

CKGSB BCI

December 2017

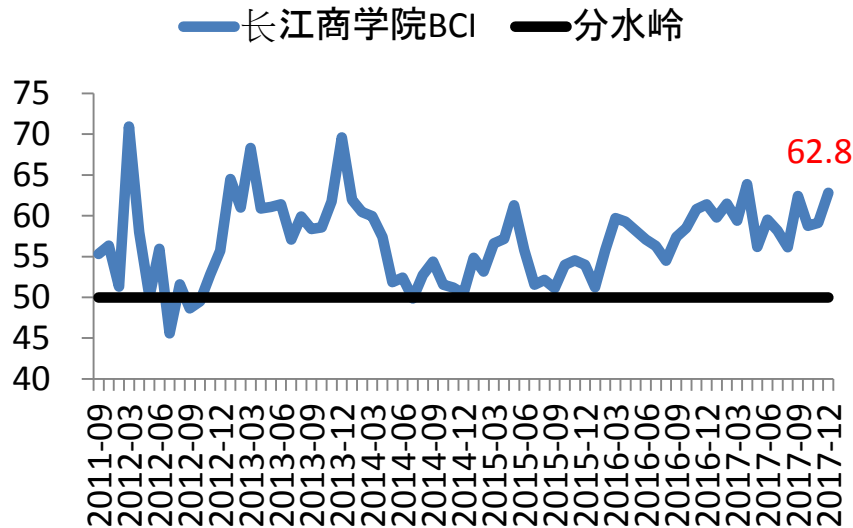
January 3, 2018

CKGSB Case Center and Center for Economic Research

In December, the Business Conditions Index (BCI) registered 62.8, which was slightly higher than November's index of 59.1 (Figure 1). Above the confidence threshold, this shows that most sampled firms are optimistic about business prospects for the next six months.

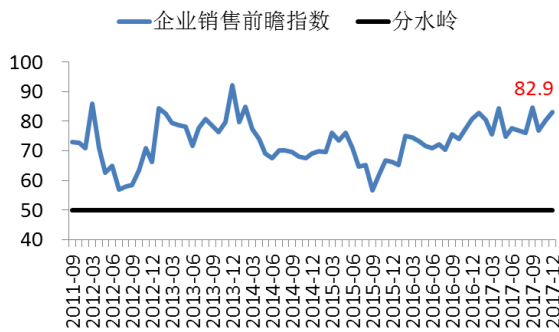
Figure 1: CKGSB BCI

Threshold

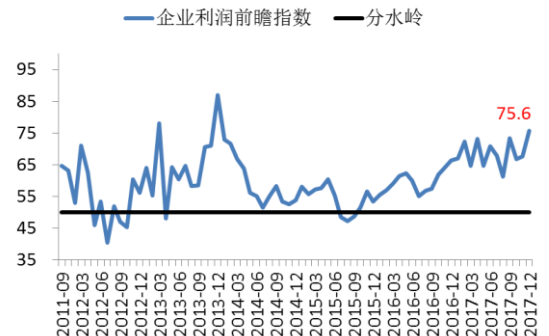


Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises of four sub-indices, namely corporate sales, corporate profits, corporate financing environment and inventory levels. Three of these levels measure the future prospects and one, the financing environment index, measures the current situation. The following figures show the situation of the four sub-indices in December.

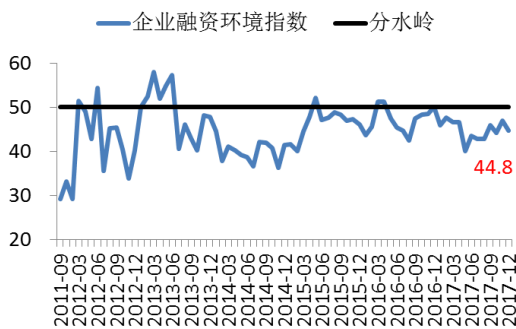
**Figure 2: Corporate Sales Index**


Source: CKGSB Case Center and Center for Economic Research

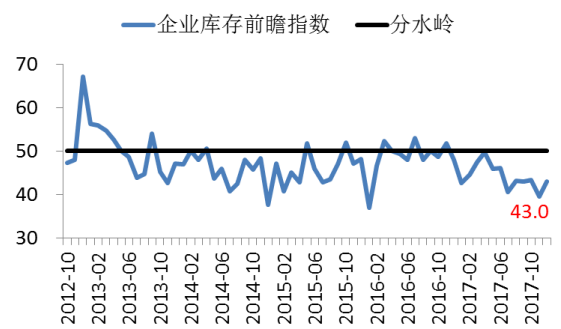
**Figure 3: Corporate Profits Index**


Source: CKGSB Case Center and Center for Economic Research

In this month, three of the sub-indices rose, while one of them fell. The corporate sales index rose slightly from 80.2 to 82.9 (Figure 2), while the corporate profits index rose substantially from 67.7 to 75.6 (Figure 3).

