

CKGSB BCI

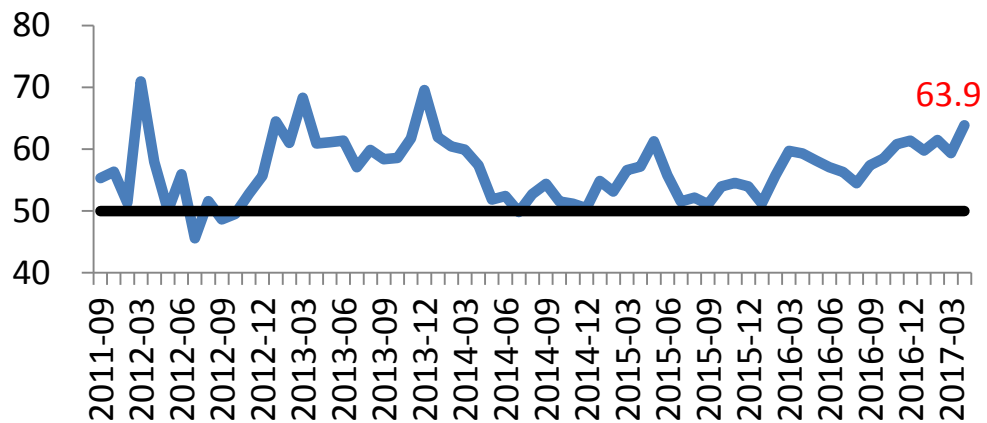
May 2017

5 May 2017

CKGSB Case Center and Center for Economic Research

The Business Conditions Index (BCI) registered 63.9 in April 2017, an increase on March's index of 59.4 (Figure 1). With the figure staying above the confidence threshold of 50, this shows most sampled firms are optimistic about prospects for the next six months.

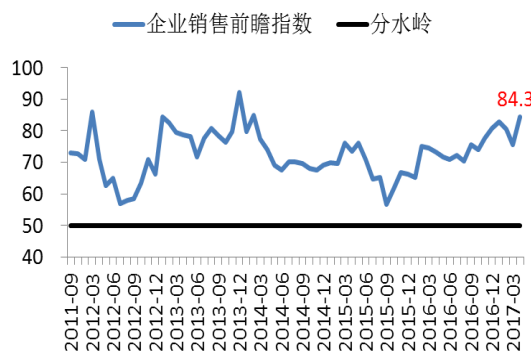
Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

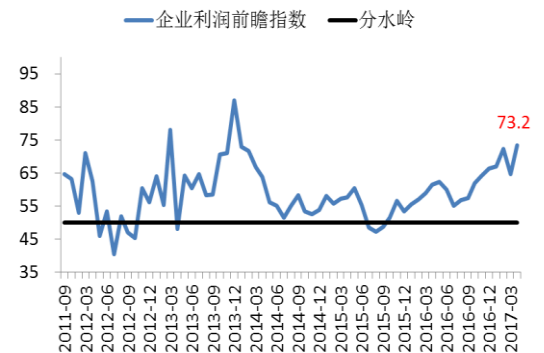
The CKGSB BCI comprises four sub-indices for corporate sales, corporate profits, corporate financing environment and inventory levels, all measuring future prospects except for the financing environment, which measures the current situation. In April, these read as follows:

