

# CKGSB BCI

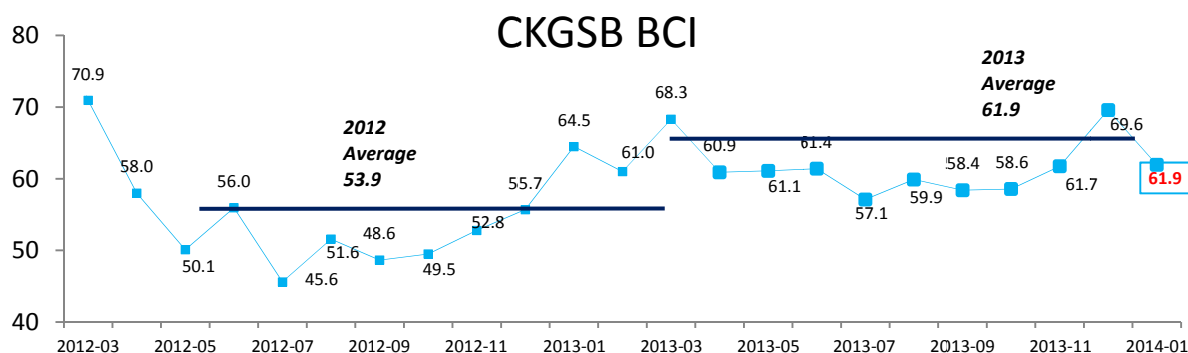
January 2013

24 January 2014

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index for January 2013 reads 61.9, registering a considerable drop on last month's index, but approximately level with the 2013 average. This continues the index's positive trend by staying above the threshold of 50 for the 15<sup>th</sup> consecutive month (see Graph 1). With 50 being the threshold between a positive and negative economic outlook, this reading shows that our sample of comparatively successful business leaders enters the new year in a state of relative optimism. Overall macro-economic conditions in China are stable. The rising cost of capital has made an impact on market sentiment, which may have triggered this month's downturn in the index.

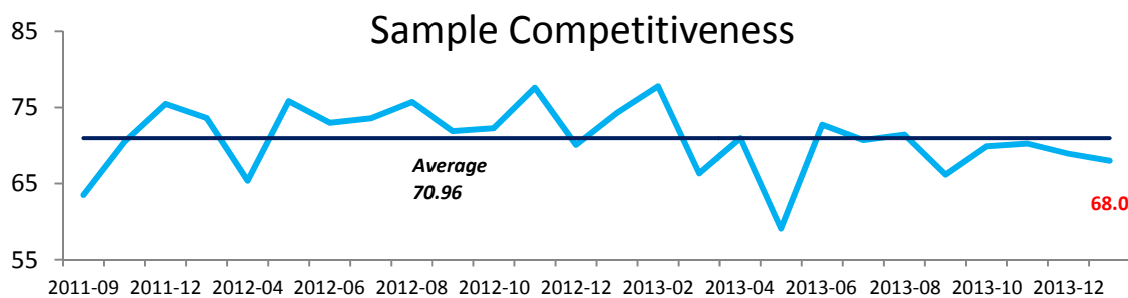
**Graph 1**



Source: CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index is generated wholly on the basis of statistics gathered from leading enterprises whose executives have studied or are studying at Cheung Kong Graduate School of Business. In the questionnaire we ask respondents to indicate whether their firm is more, the same, or less, competitive than the industry average (50), and from this we derive a sample competitiveness index (see Graph 2). Consequently, as our sample firms are in a relatively strong competitive position in their respective industries, the CKGSB BCI indices are higher than government and industry PMI indices. Users of the CKGSB BCI index may therefore focus on data changes over time to forecast trends in the Chinese economy.

