

CKGSB BCI

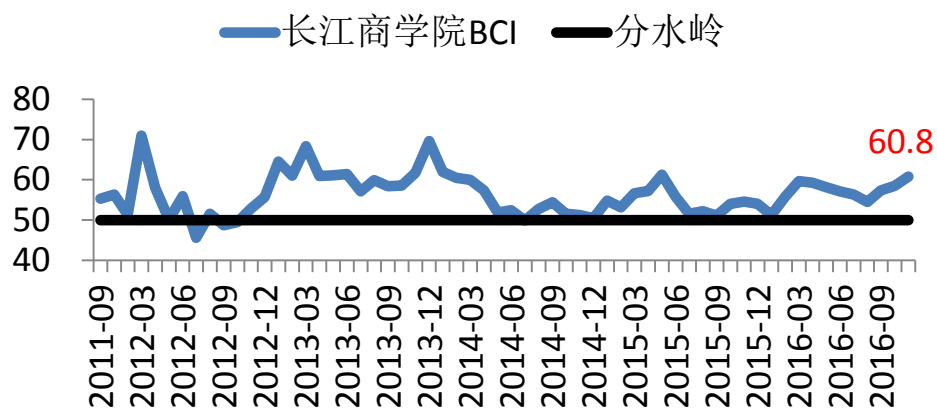
November 2016

30 November 2016

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 60.8 in November, a slight improvement on October's overall index of 58.5 (Figure 1). The BCI has been climbing for three straight months, which shows that for CKGSB's sample of relatively successful businesses operating in China, the next six months are increasingly viewed with optimism.

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, all measuring future prospects except for the financing environment, which measures the current situation. We will now turn to the November readings for these sub-indices:

Figure 2 Corporate Sales Index

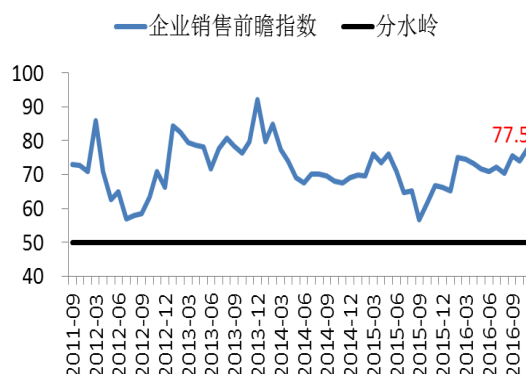
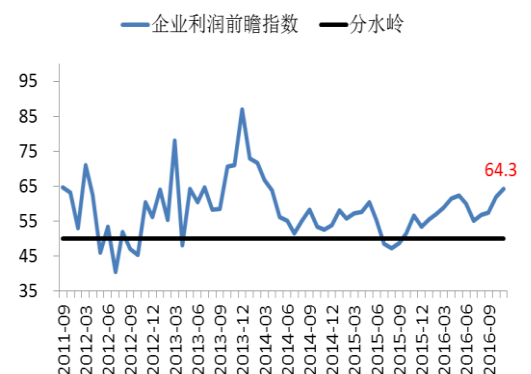


Figure 3 Corporate Profit Index

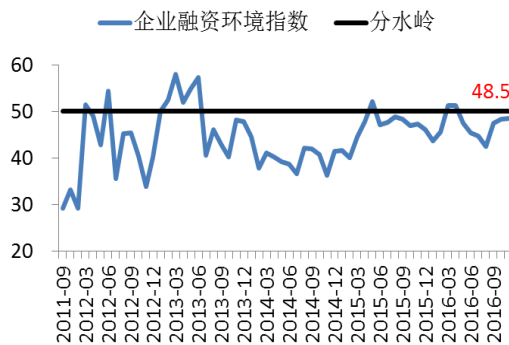


Source: CKGSB Case Center and Center for Economic Research

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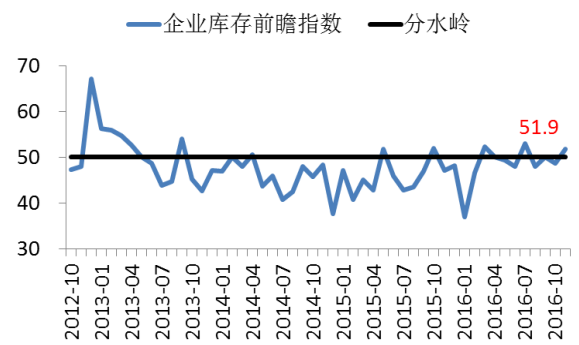
This month, all four of these sub-indices rose. Of these, corporate sales rose slightly from 74.0 to 77.5, while corporate profits rose from 61.8 to 64.3.

