

# CKGSB BCI

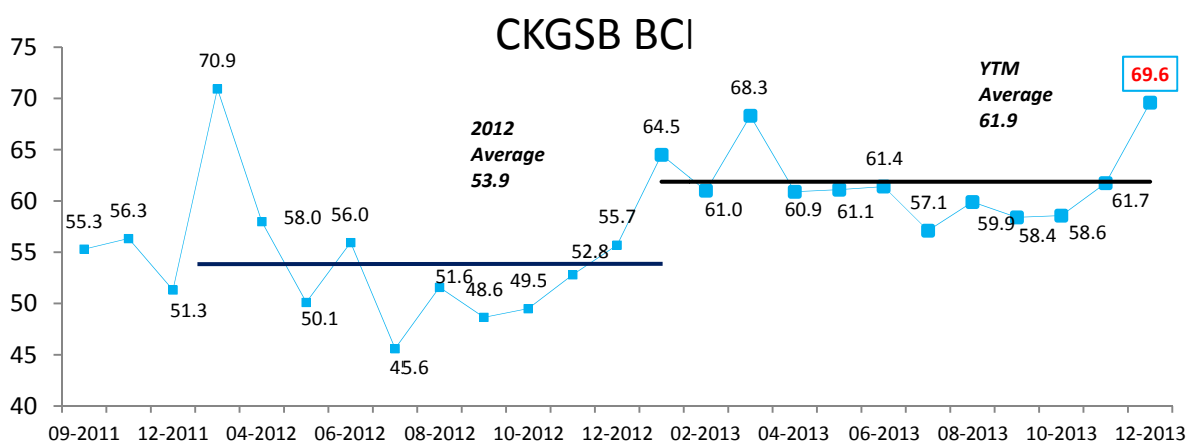
December 2013

31 December 2013

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index for December 2013 shows the highest reading of the year at 69.6, higher than last month's index by 8 points (see Graph 1). With 50 being the threshold between a positive and negative economic outlook, the 2013 average of 61.9 (8 points higher than last year), shows that our sample of comparatively successful business leaders is mostly optimistic about future conditions for business, and that overall macro-economic conditions in China are stable.

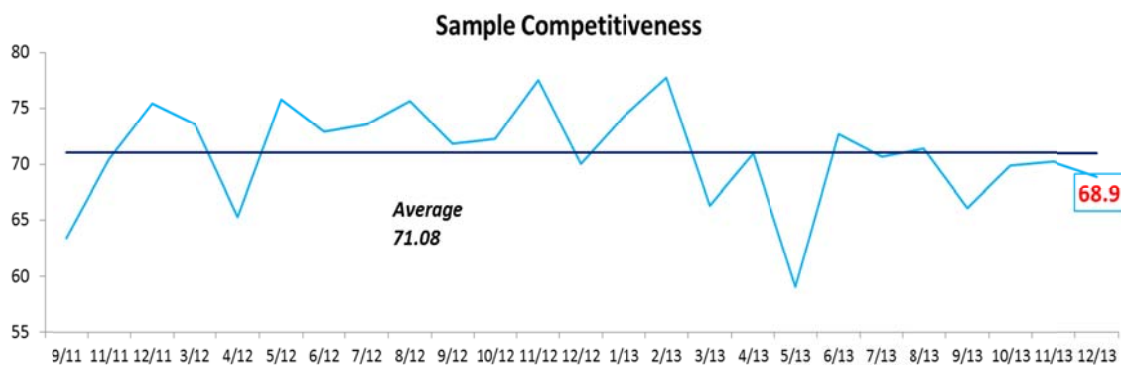
**Graph 1**



Source: CKGSB Case Center and Center for Economic Research

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 (50), 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.

