

CKGSB BCI

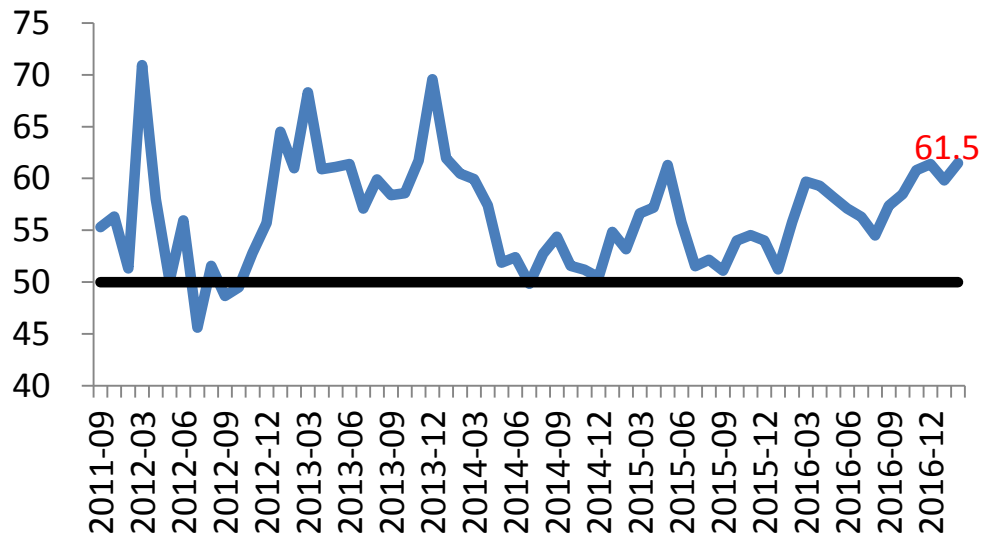
February 2017

1 March 2017

CKGSB Case Center and Center for Economic Research

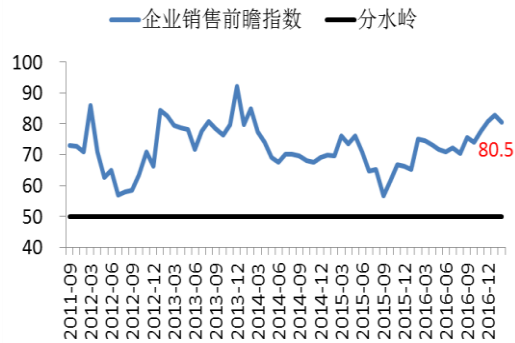
The CKGSB Business Conditions Index (BCI) registered 61.5 in February 2017, a slight increase on January's mark of 59.8 (Figure 1). For CKGSB's sample of successful businesses operating in China, optimism about prospects over the next six months still holds for the majority.

Figure 1 Overall BCI

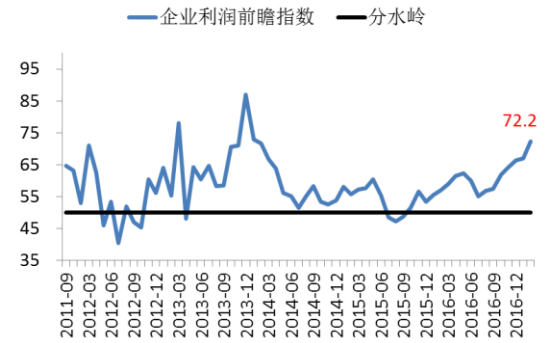


Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises four sub-indices for corporate sales, corporate profits, corporate financing environment and inventory levels, all measuring future prospects except for the financing environment, which measures the current situation. We will now turn to February's readings of these sub-indices:

