

CKGSB BCI

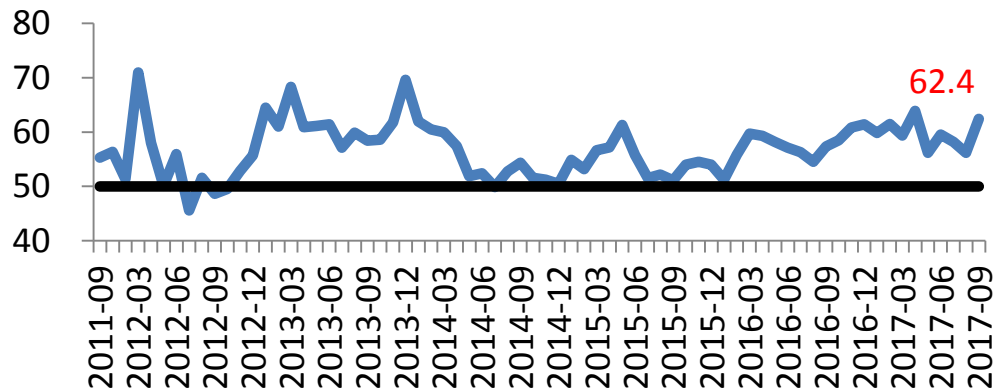
September 2017

5 October 2017

CKGSB Case Center and Center for Economic Research

The Business Conditions Index (BCI) registered 62.4 in September, higher than last month's index of 56.1 (Figure 1). Given that the figure remains above the confidence threshold of 50, this shows that most sampled firms remain optimistic about business prospects over the next six months.

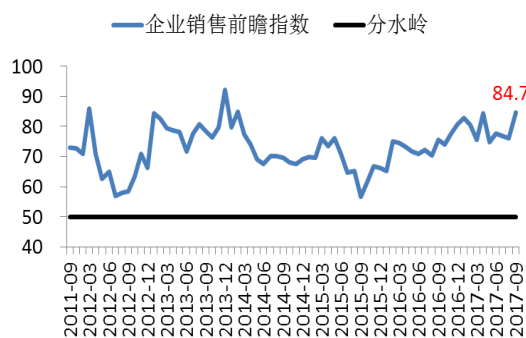
Figure 1 Business Conditions Index (BCI)



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, which measures the current situation.

Figure 2 Corporate Sales Index



Source: CKGSB Case Center and Center for Economic Research

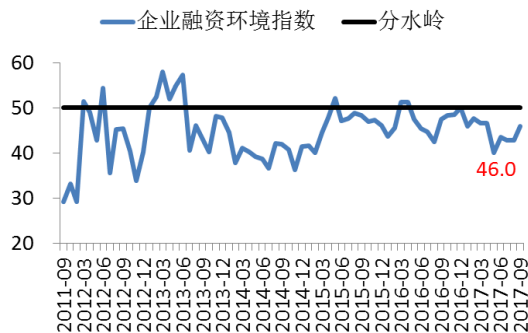
Figure 3 Corporate Profit Index



Source: CKGSB Case Center and Center for Economic Research

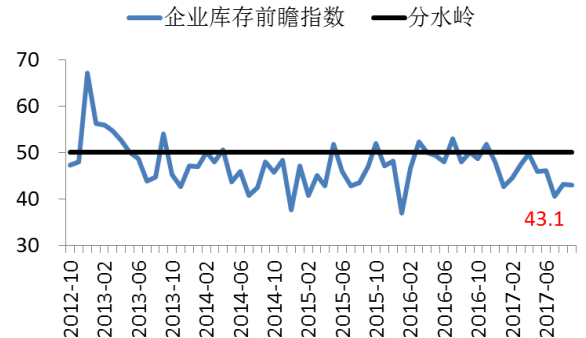
This month, three of these sub-indices rose, and one fell. Corporate sales rose from 76.1 to 84.7 (Figure 2), while corporate profits rose from 61.2 to 73.3 (Figure 3).

Figure 4 Corporate Financing Index



Source: CKGSB Case Center and Center for Economic Research

Figure 5 Inventory Index



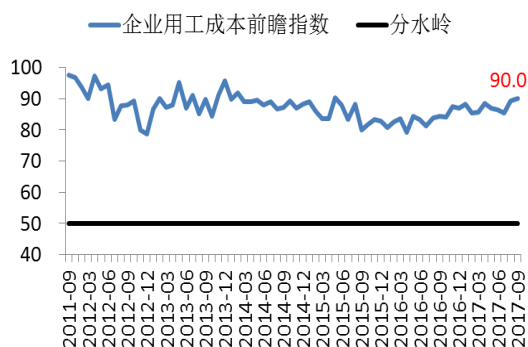
Source: CKGSB Case Center and Center for Economic Research

The financing environment index rose from 42.8 in August to 46.0 in September. We can see from Figure 4 that the financing environment index has been consistently low for our sample of CKGSB alumni firms, and, given that this consists mainly of China's most efficient companies, the SMEs, this is a critical issue for reformers to address.

Creeping down from 43.2 to 43.1 this month (Figure 5), the inventory index reflects a long-term issue for the Chinese economy. This index has mostly registered below the confidence threshold of 50 since the BCI began.

