

CKGSB BCI

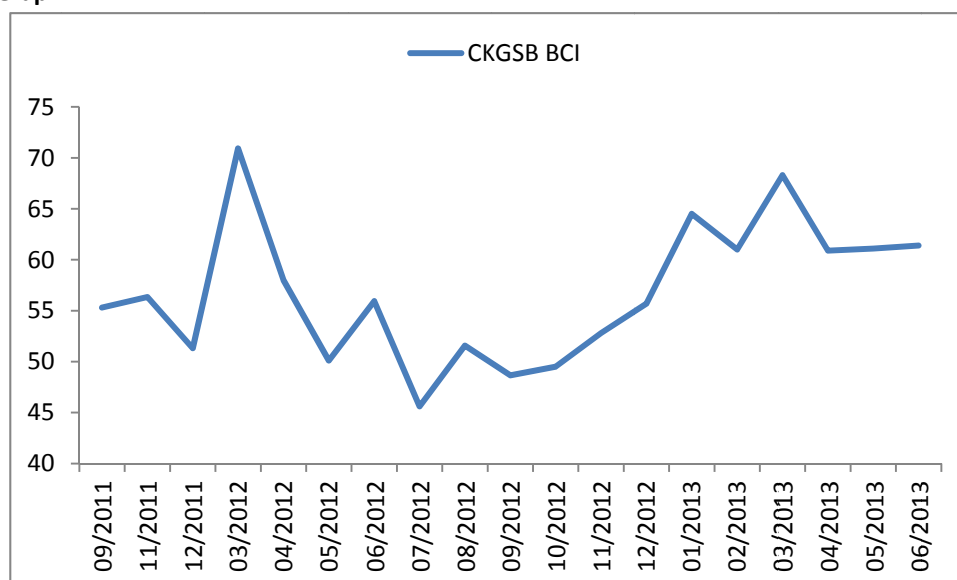
June 2013

1 July 2013

CKGSB Case Center and Center for Economic Research

On the basis on data generated from this month’s survey of leading entrepreneurs in China, the updated CKGSB BCI for June 2013 has been compiled. The overall index remains stable, with a small increase of 3 percentage points from 61.1 to 61.4 (see Graph 1). 50 is the threshold between a positive and negative index reading, so with the index remaining above 60, the indication is that the majority of comparatively successful businesses operating in China have an optimistic outlook on 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 measuring forecasts for corporate sales, corporate profit, corporate financing environment and inventory levels.

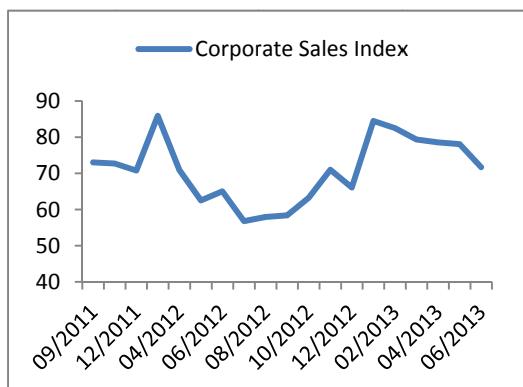
The corporate sales index dropped from 78.0 in May to 71.1 in June (see Graph 2), and the corporate profits index registered a smaller decrease from 64.3 to 60.4 (see Graph 3). Despite both indices falling this month, both remained consistently high at over 70 and over 60 respectively, indicating that most companies are inclined to view prospects for sales and profits positively.

In terms of corporate financing environment, the index showed heightening enthusiasm, moving up from 54.9 to 57.3 (see Graph 4). Because our sample consists predominantly of private firms, this index mainly reflects the financing conditions for private firms. Bearing in mind the recent

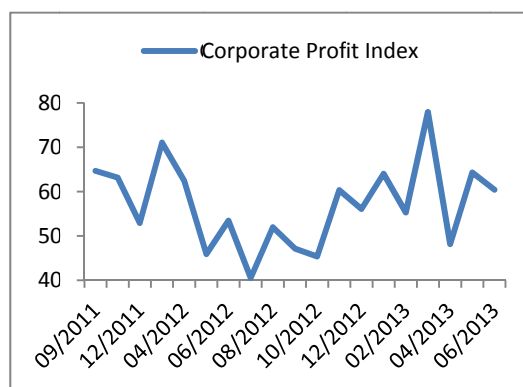
trend of rising inter-bank loan interest rates and concerns that this phenomenon will shift into the real economy, this month's index interestingly does little to reflect such a concern, indeed showing a small improvement in attitudes towards lending conditions.

