

CKGSB BCI

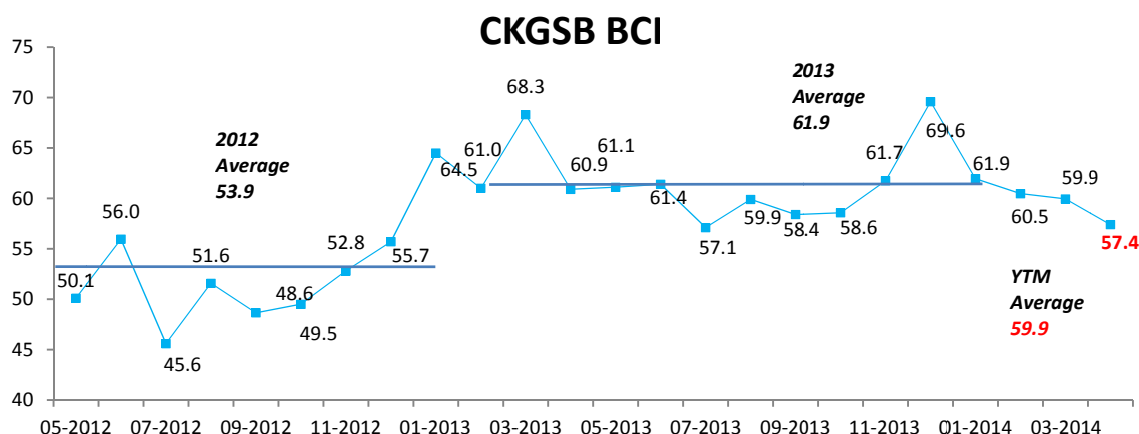
April 2014

29 April 2014

CKGSB Case Center and Center for Economic Research

The CKGSB Business Conditions Index reads 57.4 in April, and has averaged 59.9 over the last four months (see Graph 1). With 50 being the threshold between a positive and negative economic outlook, this index shows that our sample of comparatively successful business leaders are relatively optimistic about business conditions in China. However, since the beginning of the year, this forecast has taken a turn towards caution, influenced by domestic and overseas economic conditions, that has resulted in the business community losing some of the winter’s bounce in expectations. China’s growth momentum has slowed, but policies aimed to foster stability that are now being implemented, should have a positive effect on future forecasts.

