

CKGSB BCI

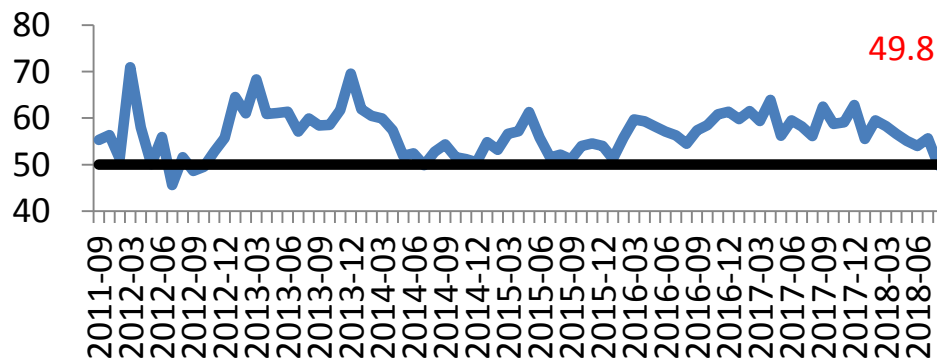
August 2018

26 August 2018

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 49.8, a clear fall from July's index of 55.6 (Figure 1). Significantly, the BCI has now tipped below the confidence threshold, meaning that most sampled firms are now relatively pessimistic about business prospects for the next six months.

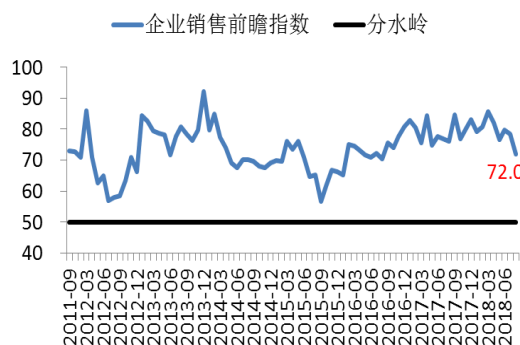
Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

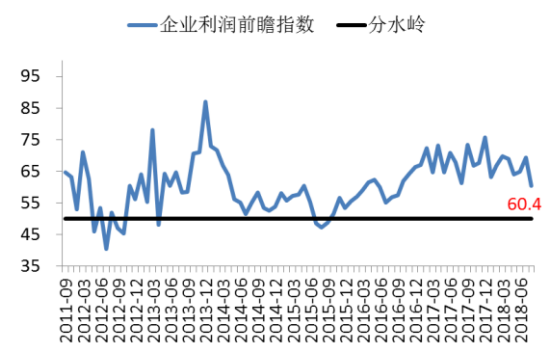
The CKGSB BCI comprises four sub-indices for corporate sales, corporate profits, corporate financing environment and inventory levels, three of which measure future prospects and one, the financing environment index, measures the current situation.

Figure 2 Corporate Sales Index



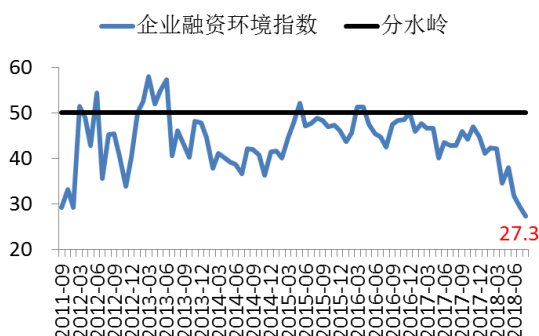
Source: CKGSB Case Center and Center for Economic Research

Figure 3 Corporate Profit Index

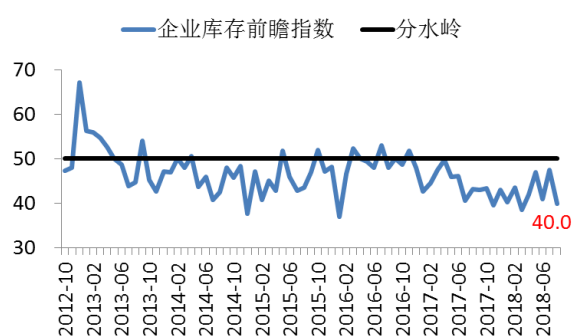


Source: CKGSB Case Center and Center for Economic Research

This month, all these four indices fell to varying degrees. The corporate sales index fell from last month's 78.5 to 72.0 (Figure 2), and the corporate profit index fell from 69.3 to 60.4 (Figure 3).

