

CKGSB BCI

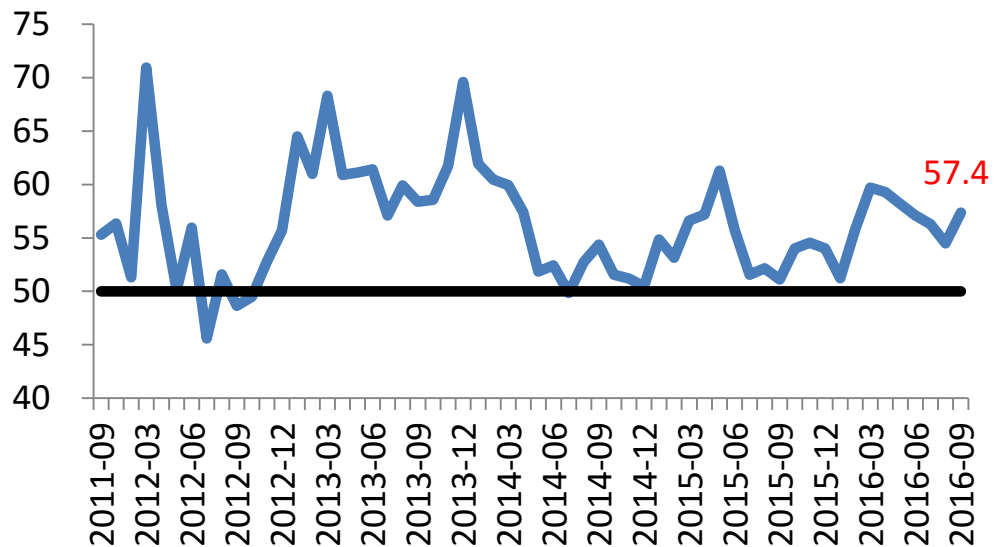
September 2016

8 October 2016

CKGSB Case Center and Center for Economic Research

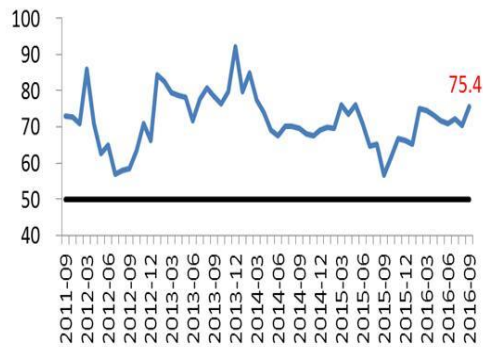
The CKGSB Business Conditions Index (BCI) registered 57.4 in September, a little up on last month's overall index of 54.5 (Figure 1). With this, the BCI has brought its downward trajectory since May to a end. For CKGSB's sample of relatively successful businesses operating in China, the next six months are viewed with increasing optimism.

Figure 1 Overall BCI

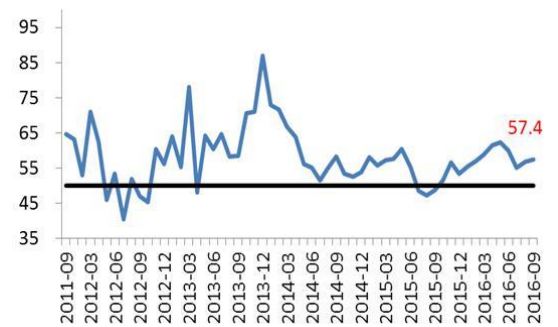


Source: CKGSB Case Center and Center for Economic Research

The BCI has now run for five years, so in order for readers to be able to reflect on this, September's report provides a more extended account of business conditions for Chinese companies. The CKGSB BCI comprises four sub-indices for corporate sales, corporate profits, corporate financing environment and inventory levels, all measuring prospects except financing environment which measures current situation.

