

# CKGSB BCI

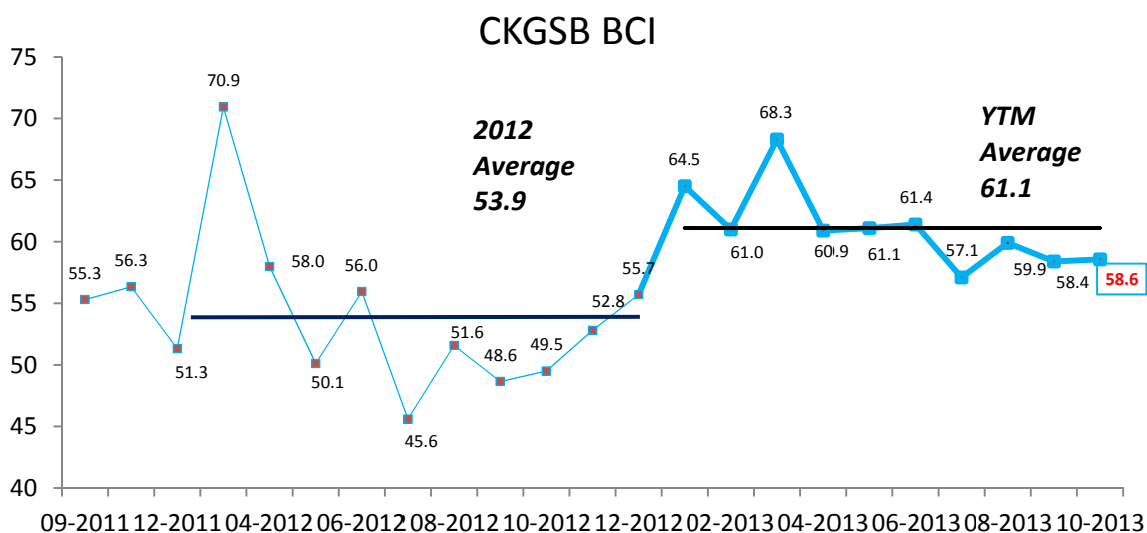
## October 2013

29 October 2013

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index for October 2013, reporting 58.6, rose very slightly on September's reading of 58.4 (see Graph 1). Since 50 is the threshold between a positive and negative outlook, the 2013 average of 61.1 (7 points higher than this time last year), shows that the majority of our sample of comparatively successful business leaders operating in China remain optimistic about business conditions over the next six months, and that in overall terms, China's macro-economic environment is stabilizing.

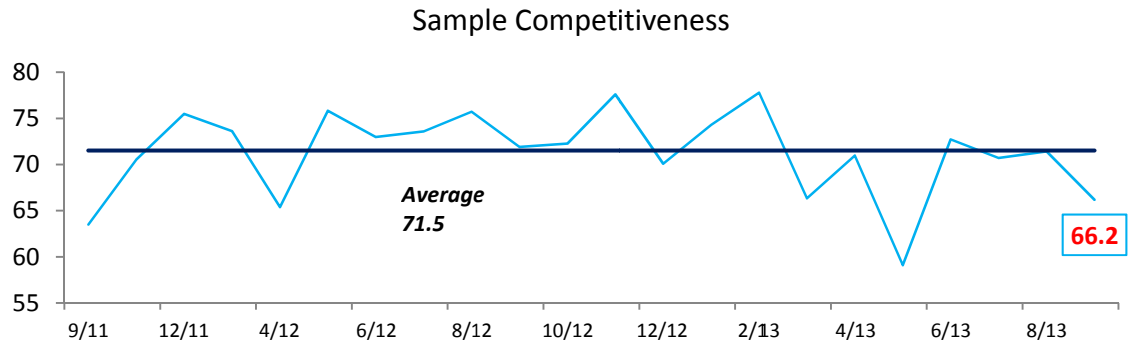
**Graph 1**



Source: CKGSB Case Center and Center for Economic Research

It is important to note that the CKGSB Business Conditions Index is generated wholly on the basis of statistics gathered from leading enterprises whose executives have studied or are studying at Cheung Kong Graduate School of Business. In the questionnaire we ask respondents to indicate whether their firm is more, the same, or less, competitive than the industry average, and from this we derive a sample competitiveness index (see Graph 2). Consequently, as our sample firms are in a relatively strong competitive position in their respective industries, the CKGSB BCI indices are higher than government and industry PMI indices. Users of the CKGSB BCI index may therefore focus on data changes over time to forecast trends in the Chinese economy.

