

# CKGSB BCI

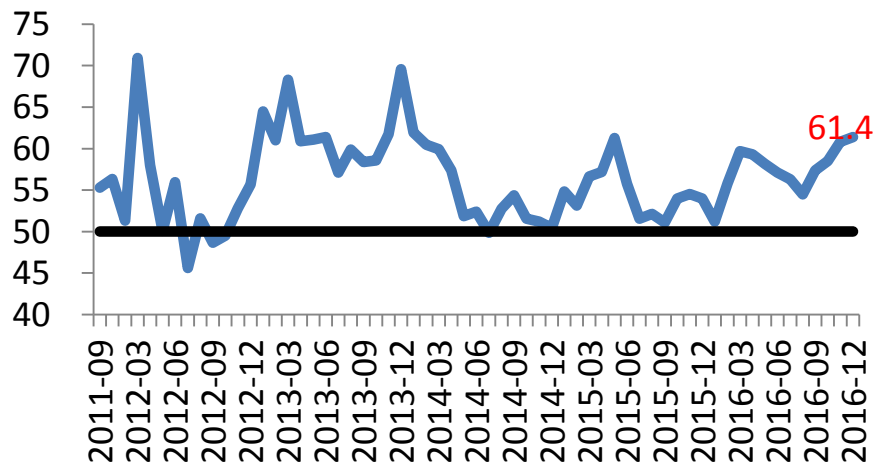
December 2016

10 January 2016

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index (BCI) registered 61.4 in December, a slight improvement on November's overall index of 60.8 (Figure 1). For four months now the BCI has been climbing, which shows that for CKGSB's sample of relatively successful businesses operating in China, optimism about prospects over the next six months is continuing to grow.

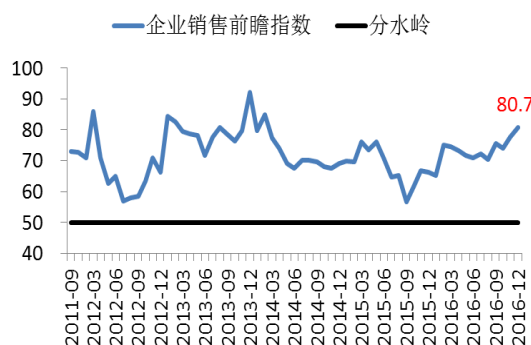
**Figure 1 Overall BCI**



Source: CKGSB Case Center and Center for Economic Research

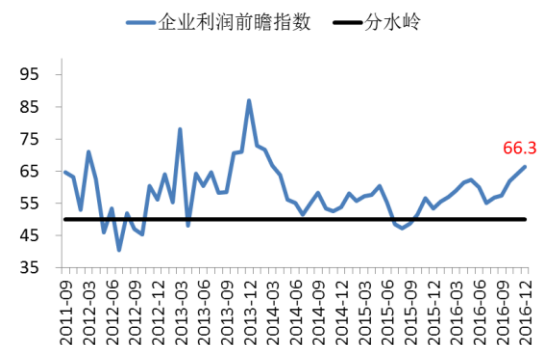
The CKGSB BCI comprises four sub-indices for corporate sales, corporate profits, corporate financing environment and inventory levels, all measuring future prospects except for the financing environment, which measures the current situation. We will now turn to December's readings for these sub-indices:

**Figure 2 Corporate Sales Index**



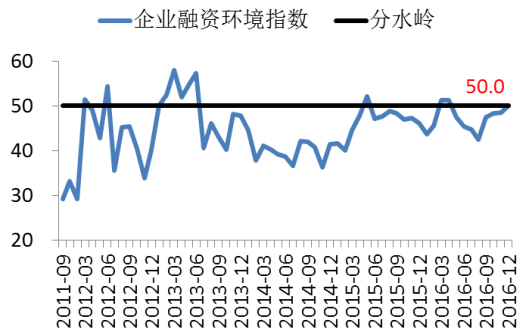
Source: CKGSB Case Center and Center for Economic Research