Figure 2 Corporate Sales Index


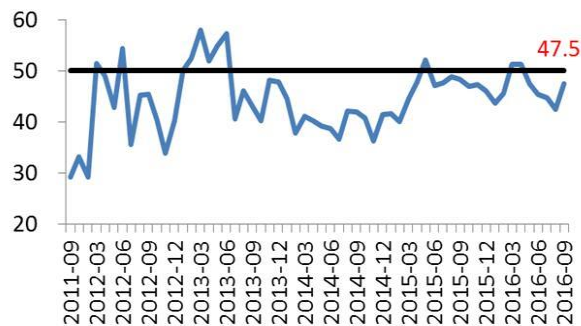
Source: CKGSB Case Center and Center for Economic Research

Figure 3 Corporate Profit Index


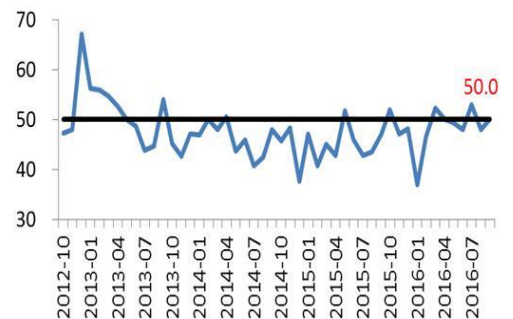
Source: CKGSB Case Center and Center for Economic Research

This month, all four of these sub-indices experienced a rise, some greater than others. Corporate sales rose from 70.4 to 75.4. profits index rose slightly this month. The other three fell slightly, with the inventory index registering below 50 once again.

Corporate profits rose from 56.8 to 57.4. Both of these rising shows that company prospects are improving.

Figure 4 Corporate Financing Environment Index


Source: CKGSB Case Center and Center for Economic Research

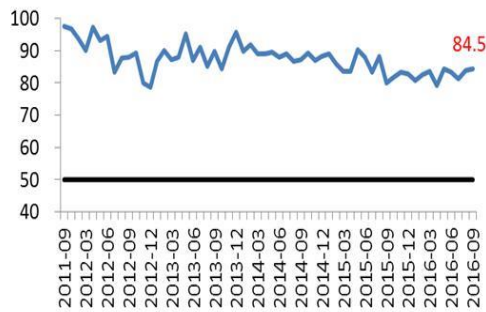
Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

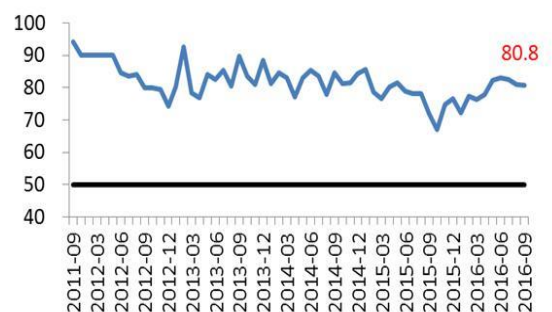
The financing environment index also improved this month, from 42.5 to 47.5, but still remains below the confidence threshold of 50. From Figure 4, we can see that the financing environment for the BCI sample is not good, and as the sample consists mainly of the leading powerhouses of the economy, SMEs, this is a critical issue for economic reforms going forward.

The inventory index rose from 47.9 to 50.0, resting on the confidence threshold. This remains a big issue for the economy, shown by mainly registering below the confidence threshold over the past five years.

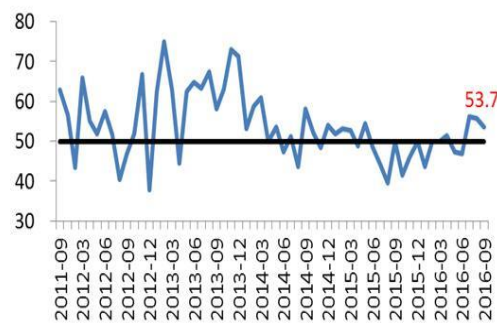
Apart from the main BCI, we forecasted costs, prices, investment and recruitment demand for the next six months. Firstly, on the costs side, labor and overall costs indices remained above 80, with the former at 84.5 and the latter at 80.8. Figures 6 and 7 show that China's cost problems are structural rather than cyclical.

Figure 6 Labor Costs Index


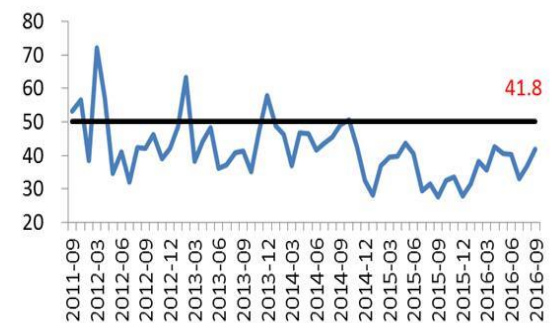
Source: CKGSB Case Center and Center for Economic Research