Figure 4 Corporate Financing Index


Source: CKGSB Case Center and Center for Economic Research

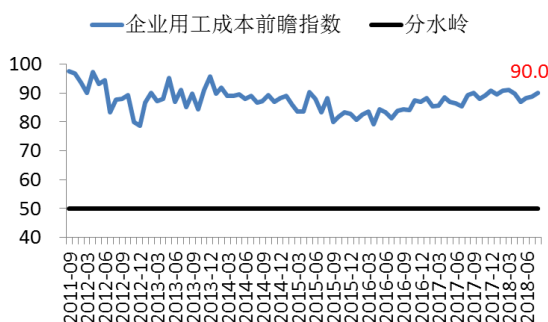
Figure 5 Inventory Index


Source: CKGSB Case Center and Center for Economic Research

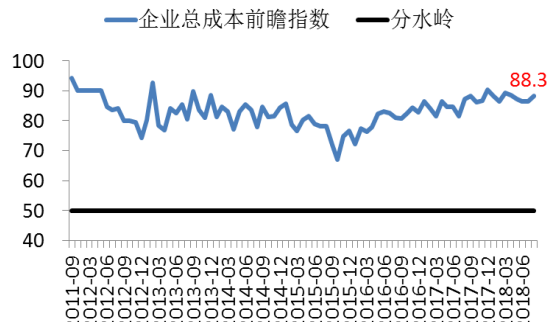
This month's financing environment index fell from 29.5 to 27.3, well below the confidence threshold. This is the lowest figure since the BCI began. Sampled businesses are now experiencing the most testing financing period for the last six years (Figure 4).

The inventory index dropped from 47.5 in July to 40.0 in August (Figure 5). This long term issue for the Chinese economy has been reflected in sub-50 indices for much of the time since the BCI survey began.

Aside from the main BCI, we also forecast costs, prices, investment and recruitment demand over the next six months. What about costs?

Figure 6 Labor Costs Index


Source: CKGSB Case Center and Center for Economic Research

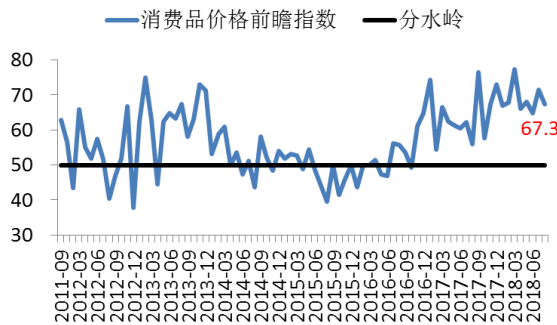
Figure 7 Overall Costs Index


Source: CKGSB Case Center and Center for Economic Research

Although overall business conditions are not great, labor and overall costs forecasts are still incredibly buoyant, with the former at 90.0 and the latter at 88.3. We have yet to see a downturn in either of these indices and do not expect one either, although it has been hard to put a finger on why. For detailed data, see Figures 6 and 7.

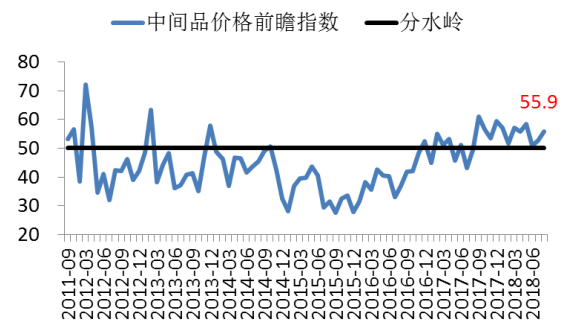
As for prices, this month the consumer prices index fell from 71.4 to 67.3 (Figure 8). The producer prices index rose again slightly from 52.8 to 55.9 (Figure 9).