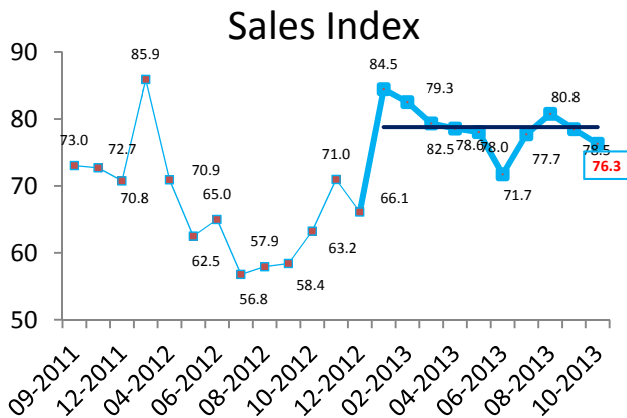
**Graph 2**



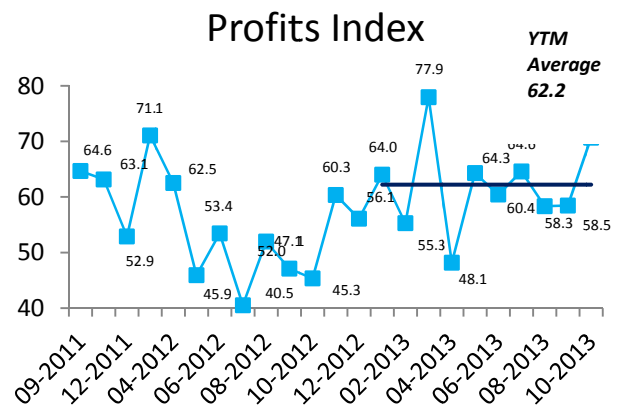
Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises four sub-indices that are forwarding-looking indicators for corporate sales, corporate profits, corporate financing environment, and inventory levels.

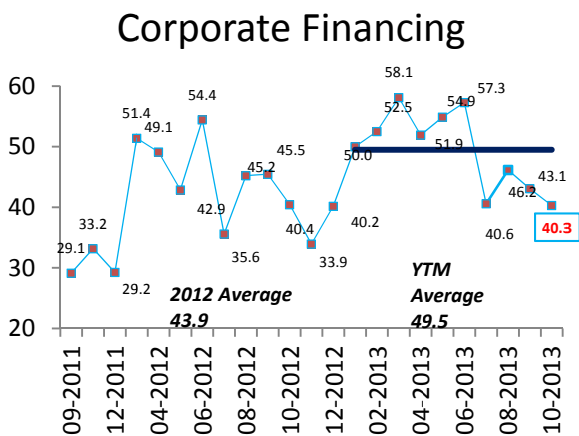
**Graph 3**



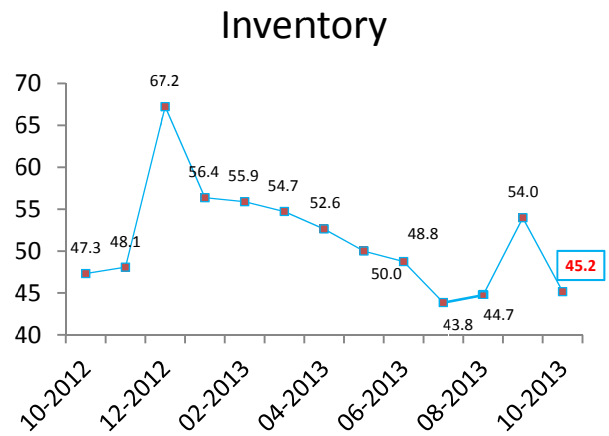
**Graph 4**



**Graph 5**



**Graph 6**



Source: CKGSB Case Center and Center for Economic Research

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The corporate sales index remains high at 76.3 despite a drop from last month's 78.5 (see Graph 3). Because producer prices have fallen, the corporate profit index has risen by considerable 12.2 points to 70.7 (see Graph 4). These two indices show that firms are comparatively optimistic about prospects for the next six months.

The corporate financing environment index has fallen from 43.1 to 40.3 (see Graph 5), making it the fourth month in a row that this index has registered a figure under the confidence threshold of 50. This indicates that the majority of our sampled companies face continuing financial struggles. As the majority of our sample run private firms, this mainly reflects the financing situation for the non-state sector.

The index measuring inventory levels is on a negative trajectory, registering 45.2 this month, reflecting the fact that companies have bigger inventories compared with the same time last year.