**Figure 3 Corporate Profit Index**

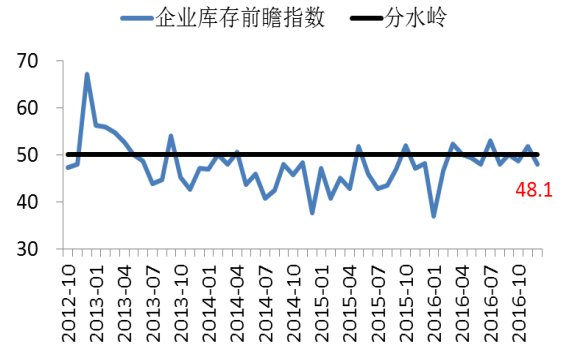


Source: CKGSB Case Center and Center for Economic Research

This month, three of these four sub-indices rose. Of these, corporate sales rose from 77.5 to 80.7, while corporate profits rose from 64.3 to 66.3.

**Figure 4 Corporate Financing Index**


Source: CKGSB Case Center and Center for Economic Research

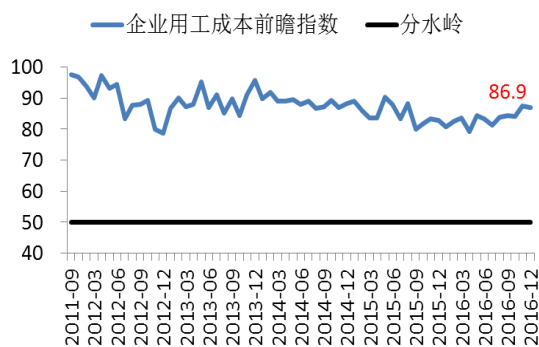
**Figure 5 Inventory Index**


Source: CKGSB Case Center and Center for Economic Research

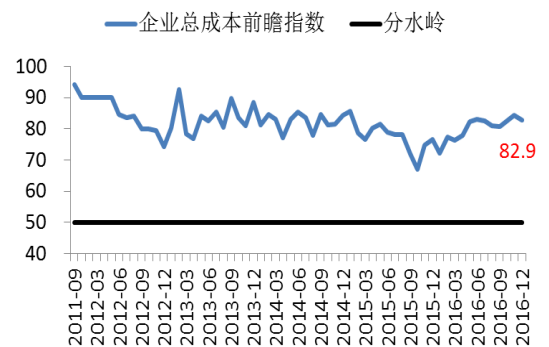
The financing environment index rose to 50 in December, on the confidence threshold. From Figure 4, we can see that the financing environment for the BCI sample is less than optimal, and, given that our sample consists mainly of the leading powerhouses in the economy, SMEs, this is a critical issue for economic reforms going forward.

Registering 48.1, the inventory index fell below the confidence marker again this month. Inventory levels have hovered around this point often over the past few months.

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**


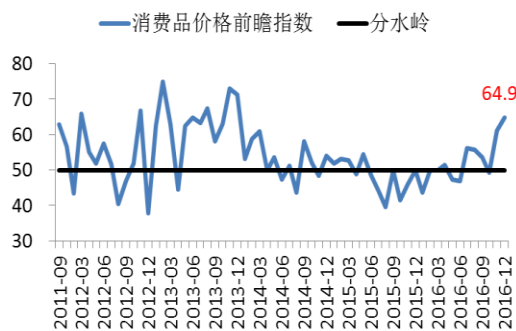
Source: CKGSB Case Center and Center for Economic Research

Firstly, on the costs side, labor and overall costs indices remained above 80, with the former at 86.9 and the latter at 82.9. 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 rose in December, from 61.1 to 64.9. Although most people believe inflationary pressure will be minimal this year, our data shows that expectations of inflation ahead are taking shape.

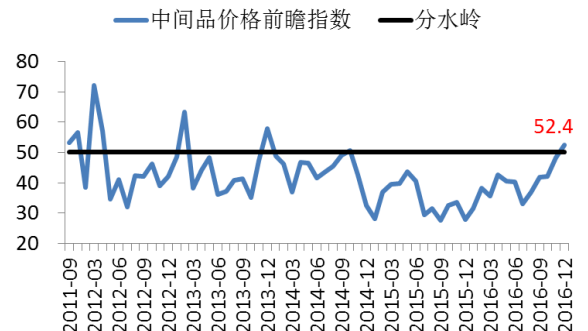
The producer prices index shows an important shift this month, breaking through the confidence threshold of 50. The last time the producer prices index registered such positive prospects was in October 2014. This is in keeping with brighter prospects for heavy industry prices.

