

# CKGSB BCI

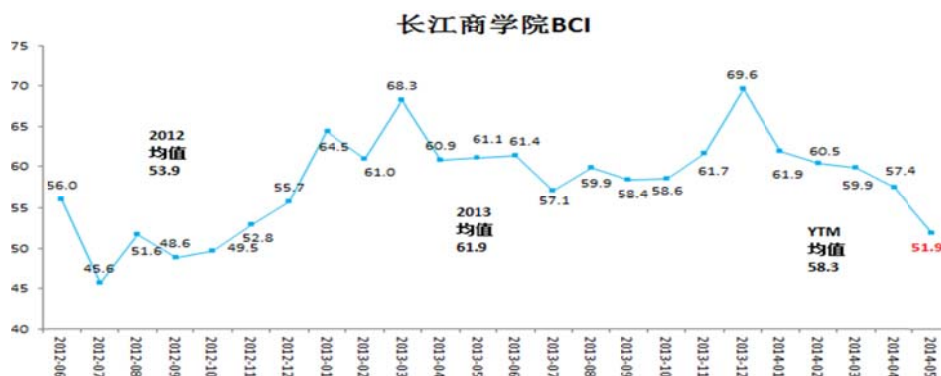
May 2014

4 June 2014

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index reads 51.9 in May, lower than April's figure of 57.4 (see Graph 1). With 50 being the threshold between a positive and negative economic outlook, this index shows that our sample of comparatively successful business leaders are relatively optimistic about business conditions in China. However, five months into a downward trend, the prospects of economic overheating have decreased. China's growth momentum has slowed, and slower real estate activity is the area of greatest risk of slowdown in the second half of 2014.

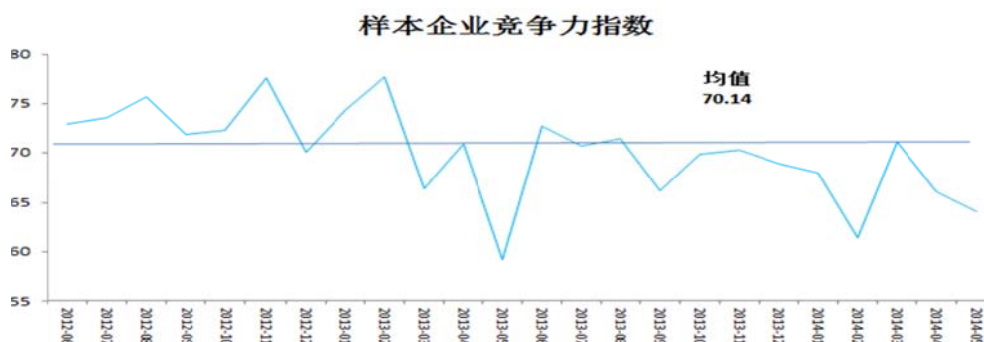
**Graph 1**



Source: CKGSB Case Center and Center for Economic Research

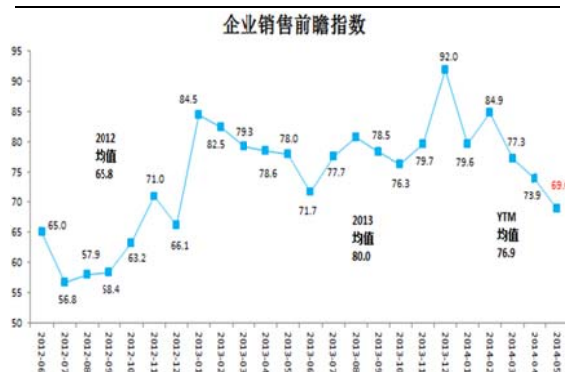
The CKGSB Business Conditions Index is generated wholly on the basis of statistics gathered from leading enterprises whose executives have studied or are studying at Cheung Kong Graduate School of Business. In the questionnaire we ask respondents to indicate whether their firm is more, the same, or less, 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. Industry Competitiveness**

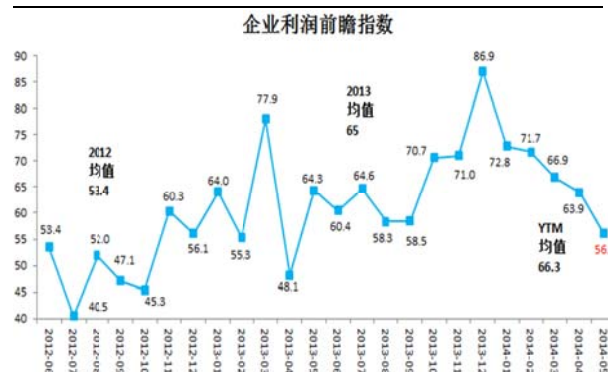


Source: CKGSB Case Center and Center for Economic Research

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

**Graph 3. Sales**


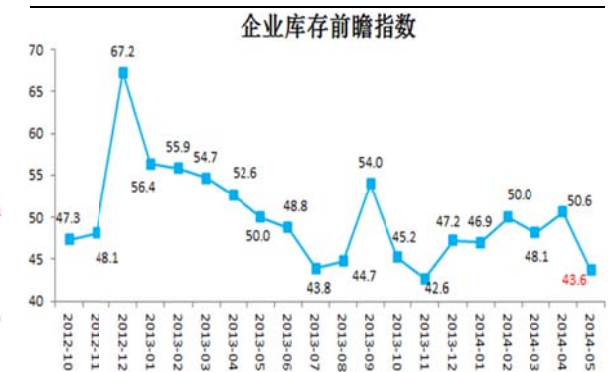
Source: CKGSB Case Center and Center for Economic Research

**Graph 4. Profit**


Source: CKGSB Case Center and Center for Economic Research

**Graph 5. Financing**


Source: CKGSB Case Center and Center for Economic Research

**Graph 6. Inventory**


Source: CKGSB Case Center and Center for Economic Research

The corporate sales index registers 69, and the profit index registers 56.1, each to differing degrees lower than last month (see Graph 3, 4). Both remain above 50, showing a degree of optimism in the forthcoming six month period. Comparing these two indices with the overall BCI, we can see that their downward trend is positively correlated with business operational forecasts.

