

CKGSB BCI

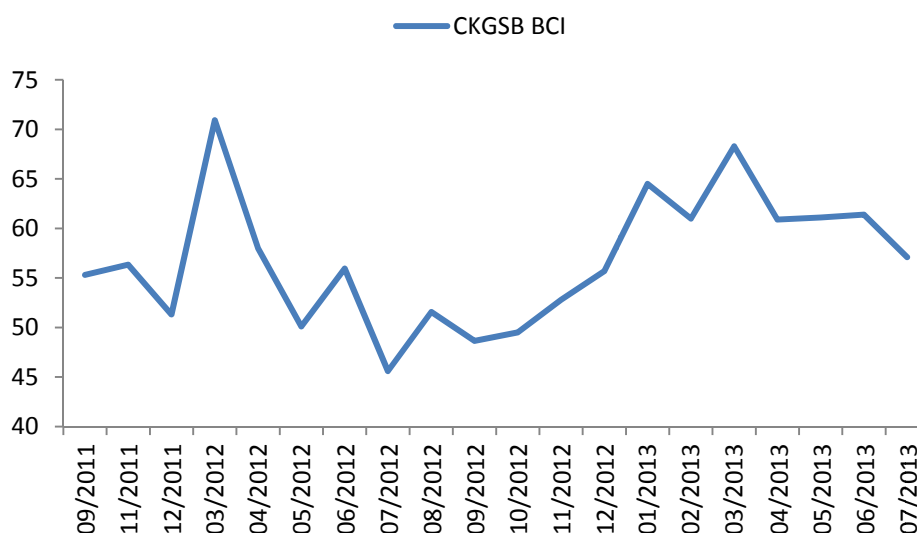
July 2013

1 August 2013

CKGSB Case Center and Center for Economic Research

On the basis on data collected from this month’s survey of leading entrepreneurs in China, we release the CKGSB BCI for July 2013. The overall index, reporting 57.1, dipped slightly from June’s index of 61.4 (see Graph 1). Since 50 is the threshold between a positive and negative index reading, these results show that the majority of our sample of comparatively successful businesses operating in China are currently not pessimistic regarding business conditions in the next six months.

Graph 1



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.

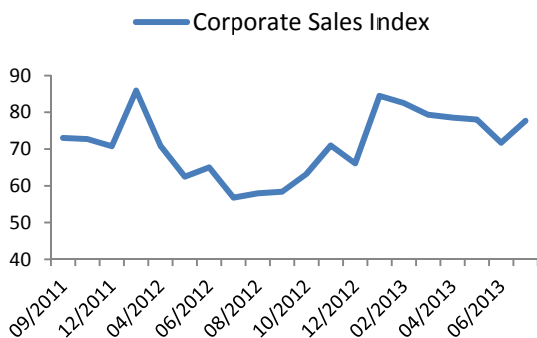
The corporate sales index rose from 71.7 in June to 77.7 in July (see Graph 2), and the corporate profits index registered an increase from 60.4 to 64.6 (see Graph 3). Last month, both indices fell but remained buoyant, whereas this month both rose. This indicates that the majority of our sample companies have become more optimistic on future sales and profits.

The financing environment index dropped from 57.3 to 40.3 (see Graph 4). Because our sample consists predominantly of private firms, this index mainly reflects the financing conditions for private firms. In the first half of 2013 the financing environment index has consistently registered 50 or above until July. This month’s significant drop in the index means private firms are

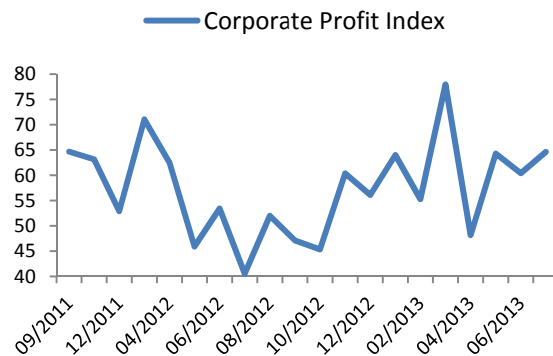
experiencing a degree of credit shortage.

