

# CKGSB BCI

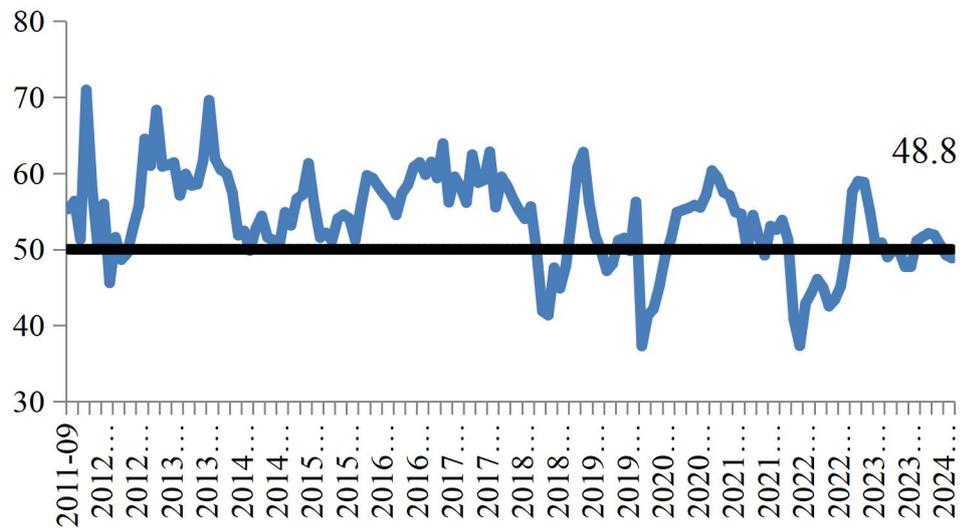
## July 2024

24 July 2024

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 48.8 in July, falling from June's overall score of 49.3 (Figure 1), and below the confidence threshold of 50.0. Together with growth in the second quarter only reaching 4.7%, it appears China's economy is trending downwards.

**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 the current state of affairs. In July 2024, they 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

One of the four subindices rose, and three fell this month. The corporate sales index continued to slide, from 60.2 to 57.1 (Figure 2), accompanied by the corporate profit index which also slid, from 45.7 to 45.6 (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 continued to fall, from 43.4 to 42.1 (Figure 4). The index for inventory rose again, from 48.0 to 50.9 (Figure 5), the only one of the four sub-indices to do so.

While for the other subindices —sales and profit— a positive trajectory indicates growth, for inventory, a positive trajectory indicates falling warehoused stock and a negative index points to overcapacity. The four sub-indices of sales, profit, financing and inventory have different meanings as a result. Put simply, when the first three sub-indices rise, it means that the situation is improving, and when they fall, the situation is deteriorating. For inventory the reverse is true.

Aside from the main BCI, we also forecast costs, prices, investments 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, the prognosis for labor costs improved somewhat, from 63.6 to 65.1. The overall costs index slid from 66.2 to 65.4. These cost predictions show that most companies anticipate rising expenses in the next half year. Although high labor and overall costs increase pressure on companies' bottom lines, they do not necessarily mean a deterioration of business conditions in China over the next six months. It could instead be telling us that the economy is heating up, and companies are feeling the push to spend as demand recovers. When unit costs of production or sales rise, this may mean demand has grown. Companies feel the impact of cost hikes, but improved sales mitigate this. For specific data, see Figures 6 and 7.

Let's look at price prospects. The consumer price index fell back further this month, from 44.6 to 38.8 (Figure 8). The producer price index fell again, from 35.3 to 32.3 (Figure 9), showing price pressure among primary goods producers. Production-side price expectations are hovering at an all-new low, a sign of major price pressure in China.

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 have slid significantly. Since the Chinese economy is largely investment-driven, and investment has a strong link with job recruitment, their trajectory is important to follow. In other words, these two indicators look at

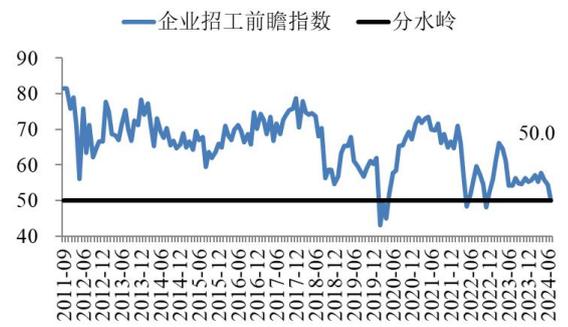
plans for expansion in China’s business world. The index for investment fell somewhat from 56.5 to 54.7 (Figure 10); the index for employment fell again, from 54.4 to 50.0 (Figure 11).

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

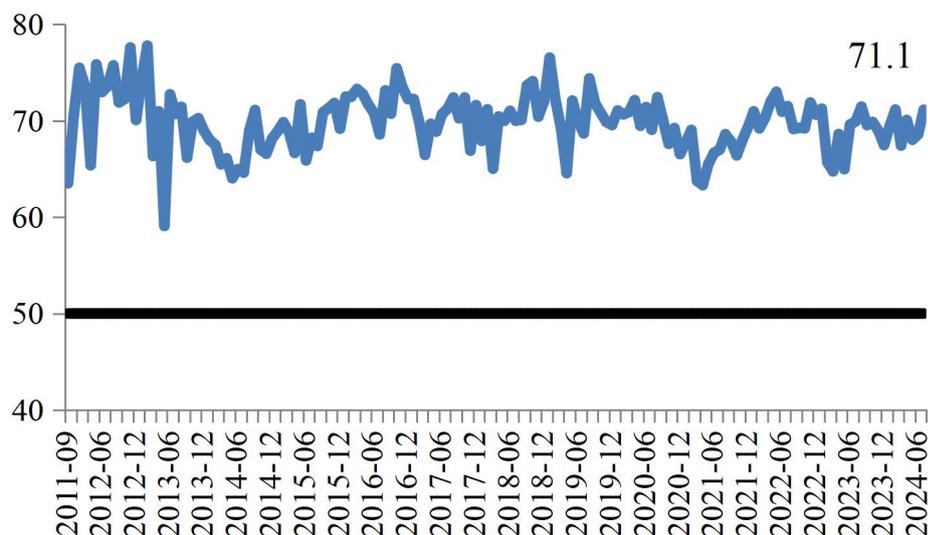
Figure 11 Recruitment Index



Source: CKGSB Case Center and Center for Economic Research

We conclude with an index recording our sample’s collective strength in the market. Figure 12 shows self-reported competitiveness compared with industry peers. This rose somewhat in July: 71.1 from 68.6 in June. As our sample is comprised mainly of excellent private firms run by CKGSB alumni, their competitiveness is higher than average (50 points) in their respective sectors. Chinese industry is therefore, 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 macroeconomic 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. 151 surveys have now been completed between May 2012 and July 2024 and 147 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.

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**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](mailto:wli@ckgsb.edu.cn)

**Gu Chongqing** - Senior Researcher, CKGSB Case Center and Center for Economic Research  
+86 2162696677 [cqgu@ckgsb.edu.cn](mailto:cqgu@ckgsb.edu.cn)

**Yi Zhou** – Assistant Case Researcher, CKGSB Case Center and Center for Economic Research  
+86 10 8518 8858 [yizhou-pt@ckgsb.edu.cn](mailto:yizhou-pt@ckgsb.edu.cn)

**Yi Huang** – Research Assistant, CKGSB Case Center and Center for Economic Research  
+86 10 85378477 [cc-pt@ckgsb.edu.cn](mailto:cc-pt@ckgsb.edu.cn)

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