

CKGSB BCI

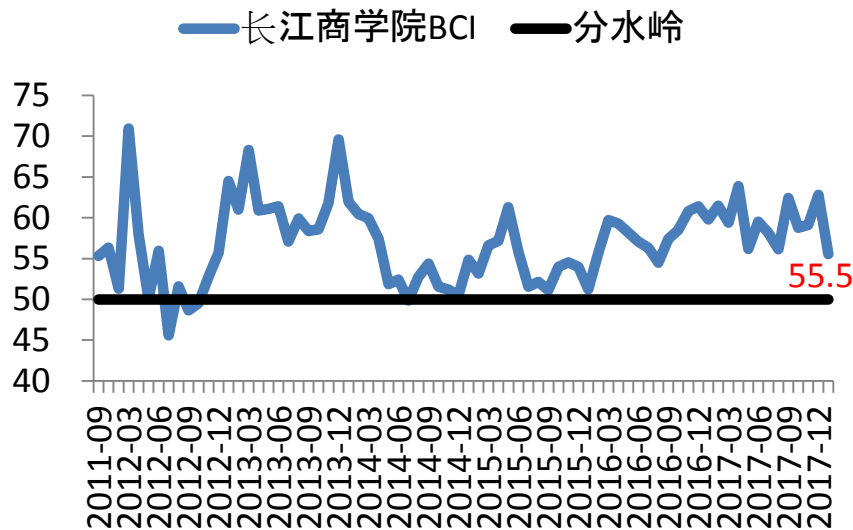
January 2018

February 1, 2018

CKGSB Case Center and Center for Economic Research

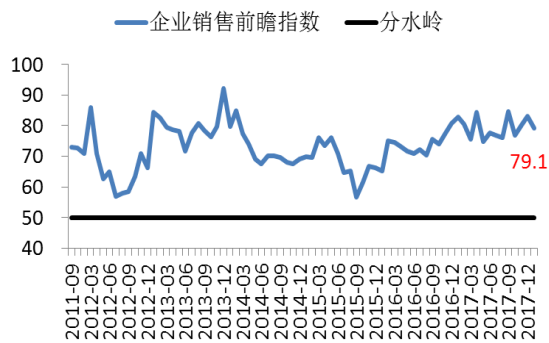
In January 2018, the Business Conditions Index (BCI) was 55.5, lower than the index of 62.8 in December 2017 (Figure 1), but still above the threshold. Being above the confidence threshold of 50, this shows that most sampled firms remain optimistic about business prospects for the next six months.

Figure 1: CKGSB BCI Watershed

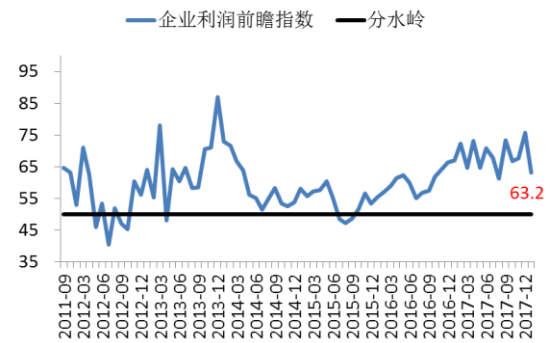


Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises of four sub-indices, which include corporate sales, corporate profits, corporate financing environment and inventory levels. Three of these levels measure the future prospects, while the financing environment index measures the current situation. The following figures show the conditions of the four sub-indices in January 2018.

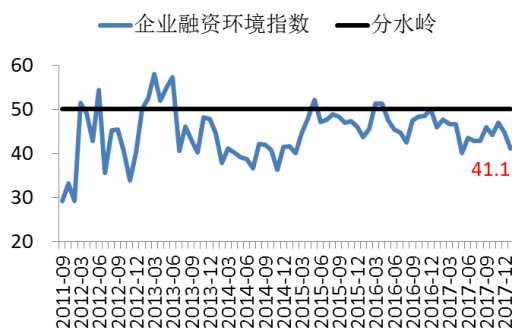
Figure 2: Corporate Sales Index


Source: CKGSB Case Center and Center for Economic Research

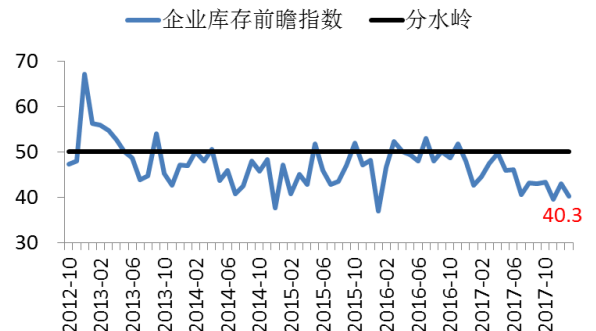
Figure 3: Corporate Profit Index


Source: CKGSB Case Center and Center for Economic Research

In this month, these four sub-indices declined. The corporate sales index declined from 82.9 to 79.1 (Figure 2), while the corporate profits index decreased from 75.6 to 63.2 (Figure 3).