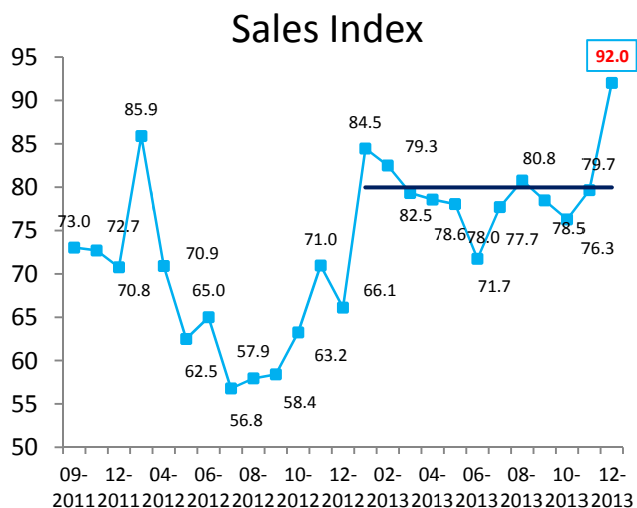
**Graph 2**



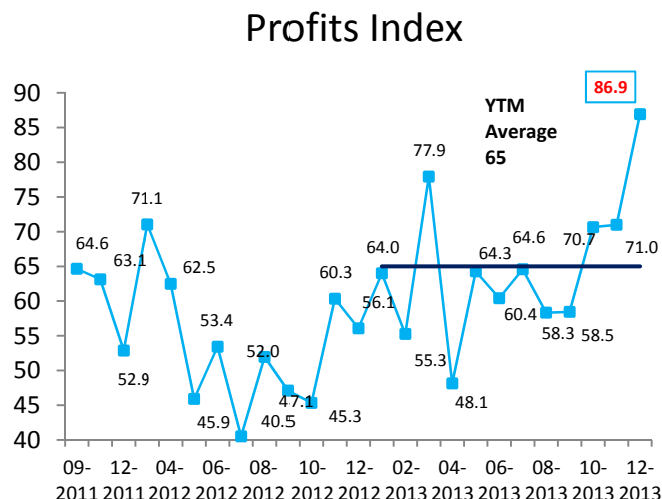
Source: CKGSB Case Center and Center for Economic Research

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**

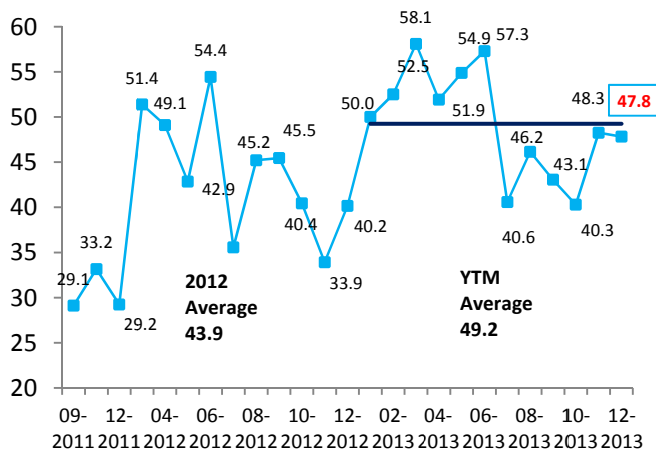


**Graph 4**



**Graph 5**

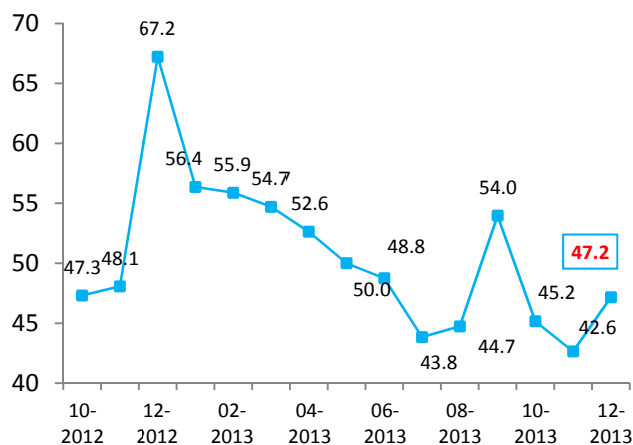
### Corporate Financing Index



Source: CKGSB Case Center and Center for Economic Research

**Graph 6**

### Inventory Index



Source: CKGSB Case Center and Center for Economic Research

The corporate sales index rose 12.3 points from 79.7 to 92 (see Graph 3). The corporate profit index made a leap of 15.9 points to 86.9 (see Graph 4), the highest reading of the year. These indices represent a high degree of optimism for the next six months, and a hope for 2014 and the national reforms that will come into effect. The large increase in these indices may also be related to the sample being weighted towards the manufacturing, real estate and IT industries.