**Graph 2**

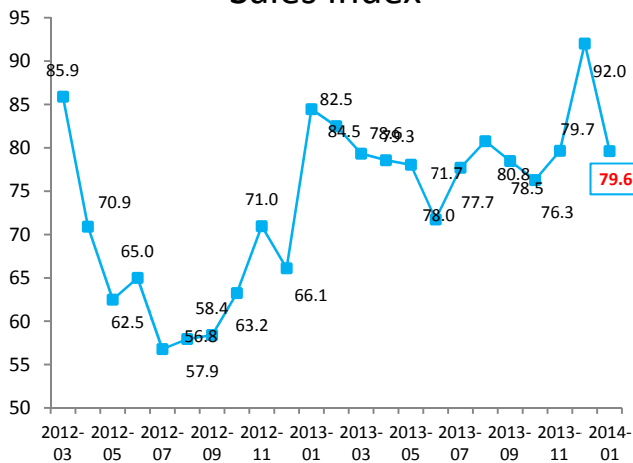


Source: CKGSB Case Center and Center for Economic Research

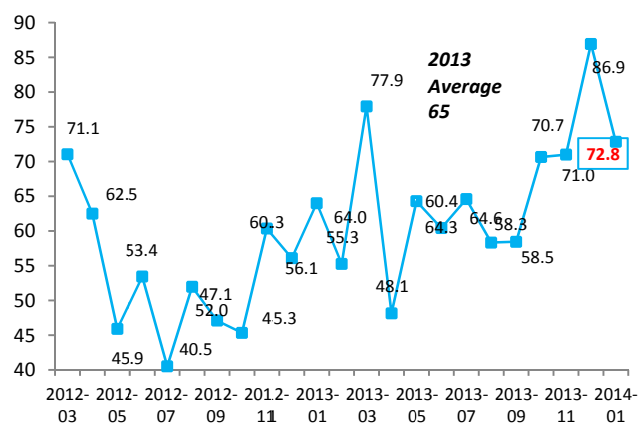
The CKGSB BCI comprises four sub-indices that are forward-looking indicators for corporate sales, corporate profits, corporate financing environment, and inventory levels.

**Graph 3**

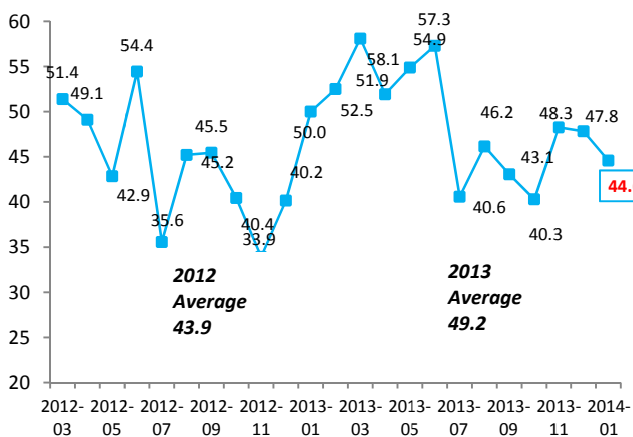
### Sales Index


**Graph 4**

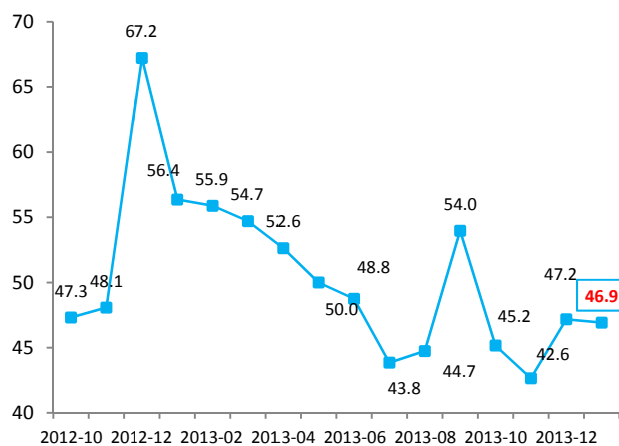
### Profits Index


**Graph 5**

### Corporate Financing Index


**Graph 6**

### Inventory Index



Source: CKGSB Case Center and Center for Economic Research

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The corporate sales index dropped 12.4 points from 92 to 79.6 (see Graph 3). The corporate profit index dropped 14.1 points to 72.8 (see Graph 4), but remained above the confidence threshold. These indices represent a degree of optimism in the forthcoming six month period. From the industry and income distribution in this month's sample, we estimate that a large proportion of this month's respondents are in the manufacturing sector. Slow inventory reductions and the continuing trend towards low prices may be the main causes of this month's low sales and profit indices.

The corporate financing environment index reads 44.6 this month, slightly lower than last month (see Graph 5) and under the 50 points confidence threshold. This indicates that financing conditions are not optimal. As the majority of our sample run private firms, this mainly reflects financing in the non-state sector. In January, the finance drought reappeared on the financial agenda. On January 20, the seven day SHIBOR rate rose 155 points to 6.3290%. While the central bank continues to provide liquidity support, the figures show that financing for private enterprise has not improved.

