

CKGSB BCI

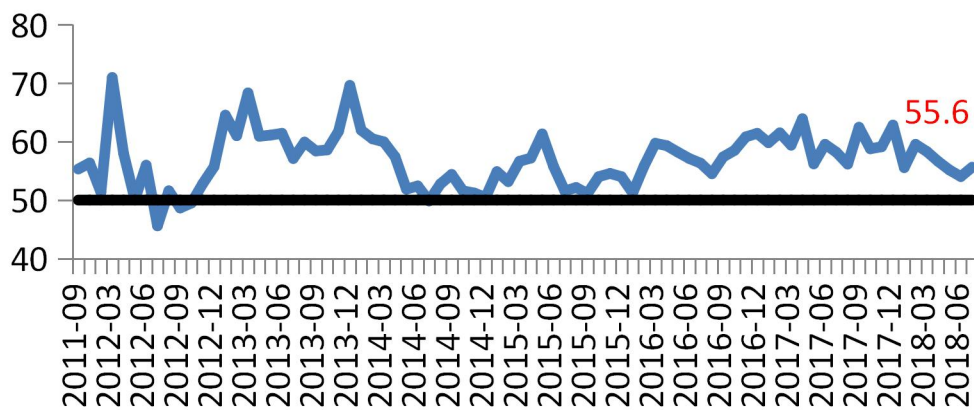
July 2018

24 July 2018

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 55.6, a slight rebound on June's index of 54.0 (Figure 1). Nevertheless, this is still above the confidence threshold, meaning that most sampled firms are relatively optimistic about their upcoming prospects.

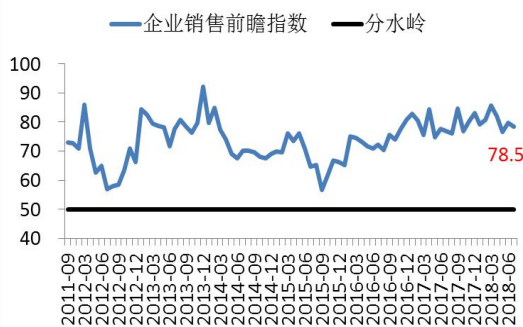
Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

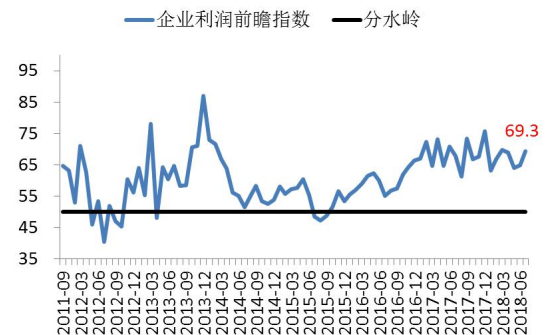
The CKGSB BCI comprises four sub-indices for corporate sales, corporate profits, corporate financing environment and inventory levels, three of which measure future prospects and one, the financing environment index, measures the current situation.

Figure 2 Corporate Sales Index



Source: CKGSB Case Center and Center for Economic Research

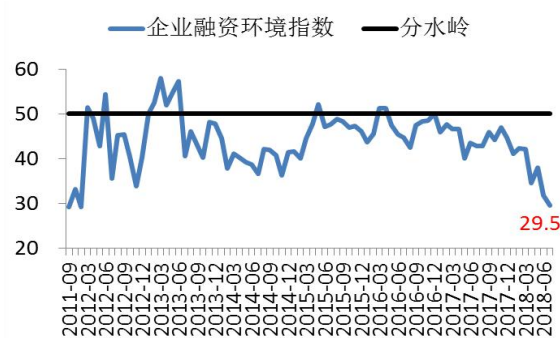
Figure 3 Corporate Profit Index



Source: CKGSB Case Center and Center for Economic Research

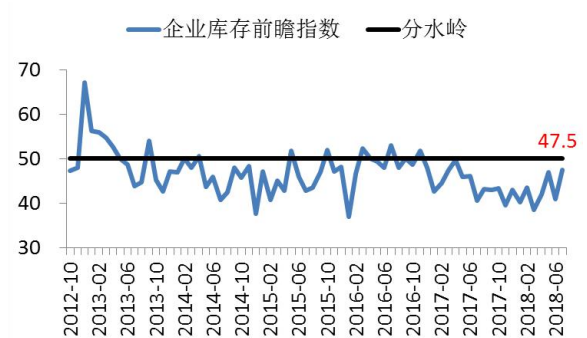
This month, of these four indices, two fell and two rose. The corporate sales index fell from last month's 79.6 to 78.5 (Figure 2), and the corporate profit index rose from 64.8 to 69.3 (Figure 3).