**Figure 4: Corporate Financing Index**


Source: CKGSB Case Center and Center for Economic Research

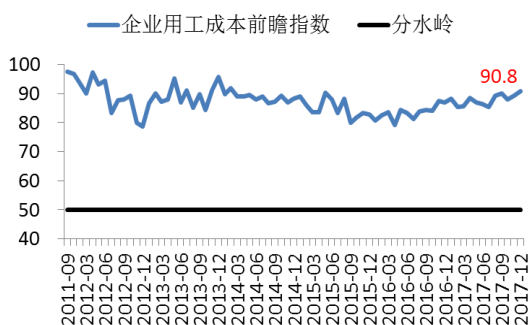
**Figure 5: Inventory Index**


Source: CKGSB Case Center and Center for Economic Research

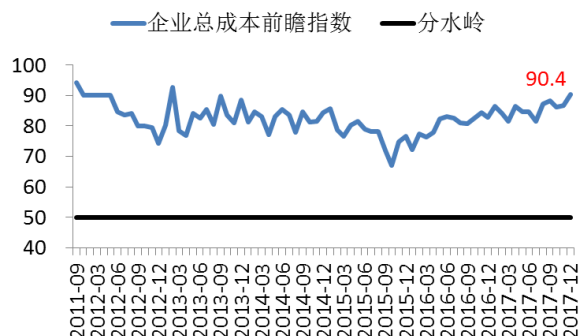
The financing environment index decreased from 46.9 in November to 44.8 in December. Figure 4 shows that the financing environment index has been consistently low for our sample of CKGSB alumni. Additionally, given that our sample consists of China's most efficient companies (the SMEs), this is a critical issue that future reformers should address.

This month, the inventory index slightly rose from 39.5 to 43.0 (Figure 5), reflecting a long-term issue in the Chinese economy. This index has remained under the confidence threshold for most of the time since the BCI survey started.

Aside from the main BCI, we also forecast costs, prices, investment and recruitment demands over the next six months.

**Figure 6: Labor Costs Index**


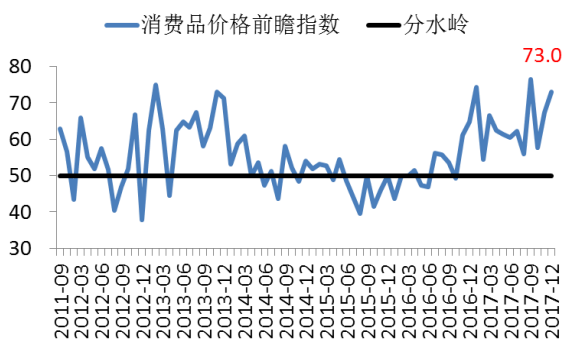
Source: CKGSB Case Center and Center for Economic Research

**Figure 7: Overall Costs Index**


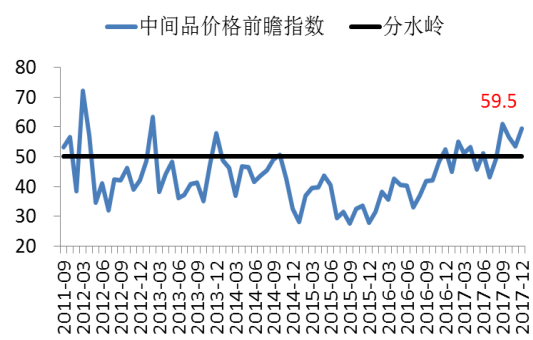
Source: CKGSB Case Center and Center for Economic Research

The labor costs and overall costs indices remained high, with the former at 90.8 and the latter at 90.4. None of these indices have ever been low, and in the upcoming period, we do not anticipate any major fall. Explaining this phenomenon remains tricky. For the statistics, see Figure 6 and Figure 7.

Turning to prices, the consumer prices index rose from 67.3 in November to 73.0 in December (Figure 8), while the producer prices index rose from 53.5 in November to 59.5 in December, but remained above the threshold of 50 (Figure 9).

**Figure 8: Consumer Prices Index**


Source: CKGSB Case Center and Center for Economic Research

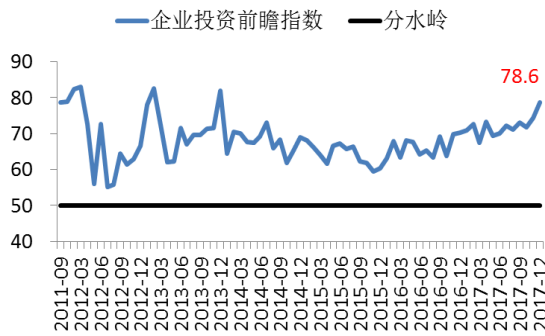
**Figure 9: Producer Prices Index**


Source: CKGSB Case Center and Center for Economic Research

After discussing the costs and prices, we now have to turn to the important topics of investment and recruitment. Although investment and recruitment confidence levels have never reached the peaks of the costs indices, they have remained at the higher end of the scale. In December, the investment index was 78.6 (Figure 10), while the recruitment index was 78.9 (Figure 11). These indices are interesting because no matter how macro-economic conditions have changed since the BCI began in September 2011, and indices such as profits and inventories have fluctuated dramatically, as has the overall BCI, three indices have remained stable throughout:

