

CKGSB BCI

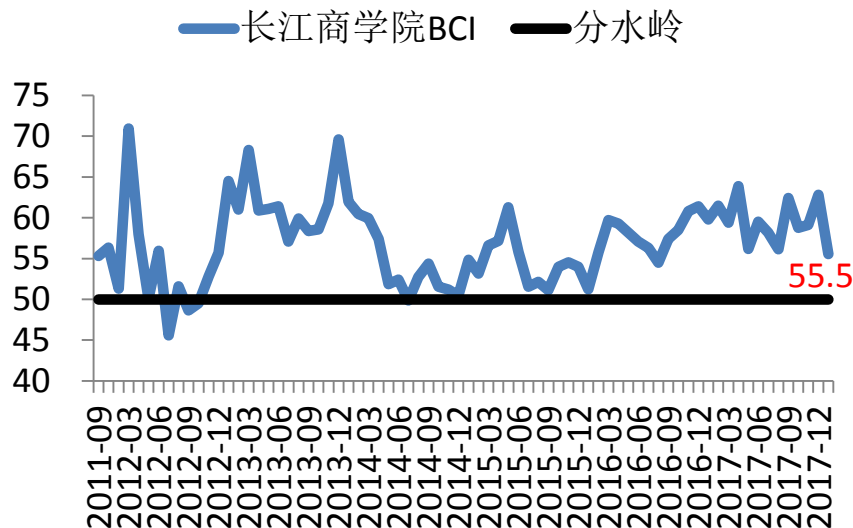
January 2018

January 19th, 2018

CKGSB Case Center and Center for Economic Research

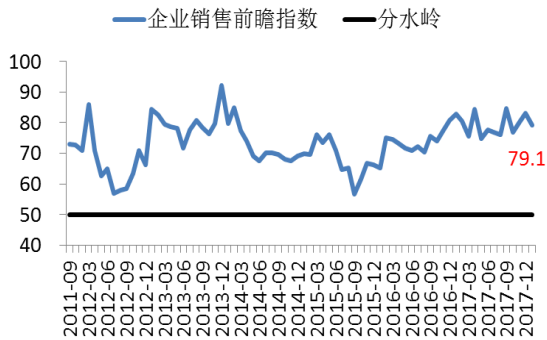
In January 2018, the Business Conditions Index (BCI) was 55.5, which was slightly lower than the index of 62.8 in December 2017 (Figure 1), but was still above the watershed. Being above the confidence threshold, this shows that most sampled firms are optimistic about business prospects for the next six months.

Figure 1: CKGSB BCI Watershed

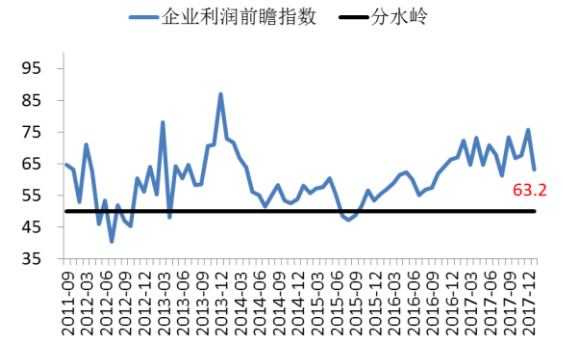


Source: CKGSB Case Center and Center for Economic Research

CKGSB BCI comprises of four sub-indices, which include corporate sales, corporate profits, corporate financing environment and inventory levels. Three of these levels measure the future prospects, while the financing environment index measures the current situation. The following figures show the conditions of the four sub-indices in January 2018.

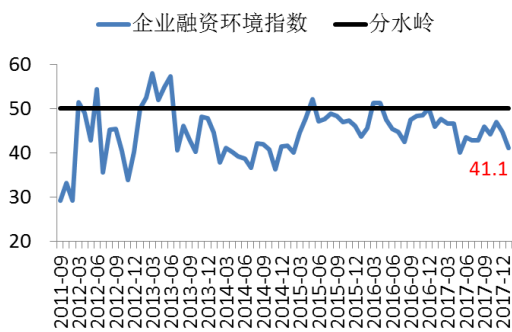
Figure 2: Corporate Sales Index Watershed


