

# CKGSB BCI

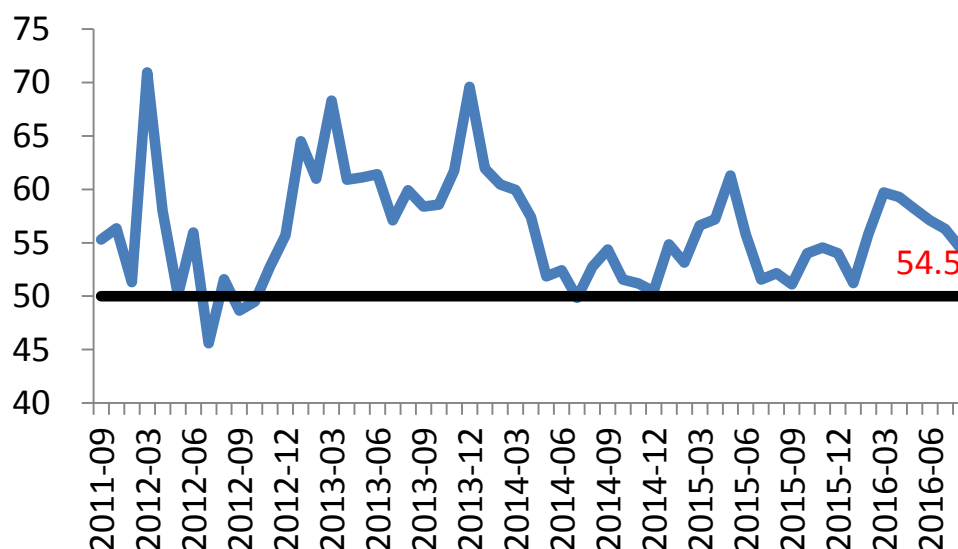
## August 2016

5 September 2016

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 54.5 in August, slightly less than July's overall index of 56.3 but above the confidence threshold of 50. Despite the small dip, this shows that for CKGSB's sample of relatively successful businesses operating in China, the next six months are viewed with optimism. We should note, however, that the BCI has fallen consecutively for the last five months.

**Figure 1 Overall 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. Of these four sub-indices, only the corporate profits index rose slightly this month. The other three fell slightly, with the inventory index registering below 50 once again.

	Corporate sales	Corporate profit	Financing environment	Inventory level
July 2016	72.1	55.1	44.7	53.0
<b>August 2016</b>	<b>70.4</b>	<b>56.8</b>	<b>42.5</b>	<b>47.9</b>

Source: CKGSB Case Center and Center for Economic Research

Apart from the main BCI, we forecast costs, prices, investment and recruitment demand for the next six months. The labor and overall costs indices remained above 80, with labor costs rising slightly while overall costs fell slightly. The consumer prices index slipped to 55.7, while the producer prices index rebounded somewhat, despite remaining well below 40, at 36.8.

	Labor costs	Overall costs	Consumer prices	Producer prices
July 2016	81.1	82.5	56.1	32.9
<b>August 2016</b>	<b>83.9</b>	<b>81.0</b>	<b>55.7</b>	<b>36.8</b>

Source: CKGSB Case Center and Center for Economic Research

Despite facing difficulties, BCI sample firms continue to recruit and invest. No matter the macroeconomic conditions over the past five years of the BCI, the Chinese firms sampled have prioritized corporate investment and recruitment, proving a conundrum for observers. It is important to note that most sample companies are leading Chinese private SMEs, so their competitiveness is consistently higher than the averages (50 points) for their respective industries.

	Corporate investment	Recruitment demand	Industry competitiveness*
July 2016	65.4	69.5	68.6
<b>August 2016</b>	<b>63.4</b>	<b>66.3</b>	<b>73.1</b>

\*We ask respondents to indicate whether their firm is more, the same or less, competitive than the industry average. The higher the figure, the more competitive our sample firms are in their respective industries.

Source: CKGSB Case Center and Center for Economic Research

This month's data showed no substantial change in business expectations for the next six months. The overall BCI fell slightly, but remained above 50. The prices indices showed some differentiation, with consumer prices above the confidence threshold and producer prices in the doldrums. The index for costs remained high, and the price indices stayed low, reflecting an important feature of the Chinese economy – overcapacity. The question remains, why is there overcapacity? If China had a fully market-based economy, excess capacity should lead to reduced supply and increased demand, thereby eliminating overcapacity. However, in our five years' worth of data, we have seen no evidence of this. Even more interestingly, companies have continued to recruit and invest, both seemingly contradictory strategies given the overcapacity.

We can say that the Chinese economy is in a very strange situation, as reflected by the CKGSB BCI data. How should this phenomenon be interpreted? This not only has academic value, but also a wealth of policy implications. We believe that if our investigation continues for the next 10 or 20 years, we will have accumulated enough data to provide a valuable resource for future economists and policymakers.

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 – 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. From May 2012 to June 2016, the research team has undertaken 55 surveys and published 50 monthly BCI 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.

**The Research Team**

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