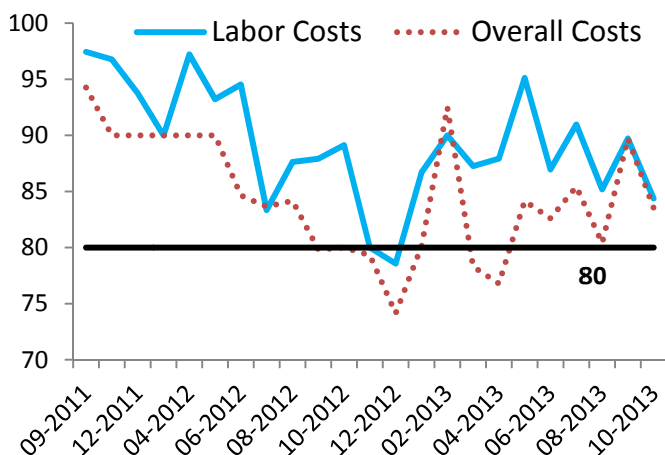
Besides the main BCI indices, we also surveyed respondents on forecasted costs, prices, investment plans and employment conditions, to form a supplementary set of indices.

In October, costs decreased for most of our sample companies. The labor cost index dropped from 89.7 to 84.4 and the overall cost index dropped from 89.7 to 83.5 (see Graph 7). With both costs indices registering high percentages, the majority of sample firms anticipate costs rising on last year.

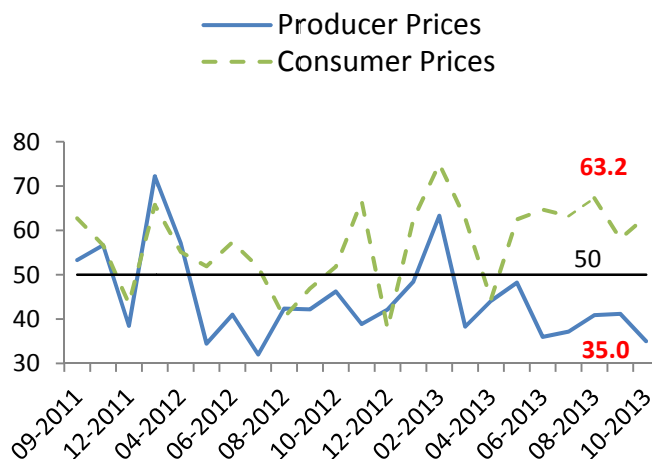
The prices indices widened their exposure in October (see Graph 8), with the consumer prices index rising 58.1 to 63.2 and the producer prices index dropping further from 41.2 to 35.0. Given the pressure of current high labor costs, this will have a negative impact on profits for companies without pricing power capacity. This exposure increases the risk of stagflation in the economy as a whole.

The corporate investment demand index registers 71.3, which is 1.6 points higher than last month's figure. This shows that the majority of firms are planning to invest in fixed assets within the next six months (see Graph 9).

In terms of labor demand, the index registered 72.5 (see Graph 10). This shows that a majority of companies are still expecting to expand their workforces in the next six months.

**Graph 7**


Source: CKGSB Case Center and Center for Economic Research

**Graph 8**


Source: CKGSB Case Center and Center for Economic Research

Overall, China's macroeconomic conditions are on course to become increasingly stable. Although our sample of relatively successful firms remains optimistic, the costs index remains high, indicating ongoing elevated inflationary pressures. The widening gap between consumer and producer prices increases the risk of "stagflation". The financing environment has not improved and overcapacity in the manufacturing sector remains an issue, showing that China's macroeconomic restructuring still has a long way to go.

## Notes:

### CKGSB BCI Introduction

In June 2011, CKGSB Case Center and Center for Economic Research initiated a project to gauge the business sentiment of executives about the macro-economic environment in China – called an index of business conditions.

Under the direction of Professor Li Wei, in July 2011, the two research centers designed and tested the BCI survey. In September 2011, the first surveys were distributed and results computed. Since May 2012, the research team has published monthly BCI survey reports.

### Explanation of the Index

The CKGSB Business Conditions Index (CKBCI) is a set of forward-looking, diffusion indices. The index takes 50 as its threshold, so an index 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 thus 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 uses a different composition of constituent indices, and is therefore not directly comparable to the current BCI index.



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### **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 a private, non-profit, independent educational institution and the only business school in China with faculty governance. The school offers innovative MBA, Finance MBA, Executive MBA and Executive Education programs. In addition to its main campus in the center of Beijing, it has campuses in Shanghai and Shenzhen and 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.

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