The corporate financing environment index reads 47.8 in December which is under the confidence threshold of 50 and slightly lower than last month (see Graph 5), indicating that our sample believes the environment for financing is not optimal. As the majority of our sample run private firms, this mainly reflects financing in the non-state sector. On December 20, the seven day bond repurchase rate had risen to 8.21%, the highest in the second half of the year and the central government's injection of 300 billion RMB via liquidity operations has not eased the situation; private business in China will experience considerable challenges in the coming period.

The index measuring inventory levels registered 47.2 in December, below the confidence threshold. This shows that most firms have not improved their inventory levels compared with the same time last year (See Graph 6).

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.

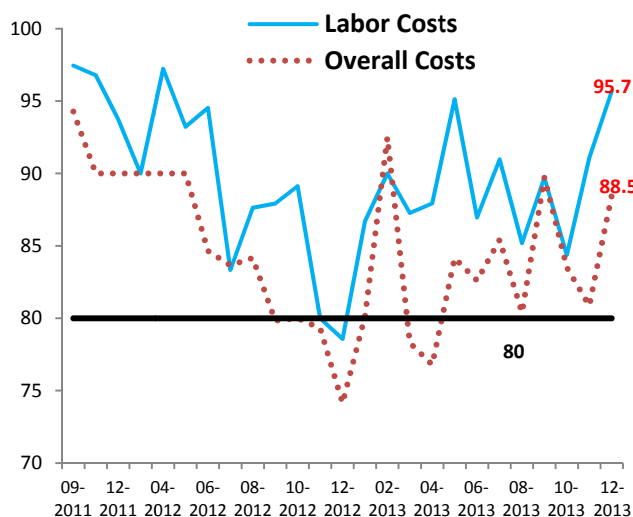
In December, labor costs rose from 91.1 to 95.7 and overall costs rose from 80.9 to 88.5 (see Graph 7). These costs indices are predictions of change in the upcoming six months, as with both registering figures considerably higher than last month, the majority of sample firms are anticipating rising costs in the near future.

The consumer prices indices dropped 1.8 points to 71.2 (see Graph 8), but producer prices continued their upwards trajectory, rising 10.4 points to 57.8, further reducing exposure. However, as producer prices have continued on their rebound over the past two months, the threat of inflation has risen.

The corporate investment demand index registered 81.9, which is 10.4 points higher than in November. This shows that the majority of sampled firms plan to invest in fixed assets within the next six months (see Graph 9).

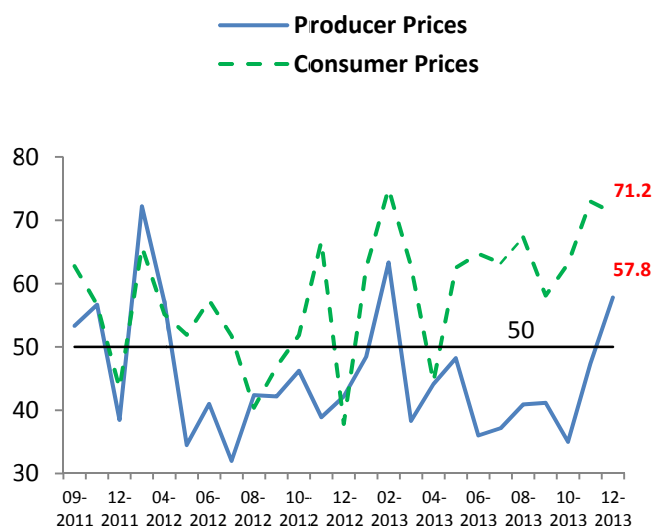
In terms of labor demand, the index registered 78.4 (see Graph 10). This shows that a majority of companies aims to expand their workforces in the next six months. However, because of the high cost of labor, it is likely that either corporate profit will be squeezed or costs will be passed on in the form of export inflation.

**Graph 7**



Source: CKGSB Case Center and Center for Economic Research

**Graph 8**



Source: CKGSB Case Center and Center for Economic Research

Overall, this month's index shows that China's macroeconomic conditions have stabilized. This month's leap in the figures shows that firms have high expectations for reforms announced this fall, but that existent problems continue to add heat to the economy, in terms of cost pressures, financing struggles and high inventory levels. Moreover, as these issues will undoubtedly feature prominently as the reform agenda takes shape. In short, from this index we note that national economic 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.



## 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 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.

### **Disclaimer**

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