Figure 4 Corporate Financing Index



Source: CKGSB Case Center and Center for Economic Research

Figure 5 Inventory Index



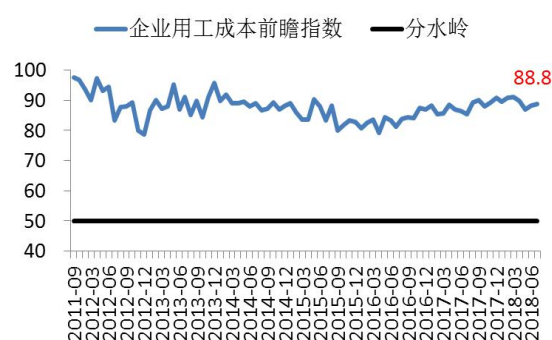
Source: CKGSB Case Center and Center for Economic Research

This month's financing environment index fell from 31.7 to 29.5, well below the confidence threshold. Figure 4 shows the long term pessimistic outlook on funding. Given that our sample consists of what are widely known as China's most efficient SMEs, it is critical issue for future reforms to address.

The inventory index rose somewhat: from 41.0 in June to 47.5 this month (Figure 5). This long term issue for the Chinese economy has been reflected in sub-50 indices for most of the time since the BCI survey began.

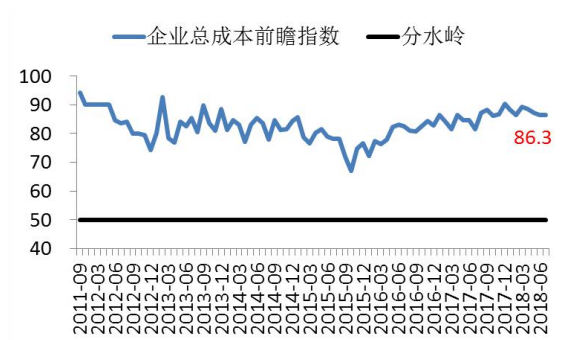
Aside from the main BCI, we also forecast costs, prices, investment and recruitment demand over the next six months. Let's look at costs first:

Figure 6 Labor Costs Index



Source: CKGSB Case Center and Center for Economic Research

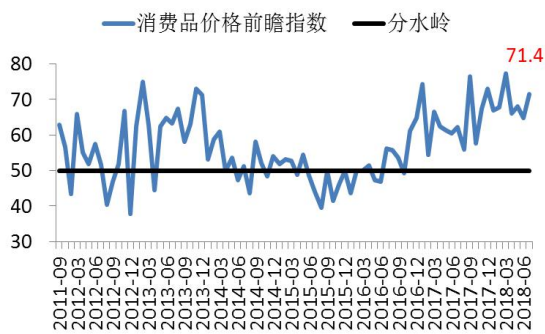
Figure 7 Overall Costs Index



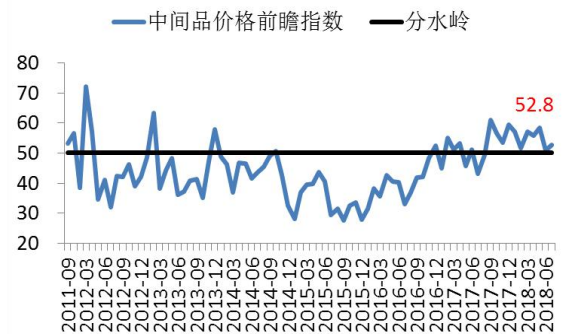
Source: CKGSB Case Center and Center for Economic Research

Labor and overall costs forecasts remained high, with the former at 88.9 and the latter at 86.3. Both indices have been buoyant since the start of the survey, and we see no signs of a downturn, yet explaining this phenomenon is no easy task. For detailed data, see Figures 6 and 7.