Figure 2 Corporate Sales Index



Source: CKGSB Case Center and Center for Economic Research

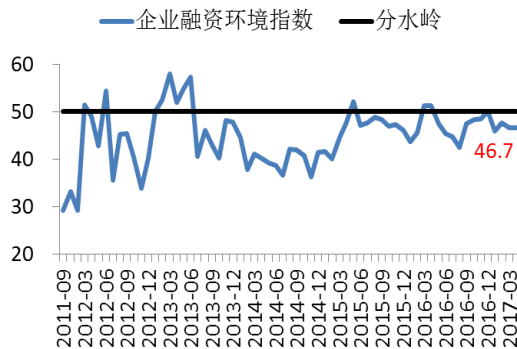
Figure 3 Corporate Profit Index



Source: CKGSB Case Center and Center for Economic Research

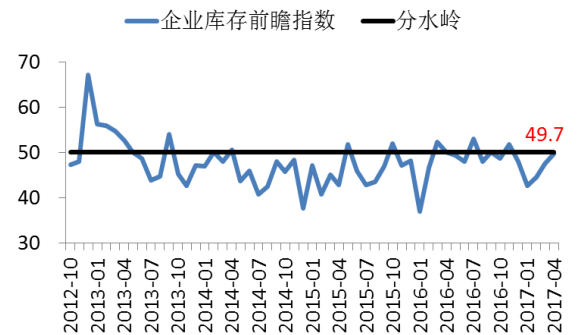
This month, three of the sub-indices rose and one remained level. The corporate sales index rose from 75.4 to 84.3 (Figure 2), and the corporate profits index rose from 64.6 to 73.2 (Figure 3).

Figure 4 Corporate Financing Index



Source: CKGSB Case Center and Center for Economic Research

Figure 5 Inventory Index



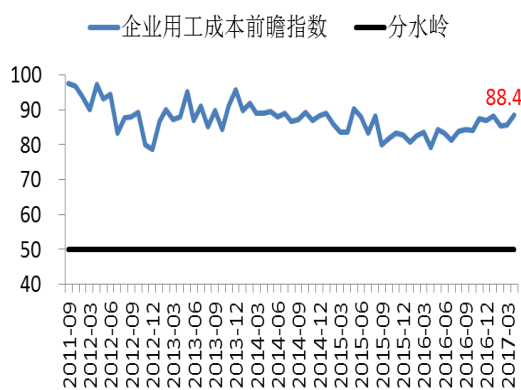
Source: CKGSB Case Center and Center for Economic Research

The financing environment index was level at 46.7, still below the confidence threshold. We can see from Figure 4 that the financing environment index has been consistently low for the companies run by CKGSB alumni, and, given that our sample consists mainly of China's leading economic powerhouses – SMEs – this is a critical issue that future reforms need to address.

Rising from 47.5 to 49.7 in April (Figure 5), inventory levels reflected in this index have also been a long-term problem. The index has mostly dwelled below the confidence threshold of 50 since we started to monitor this area.

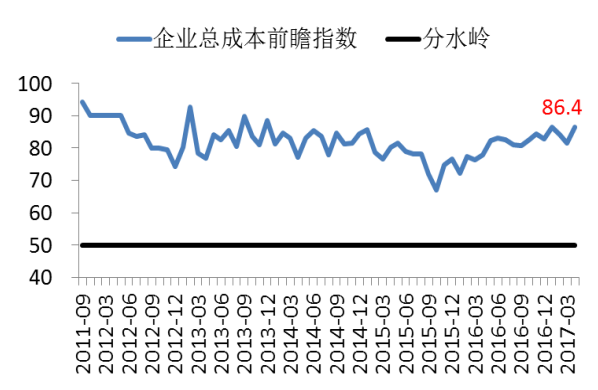
Apart from the main BCI, we forecast costs, prices, investment and recruitment demand for the next six months:

Figure 6 Labor Costs Index



Source: CKGSB Case Center and Center for Economic Research

Figure 7 Overall Costs Index



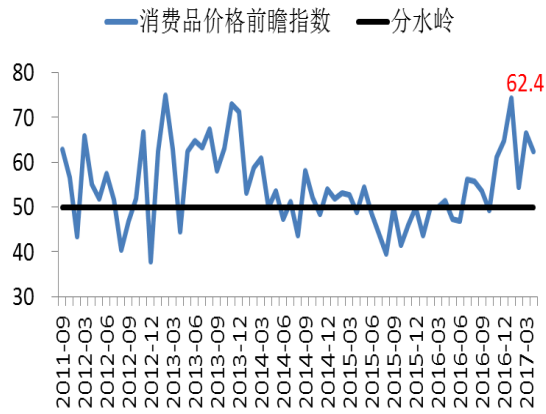
Source: CKGSB Case Center and Center for Economic Research

On the costs side, labor and overall costs indices remained above 80, with the former at 88.4 and the latter at 86.4. Neither index has ever fallen very far, nor are they likely to in the foreseeable future. How to interpret this is an interesting question. For specific statistics, see Figures 6 and 7.