Source: CKGSB Case Center and Center for Economic Research

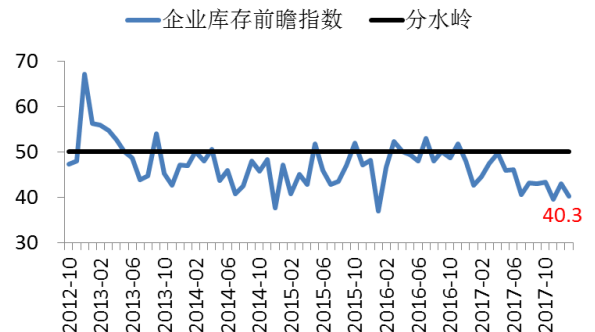
Figure 3: Corporate Profit Index Index Watershed


Source: CKGSB Case Center and Center for Economic Research

In this month, these four sub-indices declined. The corporate sales index declined from 82.9 to 79.1 (Figure 2), while the corporate profits index decreased from 75.6 to 63.2 (Figure 3).

Figure 4: Corporate Financing Index Watershed


Source: CKGSB Case Center and Center for Economic Research

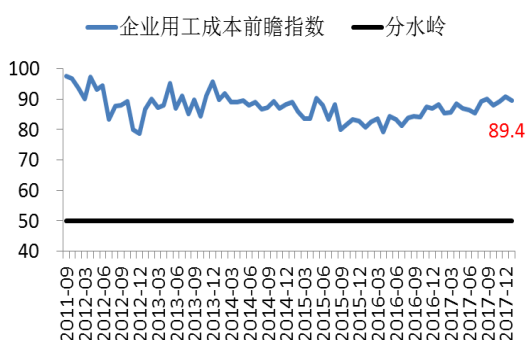
Figure 5: Inventory Index Watershed


Source: CKGSB Case Center and Center for Economic Research

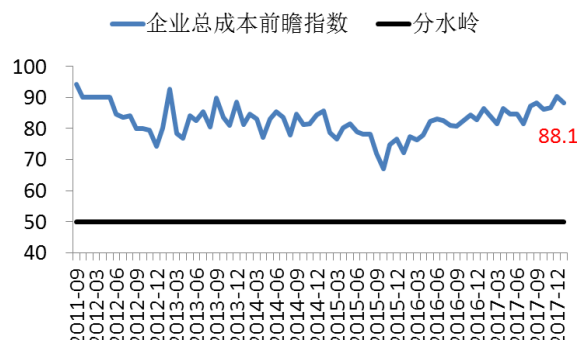
In January, the financing environment index decreased from 44.8 in December to 41.1. Figure 4 shows that the financing environment index has been consistently low for our sample of CKGSB alumni. Additionally, given that our sample consists of the most efficient Chinese companies (the SMEs), this is a critical issue that should be addressed by future reformers.

The inventory index slightly declined from 43.0 to 40.3 in this month (Figure 5), which reflects a long term issue in the Chinese economy. The inventory index is a big problem, which is below 50 most times.

Besides the main BCI, we also forecast costs, prices, investment and recruitment demands over the next six months. Thus, the following index being parallel with BCI is formed. Consider the costs index first:

Figure 6: Labor Costs Index Watershed


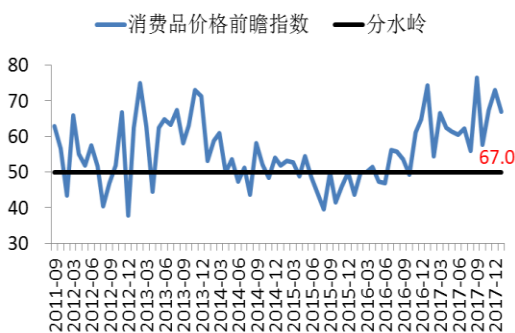
Source: CKGSB Case Center and Center for Economic Research

Figure 7: Overall Costs Index Watershed


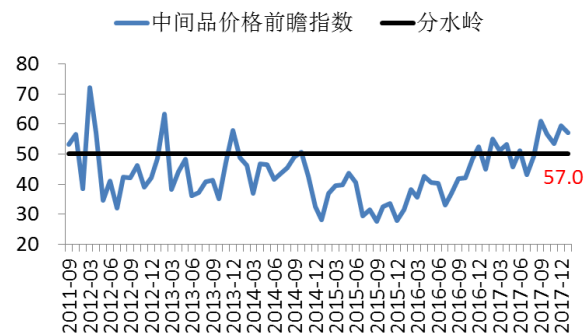
Source: CKGSB Case Center and Center for Economic Research

Both the labor costs and overall costs indices remained high, with the former at 89.4 and the latter at 88.1. None of these indices have ever been low. We do not anticipate any major fall in the upcoming period. Explaining this phenomenon remains tricky. For the statistics, see Figure 6 and Figure 7.