At the same time, prospects for inventory levels experienced a small reduction in confidence, from 50 to 48.8, which suggests that, albeit by a small margin, the majority of firms are pessimistic about inventory levels (see Graph 5).

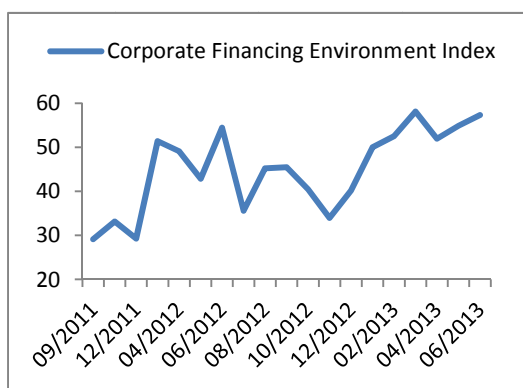
Graph 2



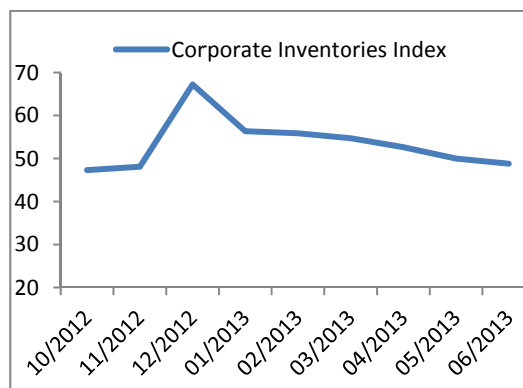
Graph 2



Graph 3



Graph 4



Source: CKGSB Case Center and Center for Economic Research

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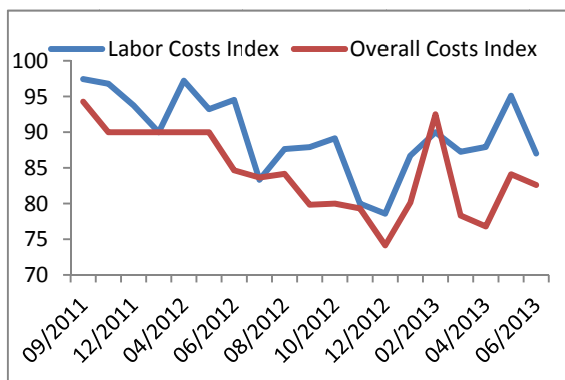
Alongside the main CKGSB BCI we ask survey respondents about their forecasts on costs, investment, prices and recruitment to form a parallel index. This report will proceed to describe June's changes in China's business environment in these terms.

In terms of costs, June's statistics show a drop in confidence, with the labor costs index decreasing from 95.1 to 87.0, and the overall costs index decreasing from 84.1 to 82.6 (see Graph 6). In addition, the index registering labor demand increased from 67.1 to 71.3 (see Graph 7).

With the indices for overall costs and labor costs at 87 and 82.6 respectively, it appears that the vast majority of entrepreneurs believe costs will rise in the next six months compared with the

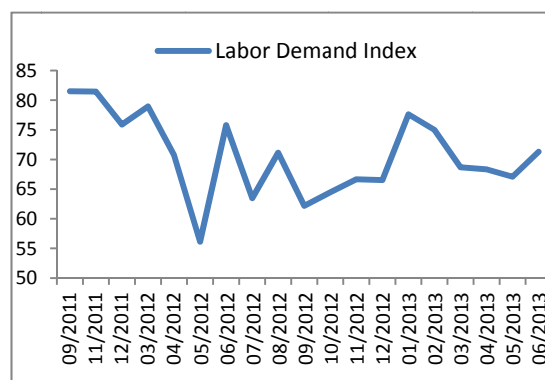
same period last year. The index measuring labor demand is over 70 in June, showing that most firms do not intend to cut staff in the next six months.