The corporate financing environment index reads 39.1 in May, following an index of 40.2 in April (see Graph 5), staying below the confidence threshold. This indicates that the financing outlook for the next six months is not good compared with this time last year. As the majority of our sample run private firms (especially SMEs), this mainly largely reflects financing issues in the private sector. This deterioration of financing conditions puts a demand on the government to speed up financial reforms and provides space for innovation and other demands.

The index measuring inventory levels registered 43.6, a 7 point increase on last month's index and lower than the confidence threshold (See Graph 6). In fact, the inventory backlog over the last two years has been caused by oversupply, and has still not improved to any significant degree. The inventory problem should continue to be paid attention to.

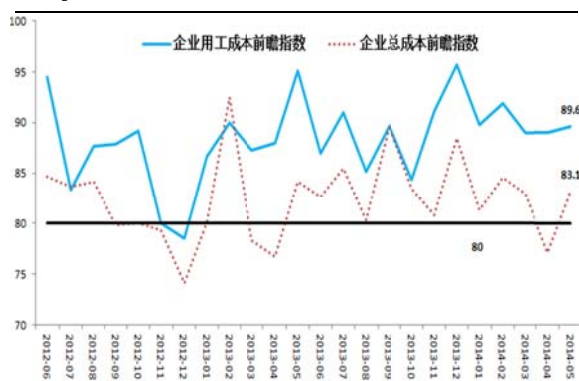
Besides the main indices, we also surveyed respondents on forecasted costs, prices, investment plans and

employment conditions, to form a supplementary set of indices.

In May, labor costs and overall costs registered indices of 89.6 and 83.1 respectively (see Graph 7), both at a high level. These two costs indices are predictions of change in the upcoming six months, and show that the majority of sample firms expect costs to increase compared with this time last year.

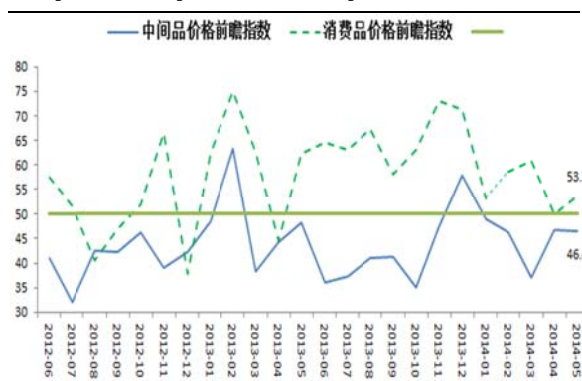
The consumer prices index rose moderately to 53.7 (see Graph 8), showing that the trend for the forthcoming period is rising prices. Producer prices, affecting mainly manufacturers, remained level at 46.4, showing that most companies believe producer prices will fall in the near future. From the overall trend, inflationary pressure remains relatively high, and at the same time, because inventory levels have still not found a satisfactory solution, producer prices are likely to remain in a depressed condition.

**Graph 7. Labor costs and overall costs**



Source: CKGSB Case Center and Center for Economic Research

**Graph 8. Producer prices and consumer prices**



Source: CKGSB Case Center and Center for Economic Research

The corporate investment demand index registered 67.4 in May (see Graph 9), above the threshold of 50. This index shows that the majority of sampled firms still plan to invest in fixed assets in the next six months.

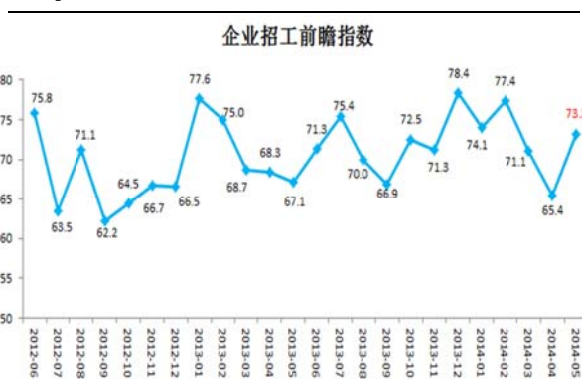
In terms of labor demand, the May index is at 73.2, up from 65.4 in April (see Graph 10). This shows that a majority of companies sampled aims to expand their workforce in the next six months. However, because of the high cost of labor, this is likely to exert pressure on corporate profits.

**Graph 9. Investment**



Source: CKGSB Case Center and Center for Economic Research

**Graph 10. Labor demand**



Source: CKGSB Case Center and Center for Economic Research

From the data above, the 2014 business forecast for China's macroeconomic conditions has continued to deteriorate. Taking the dampening real estate ardor as an indication, there is a real risk of China's economy

entering a downturn. Accordingly, in terms of operations, it is necessary to make plans that suit the current climate. Investment plans should take account of advice regarding upcoming trends and disparate business risks. Businesses should accelerate restructuring, and be ready to react to ongoing policies to ensure steady growth in the second half of the year.

### **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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