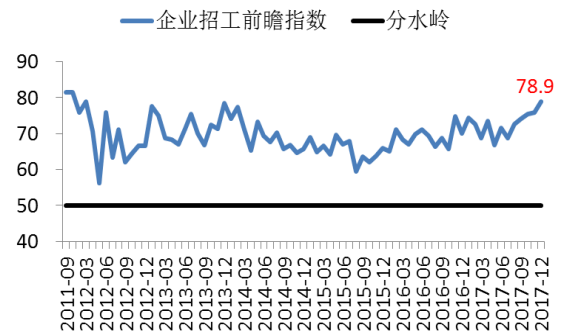
costs, investment and recruitment.

**Figure 10: Investment Index**



Source: CKGSB Case Center and Center for Economic Research

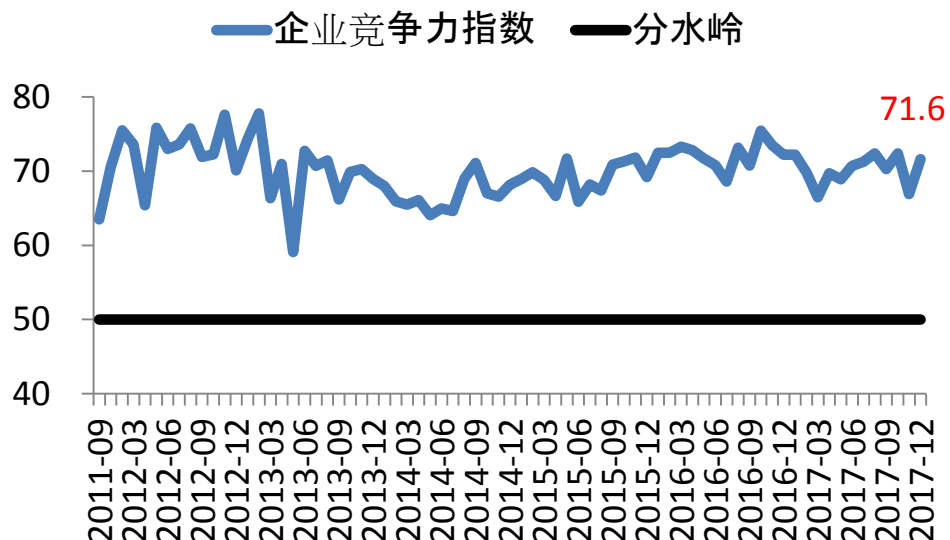
**Figure 11: Recruitment Index**



Source: CKGSB Case Center and Center for Economic Research

Finally, we include an index recording the relative strength of our sample in the market. Figure 12 shows our sample's level of competitiveness over time. Since our sample mostly comprises of the companies of CKGSB alumni, their competitiveness is consistently higher than the average (50 points) in their respective industries, which means that lower performing firms will experience worse prospects.

**Figure 12: Industrial Competitiveness**



Source: CKGSB Case Center and Center for Economic Research

### 1. Introduction of CKGSB BCI

In June 2011, 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 – which is also called an index of business conditions.

In July 2011, under the direction of Professor Li Wei, two research centers designed and tested the BCI survey. In September 2011, the first few surveys were distributed and their results were computed. From then to December 2017, 73 surveys have been conducted among students (no survey was conducted during the 3 months at the early stage of the project). From May 2012 to December 2017, 68 consecutive monthly BCI reports have been published.

## **2. Explanation of the Index**

The CKGSB Business Conditions Index (CKGSB BCI) is a set of forward-looking, diffusion indices. This index takes 50 as its threshold, so an index value above 50 means that 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, the CKGSB BCI 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, then asks how they think product prices will change in the next six months. Based on survey responses, we have been able to report expected changes in both consumer and producer prices.

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

## **3. Method of Calculation**

During the survey, respondents are asked to indicate whether certain aspects of their business (such as sales) are expected to increase, remain unchanged, or decrease over the forthcoming six months, as compared to the same period of time last year. Thereafter, the diffusion index is calculated by summing the percentage of "increased" responses and half of the "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 the four constituent indices of sales, profit, financing environment and inventory. However, the aggregate BCI index before December 2012 uses a different composition of constituent indices, which cannot be 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 China's leading non-profit, independent educational institution. The school offers innovative English MBA, Chinese MBA, Executive MBA 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.

### **Disclaimer**

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