Graph 5



Source: CKGSB Case Center and Center for Economic Research

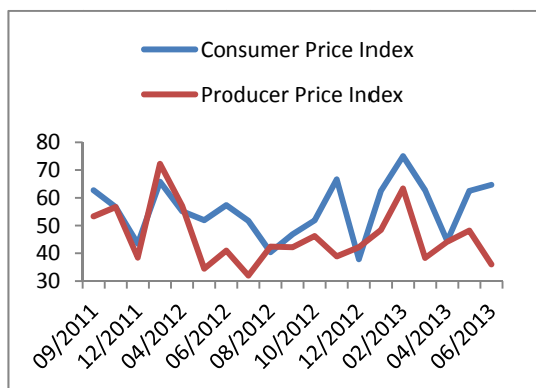
Graph 6



Source: CKGSB Case Center and Center for Economic Research

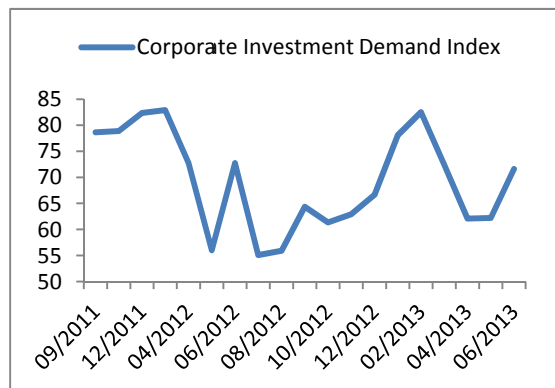
In terms of product prices, this month's index was mixed, with consumer prices increasing from 62.5 to 64.7 and producer prices decreasing from 48.2 to 36 (see Graph 8). The index representing corporate investment demand rose from 62.2 to 71.6 (see Graph 9).

Graph 8



Source: CKGSB Case Center and Center for Economic Research

Graph 9



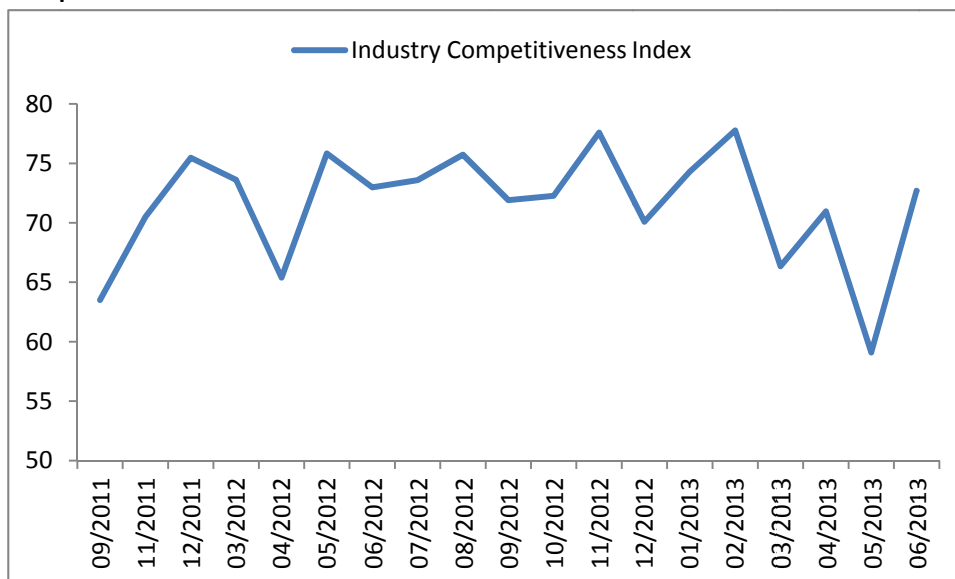
Source: CKGSB Case Center and Center for Economic Research

In overall terms, the CKGSB Business Conditions Index shows that the current macro-economic situation in China is relatively stable. Indices registering labor cost and overall cost forecasts remain high, showing that firms are experiencing and absorbing cost pressure, while companies continue to expand in terms of staff count, a forecast that is in line with investment prospects. The index for consumer prices shows future inflationary pressures while that for producer prices indicates that overcapacity in production remains a serious issue.

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 are studying or have studied 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

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

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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