Considering prices, the consumer prices index declined from 73.0 in December to 67.0 in January (Figure 8). The producer price index declined from 59.5 in December to 57.0 in January, but remained above the threshold (Figure 9).

Figure 8: Consumer Price Index Watershed


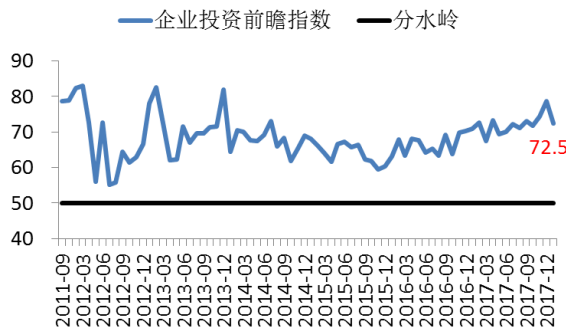
Source: CKGSB Case Center and Center for Economic Research

Figure 9: Producer Price Index Watershed


Source: CKGSB Case Center and Center for Economic Research

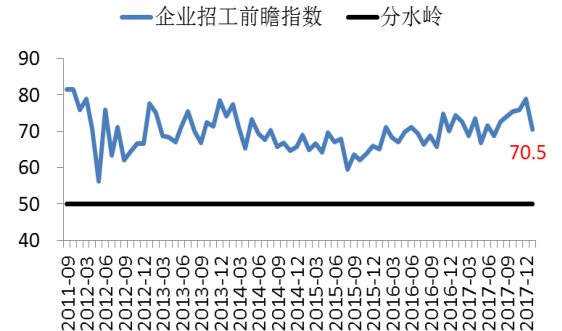
After discussing costs and prices, we have to turn to the important topics of investment and recruitment. Although both the investment and recruitment confidence levels have never reached the peaks of costs indices, they have remained at the higher end of the scale. In this month, the investment index was 72.5 (Figure 10), while the recruitment index was 70.5 (Figure 11). Both indices are interesting because no matter how macro-economic conditions have changed since the beginning of BCI in September 2011, indices such as profits and inventories have fluctuated dramatically, as has the overall BCI, but some indices have remained stable: investment index and recruitment index.

Figure 10: Investment Index Watershed



Source: CKGSB Case Center and Center for Economic Research

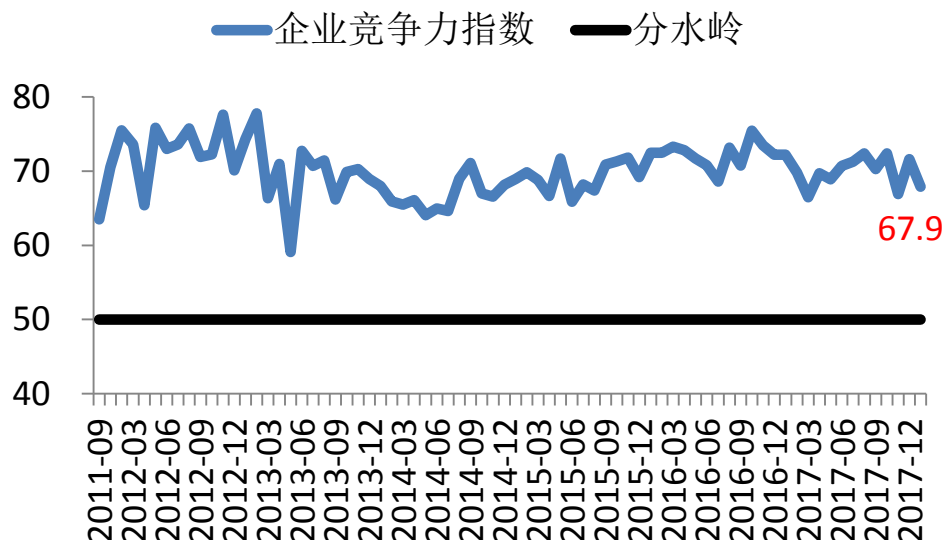
Figure 11: Recruitment Index Watershed



Source: CKGSB Case Center and Center for Economic Research

Finally, we included a question about the competitiveness of enterprises in the questionnaire. This question asks what position the enterprise is in its industry, whether it is above or below the average, or at the same level. According to the answers to this question, we made the industrial competitiveness index. The higher the index is, the higher the company's position in the industry is. The answers to the questionnaire show that most of the sample companies are among the best in their respective industries (Figure 12). In other words, our sample enterprise is a group of relatively excellent small and medium-sized private enterprises. In turn, the current state of corporate China should be worse than that of our sample companies.