Figure 4: Corporate Financing Index


Source: CKGSB Case Center and Center for Economic Research

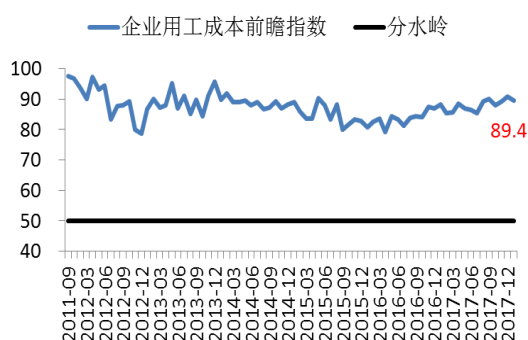
Figure 5: Inventory Index


Source: CKGSB Case Center and Center for Economic Research

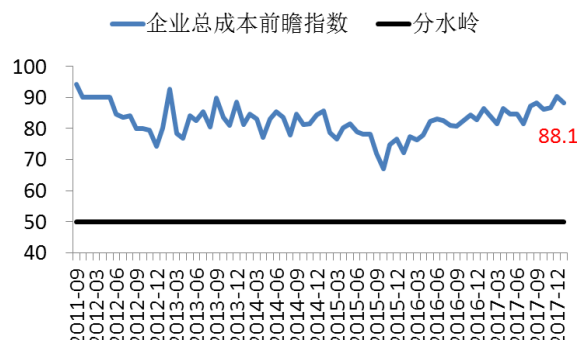
In January, the financing environment index decreased from 44.8 in December down to 41.1. Figure 4 shows that the financing environment index has been consistently low for our sample of CKGSB alumni. Additionally, given that our sample consists of the most efficient Chinese companies (the SMEs), this is a critical issue that should be addressed by future reformers.

The inventory index slightly declined from 43.0 to 40.3 in this month (Figure 5), which reflects a long-term issue in the Chinese economy. The inventory index is a big problem, which is below 50 most times.

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

Figure 6: Labor Costs Index


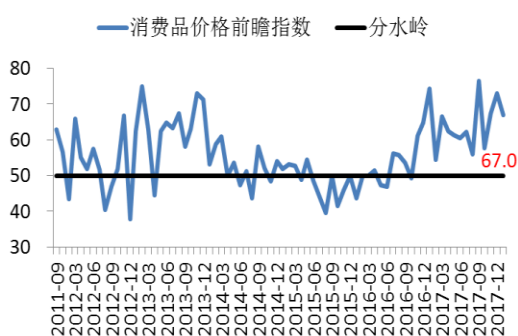
Source: CKGSB Case Center and Center for Economic Research

Figure 7: Overall Costs Index


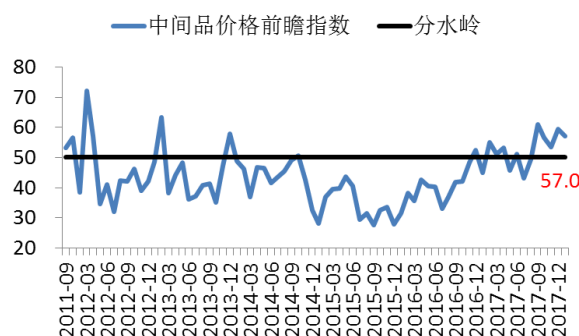
Source: CKGSB Case Center and Center for Economic Research

Both the labor costs and overall costs indices remained high, with the former at 89.4 and the latter at 88.1. None of these indices have ever been low. We do not anticipate any major fall in the upcoming period. Explaining this phenomenon remains tricky. For the statistics, see Figure 6 and Figure 7.

Considering prices, the consumer prices index declined from 73.0 in December to 67.0 in January (Figure 8). The producer price index declined from 59.5 in December to 57.0 in January, but remained above the threshold (Figure 9).