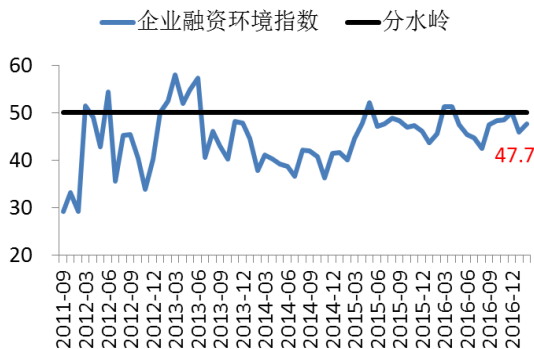
Figure 2 Corporate Sales Index


Source: CKGSB Case Center and Center for Economic Research

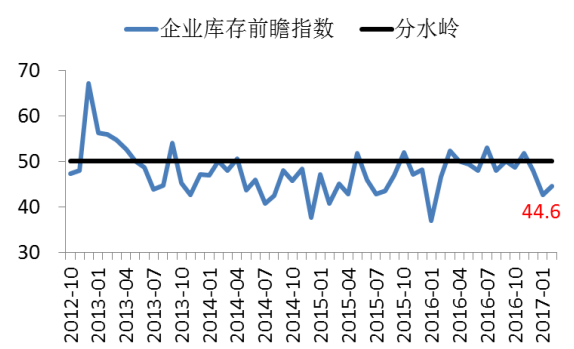
Figure 3 Corporate Profit Index


Source: CKGSB Case Center and Center for Economic Research

This month, three of the sub-indices rose and one fell. The corporate sales index fell from 82.7 to 80.5 (Figure 2), and the corporate profits index rose from 67.0 to 72.2 (Figure 3).

Figure 4 Corporate Financing Index


Source: CKGSB Case Center and Center for Economic Research

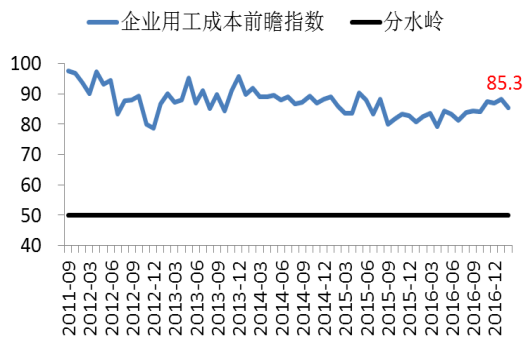
Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

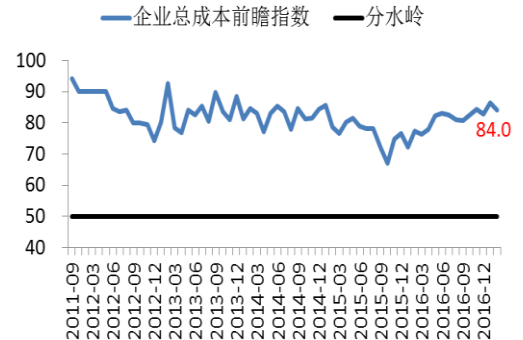
The financing environment index rose marginally from 46.0 to 47.7, but still remaining below the confidence threshold. We can see from Figure 4 that the financing environment for the BCI sample has been consistently less than optimal, and, given that our sample consists mainly of the leading powerhouses in the economy – SMEs – this is a critical issue to address in future economic reforms.

Rising from 42.6 to 44.6 in February, the inventory index has been in the doldrums almost since the start of the index, revealing an important long-term issue that China needs to address.

Apart from the main BCI, we forecast costs, prices, investment and recruitment demand for the next six months.

Figure 6 Labor Costs Index


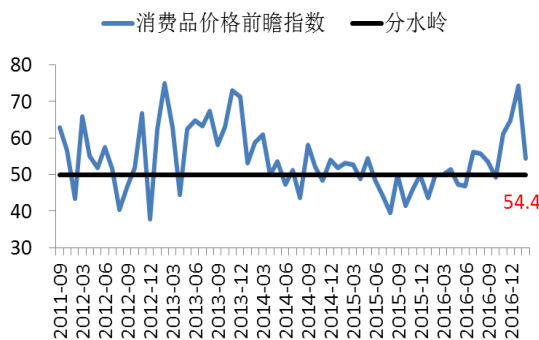
Source: CKGSB Case Center and Center for Economic Research

Figure 7 Overall Costs Index


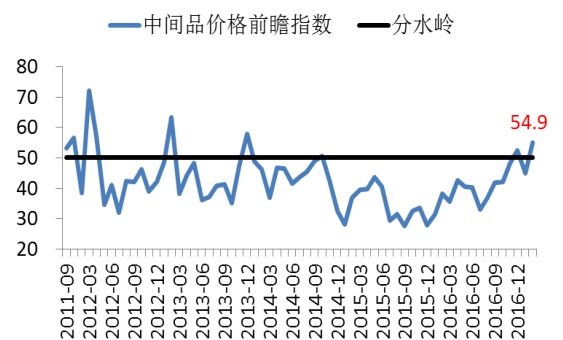
Source: CKGSB Case Center and Center for Economic Research

Firstly, on the costs side, the labor and overall costs indices remained above 80, with the former at 85.3 and the latter at 84.0. Neither index has ever fallen low, nor is either likely to in the near future. Explaining this is not straightforward. Figures 6 and 7 show China's cost issue in numbers for the past five years.