Figure 4 Corporate Financing Index



Source: CKGSB Case Center and Center for Economic Research

Figure 5 Inventory Index



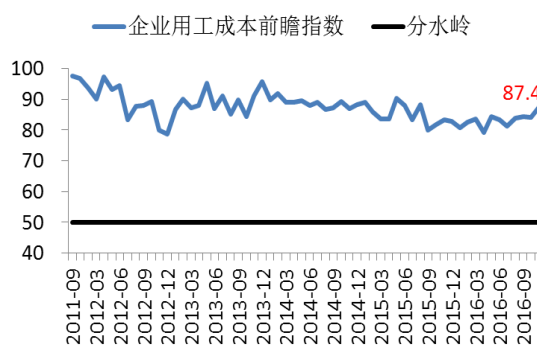
Source: CKGSB Case Center and Center for Economic Research

The financing environment index rose in November, from 48.4 to 48.5, but remains below the confidence threshold of 50. From Figure 4, we can see that the financing environment for the BCI sample is less than optimal, and, given that our sample consists mainly of the leading powerhouses in the economy, SMEs, this is a critical issue for economic reforms going forward.

The inventory index rose this month from 48.8 to 51.9, crossing the confidence threshold. Inventory levels remain a significant issue for the economy, with the index having lingered below the confidence threshold of 50 for much of the past five years.

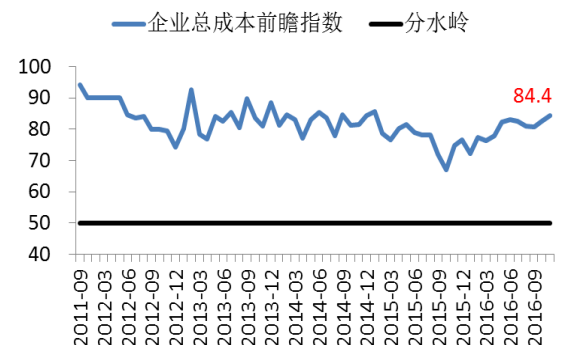
Apart from the main BCI, we forecast costs, prices, investment and recruitment demand for the next six months.

Figure 6 Labor Costs Index



Source: CKGSB Case Center and Center for Economic Research

Figure 7 Overall Costs Index



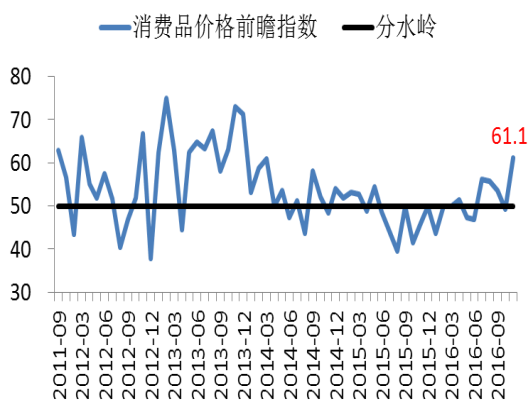
Source: CKGSB Case Center and Center for Economic Research

Firstly, on the costs side, both labor and overall costs indices remained above 80, with the former at 87.4 and the latter at 84.4. Neither indices have ever fallen very low, and are unlikely to do so in the upcoming period. How to tackle this issue is an interesting question. Figures 6 and 7 show

China's cost issue in numbers for the past five years, with both consistently remaining far above the threshold of 50.

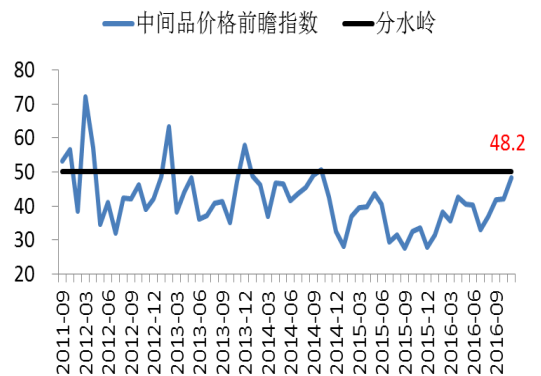
Looking at prices, the consumer prices index rose sharply in November, from 49.3 to 61.1, a rise of 11.8 percentage points. The producer prices index rose from 42.0 to 48.2. Such clear jumps are certainly noteworthy.