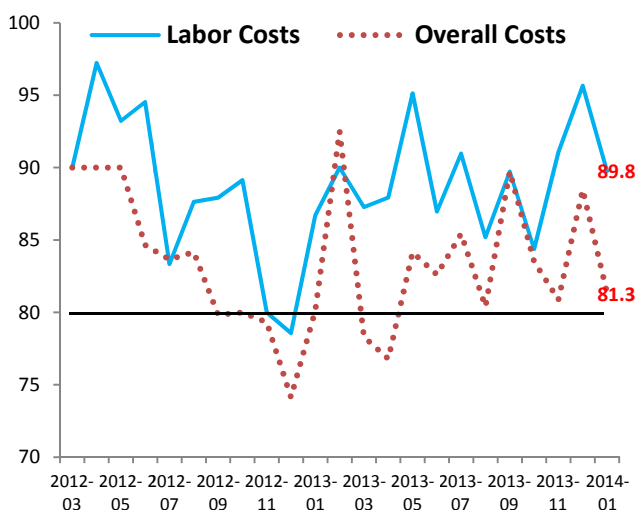
The index measuring inventory levels registered 46.9 in January, below the confidence threshold. This shows that most firms have not improved their inventory levels compared with the same time last year (See Graph 6).

Besides the main BCI indices, we also surveyed respondents on forecasted costs, prices, investment plans and employment conditions, to form a supplementary set of indices.

In January, labor costs and overall costs dropped to 89.8 and 81.3 respectively (see Graph 7), but remained at a high level. These costs indices are predictions of change in the upcoming six months, and show that the majority of sample firms are anticipating costs rising in the near future.

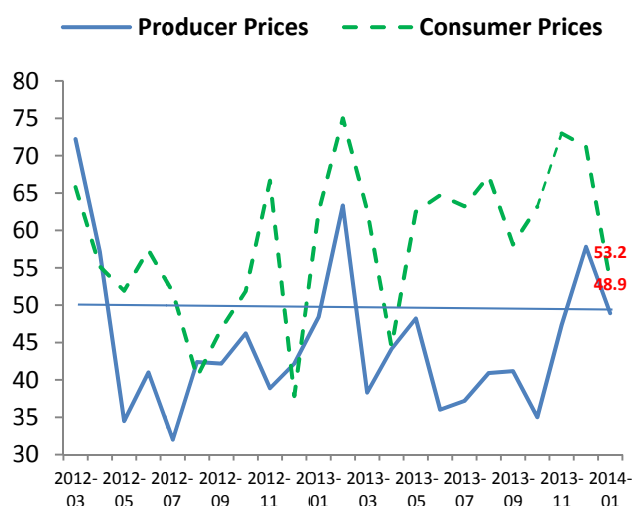
The consumer prices indices dropped 18 points to 53.2 (see Graph 8), and producer prices dropped 9 points to 48.9 trajectory, considerably reducing exposure. On one side this shows that firms expect a reduction in market liquidity, and judging from the 2013 GDP growth rate of 7.7% group just released, the upturn in the economy will have a limited impact on goods prices. On the other side, as mentioned above, this sample is predominantly made up of manufacturing companies, which explains why the producer price index has dropped below the threshold of 50.

**Graph 7**



Source: CKGSB Case Center and Center for Economic Research

**Graph 8**



Source: CKGSB Case Center and Center for Economic Research

The corporate investment demand index registered 64.4, which is 17.5 points lower than in December and lower than last year's average and even that of 2012. However, registering above 50, the index shows that the majority

of sampled firms still plan to invest in fixed assets within the next six months (see Graph 9).

In terms of labor demand, the index registered 78.4 (see Graph 10). This shows that a majority of companies aims to expand their workforces in the next six months. However, because of the high cost of labor, it is likely that either corporate profit will be squeezed or costs will be passed on in the form of export inflation.

In overall terms, the figures show that China's business conditions have stabilized, but that in 2014, macroeconomic challenges abound. The task of economic restructuring will have to tackle slowing GDP growth, and massive monetary easing will be hard pressed to improve companies' access to financing in the short term. Long term sluggish inventory reduction and high pressure on costs point to the long road ahead for China's economic reform agenda. With 2014 just beginning, the tone has been set for a period of progress set within a stable environment. The national economic restructuring process seeks development via reform, which means that in the long term, China's economic outlook is positive.

### **Notes:**

#### **CKGSB BCI Introduction**

In June 2011, CKGSB Case Center and 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. Since May 2012, the research team has published monthly BCI survey 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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### **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 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.

### **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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