The inventory levels index experienced another reduction, moving from 48.8 to 43.8 (see Graph 5). This shows that firms do not expect to increase inventory in the next six months compared with the same period last year.

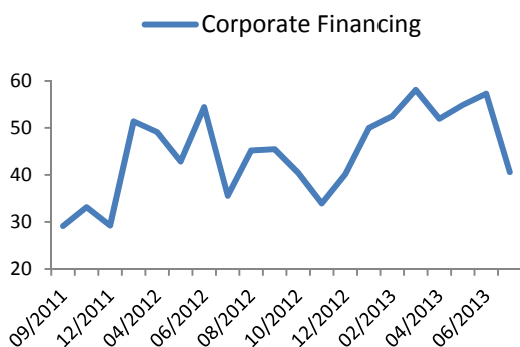
Graph 2



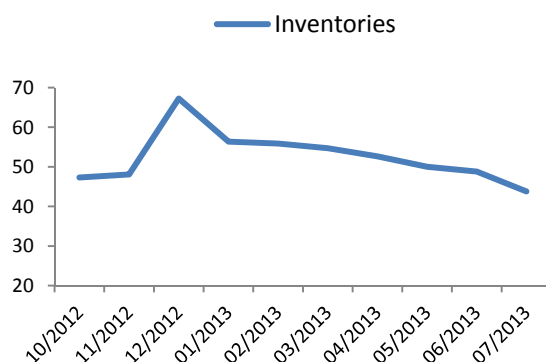
Graph 3



Graph 4



Graph 5



Source: CKGSB Case Center and Center for Economic Research

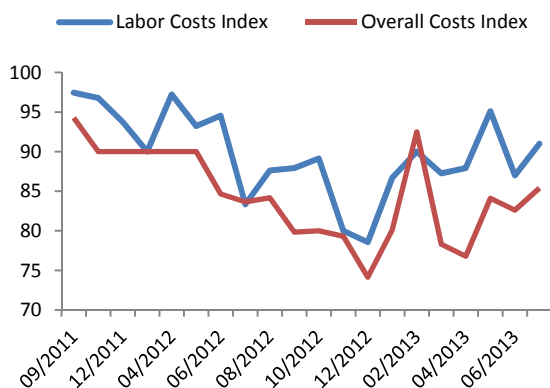
Source: CKGSB Case Center and Center for Economic Research

Alongside the main CKGSB BCI, we ask survey respondents for their forecasts on costs, investment, output prices, and labor recruitment to form additional forward looking indicators.

In terms of costs, June's statistics show increases in the index, with labor costs index rising from 87.0 to 91.0, and the overall costs index rising from 82.6 to 85.4 (see Graph 6). This reading is coupled with an increase in the labor demand index from 71.3 to 75.4 (see Graph 7).

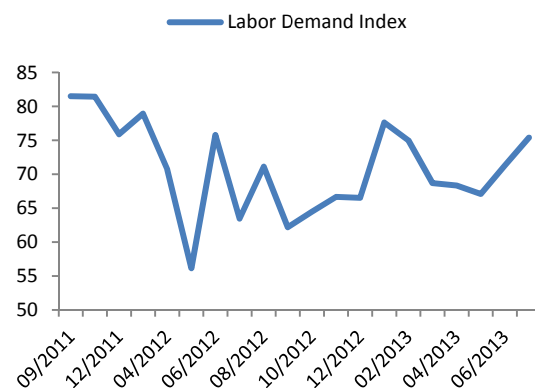
With the indices for overall costs and labor costs at 91.0 and 85.4 respectively, it appears that the vast majority of our sample companies think costs will rise in the next six months compared with the same period last year. The index measuring labor demand is over 70 in July, showing that most firms do not intend to cut staff in the next six months.