Looking at prices, the consumer prices index plummeted in February, from 74.3 to 54.4, almost 20 points (Figure 8). In the past several months, this index has seen notable swings of a sort rarely seen in this survey in recent years. It is unclear whether or not these movements are related to shifts in consumer product prices over the Chinese New Year period. The producer prices index rose significantly this month, from 45.0 to 54.9, a leap of almost ten points. This is related to the recovery of heavy industry (Figure 9).

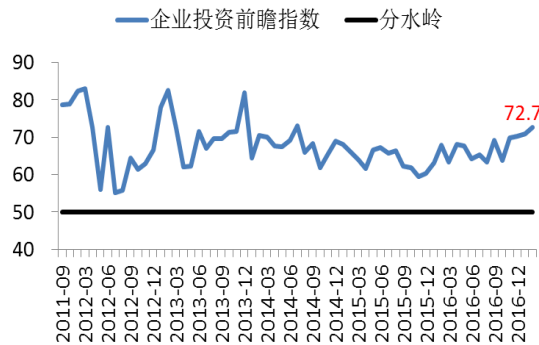
Figure 8 Consumer Prices Index


Source: CKGSB Case Center and Center for Economic Research

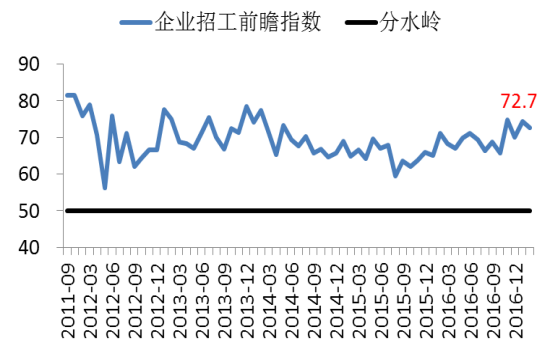
Figure 9 Producer Prices Index


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 cost indices, they have stayed consistently at the higher end of the scale. This month's investment index rose to 72.7 (Figure 10), and the recruitment index rose to 72.7 (Figure 11). These indices are interesting because, no matter how macroeconomic conditions have changed since we began recording the BCI in September 2011, while indices such as profits and inventories have fluctuated dramatically, as has the overall BCI, three have been stable and relatively unchanged: costs, investment and recruitment.

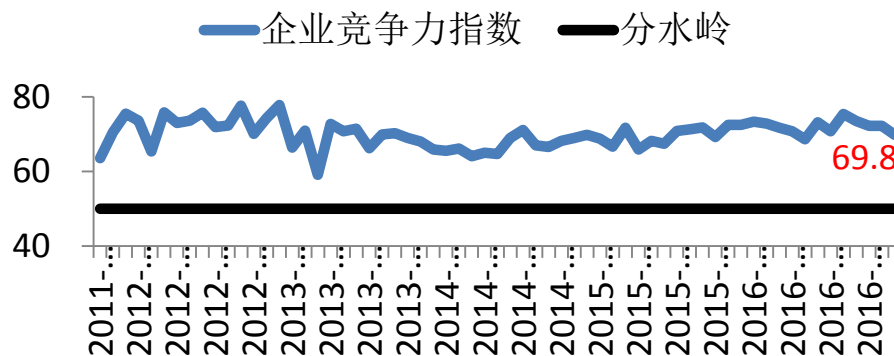
Figure 10 Investment Index


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 the sample's competitiveness over time. As our sample mostly comprises the companies of CKGSB alumni, their competitiveness is consistently higher than the average (50 points) for their respective industries, so it is worth keeping in mind that average companies in China 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 February 2017, the research team has produced 58 monthly 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 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.

The Research Team

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