

# CKGSB BCI

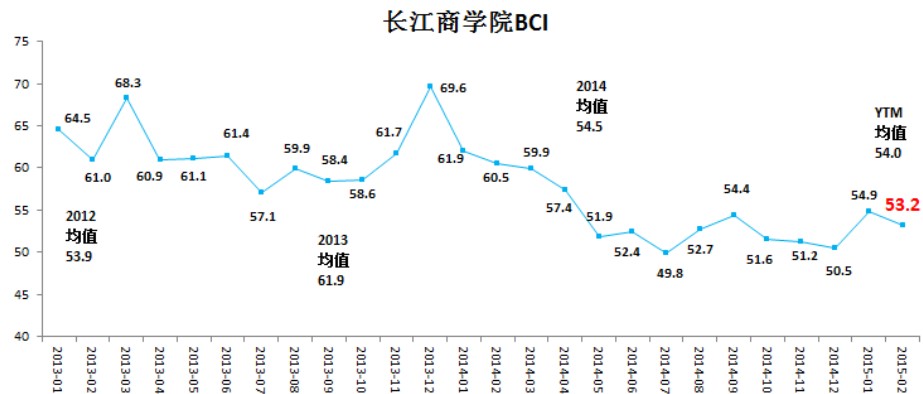
## February 2015

12 February 2015

CKGSB Case Center and Center for Economic Research

In January 2015, the CKGSB Business Conditions Index (BCI) registered 53.2, slightly lower than January's index of 54.9 (Figure 1). Still above the confidence threshold of 50, this means that the majority of relatively successful firms in China have a positive outlook on business prospects in the next six months. However, the second half of 2014 registered the lowest indices since the BCI was started in 2012, suggesting that firms should stay alert to China's ongoing macroeconomic risks.

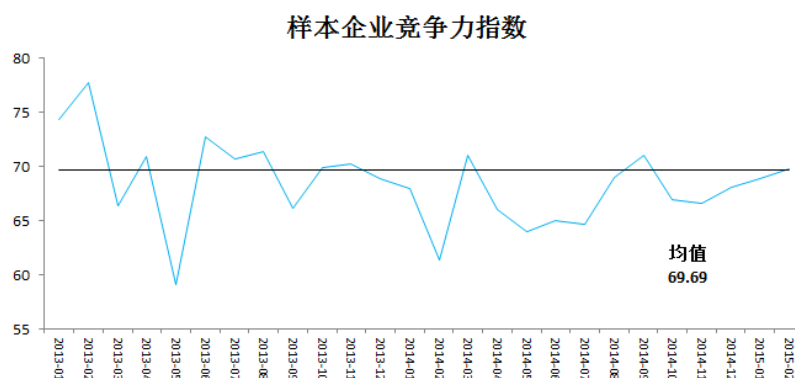
**Figure 1 CKGSB BCI**



Source: CKGSB Case Center and Center for Economic Research

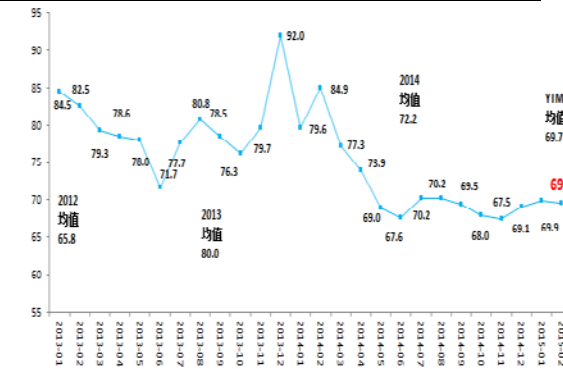
The BCI is generated wholly on the basis of statistics gathered from leading enterprises whose executives have studied or are studying at Cheung Kong Graduate School of Business. In the questionnaire we ask respondents to indicate whether their firm is more, the same, or less, competitive than the industry average (50), and from this we derive a sample competitiveness index (Figure 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**