Graph 6



Source: CKGSB Case Center and Center for Economic Research

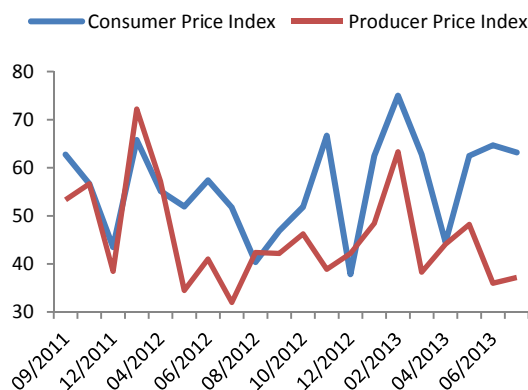
Graph 7



Source: CKGSB Case Center and Center for Economic Research

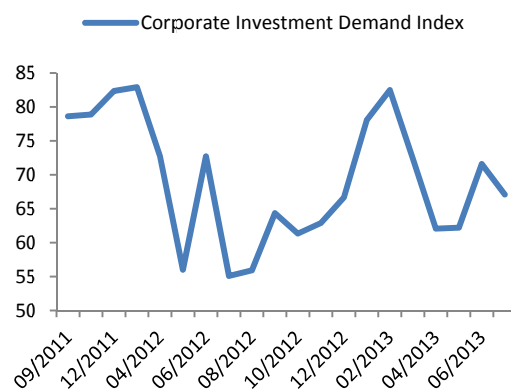
In terms of product prices, this month's index showed a mixed picture, with the consumer price index dropping marginally from 64.7 to 63.2 and the producer price index increasing from 36.0 to 37.2 (see Graph 8). The index for corporate investment demand decreased from 71.6 to 67.1 (see Graph 9).

Graph 8



Source: CKGSB Case Center and Center for Economic Research

Graph 9



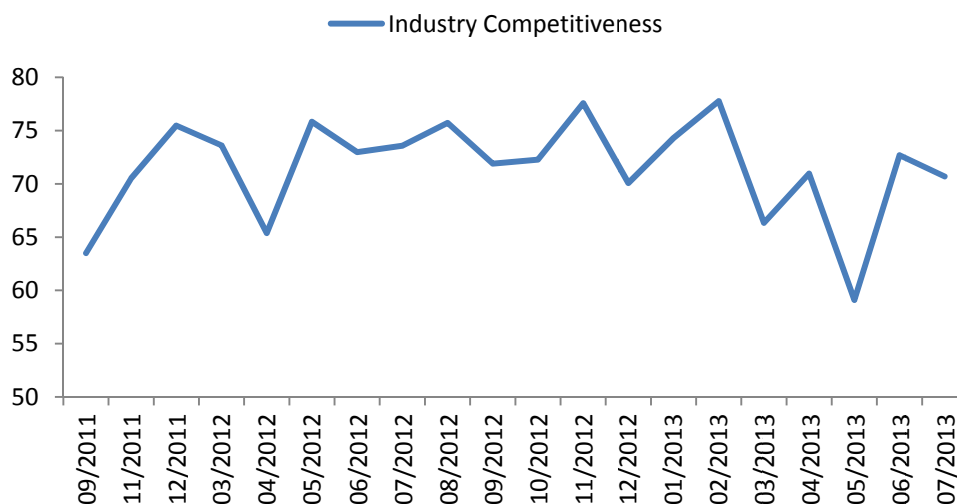
Source: CKGSB Case Center and Center for Economic Research

In overall terms, the CKGSB Business Conditions Index shows that the current macro-economic situation in China is trending down while remaining relatively stable. The indices for labor costs and overall costs remain high, showing that firms are experiencing fairly considerable cost pressures. However, they continue to increase staff count, a reading that is consistent with the forecast for investment plans. The index for consumer prices indicates future inflationary pressure while the index for producer prices indicates that related overcapacity in manufacturing remains a serious concern.

Lastly, 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. Consequently, most firms are in a relatively strong competitive position in their respective industries (see Graph 10).

Graph 10



Source: CKGSB Case Center and Center for Economic Research

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.



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 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

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.

Disclaimer

This report is based on public information and field research carried out by CKGSB Case Center and CKGSB Center for Economic Research. Sources of these data are deemed reliable, but the two Centers do not guarantee their accuracy and completeness. Opinions expressed in this report reflect only the judgment of the researchers in the two Centers on the day when the report is released, and are subject to change without prior notice. CKGSB holds no liability for any loss that might be brought about by using this report. Readers are advised to use their own discretion and to consider whether any comment or suggestion given in this report is suitable for their personal situation.

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