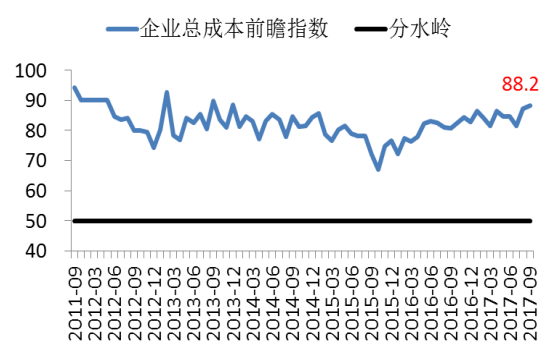
Aside from the main BCI, we also forecast costs, prices, investment and recruitment demand over the next six months:

Figure 6 Labor Costs Index



Source: CKGSB Case Center and Center for Economic Research

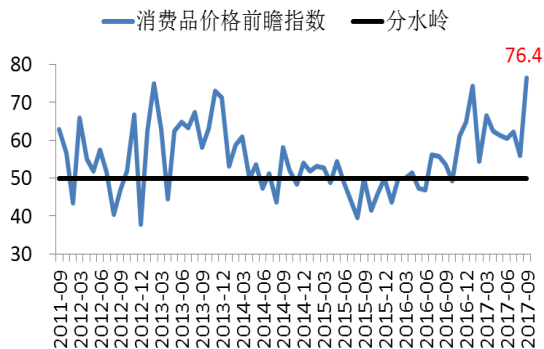
Figure 7 Overall Costs Index



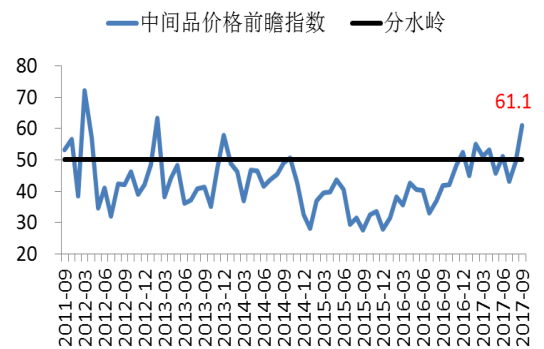
Source: CKGSB Case Center and Center for Economic Research

The labor costs and overall costs indices remained high, with the former at 90.0 and the latter at 88.2. Neither index has ever been low (Figures 6 and 7), and in the upcoming period we do not anticipate any major slide.

Turning to prices, the consumer prices index shot up from 56.0 in August to 76.4 (Figure 8). The producer prices index also rose sharply this month from 49.4 to 61.1, again rising above the threshold of 50 (Figure 9). The reasons behind these changes are discussed at length in the accompanying commentary.

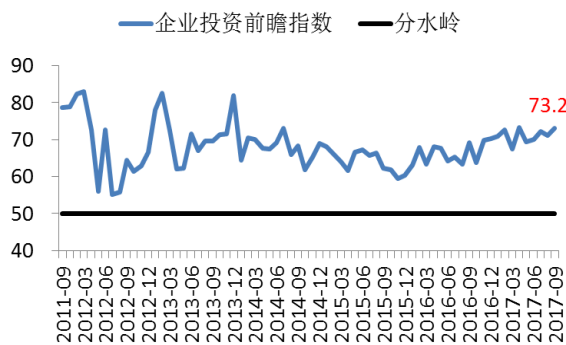
Figure 8 Consumer Prices Index


Source: CKGSB Case Center and Center for Economic Research

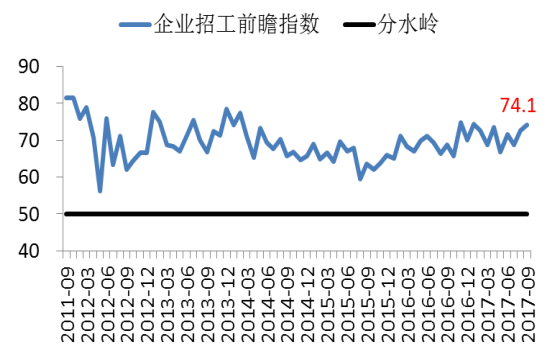
Figure 9 Producer Prices Index


Source: CKGSB Case Center and Center for Economic Research

We turn now to the important topics of investment and recruitment. Although investment and recruitment confidence levels have never reached the peaks of the costs indices, they have stayed at the higher end of the scale. This month's investment index was 73.2 (Figure 10), while the recruitment index was 74.1 (Figure 11). These indices are interesting because no matter how macroeconomic conditions have changed since the BCI began in September 2011, while indices such as profits and inventories have fluctuated dramatically, as has the overall BCI, three indices have been stable throughout: costs, investment and recruitment.

Figure 10 Investment Index


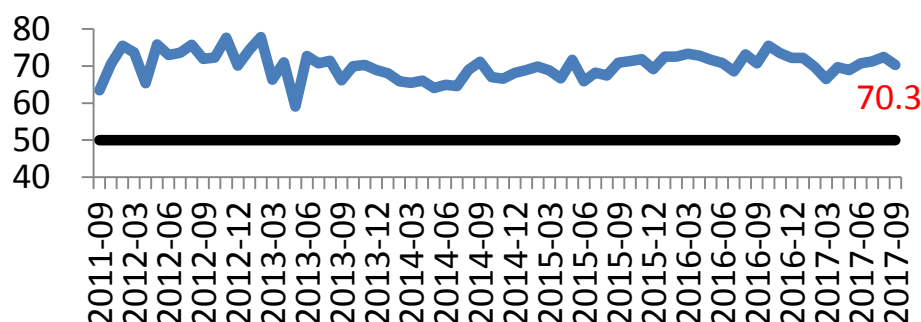
Source: CKGSB Case Center and Center for Economic Research

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 the companies of CKGSB alumni, their competitiveness is consistently higher than the average (50 points) in their respective industries. This is a significant point, because it means that the majority of firms in the Chinese economy will experience worse prospects than those forecast by the BCI.

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 – called an index of business conditions.

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. Since then, from May 2012 to September 2017, 65 consecutive monthly BCI reports have been published.

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

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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.

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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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