

# CKGSB BCI

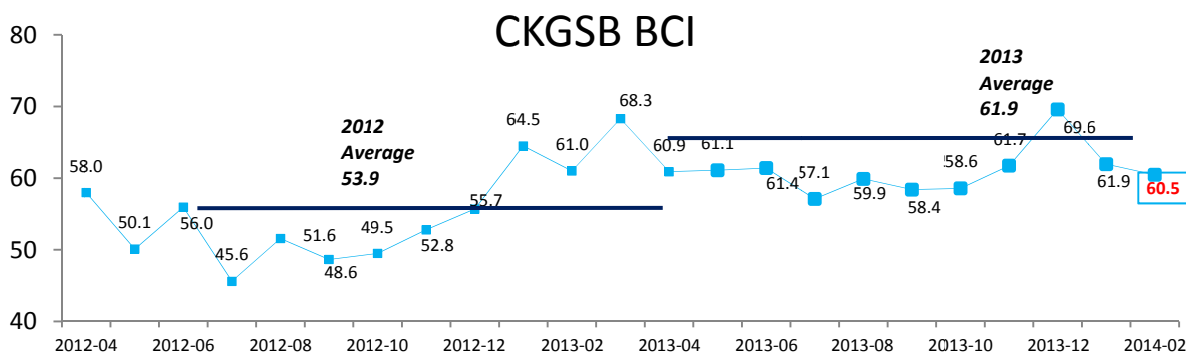
February 2014

26 February 2014

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index for February 2014 reads 60.5, registering a small drop on last month's index of 61.9 (see Graph 1). With 50 being the threshold between a positive and negative economic outlook, this reading shows that our sample of comparatively successful business leaders are relatively optimistic about business conditions. In overall macro-economic terms, China remains stable, but two consecutive months of decline in economic activities shows heightened risk ahead.