As for prices, this month the consumer prices index rose from 64.8 to 71.4 (Figure 8). The producer prices index rose slightly from 51.0 to 52.8 (Figure 9).

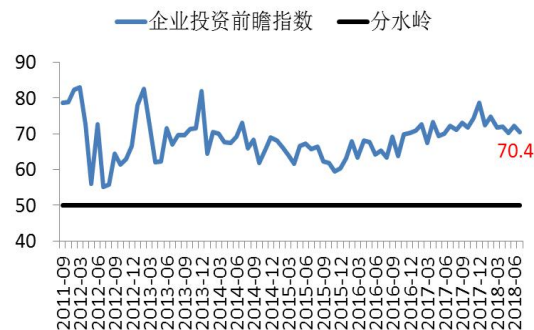
Figure 8 Consumer Prices Index


Source: CKGSB Case Center and Center for Economic Research

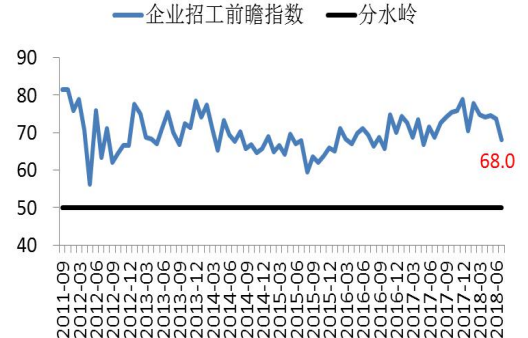
Figure 9 Producer Prices Index


Source: CKGSB Case Center and Center for Economic Research

We now turn to investment and recruitment. Although the investment and recruitment indices have never reached the heights of the costs indices, they have stayed at the more confident end of the scale. This month's investment index is 70.4 (Figure 10), and the recruitment index is 68.0 (Figure 11). These indices are interesting because no matter how macroeconomic conditions have changed since the BCI began in September 2011, while profit and inventory indices have fluctuated dramatically, as has the overall BCI, three indices have been stable throughout: costs, investment and recruitment.

Figure 10 Investment Index


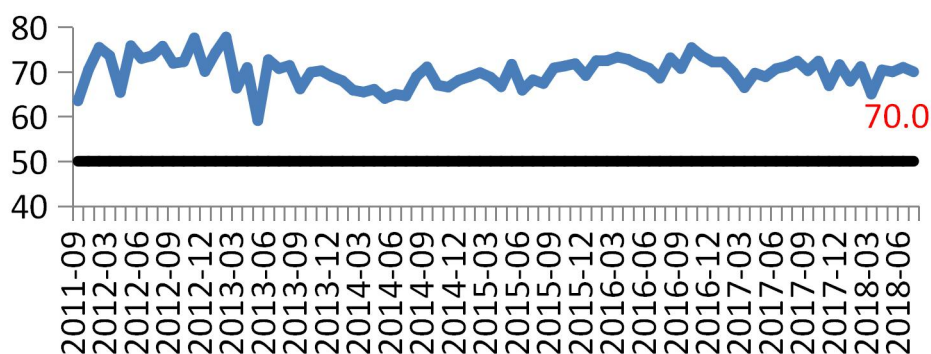
Source: CKGSB Case Center and Center for Economic Research

Figure 11 Recruitment Index


Source: CKGSB Case Center and Center for Economic Research

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

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 – calling it a business conditions index.

Under the direction of Professor Li Wei, the two research centers designed and tested the BCI survey in July 2011. In September 2011, the first surveys were distributed and first results computed. 80 surveys have been completed in total and 75 monthly reports have been published between May 2012 and July 2018.

Explanation of the Index

The CKGSB Business Conditions Index (CKBCI) is a set of forward-looking diffusion indicators. The index takes 50 as its threshold, so an 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 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 used a different composition of constituent indices, and is therefore not directly comparable to the current BCI index.

About Cheung Kong Graduate School of Business

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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.

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