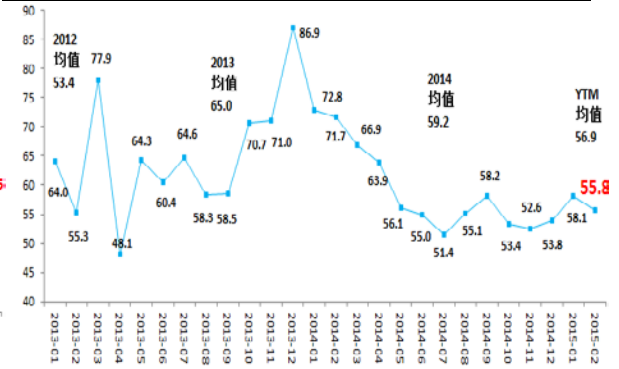


Source: CKGSB Case Center and Center for Economic Research

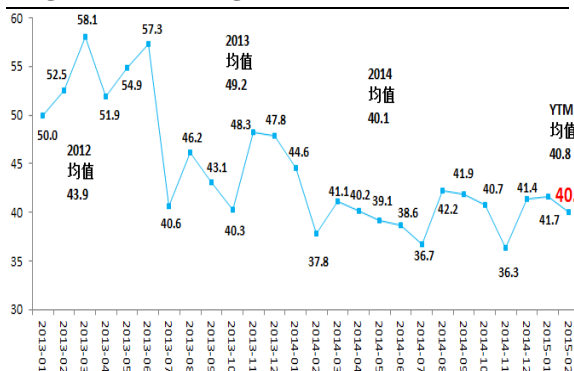
The CKGSB BCI comprises four sub-indices that are forwarding-looking indicators for corporate sales, corporate profits, corporate financing environment, and inventory levels.

**Figure 3. Sales**


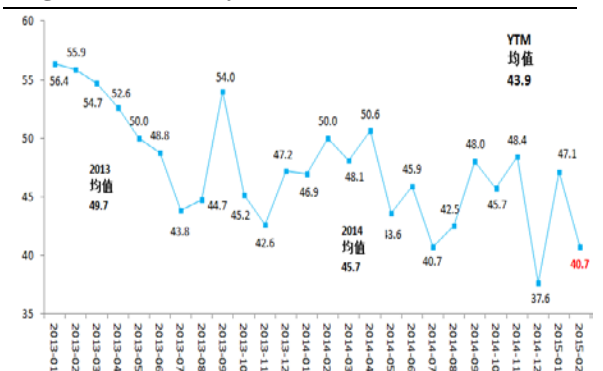
Source: CKGSB Case Center and Center for Economic Research

**Figure 4. Profit**


Source: CKGSB Case Center and Center for Economic Research

**Figure 5. Financing**


Source: CKGSB Case Center and Center for Economic Research

**Figure 6. Inventory**


Source: CKGSB Case Center and Center for Economic Research

The corporate sales index registered 69.5 in February and the profit index registered 55.8 (Figure 4). These are both higher than the confidence threshold of 50. Companies view the upcoming six months in a positive light. However, compared with first half of 2014, from May 2014 both sales and profits indices slumped, due to the impact of high operational costs and weak demand, reflected in the trend in prices.

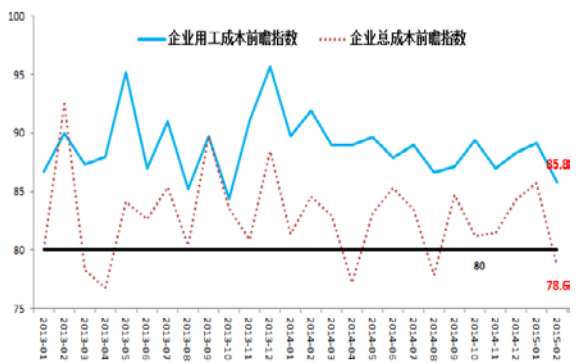
The corporate financing environment index decreased slightly from 41.7 in January to 40 in February (Figure 5). With the confidence level below 50, this indicates that financing is not promising. Since the majority of our sample consists of private firms, this data show that firms in the private sector face challenging financing pressures.

The index measuring inventory levels registered 40.7 in February, which is lower than last month's index of 47.1 and under the threshold of 50 (Figure 6). Inventory levels are expected to continue to be an issue in the upcoming period.

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

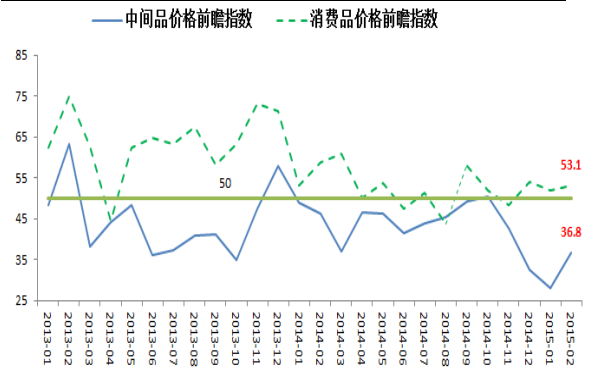
In February, labor costs and overall costs registered indices of 85.8 and 78.6 respectively (Figure 7), both at a high level. These two indices are predictions of changes to costs in the upcoming six months, and show that most sampled firms expect costs to increase compared with this time last year.