Turning to prices, the consumer prices index fell from 66.4 in March to 62.4 in April (Figure 8). Meanwhile, the producer prices index moved a little in April from 51.1 to 53.2, remaining just

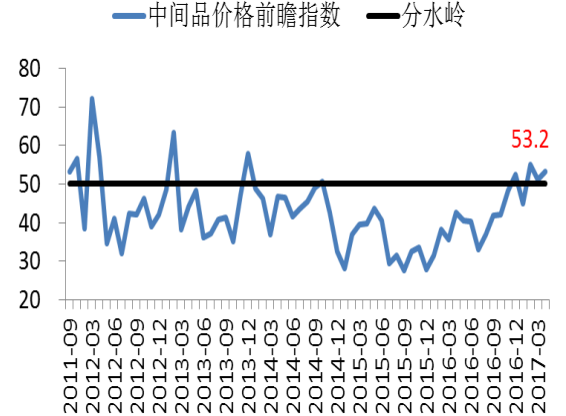
above the confidence threshold (Figure 9).

Figure 8 Consumer Prices Index



Source: CKGSB Case Center and Center for Economic Research

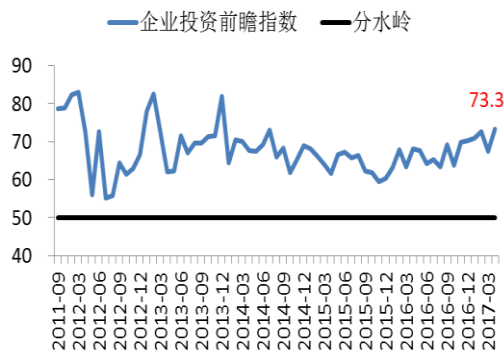
Figure 9 Producer Prices Index



Source: CKGSB Case Center and Center for Economic Research

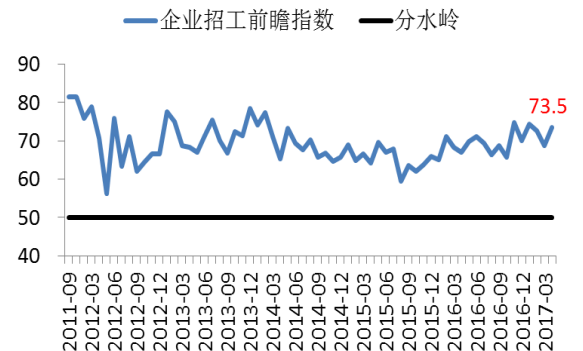
We turn now to the important topics of investment and recruitment. Although investment and recruitment confidence levels have never reached the peaks of the costs indices, they have stayed consistently at the higher end of the scale. This month's investment index was 73.3 (Figure 10), while the recruitment index 73.5 (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

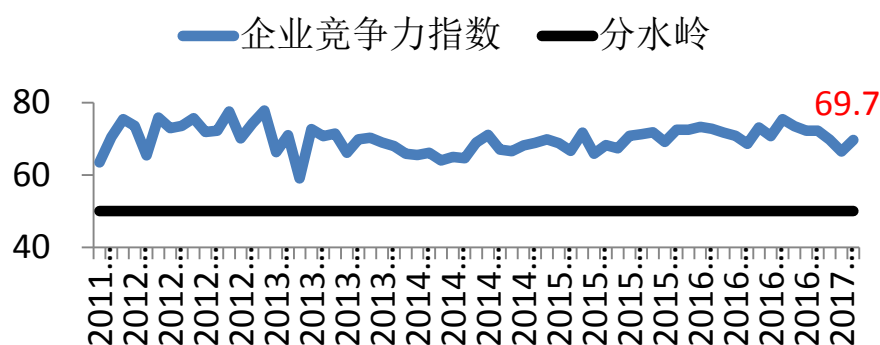
Figure 11 Recruitment Index



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 means that averagely-performing firms will be experiencing worse prospects.

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 April 2017, 60 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.

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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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