

# CKGSB BCI

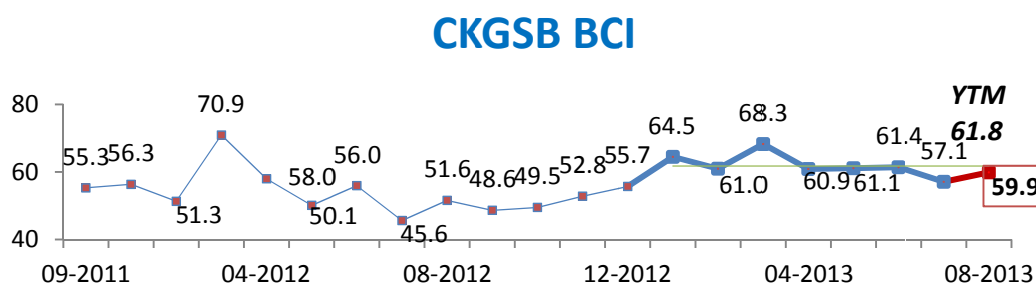
August 2013

1 September 2013

CKGSB Case Center and Center for Economic Research

On the basis of this month's survey of leading entrepreneurs in China, we release the CKGSB BCI for August 2013. The overall index, reporting 59.6, rose slightly on July's reading of 57.1 (see Graph 1). Since 50 is the threshold between a positive and negative outlook, the current index of nearly 60 means that the majority of our sample of comparatively successful business leaders operating in China are optimistic about business conditions over the next six months. Our data shows that China's macroeconomic situation is stabilizing.

**Graph 1**



Source: CKGSB Case Center and Center for Economic Research

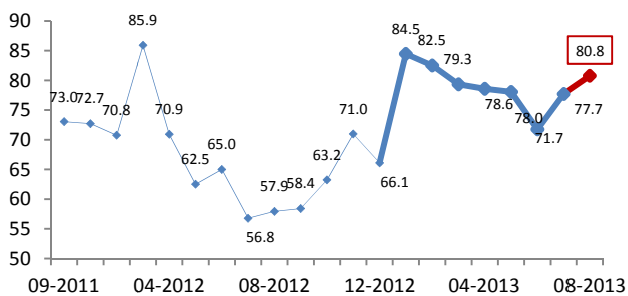
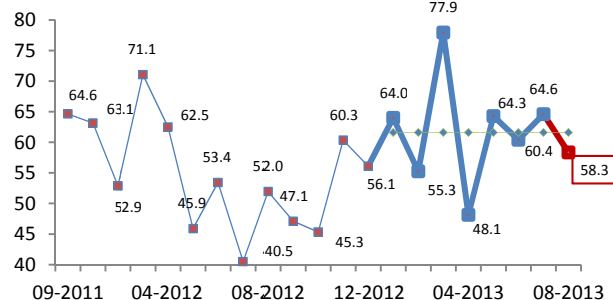
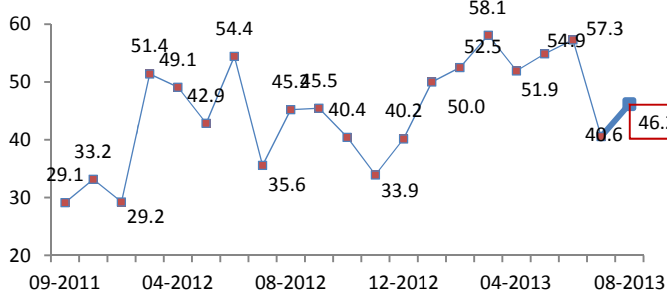
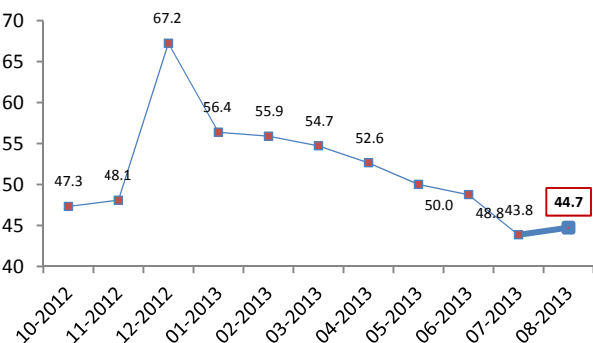
It is important to note that the CKGSB Business Conditions Index is generated wholly on the basis of statistics gathered from leading enterprises whose executives have studied or are studying at Cheung Kong Graduate School of Business. In the questionnaire we ask respondents to indicate whether their company is more, the same, or less, competitive than their industry average, and from this we derive an industry competitiveness index (see Graph 2). Consequently, as most of our sample firms are in a relatively strong competitive position in their respective industries, the CKGSB BCI indices are higher than government and industry PMI indices. Users of CKGSB BCI index may therefore focus on changes in the data over time to help them forecast trends in the Chinese economy.

**Graph 2**



Source: CKGSB Case Center and Center for Economic Research

The CKGSB BCI comprises four sub-indices that are forwarding looking indicators for corporate sales, corporate profits, corporate financing environment, and inventory levels.