Figure 8 Consumer Prices Index



Source: CKGSB Case Center and Center for Economic Research

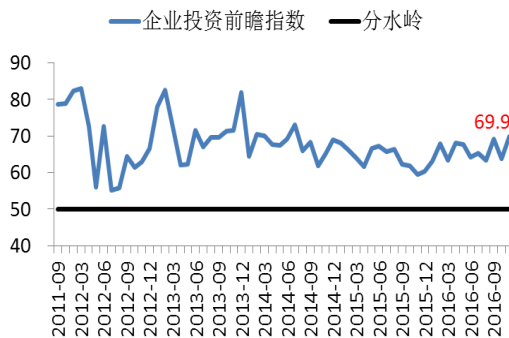
Figure 9 Producer Prices Index



Source: CKGSB Case Center and Center for Economic Research

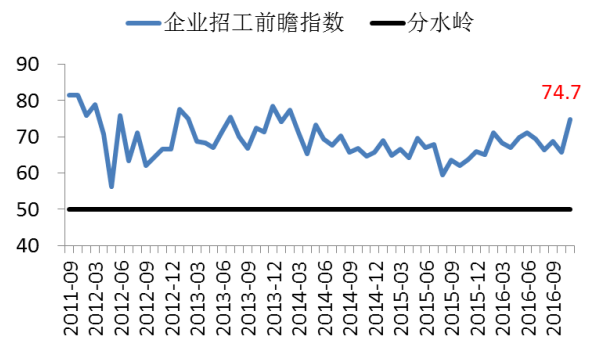
We turn now to the important topics of investment and recruitment. Although investment and recruitment confidence levels have never reached the peaks of the cost indices, they have stayed consistently at the higher end of the scale. This month's investment index rose 6.2 percentage points to come in at 69.9, and the recruitment index rose 9 percentage points to 74.7. These indices are interesting because no matter how macroeconomic conditions have changed since we began recording the BCI in September 2011, while indices such as profits and inventories have fluctuated dramatically – as has the overall BCI – three have been stable and relatively unchanged: costs, investment and recruitment.

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

Figure 11 Recruitment Index

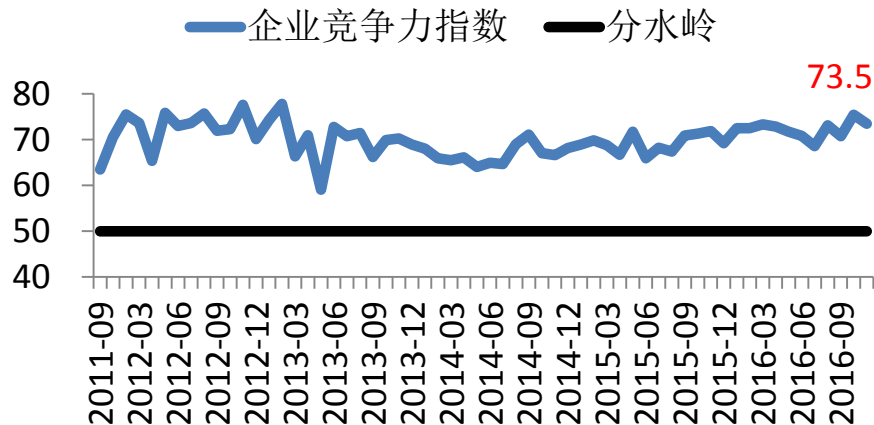


Source: CKGSB Case Center and Center for Economic Research

Finally, we include an index of industry competitiveness to reflect our sample's relative strength in the market. In November 2016, the sample, mostly made up of the companies of CKGSB alumni,

registered 73.5, showing that their competitiveness is consistently higher than the average (50 points) for their respective industries. As a result, it is worth remembering that average companies will be experiencing worse prospects overall.

Figure 12 Industry 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 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 November 2016, the research team has undertaken 55 monthly 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 (CKGSB)

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 China's leading non-profit, independent educational institution. The school offers innovative MBA, Finance MBA, Executive MBA, Business Scholars Program (DBA) and Executive Education programs. In addition to its campus in the center of Beijing, it has teaching sites in Shanghai and Shenzhen and representative 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.

The Research Team

LI Wei - CKGSB Economics Professor; Director, CKGSB Case Center and Center for Economic

Research

+86 10 8518 8858 ext. 3235 wli@ckgsb.edu.cn

GU Chongqing - Senior Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3336 cqgu@ckgsb.edu.cn

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