consumer price forecast fell slightly from 40.4 to 38.4 (Figure 8). As we appear to have escaped the clutches of inflation, we have moved swiftly closer to the jaws of deflation. The producer price index continued to fall this month, from 35.7 in March to 35.4 this month (Figure 9).

Figure 8 Consumer Price Index

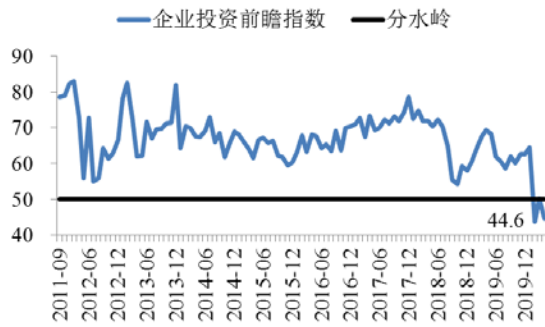

Source: CKGSB Case Center and Center for Economic Research

Figure 9 Producer Price Index


Source: CKGSB Case Center and Center for Economic Research

We now turn to investment and recruitment. These two indices have been consistently at the more confident end of the scale since the BCI began. In the past few months however, both have weakened, especially recruitment. This month, both have weakened, the investment index falling to 44.6 from 50.4 (Figure 10), and the recruitment index falling to 45.0 from 49.1 (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

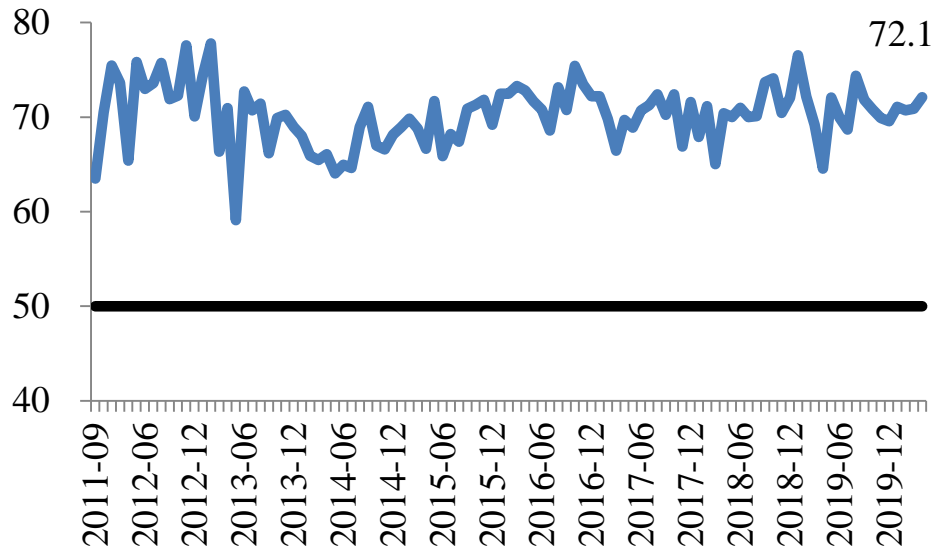
Figure 11 Recruitment Index



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's firms, we can be assured that their competitiveness is higher than average (50 points) for their respective industries. This means that the 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 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. 101 surveys have now been completed and 96 monthly reports published between May 2012 and April 2020 (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 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 business school. 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 full-time 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

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

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