Figure 7 Overall Costs Index


Source: CKGSB Case Center and Center for Economic Research

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

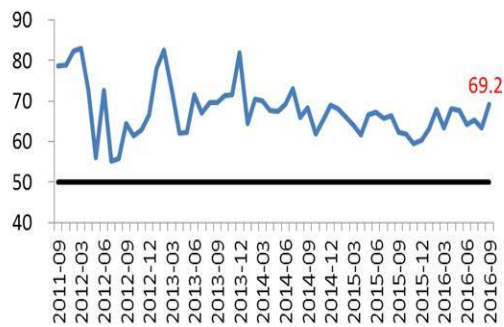
The consumer prices index dropped somewhat in September, from 55.7 to 53.7, remaining above the confidence threshold, while the producer prices index rose somewhat from 36.8 to 41.8 this month.

From our survey, it appears that the consumer price index is still performing strongly, but that the outlook for producer prices is in the doldrums. However, in the last two months, producer prices have rebounded and we believe this is on the back of government stimulus and general economic recovery.

We turn now to investment and recruitment. Although investment and recruitment confidence levels have never reached the peaks of the cost indices, they have stayed consistently at the higher end of the scale. This month's investment index is 69.2 and the recruitment index is 68.8. No matter the macroeconomic conditions have changed since we began recording the BCI in September 2011, while some indices have fluctuated dramatically, three have been stable and relatively unchanging over the years: costs, investment and recruitment.

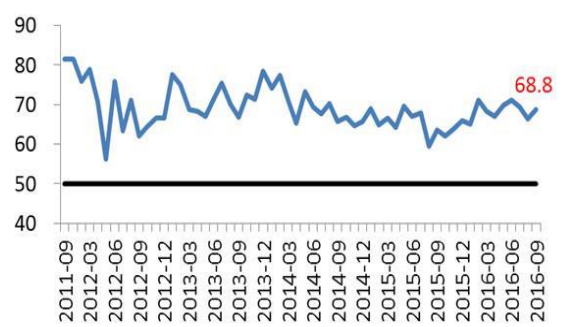
We are uncertain as to how to interpret this, but find it interesting and worth ongoing reflection that while companies face difficult conditions, they continue to grow and invest.

Figure 10 Investment Index



Source: CKGSB Case Center and Center for Economic Research

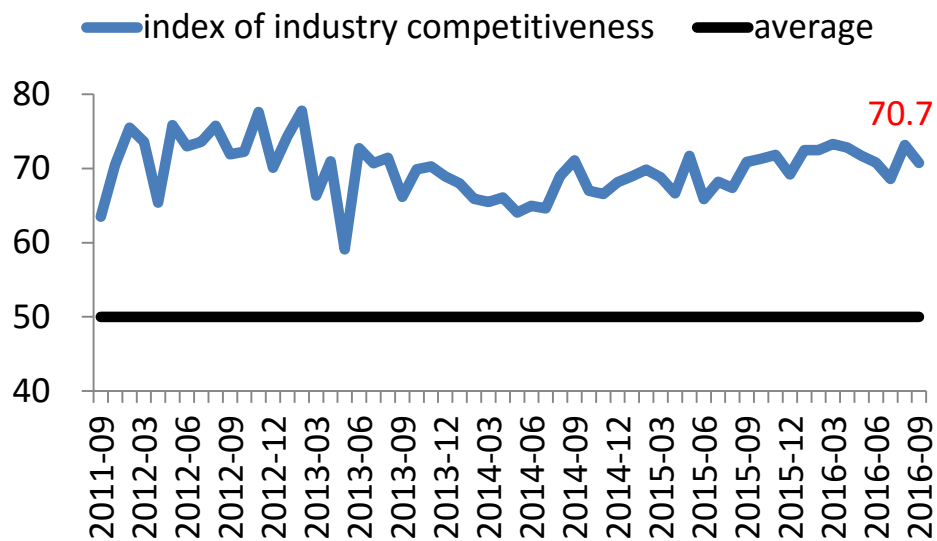
Figure 11 Recruitment Index



Source: CKGSB Case Center and Center for Economic Research

Finally, we include an index of industry competitiveness to reflect our sample's relative strength in the market. In September 2016, the sample, mostly comprising CKGSB alumni, registered 70.7, and their competitiveness is consistently higher than the average (50 points) for their respective industries. Average companies will be experiencing worse prospects overall.

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, 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.

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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