Figure 12: Industrial Competitiveness Watershed



Source: CKGSB Case Center and Center for Economic Research

Annotations

1. Introduction to the Survey

In June 2011, CKGSB Case Center and the Center for Economic Research initiated a project to measure the business sentiment of executives about the macro-economic environment in China – which is also called the index of business conditions. The survey respondents are students from enterprises at CKGSB.

In July 2011, under the direction of Professor Li Wei, two research centers successfully designed and tested the BCI survey. In September 2011, the first few surveys were distributed and their results were also computed. From then to January 2018, 74 surveys have been conducted among students (there was no survey conducted for 3 months at the early stage of the project). From May 2012 to January 2018, 69 monthly BCI reports have been published.

2. Explanation of the Index

CKGSB Business Conditions Index (CKBCI) is a set of forward-looking, diffusion indices. The index takes 50 as its threshold, thus, an index value above 50 means the variable measured by the index is expected to rise, while an index value below 50 means that the variable is expected to fall. Thus, BCI of CKGSB uses the same methodology as PMI index.

The survey asks senior executives of various companies whether their main products are for consumers or non-consumers, then further asks how they think product prices will change in the next six months. Based on responses from the survey, we have been able to report expected changes in both consumer and producer prices.

Furthermore, we ask companies for information pertaining to the relative competitive positions in their respective industries. Based on responses from the survey, we further compute a competitiveness index for our samples. The higher the index of competitiveness, the more competitive our sample firms can be in their respective industries.

3. Method of Calculation

During the survey, all the respondents (sampled population) were asked to indicate whether certain aspects of their business (such as sales) are expected to “increase” (turning better), “remain unchanged” (same) or decrease (turning worse) over the upcoming six months, as compared to the same period of time last year. Thereafter, the diffusion index was calculated to every question by summing the percentage of “increase” (turning better) responses and half of the “unchanged” (same) responses.

Out of all the indices, CKGSB BCI is the most important index, which is derived from the arithmetic average of the 4 sub-indices: sales, profit, financing environment and inventory. Since the composition of sub-indices in the survey has been adjusted several times, the data caliber is different and cannot be easily compared. However,

the concrete calculation of the index remains consistent: calculate the business status index of each questionnaire, then calculate the business status index of all questionnaires in the round. The methods of calculation are all arithmetic averages.

About Cheung Kong Graduate School of Business

CKGSB is a non-profit educational institution donated by Li Jiacheng Foundation. It has been officially approved by the state and has an independent legal personality. It is a member of the Association to Advance Collegiate Schools of Business International (AACSB) and European Foundation for Management Development (EFMD). It is also an "MBA Awarding Unit" (including EMBA and MBA) approved by the Academic Degrees Committee of the State Council. Its goal is to enter the world's top ten business schools within ten years. Since its foundation, the mission of CKGSB has been to “train a group of world-class business leaders with global vision and the ability to integrate global resources, humanistic care, social responsibility and innovative spirit for China and the world”. It aims to build a new generation of business schools in the world through new horizons, new ideas, new patterns, new realms and new values. It actively promotes and leads the new commercial civilization.

CKGSB is built for seizing the opportunity of China's sustained and rapid economic growth, as well as building a world-renowned business school for China through the strategic selection of “seizing the momentum, defining strategies and directions, improving methods and exploring strategies”. It uses the school-running concept of “the integration of China and the West”. By attracting a group of international first-class management professors to the school and by taking root in China, this college combines the latest research results of western management with the latest management practices in China, which helps to train a large number of world-class business leaders for China and provides new insights and strategies for Chinese companies to enter the world.

Disclaimer

This report is based on different public information and field research performed by CKGSB Case Center and CKGSB Center for Economic Research. Sources of these data are reliable, but both centers do not guarantee their accuracy and completeness. Opinions given in this report only reflect the judgment of the researchers in the two centers on the day when the report is released, and they are subject to change without prior notice. CKGSB holds no liability for any loss that might be caused by using this report. Therefore, readers are advised to use their own discretion and consider whether any comment or suggestion provided in this report is suitable for their own personal situation.

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