Figure 8: Consumer Price Index


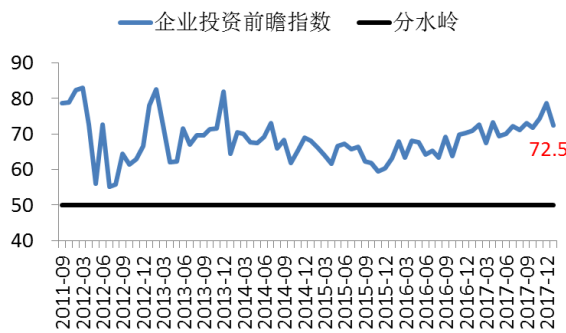
Source: CKGSB Case Center and Center for Economic Research

Figure 9: Producer Price Index


Source: CKGSB Case Center and Center for Economic Research

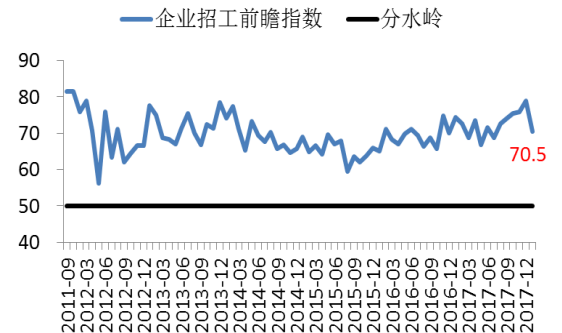
After discussing costs and prices, we have to turn to the important topics of investment and recruitment. Although both the investment and recruitment confidence levels have never reached the peaks of costs indices, they have remained at the higher end of the scale. In this month, the investment index was 72.5 (Figure 10), while the recruitment index was 70.5 (Figure 11). Both indices are interesting because no matter how macro-economic conditions have changed since the beginning of BCI in September 2011, indices such as profits and inventories have fluctuated dramatically, as has the overall BCI, but some indices have remained stable: investment index and recruitment index.

Figure 10: Investment Index



Source: CKGSB Case Center and Center for Economic Research

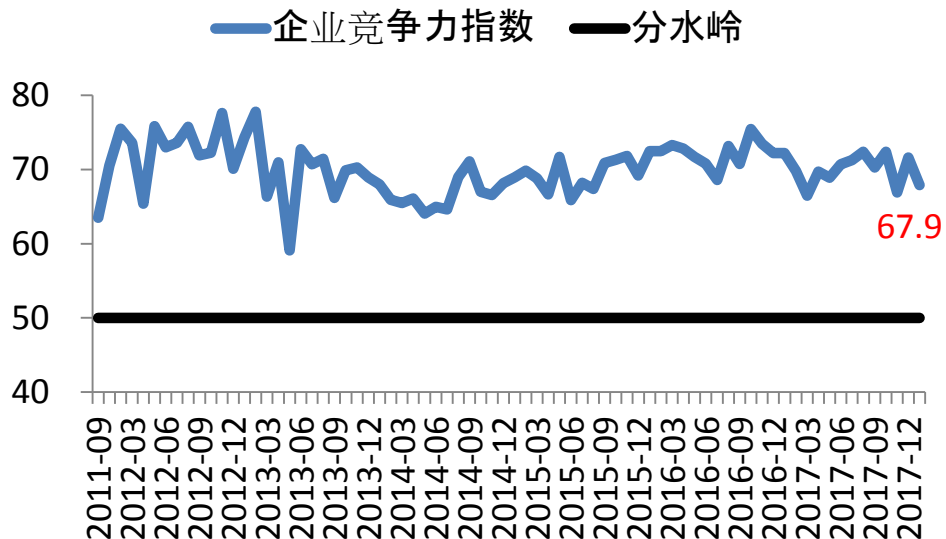
Figure 11: Recruitment Index



Source: CKGSB Case Center and Center for Economic Research

Finally, we included a question about the competitiveness of enterprises in the questionnaire. This question asks what position the enterprise is in its industry, whether it is above or below the average, or at the same level. According to the answers to this question, we compile the industrial competitiveness index. The higher the index is, the higher the company's position in the industry is. The answers to the questionnaire show that most of the sample companies are among the best in their respective industries (Figure 12). In other words, our sample enterprise is a group of relatively excellent small and medium-sized private enterprises. In turn, the current state of corporate China should be worse than that of our sample companies.

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.

About Cheung Kong Graduate School of Business

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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.

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

This report is based on public information and field research performed by the CKGSB Case Center and the CKGSB Center for Economic Research. Sources of these data are reliable, but both Centers do not guarantee their accuracy and completeness. Opinions expressed in this report only reflect the judgment of the researchers in the two Centers on the day when the report is released, and they are subject to change without prior notice. CKGSB holds no liability for any loss that might be caused by using this report. Readers are advised to use their own discretion and consider whether any comment or suggestion provided in this report is suitable for their personal situation.

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