The consumer prices index registered 53.1 in February, down from 51.8 in January (Figure 8). Recent trends show that deflationary risks still exist, although they have been mitigated by government efforts to cut rates and release liquidity. Coming under international pricing pressure, producer prices registered 36.8 in February, far below the confidence threshold, and only a small pickup after three consecutive falls in the index (November: 42.6, December: 32.5, January 28.1). As shown by these figures, industry conditions are far from optimal.

**Figure 7. Costs**


Blue: Labor; Dotted: Overall

Source: CKGSB Case Center and Center for Economic Research

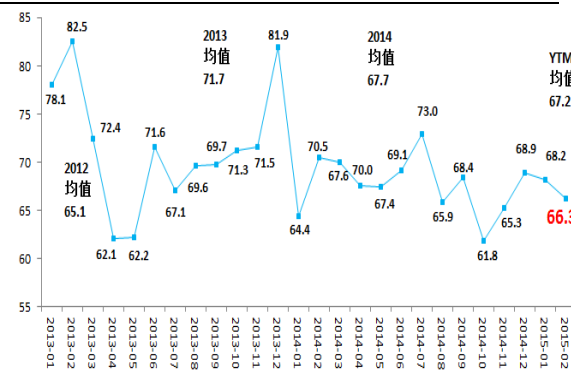
**Figure 8. Prices**


Blue: Producer; Dotted: Consumer

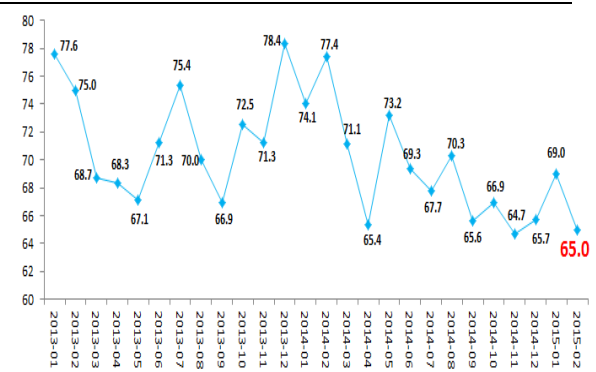
Source: CKGSB Case Center and Center for Economic Research

The corporate investment demand index fell slightly from 68.2 in January to 66.3 in February (Figure 9), above the confidence threshold of 50. This index shows that the majority of sampled firms intend to invest in fixed assets in the next six months.

In terms of labor demand, the February index shows 65 (Figure 10), higher than January's index of 69.0 and above the confidence threshold. This shows that the CKGSB BCI sample expects growth and aims to expand their workforce. As corporate investment and labor demand are critical to output, the fact that companies plan to invest and hire new staff shows continued confidence in expanding production in the near future.

**Figure 9. Corporate Investment**


Source: CKGSB Case Center and Center for Economic Research

**Figure 10. Labor Demand**


Source: CKGSB Case Center and Center for Economic Research

Overall, the CKGSB BCI looks positive in February, but given the slump in the second half of 2014, it is clear that macroeconomic risks remain. For private companies and SMEs, financing, inventory and costs remain the major operational challenges. The central bank's loosening of interest rates is reducing financing pressures and the risk of deflation, and having a positive impact on the real economy. At the company level

however, the situation should be leveraged to bring into play greater efficiencies in production and consumer service transformation. Investments should be considered very carefully, and timely responses to the government's continued implementation of economic reforms should be planned for.

### **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.

### **About Cheung Kong Graduate School of Business**

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.

#### Disclaimer

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

#### **The Research Team**

Wei Li

CKGSB Economics Professor

Director, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext.3235 wli@ckgsb.edu.cn

Yi Zhou

Assistant Director, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3915 yzhou@ckgsb.edu.cn

Chongqing Gu

Senior Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3336 cqgu@ckgsb.edu.cn

Yan Yang

Senior Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 8479 cqgu@ckgsb.edu.cn

Guchuan Yang

Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3318 gcyang@ckgsb.edu.cn

Heather Mowbray

Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3716 heathermowbray@ckgsb.edu.cn