Figure 8 Consumer Prices Index



Source: CKGSB Case Center and Center for Economic Research

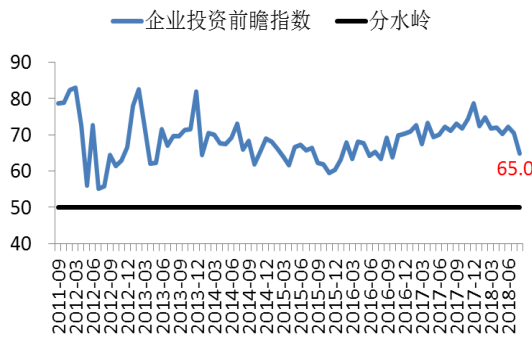
Figure 9 Producer Prices Index



Source: CKGSB Case Center and Center for Economic Research

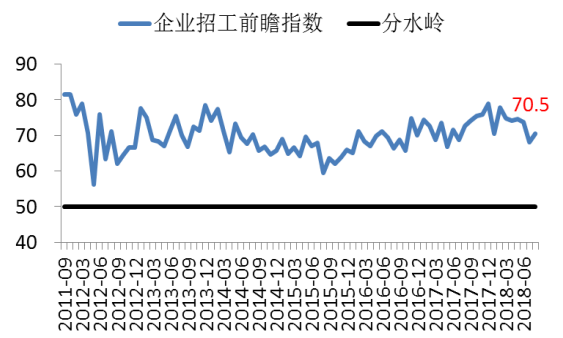
We now turn to investment and recruitment. Although the investment and recruitment indices have never reached the heights of the costs indices, they have stayed at the more confident end of the scale. This month's investment index is 65.0 (Figure 10), and the recruitment index is 70.5 (Figure 11). These indices are interesting because no matter how macroeconomic conditions have changed since the BCI began in September 2011, while profit and inventory indices 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

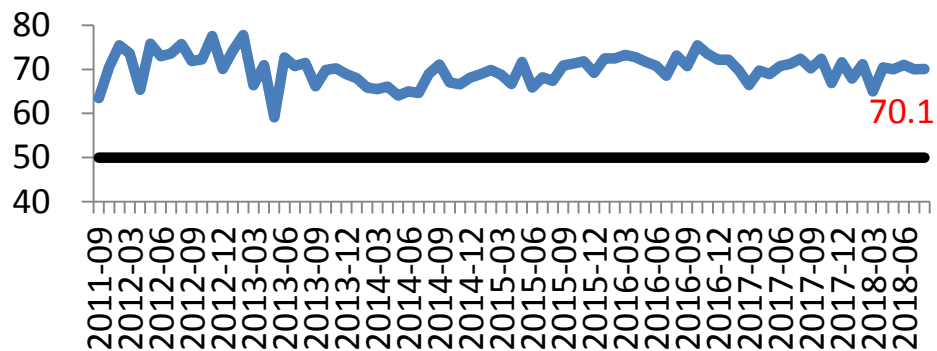
Figure 11 Recruitment Index



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 of the companies of CKGSB alumni, their competitiveness is consistently higher than the average (50 points) in their respective industries. This means that lower 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 – calling it a business conditions index.

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. 80 surveys have been completed in total and 76 monthly reports have been published between May 2012 and August 2018.

Explanation of the Index

The CKGSB Business Conditions Index (CKBCI) is a set of forward-looking diffusion indicators. The index takes 50 as its threshold, so an 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 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 used 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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The Research Team

Li Wei - CKGSB Economics Professor; Director, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3235 wli@ckgsb.edu.cn

Yan Yang – Assistant Director, CKGSB Case Center

+86 10 8537 8479 yanyang@ckgsb.edu.cn

Gu Chongqing - Senior Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8518 8858 ext. 3336 cqgu@ckgsb.edu.cn

Zhu Yunhai – Senior Researcher, CKGSB Case Center and Center for Economic Research

+86 10 8537 8467 yhzhu@ckgsb.edu.cn

Xiaoyu Wang – Research Assistant, CKGSB Case Center and Center for Economic Research

cc-pt@ckgsb.edu.cn

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