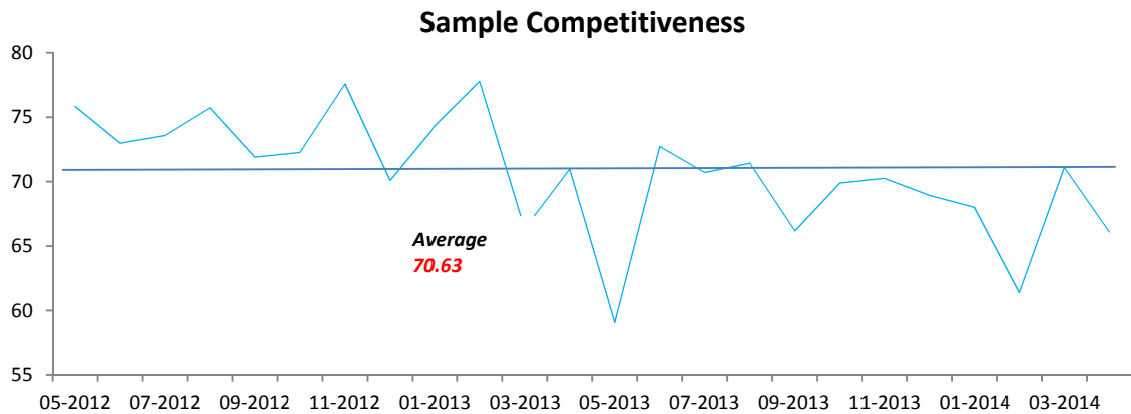
Graph 1



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.##

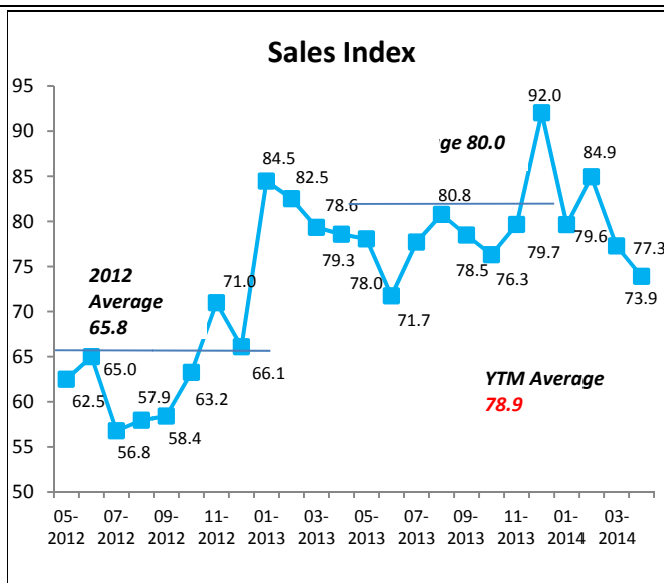
Graph 2



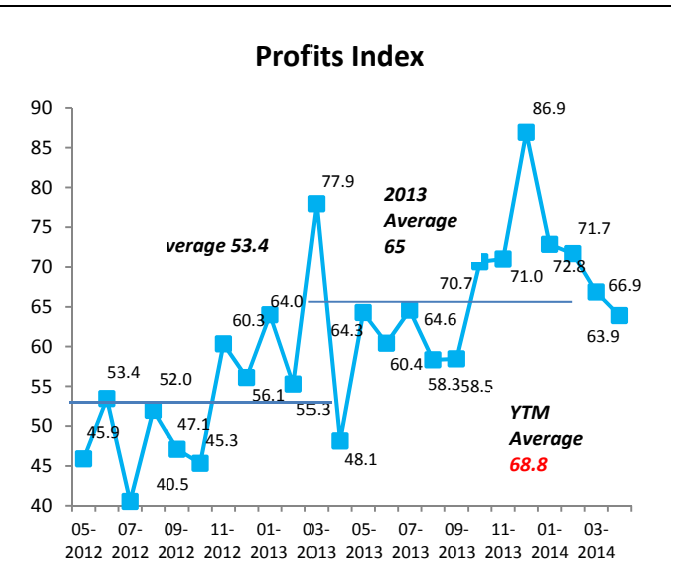
Source: CKGSB Case Center and Center for Economic Research

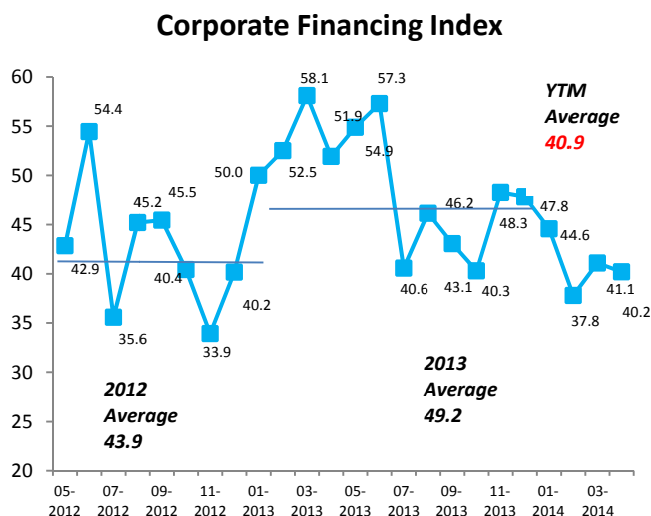
The CKGSB BCI comprises four sub-indices that are forwarding-looking indicators for corporate sales, corporate profits, corporate financing environment, and inventory levels.