**Graph 3**
**Corporate Sales Index**

**Graph 4**
**Corporate Profit Index**

**Graph 5**
**Corporate Financing Index**

**Graph 6**
**Inventory Index**


Source: CKGSB Case Center and Center for Economic Research

Source: CKGSB Case Center and Center for Economic Research

The corporate sales index has risen for two consecutive months, bringing an end to a downward trend that set in earlier in 2013. As the data shows, the index for August has shifted upwards from 77.7 to 80.8 (see Graph 3). The corporate profit index is 6.3 points lower than in July, at 58.3 (see Graph 4). These two indices show that firms are not pessimistic about prospects for the next six months.

The corporate financing environment index has risen from 40.6 to 46.2 (see Graph 5), indicating that most companies believe there has been little significant difference in the ease of obtaining financing compared with the same time last year. As the majority of our sample comes from private firms, this mainly reflects the financing situation for the private sector.

The index measuring inventory levels has risen very slightly from 43.8 to 44.7, a level still below 50. This suggests that most companies expect inventory levels to not rise compared with the same period last year. The downward trend in 2013 with four consecutive months reading below 50 bears witness to Chinese firms' inventory reduction efforts that started last year (see Graph 6).

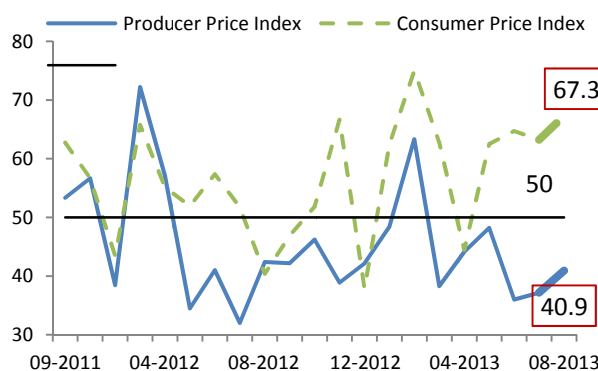
Besides the main BCI indices, we also surveyed respondents on forecasted costs, prices, investment plans and employment conditions, to form a supplementary set of indices. In August, upward pressure on costs eased somewhat. The labor cost index dropped from 91 to 85.2 and the overall cost index dropped from 85.4 to 80.4 (see Graph 7). Both costs indices are higher than 80, showing that most sample firms anticipate that costs will rise compared with the same period last year. The two price indices rose in August. The consumer price index rose from 63.2 to 67.3, a level that is higher than the average in the past 7 months. The producer price index reads 40.9 in August, which, although higher than in July, has remained below the threshold of 50 for five consecutive months (see Graph 8).

Graph 7



Source: CKGSB Case Center and Center for Economic Research

Graph 8

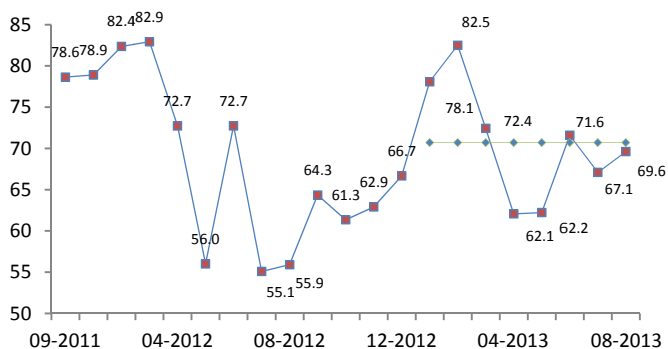


Source: CKGSB Case Center and Center for Economic Research

The corporate investment demand index rose from 67.1 to 69.6, showing that the majority of firms are planning to gain fixed assets in the next six months (see Graph 9). In terms of labor demand, the index dropped from 75.4 to 70 (see Graph 10). Although this reading is lower than for July, it remains above 60, showing that the majority of companies plan to recruit in the next six months.

Graph 9

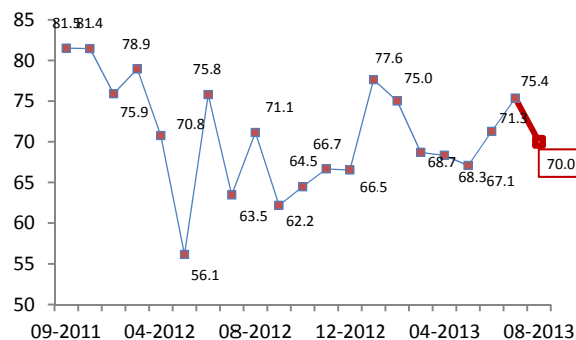
Corporate Investment Demand



Source: CKGSB Case Center and Center for Economic Research

Graph 10

Labor Demand Index



Source: CKGSB Case Center and Center for Economic Research

Overall, China's current macroeconomic trend is relatively stable. Although our sample firms remain optimistic, they also anticipate continued upward pressure on labor and overall costs. Inflation remains a significant risk in China over the longer term. Consumer prices are expected to continue to rise at a measured pace. While the rate of anticipated increase appears to have stabilized, inflationary pressures are still present given the anticipated increase in costs. However, softening of producer prices also suggests an ongoing issue with overcapacity. In short, China's economic restructuring still has miles to go.

## **Notes:**

### **CKGSB BCI Introduction**

In June 2011, CKGSB Case Center and 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. Since May 2012, the research team has published monthly BCI survey 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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### **Education for a New Era of Global Business**

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**

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### **Disclaimer**

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