

CKGSB BCI

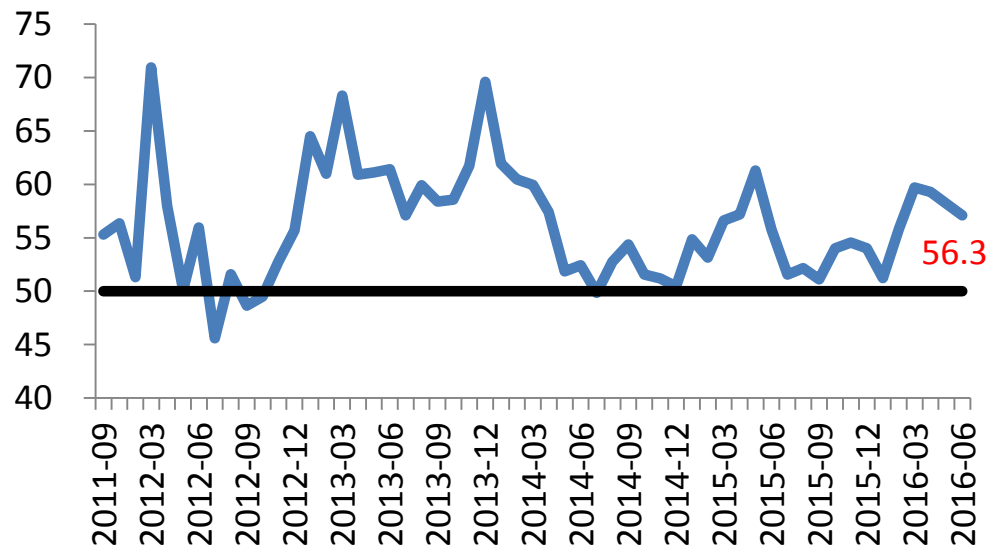
July 2016

1 August 2016

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 56.3 in July, slightly less than June's overall index of 57.1. Despite this small dip, this shows that for CKGSB's sample, of which the majority represents relatively successful businesses in China, the next six months are viewed with a degree of optimism. But it is also noteworthy that the BCI has now fallen for four months in a row.

Figure 1 Overall BCI



Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises four sub-indices for corporate sales, corporate profits, corporate financing environment and inventory levels. Of these four sub-indices, corporate sales and inventory levels rose slightly, with the inventory index surpassing the threshold of 50. The corporate profits index dropped by close to five points, but remains above 50, while the financing environment remains largely unchanged, below the threshold of 50.

	Corporate sales	Corporate profits	Financing environment	Inventory levels
June 2016	70.8	60	45.4	48.1
July 2016	72.1	55.1	44.7	53.0

Source: CKGSB Case Center and Center for Economic Research

Apart from the main BCI, we also forecast costs, prices, investment and recruitment demand for

the next six months. Labor costs fell slightly and overall costs expectations also fell slightly in July, but these two indices are both still over 80. The price indices for producer and consumer goods moved in entirely different directions in July, with the consumer goods index rising from 46.9 to 56.1, while the producer goods index fell sharply from 40.3 to 32.9. According to our data, Chinese firms are facing some issues: cost inflation is growing apace and while consumer prices have recovered slightly, it is unclear whether that recovery can sustain its momentum.

	Labor costs	Overall costs	Consumer prices	Producer prices
June 2016	83.4	83	46.9	40.3
July 2016	81.1	82.5	56.1	32.9

Source: CKGSB Case Center and Center for Economic Research

However, in the face of adversity, our sample firms continue to recruit and invest. No matter the macroeconomic conditions over the past five years of the BCI, the Chinese firms sampled have prioritized corporate investment and recruitment, proving a conundrum for observers. It is important to note that most sample companies are leading Chinese private SMEs; their competitiveness is consistently higher than the averages (50 points) for their respective industries.

	Corporate investment	Recruitment demand	Industry competitiveness*
June 2016	64.3	71.2	70.8
July 2016	65.4	69.5	68.6

*We ask respondents to indicate whether their firm is more, the same, or less, competitive than the industry average. The higher the figure, the more competitive our sample firms are in their respective industries.

Source: CKGSB Case Center and Center for Economic Research

This month's data showed no substantial change in business expectations for the next six months. The overall BCI fell slightly, with sales and other sub-indices not performing well. The index for costs remained high, and the price indices showed some differentiation: consumer prices rose sharply, while producer prices fell sharply. We will have to wait to see whether the consumer price index can maintain such a trend. However, our data shows that producer prices have remained low for a long time. Leaving aside the consumer prices index for this month, it is clear that an important feature demonstrated by our index is overcapacity in the Chinese economy. The question remains, why is there overcapacity? If China had a fully market-based economy, excess capacity should lead to reduced supply and increased demand, thereby eliminating overcapacity. However, in our five years' worth of data, this has not been in evidence. Even more interesting is the fact that companies have continued to recruit and invest, both seemingly contradictory strategies given the overcapacity issue.

What is clear is that the Chinese economy is in a very strange situation, as reflected by the CKGSB BCI data. But how should this phenomenon be interpreted? How this is done has not only academic value, but also a wealth of policy implications. We believe that if our investigation continues for 10 or 20 years, we will have accumulated enough data to provide valuable references for future economists and policymakers.

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 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. From May 2012 to June 2016, the research team has undertaken 55 surveys and published 50 monthly BCI 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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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.

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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 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

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