Graph 3

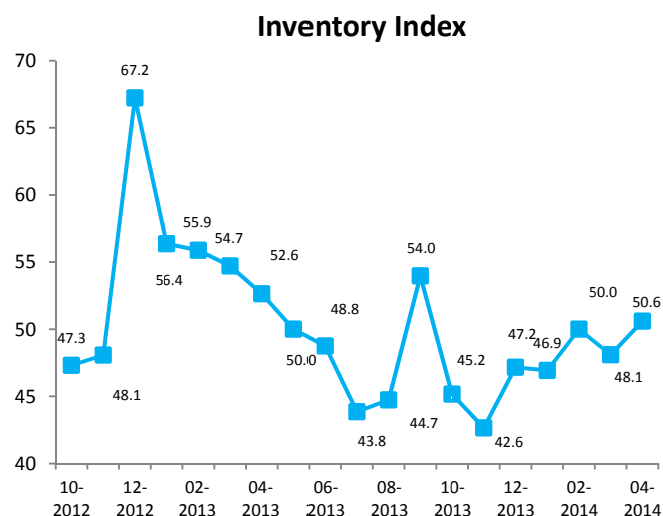


Graph 4



Graph 5


Source: CKGSB Case Center and Center for Economic Research

Graph 6


Source: CKGSB Case Center and Center for Economic Research

The corporate sales index registered 73.9, and the profit index registered 63.9, each to differing degrees lower than last month (see Graph 3, 4). While both remain above 50, showing a degree of optimism in the forthcoming six month period, this quarter has seen a downward trend. Comparing these two indices with the overall BCI, we can see that their downward trend is positively correlated with business operational forecasts.

The corporate financing environment index read 40.2 in April, following an index of 41.1 in March (see Graph 5), staying below the confidence threshold. This indicates that the financing outlook for the next six months is not good compared with this time last year. As the majority of our sample run private firms, this mainly largely reflects financing issues in the private sector. This deterioration of financing conditions puts a demand on the government to speed up financial reforms and implementation of its innovation policies.

The index measuring inventory levels registered 50.6 in April, a 2.5 point increase on last month's index and higher than the confidence threshold (See Graph 6). The presence of statistical interference and lack of representational data this month, while inventory continues to be a big challenge, from November onwards we have charted a continuous improvement in the inventory situation.

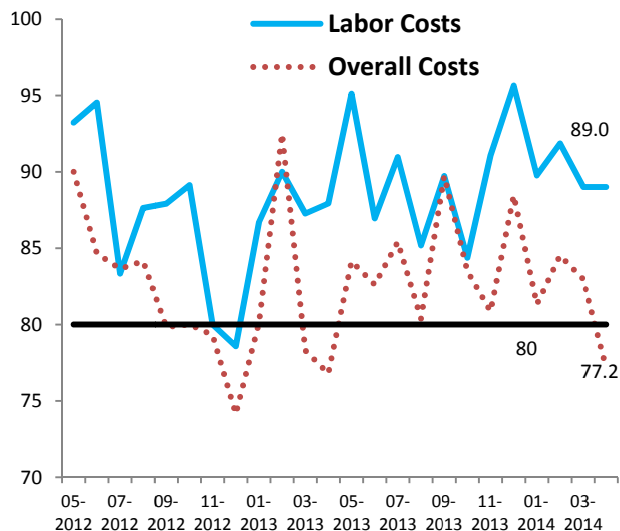
Besides the main indices, we also surveyed respondents on forecasted costs, prices, investment plans and employment conditions, to form a supplementary set of indices.

In April, labor costs and overall costs registered indices of 89 and 77.2 respectively (see Graph 7), both at a high level. These two costs indices are predictions of change in the upcoming six months, and show that the majority of sample firms expect costs to increase compared with this time last year.