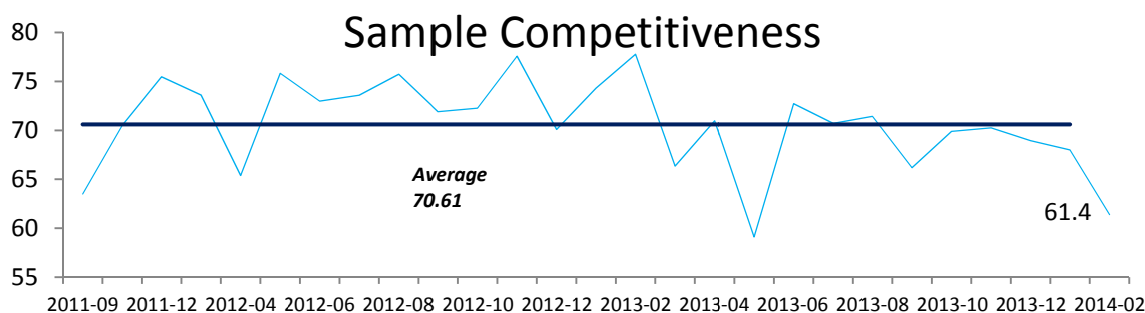
**Graph 1**



Source: CKGSB Case Center and Center for Economic Research

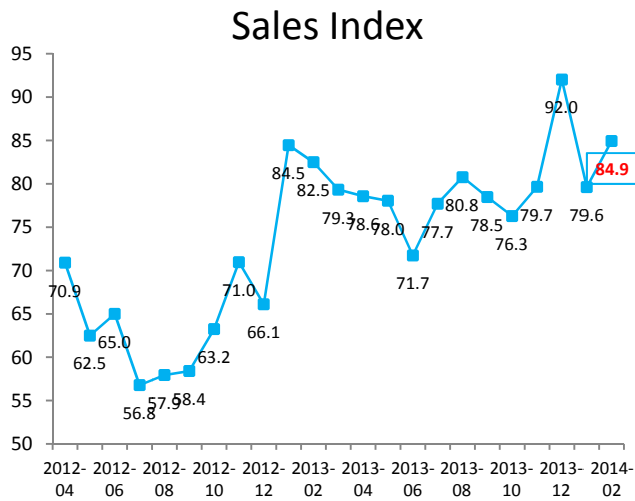
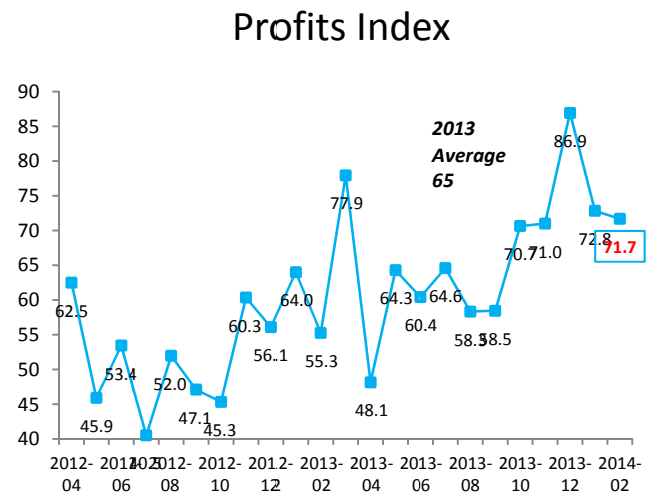
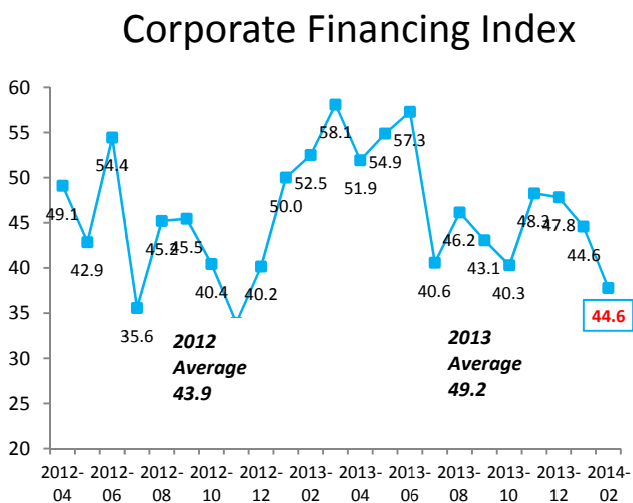
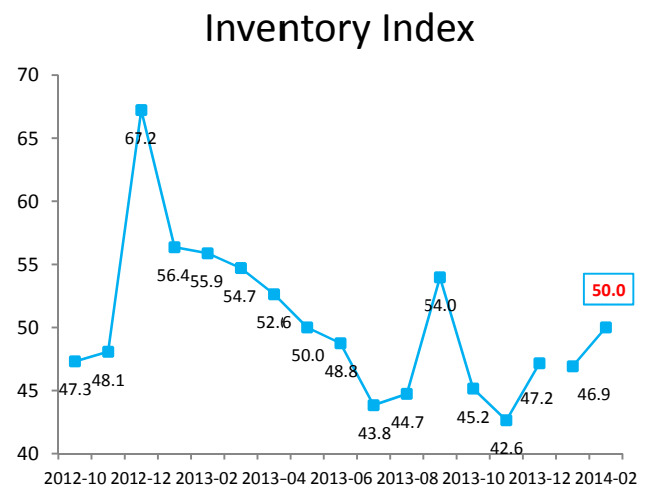
The CKGSB Business Conditions Index is generated wholly on the basis of statistics gathered from leading enterprises whose executives have studied or are studying at Cheung Kong Graduate School of Business. In the questionnaire we ask respondents to indicate whether their firm is more, the same, or less, competitive than the industry average (50), and from this we derive a sample competitiveness index (see Graph 2). Consequently, as 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 the CKGSB BCI index may therefore focus on data changes over time to 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 forward-looking indicators for corporate sales, corporate profits, corporate financing environment, and inventory levels.

**Graph 3**

**Graph 4**

**Graph 5**

**Graph 6**


Source: CKGSB Case Center and Center for Economic Research

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The corporate sales index registered 84.9, higher than last month by 5.3 points (see Graph 3). The corporate profit index registered 71.7 (see Graph 4), 1.1 points lower than last month but far higher than the confidence threshold of 50. These indices represent a degree of optimism in the forthcoming six month period.

The corporate financing environment continued to deteriorate this month with the index showing 37.8, lower than the confidence threshold (see Graph 5). This indicates that the financing outlook for the next six months is not good. As the majority of our sample run private firms, this mainly largely reflects financing issues in the

private sector.

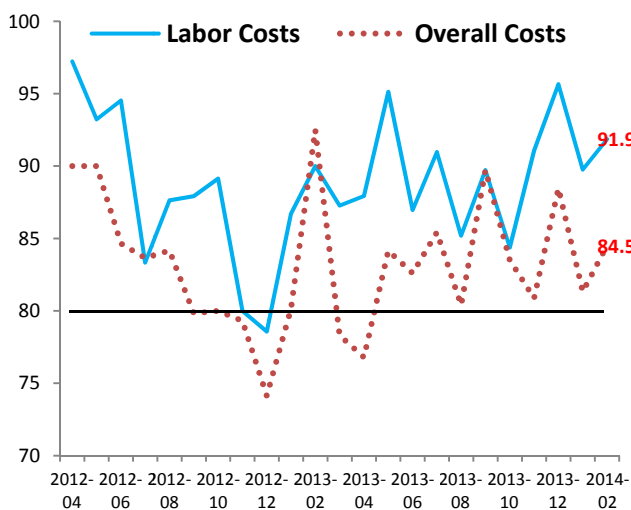
The index measuring inventory levels registered 50 in February, a 3.1 point improvement on last month's index and the first time since October 2013 that the index has reached the confidence threshold (See Graph 6).

