

CKGSB BCI

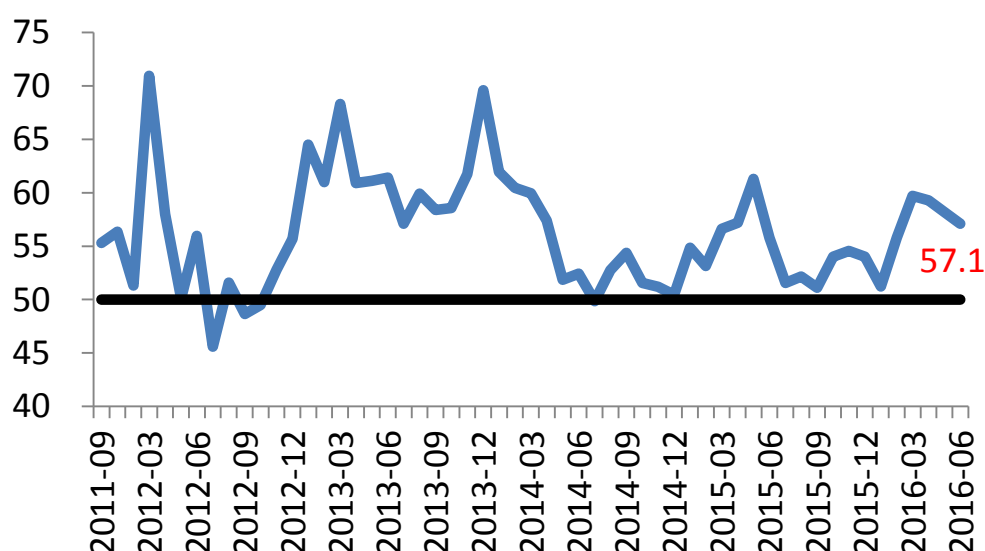
June 2016

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CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 57.1 in June, slightly less than May's overall index of 58.2. Despite this small dip, this shows that for CKGSB's sample, of which the majority are relatively successful businesses in China, the next six months are viewed with a degree of optimism.

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, the corporate financing environment and inventory levels. All four of these sub-indices fell slightly in June.

	Corporate sales	Corporate profits	Financing environment	Inventory levels
May 2016	71.8	62.3	47.5	49.4
June 2016	70.8	60.0	45.4	48.1

Source: CKGSB Case Center and Center for Economic Research

Apart from the main BCI, we examine expected costs, prices, investment and recruitment demand for the next six months. Labor costs fell slightly and overall costs expectations rose somewhat in June, with both recording indices of over 80. Prices of producer and consumer goods slipped, however, with the producer price index falling to 46.9 and the consumer goods index falling to 40.6, below the confidence threshold of 50. The data shows that Chinese firms are in financing

trouble with cost inflation growing apace while prices contract.

	Labor costs	Overall costs	Consumer prices	Producer prices
May 2016	84.3	82.3	47.3	40.6
June 2016	83.4	83.0	46.9	40.3

Source: CKGSB Case Center and Center for Economic Research

However, in the face of adversity, our 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; their competitiveness is consistently higher than the averages (50 points) for their respective industries.

	Corporate Investment	Recruitment demand	Industry competitiveness*
May 2016	67.6	69.9	71.7
June 2016	64.3	71.2	70.8

*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, with sales and other sub-indices not performing well, but the magnitude of these falls was slight. 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, no evidence of this has been seen. Even more interesting is that companies have continued to recruit and invest, both seemingly contradictory strategies given the overcapacity issue.

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

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, 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

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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.

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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.

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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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