The consumer prices index dropped 10.9 points to 50 (see Graph 8), showing that the trend for the forthcoming

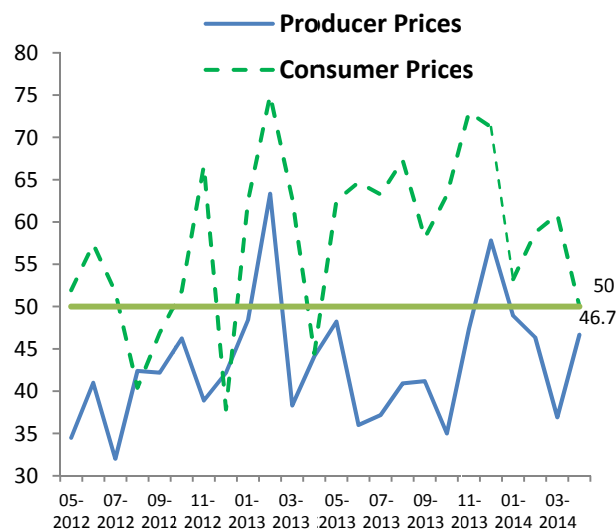
period is a lowering of prices. Producer prices, affecting mainly manufacturers, rose 9.8 points to 46.7, evidence of a narrowing of exposure on last month.

Graph 7



Source: CKGSB Case Center and Center for Economic Research

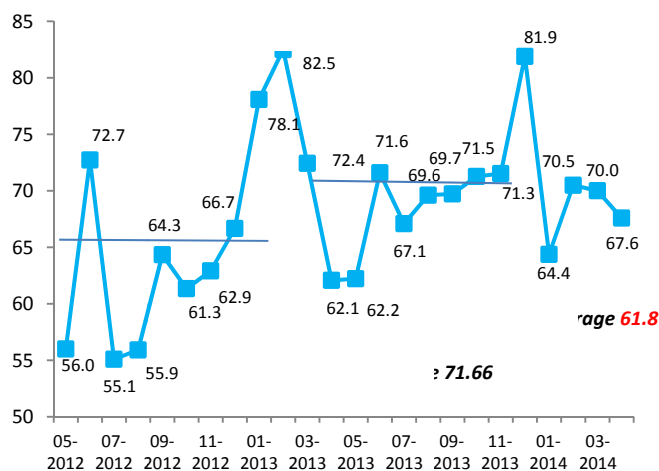
Graph 8



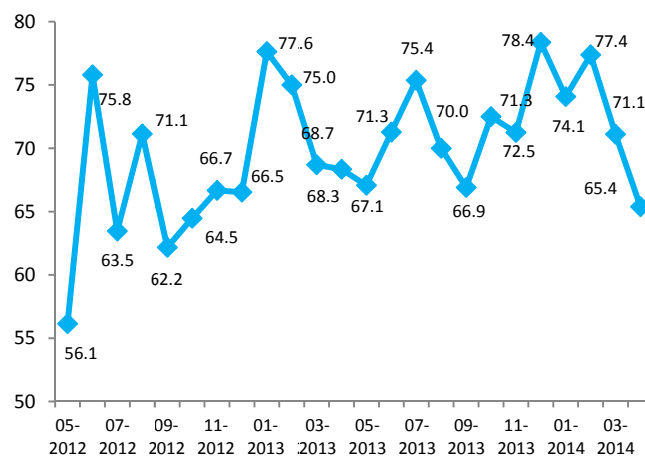
Source: CKGSB Case Center and Center for Economic Research

The corporate investment demand index registered 67.6 in April (see Graph 9), above the threshold of 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 April index was at 65.4 (see Graph 10). This shows that a majority of companies sampled aims to expand their workforce in the next six months. However, because of the high cost of labor, this is likely exert pressure on corporate profits.

Graph 9
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

Based on the data above, business forecasts for China's macroeconomic conditions have deteriorated. Referring to macroeconomic data released by the National Bureau of Statistics, GDP in the first quarter of 2014 was 7.4%, which is under the annual target of 7.5%, showing that the growth rate has already started to slip. Looking at BCI forecasts as well as national statistics, China faces a huge challenge to make up for this drop in growth in the second half of the year. In operational terms, companies must make sufficient preparations for the future, especially in terms of their investment options, so as to adequately respond to national calls for steady growth.

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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