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 February, labor costs and overall costs rose to 91.9 and 84.5 respectively (see Graph 7), both high level indices. These two costs indices are predictions of change in the upcoming six months, and show that the majority of sample firms expect costs will rise compared with last year.

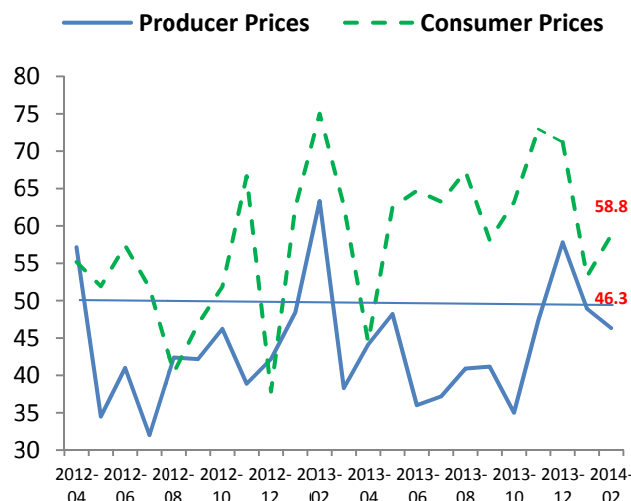
The consumer prices index rose 5.6 points to 58.8 (see Graph 8), showing that the trend for the forthcoming period is rising prices. Producer prices, affecting mainly manufacturers, dropped 2.6 points to 46.3, showing a relaxation of exposure on last month.

**Graph 7**



Source: CKGSB Case Center and Center for Economic Research

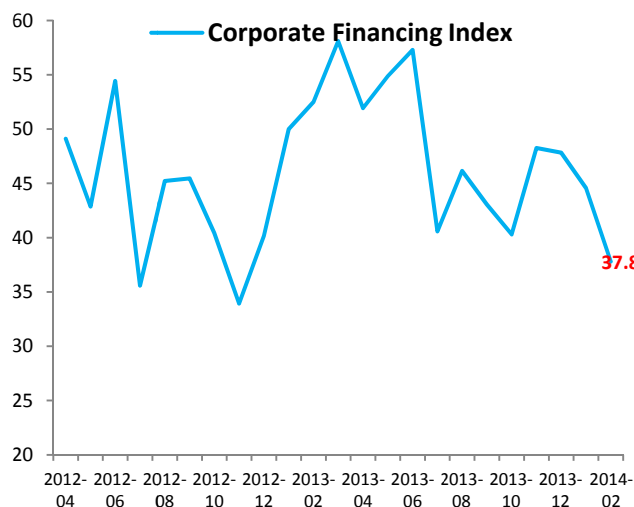
**Graph 8**



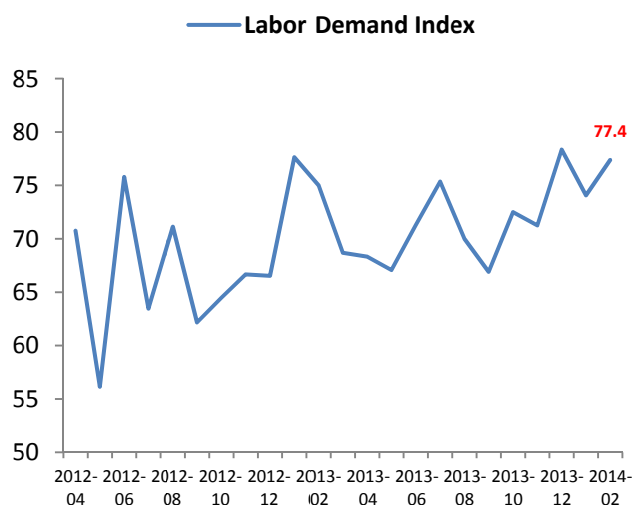
Source: CKGSB Case Center and Center for Economic Research

The corporate investment demand index registered 70.5 (see Graph 9), a figure 6.1 points higher than January and still higher than 50. This index shows that the majority of sampled firms still plan to invest in fixed assets in the next six months.

In terms of labor demand, the index registered 77.4 (see Graph 10). This shows that a majority of companies aims to expand their workforces in the next six months. However, because of the high cost of labor, it is likely that either corporate profit will be squeezed or costs will be passed on in the form of export inflation.

**Graph 9**


Source: CKGSB Case Center and Center for Economic Research

**Graph 10**


Source: CKGSB Case Center and Center for Economic Research

Based on this index, we can see that China’s business conditions have stabilized. Nonetheless, macroeconomic challenges this year will be considerable. Slowing GDP growth is not something that can be avoided, and massive monetary easing will be hard pressed to improve companies’ access to financing in the short term. Long term sluggish inventory reduction and high pressure on costs point to the long road ahead for China’s economic reform agenda.

### 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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#### **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.

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