Figure 8 Consumer Prices Index



Source: CKGSB Case Center and Center for Economic Research

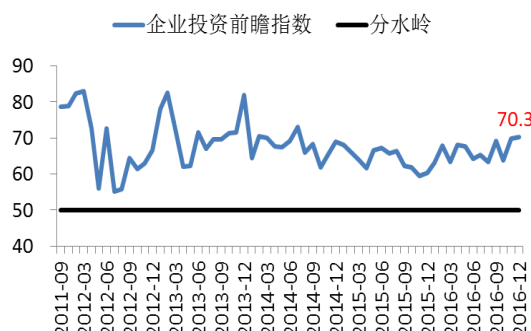
Figure 9 Producer Prices Index



Source: CKGSB Case Center and Center for Economic Research

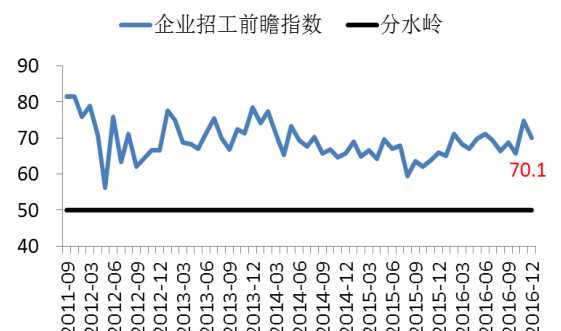
We turn now to the important topics of investment and recruitment. Although investment and recruitment confidence levels have never reached the peaks of the cost indices, they have stayed consistently at the higher end of the scale. This month's investment index rose to 70.3, and the recruitment index fell to 70.1. 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

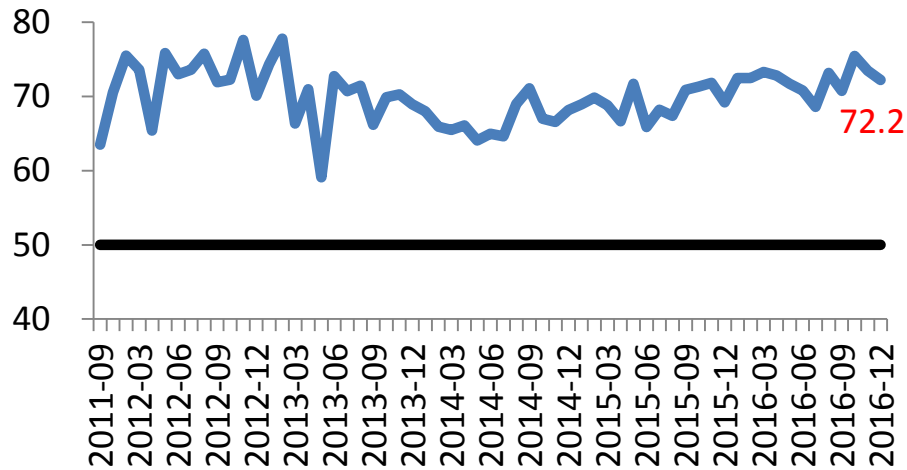
Figure 11 Recruitment Index



Source: CKGSB Case Center and Center for Economic Research

Finally, we include an index recording our sample's relative strength in the market. In December 2016, the sample, mostly comprising the companies of CKGSB alumni, registered 72.2. Their competitiveness is consistently higher than the average (50 points) for their respective industries, so it is worth remembering that 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 December 2016, the research team has undertaken 56 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.

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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 MBA, Finance MBA, Executive MBA, Business Scholars Program (DBA) 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.

#### **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**

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

+86 10 8518 8858 ext. 3235 wli@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](mailto:cqgu@ckgsb.edu.cn)

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